LIFESTAR HOLDING P.L.C. (PREVIOUSLY GLOBALCAPITAL P.L.C.)

Annual Report and Consolidated
Financial Statements

31 December 2020

Company Registration Number: C 19526

Directors' Report

The Directors present their report and the audited consolidated financial statements for the year ended 31 December 2020.

Principal activities

LifeStar Holding p.l.c. (the "Company") together with its subsidiaries (the "Subsidiaries"), together referred to as the "LifeStar Group" or "the Group", is involved in:

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

Review of business

Consolidated results

LifeStar Holding p.l.c.'s consolidated results registered a total comprehensive loss of € 0.6 million (2019: profit of €1.1 million). The pre-tax loss for the year amounted to €1.1 million (2019: profit of €2.1 million).

Due to the COVID-19 pandemic, the financial investments of the Group recorded fair value losses of €2.2 million in FY2020 mainly due to the negative performance of the local and international investment markets, particularly movements in the fair value of local equities. This was a stark difference to the performance of the financial investments in FY2019, whereby they generated gains of €2.1 million following a general uplift in the markets, particularly local equities, as well as local and sovereign bonds. During the year, the LifeStar Group revalued its investment property, recognising fair value gain of €2.1 million in its income statements (2019: €0.5 million).

Group assets increased by 8.2% (2019: 11.5%) from €153.7 million as at 31 December 2019 to €166.3 million as at 31 December 2020.The Group's net asset value at end of the year stood at €18.4 million (2019: €19.1 million).

During the year, the Group continued to undertake restructuring and transformation activity to align the business operations with the Board's approved strategy. In this respect, the Group is in the process of implementing a holistic strategic plan, which is designed to permanently resolve various legacy issues that continue to negatively impact the Group, as well as the Issuer's various stakeholders, and support the consolidation and future growth of the Group's Business. As part of this restructuring, Global Capital Holdings Limited merged with LifeStar Holding plc, on 1 December 2020, effective from 1 January 2020.

Relentless efforts to differentiate the Group from the market started last year and have continued all throughout 2020. The enhancements made to our product suite helped facilitate improved competitiveness and marketability, thus generating positive results. During the year under scrutiny, the Group embarked under an extensive re-branding exercise changing its brand from GlobalCapital to LifeStar. The new look and feel portrays a more modern and energetic image.

Directors' Report (continued)

Review of business (continued)

LifeStar Insurance Limited (previously GlobalCapital Insurance Limited)

Although the COVID-19 pandemic hit the company unfavourably, LifeStar Insurance Limited registered an increase in the interest sensitive single premium and unit linked businesses but experienced a slight decline in ordinary business, mainly protection. Gross written premium for the year amounted to €13.19 million compared to €12.03 million at the end of the comparative period, a significant increase, particularly since it had also recorded a gross written premium of €12.02 million in 2018. Benefits and claims incurred, net of reinsurance, increased by €1.96 million over prior year, an increase of 23.4% (2019: an increase of 16.9%). The company has also intensified its efforts to recapture an amount of maturing business, which it completed successfully.

The company's profit after tax amounted to €0.3 million (2019: €1.5 million) and generated a total comprehensive profit for the year of €0.6 million (2019: €2.3 million). This profit is mainly attributable to tax refunds and favourable movement in the value-in-force business, given that the company incurred a loss before tax of €0.4 million (2019: profit €2.0 million). These losses are mainly due to the negative performance of financial investments, as well as changes in other technical provisions, net of reinsurance both of which were a result of the pandemic. The net assets of the company have remained on the same lines as that of prior year, in the region of €29 million.

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. The company's 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.

As the impact of pandemic has lingered and continues to impact business in the foreseeable future, the Directors continue to monitor the situation closely and have assessed the company's financial position and performance for 2021, to mitigate the impact brought about by the pandemic as well as its impact on capital.

Total assets increased by 8.2% (2019: 11.6%) from €153.7 million to €166.3 million as at the end of the current reporting period. Technical provisions increased by 10.6% (2019: 13%) from € 112.5 million to €124.4 million. LifeStar Insurance Limited's Solvency II ratio was a healthy one and, as at 31 December 2020 amounting to 158%.

The company's value of in-force business for 2020 registered an increase of €0.1 million (2019: €0.9 million) and, in aggregate, amounted to €10.5 million (2019: €10.5 million) 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 directors approved a 2020 bonus declaration of 3.5% for Money Plus policies (2019: 3.5%) and 1.25% (2019: 3%) for all other interest sensitive products. The company also announced a bonus rate of 0.5% (2019: 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)

LifeStar Health Limited (previously GlobalCapital Health Insurance Agency Limited)

The Company's subsidiary, LifeStar Health Limited, registered a profit before tax of €1.0 million compared to a prior period profit of €0.3 million. The increase was mainly driven by higher revenues generated during the year in conjunction with lower administration costs.

Net assets increased from €1.5 million to €2.1 million. No dividends have been distributed (2019: NIL) due to the dividend distribution restriction imposed by the MFSA.

GlobalCapital Financial Management Limited

GlobalCapital Financial Management Limited ("GCFM") sustained a loss before tax of €0.5 million compared to €1.2 million in the prior year. The improvement in results between FY2019 and FY2020 is principally due to a decrease in administrative expenses of €0.4 million, following a change in recharges between Group companies, as well as an increase in other income of €0.3 million which pertains to an administrative fee for services rendered to LifeStar Insurance.

GCFM closed the current year in a net asset position of €0.4 million (2019: net liability position of €0.6 million). During the year, the shareholder contributed €1.2 million by means of a shareholder's loan and shareholder's contribution. The shareholder's loan is unsecured, interest free, repayable at the discretion of the company and has no fixed repayment date. This capitalisation contributed to the maintenance of own funds balance at the required level.

Future outlook

The Directors intend to continue to operate in line with the Group's current business plan. The Group is presently in the process of implementing a holistic strategic plan, which is designed to permanently resolve various legacy issues that continue to negatively impact the LifeStar Group. Consequently, the Group continues to explore possible ways to strengthen its capital base. In this respect, LifeStar Insurance Limited (LSI) has submitted a formal application to the Listing Authority for the admissibility to listing of its existing shares on the Official List of the Malta Stock Exchange.

Principal risks and uncertainties

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

Financial risk management

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

Results and dividends

The consolidated statement of comprehensive income is set out on pages 14 and 15. The Directors do not recommend the declaration of a dividend (2019: € Nil).

Directors' Report (continued)

Events after the financial reporting date

There were no material events after the financial reporting date for the year ended 31 December 2020 which would require adjustment or disclosure thereon.

Going concern

Over the past year, the Directors have engaged professional firms to implement a holistic strategic plan with the aim of addressing these issues and supporting the consolidation and future growth of the business. The Directors are confident that the plan is realistic, given that it is in the final stages of implementation. In fact, over the past few months Management has had continuous interaction with the Malta Financial Services Authority to ensure that the proposals would obtain the necessary regulatory approvals. As a result, LSI has submitted a formal application to the Listing Authority for the admissibility to listing of its existing shares on the Official List of the Malta Stock Exchange. Concurrently, LSI has submitted an application to the Listing Authority of the Malta Financial Services Authority for the issue of a subordinated bond of €10 million, subject to an over-allotment option of €3 million. The proceeds from the sale of the shares in LSI will be used by the company to redeem the €10,000,000 5.00% unsecured bonds maturing 2nd June 2021 (ISIN: MT0000171216) and to repay, in full or in part, the BOV loan. A credit facility agreement is being finalized between the company and LSI for the funding of any shortfall needed for the redemption of the maturing bonds and / or the BoV Loan.

The Directors are of the opinion that the Group will continue to improve and strengthen their financial performance and financial position, thus continuing to operate on a going concern basis.

Directors

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

Paolo Catalfamo (Chairman)
Joseph C. Schembri (Senior Independent Director)
Joseph Del Raso
Cinzia Catalfamo
Gregory Eugene McGowan

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

Remuneration Statement

In terms of Rule 8A.4 of the Code, the Company is to include a remuneration statement in its annual report which shall include details of the remuneration policy of the Company in respect of the financial packages of members of the Board of Directors and the senior executives of the Company.

The Company's remuneration of its Directors and senior executives is based on the remuneration policy adopted and approved by the shareholders of the Company at the last annual general meeting held on 9 October 2020 (the **"Remuneration Policy"**). The Remuneration Policy of the Company is available for inspection on the Company's website on https://lifestarholding.com/wp-content/uploads/2020/11/AGM-2020-Remuneration-Policy-15.09.2020-.pdf.

Directors' Report (continued)

Remuneration policy

The Remuneration Policy of the Company is intended to provide an over-arching framework that establishes the principles and parameters to be applied in determining the remuneration to be paid to any member of the Board of Directors, and the senior executives. The policy describes the components of such remuneration and how this contributes to the company's business strategy, in the context of its long term sustainable value creation. This remuneration policy is divided into five parts distinguishing between directors, senior management, employees, intermediaries and service providers.

Remuneration payable to Directors

Fixed remuneration

The remuneration payable to Directors shall be fixed and will not have any incentive programmes and will therefore not receive any performance-based remuneration. None of the Directors, in their capacity as Directors of the Company, is entitled to profit-sharing, share options or pension benefits.

In addition to fixed remuneration in respect of their position as members of the Board of Directors of the Company, individual Directors who are also appointed to chair, or to sit as members of, one or more committees or sub-committees of the Company, or its subsidiaries, are entitled to receive additional remuneration as may be determined by the Board of Directors from time to time. Any such additional remuneration shall, however, form part of the aggregate emoluments of the Directors as approved by the general meeting of the Company. The basis upon which such additional remuneration is paid shall take into account the skills, competencies and technical knowledge that members of such committees require and the respective functions, duties and responsibilities attaching to membership of such committees.

Other entitlements

The Company may also pay out fringe benefits, comprising of medical and life insurance.

Director service contracts
As at the date hereof, none of the Directors have a service contract.

Remuneration payable to executives

- Managing director: The Remuneration Committee will forward its proposal for the remuneration of the Managing Director to the Board of Directors (in the absence of the Managing Director), and the Board will endorse / amend / make recommendations as deemed fit. The remuneration of the Managing Director will consist of a salary and any performance-related bonuses or fringe benefits will be at the sole discretion of the Remuneration Committee with the final approval of the Board of Directors.

- Chief Executive Officer: The remuneration of the Chief Executive Officer will consist of a salary, and any performance related bonuses and any fringe benefits will be at the sole discretion of the Chairman and submitted for approval of the Remuneration and Nominations Committee. The Chairman (directly or through the Chief Finance Officer) will forward any recommendations for any changes to the remuneration of the Chief Executive Officers for the consideration of the Remuneration and Nominations Committee which will in turn review any such request and forward any request to the Board for the Board's final approval.

- Head/Senior Manager: The remuneration of the Head / Senior Managers will be at the sole discretion of the Chairman and/or the Chief Executive Officer without the need to refer to the Remuneration and Nominations Committee or the Board of Directors subject that the remuneration does not exceed a yearly remuneration of Fifty Thousand Euros (€50,000). Any amount over this threshold will require the endorsement of the Remuneration Committee.

Directors' Report (continued)

Senior executive service contracts
All senior executive contracts are of an indefinite duration and subject to the termination notice periods prescribed by law.

Remuneration Report

In terms of Listing Rule 12.26K, the Company is also required to draw up an annual remuneration report (the "Remuneration Report"), which report is to:

I. provide an overview of the remuneration, including benefits in whatever form, awarded or due to members of the Board of Directors and the CEO during the financial year under review; and
II. explain whether any deviations have been made from the Remuneration Policy of the Company.

In this respect, the Company is hereby producing its remuneration report following the approval and entry into effectiveness, in October 2020, of the Remuneration Policy described in the preceding sections.

Remuneration paid to Directors

All remuneration for directors was in conformity with this policy. The remuneration paid to individual Directors during the year under review was as follows:

Name	**Position**	**Remuneration paid**
Paolo Catalfamo:	Non-Executive Director and Chairman	€ 100,000;
Joseph C Schembri:	Independent Non-Executive Director	€ 21,000;
Joseph Del Raso	Independent Non-Executive Director	€ 21,000;
Cinzia Catalfamo	Independent Non-Executive Director	€ 15,000;
Gregory Eugene McGowan	Independent Non-Executive Director	€ 18,000;

The remuneration paid to the Directors covers both their role as directors of Company and their role as members of chairpersons or members of any sub-committees of the Company, as well as their position as directors of subsidiaries forming part of the Group.

It is the shareholders, in terms of the memorandum and articles of association of the company, who determine the maximum annual aggregate emoluments of the directors by resolution at the annual general meeting of the company. The aggregate amount fixed for this purpose during the last annual general meeting was €400,000.

The aggregate emoluments of the Directors in respect of their role as directors of the Company and, where applicable, as members of sub-committees of the Board of Directors of the Company and non-executive directors of subsidiaries forming part of the Group, amounted to €175,000. The Directors do not expect the abovementioned maximum aggregate remuneration limit of €400,000 to be exceeded during the financial year ending 31 December 2021.

The Remuneration Committee is satisfied that the fixed remuneration for the year under review is in line with the core principles of the Remuneration Policy applicable during the year under review, including giving due regard to market conditions and remuneration rates offered by comparable organisations for comparable roles.

Directors' Report (continued)

Remuneration paid to Senior Management

Remuneration paid to Senior Management amounts to €569,405 and excludes the fringe benefit for health insurance and life cover as described above.

Decision-making with respect to the Remuneration Policy

Whereas the Board of Directors is responsible for determining the Remuneration Policy of the Company, the Remuneration and Nominations Committee, acting in its function as the Remuneration Committee, is, in turn, responsible for overseeing and monitoring its implementation and ongoing review thereof. This policy is to be reviewed annually by the Remuneration and Nominations Committee of the Company. The annual review will ensure that the policy remains relevant for the Company and that any improvements by way of amendments are indeed effected.

In evaluating whether it is necessary or beneficial to supplement or otherwise alter the Remuneration Policy of the Company, the Remuneration Committee have regard to, inter alia, best industry and market practice on remuneration, the remuneration policies adopted by companies operating in the same industry sectors, as well as legal and, or statutory rules, recommendations or guidelines on remuneration, including but not limited to the Code of Principles of Good Corporate Governance contained in Appendix 5.1 of the Listing Rules of the Listing Authority.

Whilst members of the Remuneration Committee may be present while his/her remuneration as a Director or other officer of the Company and, or of any other company forming part of the Group, is being discussed at a meeting of such Committee, any decision taken by the Committee in this respect shall be subject to the approval of the Board of Directors. At a meeting of the Board of Directors, no Director may be present while his/her remuneration as a Director or other officer of the Company and, or of any other company forming part of the Group, is being discussed

Disclosure of information to the auditor

At the date of making this report the directors confirm the following:

- As far as each director is aware, there is no relevant information needed by the independent auditor in connection with preparing the audit report of which the independent auditor is unaware; and
- Each director has taken all steps that they ought to have taken as a director in order to make themselves aware of any relevant information needed by the independent auditor in connection with preparing the report and to establish that the independent auditor is aware of that information.

Auditors

Grant Thornton have intimated their willingness to continue in office.

A resolution to reappoint Grant Thornton as auditor of the Group will be proposed at the forthcoming annual general meeting.

Directors' Report (continued)

Information pursuant to Listing Rule 5.64

The Company has an authorised share capital of €58,234,400 divided into 200,000,000 ordinary shares with a nominal value of €0.291172 each (2019: €58,234,400). The issued share capital of the Company is €8,735,160 (2019: €8,735,160) divided into 30,000,000 ordinary shares of €0.291172 each. The issued shares of the Company consist of one class of ordinary shares with equal voting rights attached. The shares carry equal rights to participate in any distribution of dividends declared by the Company. Each share shall be entitled to one vote at the meetings of the shareholders. The shares are freely transferable in accordance with the rules and regulations of the Malta Stock Exchange, as applicable from time to time.

The Directors confirm that, as at 31 December 2020, Investar p.l.c. (52.60%), BAI Co. (Mtius) Ltd (21.33%) and Rizzo Farrugia & Co (Stockbrokers) Ltd - clients' accounts (10.02%) held a shareholding in excess of 5% of the total issued share capital.

The Nominations and Remuneration Committee of the Board of Directors currently consists solely of Non-Executive Directors. It has the responsibility to assist and advise the Board of Directors on matters relating to the remuneration of the Board of Directors and senior management, in order to motivate and retain executives and ensure that the Company is able to attract the best talents in the market in order to maximise shareholder value.

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

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

It is hereby declared that as at 31 December 2020, the information required under Listing Rules 5.64.4, 5.64.5, 5.64.6, 5.64.7, 5.64.10 and 5.64.11 is not applicable to the Company.

Information pursuant to Listing Rule 5.70.1

As at 31 December 2019, the Company had a loan from the ultimate parent company (Investar p.l.c.). This loan was repaid in full during FY2020. There were no material contracts in relation to which a Director of the Company was directly or indirectly interested.

Information pursuant to Listing Rule 5.70.2

The Company Secretary is Clinton Calleja and the registered office is LifeStar Holding p.l.c., Testaferrata Street, Ta' Xbiex, Malta.

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

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

Testaferrata Street
Ta' Xbiex
Malta

22 April 2021

Corporate Governance – Statement of Compliance

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

1. Adoption of the principles

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

2. Board of Directors

During the financial year ended 31 December 2020, the Board of Directors consisted of five (5) directors throughout the financial year under review.

Throughout the financial year, Paolo Catalfamo acted as Chairman. Joseph C. Schembri was confirmed in his position as non-executive Senior Independent Director of the Company. The other three directors on the Board of Directors that are deemed to be Independent Non-Executive Directors are Joseph Del Raso, Gregory Eugene McGowan and Cinzia Catalfamo. The Directors bring to the Company a wide range of expertise and experience.

Directors are elected on an individual basis by ordinary resolution of the Company in Annual General Meeting in accordance with the Company's Memorandum and Articles of Association. Details of the attendance of Board Members will be available for inspection at the forthcoming Annual General Meeting.

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

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

3. Committees

3.1 Board Committees

The Board of Directors delegates a number of specific duties to the following Board Committees:

- Audit and Risk Committee
- Nominations and Remuneration Committee

Corporate Governance – Statement of Compliance (continued)

3. Committees (continued)

3.1 Board Committees (continued)

3.1.1. Audit and Risk Committee

The Board of Directors delegates certain responsibilities to the Audit Committee, the terms of reference of which reflect the requirements stipulated in the Listing Rules. As part of its terms of reference, the Audit Committee has the responsibility to, if required, vet, approve, monitor and scrutinise related party transactions falling within the ambits of the Listing Rules, and to make its recommendations to the Board of Directors on any such proposed related party transactions. The Audit Committee also assists the Board of Directors in monitoring and reviewing the Group's financial statements, accounting policies and internal control mechanisms in accordance with the Committee's terms of reference.

In the performance of its duties the Audit Committee calls upon any person it requires to attend meetings. The external auditors of the Company are invited to attend all relevant meetings. The internal auditors are also invited to attend meetings of the Audit Committee and report directly any findings of their audit process. The head of legal and compliance, as well as the compliance officers of the regulated subsidiaries are invited to attend meetings of the Audit Committee to present their compliance reports. In addition, the Audit Committee invites the Chief Financial Officer and other members of management to attend Audit Committee meetings on a regular basis and as deemed appropriate.

The Audit Committee also approves and reviews the Group's Compliance Plan and Internal Audit Plan prior to the commencement of every financial year and monitors the implementation of these plans. The remit of the Audit Committee was also extended to include group risk management, and it is also referred to as the Audit and Risk Committee.

During the financial year under review, the Audit Committee held ten meetings.

Members	**Committee meetings attended**
Joseph C. Schembri	10
Joseph Del Raso	9
Gregory McGowan	9

The Audit Committee was chaired by Joseph C. Schembri, who is an auditor by profession, and is considered to be an independent non-executive member possessing the necessary competence in auditing/accounting as required in terms of the Listing Rules. All the members that served on the Audit Committee were deemed by the Board of Directors to be Independent Non-Executive Directors, and the Board of Directors felt that as a whole the Audit Committee had the necessary skills, qualifications and experience in satisfaction of the Listing Rules.

3.1.2. Nominations and Remuneration Committee

The Board of Directors has appointed a Nominations and Remuneration Committee, and this Committee, in its function covering the nominations side, is responsible for recommending Directors for election by shareholders at the Annual General Meeting, for planning the structure, size, performance and composition of the Group's subsidiary boards, for the appointment of senior executives and management and for the development of a succession plan for senior executives and management.

Corporate Governance – Statement of Compliance (continued)

3. Committees (continued)

3.1 Board Committees (continued)

3.1.2. Nominations and Remuneration Committee (continued)

In the fulfilment of its remuneration matters oversight, the Committee monitors, reviews and advises on the Group's Remuneration Policy, as well as approves the remuneration packages of senior executives and management.

During the financial year under review, the Nominations and Remuneration Committee met three times and was composed of Joseph Del Raso as Chairman, and Joseph C. Schembri and Gregory Eugene McGowan as members.

3.2 Executive Management Committees

The Executive Management Committee manages the Group's day-to-day business and the implementation of the strategy established by the Board of Directors. The Executive Management Committee as at 31 December 2020 was composed of the Managing Directors of each of the operating regulated subsidiaries of the Group, as well as of the Chief Financial Officer, the Chief Technical Officer, the Head of Operations and Risk and the Head of Legal and Compliance.

Members		**Role**
Roberto Apap Bologna	-	Chief Financial Officer
Cristina Casingena	-	Chief Executive Officer LifeStar Insurance Limited
Adriana Zarb Adami	-	Managing Director LifeStar Health Limited
Konrad Camilleri	-	Managing Director GlobalCapital Financial Management Limited
Adrian Mizzi	-	Chief Technical Officer
Jonathan Camilleri	-	Chief Operations Officer
Michael Schembri	-	Head Legal and Compliance

4. Directors' dealings

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

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

5. Internal controls and conflict of interests

LifeStar Holding p.l.c. encompasses different licensed activities regulated by the MFSA. These activities include the carrying on of long-term business of insurance under the Insurance Business Act (Cap. 403 of the Laws of Malta); acting as an agent for sickness and accident insurance in terms of the Insurance Distribution Act (Cap. 487 of the Laws of Malta); and the provision of investment services and advice in terms of the Investment Services Act (Cap. 370 of the Laws of Malta). The Board of Directors has continued to ensure that effective internal controls and processes are maintained to support sound operations. The regulated subsidiaries have also set up Committees to further enhance internal controls and processes. These include the setting up of an Asset and Liability Committee and the Risk Management Committee at life company level and other executive management committees. Policies such as Risk Compliance Monitoring Programmes, Risk Management, Complaints, Data Protection, Internal Audit and Anti-Money Laundering Policies and Procedures have been adopted. The policies that have been adopted also include a Conflict of Interest Policy.

Corporate Governance – Statement of Compliance (continued)

5. Internal controls and conflict of interests (continued)

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

6. Evaluation of Board of Directors Performance

Directors of the Company are elected from one Annual General Meeting to the other and as such are subject to election by the shareholders at each Annual General Meeting. Therefore, there is no specific evaluation of Board of Directors performance currently in place. The adoption of a Fitness and Properness Policy at the life company level requires the completion of a self-assessment questionnaire by the Directors, whether executive or non-executive, and all other key persons within the Group, and therefore there exists a self-assessment mechanism. This exercise is overseen by the compliance team.

7. Information and professional development

The Company provides for training of the Directors and key personnel in relation to the relevant activities of its operations. During the year under review, the Directors received training on International Financial Reporting Standard 17 and Anti-Money Laundering procedures.

8. Annual General Meeting and communication with shareholders

Business at the Company's Annual General Meeting, to be held later in 2021, will cover the approval of the Annual Report and Audited Financial Statements for the year ended 31 December 2020, the election/re-election of Directors, the determination of the maximum aggregate emoluments that may be paid to Directors, the appointment of auditors and the authorisation of the Directors to set the auditors' remuneration.

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

9. Corporate social responsibility

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

Approved by the Board of Directors on 22 April 2021 and signed on its behalf by:

Prof. Paolo Catalfamo **Chairman**	**Joseph C. Schembri** **Senior Independent Director**

Statement of Directors' responsibilities

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

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

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

Statement of the Directors pursuant to Listing Rule 5.68

We confirm that to the best of our knowledge:

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

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

Approved by the Board of Directors on 22 April 2021 and signed on its behalf by:

Prof. Paolo Catalfamo
Chairman

Joseph C. Schembri
Director

Consolidated statement of comprehensive income
Technical account – long term business of insurance

For the year ended 31 December	**Notes**	**2020 €**	2019 €
Earned premiums, net of reinsurance			
Gross premiums written		**13,196,197**	12,031,619
Outward reinsurance premiums		**(1,647,695)**	(1,667,042)
Earned premiums, net of reinsurance		**11,548,502**	10,364,577
Investment income	6	**1,524,080**	4,061,506
Investment contract fee income		**1,727,411**	1,361,498
Total technical income		**14,799,993**	15,787,581
Benefits and claims incurred, net of reinsurance			
Benefits and claims paid			
- gross amount		**11,309,114**	9,149,946
- reinsurers' share		**(955,621)**	(479,449)
		10,353,493	8,670,497
Change in the provision for benefits and claims			
- gross amount		**40,546**	(190,174)
- reinsurers' share		**(92,843)**	(134,683)
	17	**(52,297)**	(324,857)
Benefits and claims incurred, net of reinsurance		**10,301,196**	8,345,640
Change in other technical provisions, net of reinsurance			
Insurance contracts			
- gross amount		**2,064,389**	5,671,921
- reinsurers' share		**(3,204,311)**	(4,074,332)
	17	**(1,139,922)**	1,597,589
Investment contracts with DPF - gross	17	**2,417,954**	1,587,581
Investment contracts without DPF - gross		**90,047**	126,602
Change in other technical provisions, net of reinsurance		**1,368,079**	3,311,772
Claims incurred and change in other technical provisions, net of reinsurance			
Net operating expenses	4	**4,213,998**	3,629,986
Total technical charges		**15,883,273**	15,287,398
Balance on the long-term business Of insurance technical account before tax (page 15)		**(1,083,280)**	500,183

The accounting policies and explanatory notes on Pages 20 to 90 form an integral part of these financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December	**Notes**	**2020 €**	2019 €
Balance on the long term business of insurance technical account before tax (page 14)		**(1,083,280)**	500,183
Commission and fees receivable	3	**3,168,113**	2,135,927
Commission payable and direct marketing costs	4	**(325,879)**	(373,134)
Increment in the value of in-force business		**104,791**	1,366,889
Staff costs	4	**(1,370,508)**	(1,747,333)
Other expenses	4	**(1,585,618)**	(733,318)
Investment income/ (expense), net of allocation to the insurance technical account	6	**311,920**	1,245,200
Provision for impairment of receivable		**(175,149)**	(87,474)
(Loss)/profit for the year before other charges		**(955,610)**	2,306,940
Other provisions	4	**(182,305)**	(241,276)
(Loss)/profit before tax		**(1,137,915)**	2,065,664
Tax income/ (charge)	7	**329,640**	(908,736)
(Loss)/profit for the financial year attributable to the shareholders of the Company		**(808,275)**	1,156,928
Other comprehensive (loss)/income			
Items that will not be reclassified subsequently to profit or loss			
Revaluation of property, plant and equipment		**269,117**	-
Deferred tax on the revaluation of property, plant and equipment		**(21,529)**	-
		247,588	-
Items that will be reclassified subsequently to profit or loss			
Net loss on available-for-sale financial assets		**(111,619)**	(136,351)
Deferred tax on available-for-sale financial assets		**39,067**	47,722
		(72,552)	(88,629)
Other comprehensive (loss)/income for the year, net of tax		**175,036**	(88,629)
Total comprehensive (loss)/income for the year, net of tax, Attributable to the shareholders of the Company		**(633,239)**	1,068,299
(Loss)/ Earnings per share (cents)	9	(2c7)	3c9

The accounting policies and explanatory notes on Pages 20 to 90 form an integral part of these financial statements.

Consolidated statement of financial position

As at 31 December	**Notes**	**2020**	2019 *(restated)*	2018 *(restated)*
		€	€	€
ASSETS				
Intangible assets	*11*	**12,389,138**	12,209,413	11,580,033
Right of use asset	27	**533,170**	646,378	-
Property, plant & equipment	*13*	**2,081,241**	1,987,859	2,059,473
Investment property	*14*	**25,143,350**	22,907,750	22,569,692
Other investments	*16*	**83,632,062**	78,658,837	73,235,562
Reinsurers' share of technical provisions	*17*	**20,749,175**	17,568,236	13,359,221
Deferred tax asset	12	**(285)**	129,815	-
Taxation receivable		**11,282**	1,080,590	838,723
Trade and other receivables	*18*	**3,311,543**	2,487,817	3,153,357
Cash and cash equivalents	*24*	**18,263,331**	15,791,074	11,029,822
Asset held for sale	14	**200,000**	200,000	-
Total assets		**166,314,007**	153,667,769	137,825,883
EQUITY AND LIABILITIES				
Capital and reserves attributable to the company's shareholders				
Share capital	*19*	**8,735,160**	8,735,160	8,735,160
Other reserves	*20*	**10,731,697**	10,488,547	9,688,698
Capital redemption reserve		**800,000**	-	-
Retained earnings/(accumulated losses)		**(1,819,838)**	(143,448)	(411,898)
Total equity/(deficiency)		**18,447,019**	19,080,259	18,011,960
Technical provisions:				
Insurance contracts	*17*	**68,426,561**	66,362,172	60,690,251
Investment contracts with DPF	*17*	**28,694,612**	26,276,659	24,689,078
Investment contracts without DPF	*17*	**26,247,639**	18,762,578	12,788,505
Provision for claims outstanding	*17*	**1,057,285**	1,132,954	1,323,128
Lease Liability	27	**567,580**	668,123	-
Interest bearing borrowings	*21*	**13,009,058**	10,057,204	10,357,576
Tax payable		**30,571**	-	-
Deferred tax liability	*12*	**2,107,168**	2,946,963	2,592,480
Trade and other payables	*22*	**7,726,514**	8,380,857	7,372,905
Total liabilities		**147,866,988**	134,587,510	119,813,923
Total equity and liabilities		**166,314,007**	153,667,769	137,825,883

The accounting policies and explanatory notes on Pages 20 to 90 form an integral part of these financial statements.

The financial statements on Pages 14 to 90 were approved by the Board of Directors, authorised for issue on 22 April 2021 and were signed on its behalf by:

Prof. Paolo Catalfamo
Chairman

Joseph C. Schembri
Director

Statement of changes in equity
For the year ended 31 December

	Share capital €	Other reserves €	Capital Redemption reserve €	Retained earnings €	Total €
Balance as at 1 January 2020	8,735,160	10,488,547	-	325,920	19,549,627
Prior period error (Note 29)	-	-	-	(469,368)	(469,368)
Restated balance as at 1 January 2020	8,735,160	10,488,547	-	(143,448)	19,080,259
Loss for the financial year				(808,276)	(808,276)
Other comprehensive gain for the year	-	175,036	-	-	175,036
Total comprehensive gain/(loss) for the year	-	175,036	-	(808,276)	(633,240)
Increment in value of in-force business, transferred to other reserves, net of deferred tax (Note 11)	-	68,114	-	(68,114)	-
Capital redemption reserve	-	-	800,000	(800,000)	-
	-	68,114	800,000	(868,114)	-
Balance as at 31 December 2020	**8,735,160**	**10,731,697**	**800,000**	**(1,819,838)**	**18,447,019**
Balance as at 1 January 2019	8,735,160	9,688,698	-	57,470	18,481,328
Prior period error (Note 29)	-	-	-	(469,368)	(469,368)
Restated balance as at 1 January 2019	8,735,160	9,688,698	-	(411,898)	18,011,960
Profit for the financial year	-	-	-	1,156,928	1,156,928
Other comprehensive loss for the year	-	(88,629)	-	-	(88,629)
Total comprehensive gain/(loss) for the year	-	(88,629)	-	1,156,928	1,068,299
Increment in value of in-force business, transferred to other reserves, net of deferred tax (Note 11)	-	888,478	-	(888,478)	-
	-	888,478	-	(888,478)	-
Balance as at 31 December 2019	**8,735,160**	**10,488,547**	**-**	**(143,448)**	**19,080,259**

	Share capital €	Other reserves €	Capital Redemption Reserve €	Retained earnings €	Total €
Balance as at 1 January 2018	8,735,160	8,370,075	-	1,143,127	18,248,362
Prior period error (Note 29)	-	-	-	(469,368)	(469,368)
Restated balance as at 1 January 2018	8,735,160	8,370,075	-	673,759	17,778,994
Profit for the financial year	-	-	-	382,804	382,804
Other comprehensive loss for the year	-	(149,838)	-	-	(149,838)
Total comprehensive gain/(loss) for the year	-	(149,838)	-	382,804	232,966
Increment in value of in-force business, transferred to other reserves, net of deferred tax (Note 11)	-	1,468,461	-	(1,468,461)	-
	-	1,468,461	-	(1,468,461)	-
Balance as at 31 December 2018	**8,735,160**	**9,688,698**	**-**	**(411,898)**	**18,011,960**

The accounting policies and explanatory notes on Pages 20 to 90 form an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December	Notes	**2020**	2019
		€	€
Cash flows (used in)/generated from operations	23	**1,053,881**	7,158,275
Dividends received		**255,018**	631,859
Interest received		**1,177,149**	1,859,101
Interest paid		**(501,588)**	(501,331)
Tax refund on tax at source		**680,889**	-
Tax paid		**(91,069)**	(242,953)
Net cash flows generated from operating activities		**2,574,580**	8,904,951
Cash flows (used in)/generated from investing activities			
Purchase of intangible assets	11	**(348,987)**	(54,199)
Purchase of property, plant and equipment	13	**(63,523)**	(21,853)
Purchase of investments at fair value through profit or loss		**(12,445,278)**	(7,034,281)
Purchase of investments at available-for-sale	16	**(322,795)**	(725,770)
Purchase of investments in equity measured at cost	16	**-**	(125,719)
Term Deposits		**(1,010,228)**	(3,502,449)
Proceeds from disposal of investments at fair value through profit or loss	16	**7,977,462**	7,971,638
Proceeds from disposal of available-for-sale financial assets		**473,818**	166,985
Net proceeds on other investments -loans and receivables	16	**1,941,931**	(418,051)
Proceeds on disposal of term deposits		**1,502,453**	-
Net cash (used in)/generated from investing activities		**(2,295,147)**	(3,743,699)
Cash flows (used in)/generated from financing activities			
Payment of preference shares		**(800,000)**	(400,000)
Proceeds from interest bearing borrowings		**3,000,000**	-
Net cash generated from financing activities		**2,200,000**	(400,000)
Net movement in cash and cash equivalents		**2,472,257**	4,761,252
Cash and cash equivalents as at the beginning of the year		**15,791,074**	11,029,822
Cash and cash equivalents as at the end of the year	24	**18,263,331**	15,791,074

The accounting policies and explanatory notes on Pages 20 to 90 form an integral part of these 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 2020.

1. Basis of preparation

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

These consolidated and separate financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU (EU IFRSs), and with the Companies Act (Cap. 386 of the Laws of Malta). The consolidated financial statements include the financial statements of LifeStar Holding p.l.c. and its subsidiary undertakings. They also comply with the requirements of the Insurance Business Act (Cap. 403 of the Laws of Malta), the Investment Services Act (Cap. 370 of the Laws of Malta), and the Insurance Distribution Act (Cap. 487 of the Laws of Malta) in consolidating the results of LifeStar Insurance Limited, LifeStar Health, and GlobalCapital Financial Management where appropriate. The financial statements are prepared under the historical cost convention, as modified by the fair valuation of investment property, financial assets and financial liabilities at fair value through profit or loss, available for sale investments and the value of in-force business.

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

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

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

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group 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 IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise their judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement and estimates or complexity are disclosed in Note 1 to these financial statements.

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

1. Basis of preparation – continued

Appropriateness of going concern assumption in the preparation of the financial statements

As explained in the Directors' report, the Group made a loss of €1.1m (2019: profit of €0.5m) for the year ended 31 December 2020 and, at balance sheet date, had net assets amounting to €18.4m (2019: €19.1m).

When assessing the going concern assumption, the Directors have made reference to the Group's performance as well as the impact that the COVID-19 pandemic had on the Group. The measures taken by Malta over the past year in an effort to curb the COVID-19 pandemic, including social distancing, has had an impact on the distribution channels of the Group. Moreover, the impact of current economic uncertainties on individuals and businesses has impacted the financial year ending 31 December 2020, and may have a long-lasting effect on the Group's performance.

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 is difficult to assess the financial impact that this may have on LSI's Life Reserve and benefits payable in 2021, including the effects on lapses. However, any potential deterioration in cash outflows with respect to benefits payable in 2021 is expected to be mitigated by the ceded reinsurance programme that LSI has in place.

The volatility in the financial markets had a significant impact on LSI's and the Group's financial performance for the financial year ending 31 December 2020, and will continue to impact its performance going forward. However, an analysis carried out on the credit rating of the main counterparties showed that there were no significant downgrades since 31 December 2020. The pandemic also impacted the business of LifeStar Health Limited, as there was a reduction in travel insurance as well as a decrease in clients operating in the hospitality industry. However, this was compensated with clients postponing operations and treatments, and overall the company generated higher revenue and earnings during 2020, than it did in the previous two years.

During the year under review GlobalCapital Financial Management Limited registered a reduction in its losses and has embarked on a restructuring plan aimed at identifying potential new revenue streams which shall continue curtail the losses and eventually generate profits.

Having regard to the above and bearing in mind that the parent company has €10,000,000 5% unsecured bonds maturing on 2nd June 2021 (ISIN: MT0000171216), the Group has continued to explore any and all ways possible to strengthen its capital base and that of its subsidiaries. Consequently, over the past year, the Directors have engaged professional firms to implement a holistic strategic plan with the aim of addressing these issues and supporting the consolidation and future growth of the business. The Directors are confident that the plan is realistic, given that it is in the final stages of implementation. In fact, over the past few months Management has had frequent calls with the Malta Financial Services Authority to ensure that the proposal would be approved from their end.

In order to address the above, a number of actions have been taken. Firstly, LSI has submitted a formal application to the Listing Authority for the admissibility to listing of its existing shares on the Official List of the Malta Stock Exchange. Through this process the parent company will be selling for cash between 25% - 45% of the shares it holds in LSI. Persons holding shares in the parent company will also have the option to exchange part or all of their shares with new shares in LSI. However this latter process is not expected to generate significant amounts of cash for the Group.

Concurrently, LSI has submitted its application to the Listing Authority of the Malta Financial Services Authority for the proposed issue of Subordinated Tier 2 Bonds of €10 million, subject to an over-allotment option of €3 million. The proceeds from the sale of the shares in LSI will be used by the company to redeem the €10,000,000 5.00% unsecured bonds maturing 2nd June 2021 (ISIN: MT0000171216) and to repay, in full or in part, the BOV loan. The current bondholders will be offered

1. Basis of preparation – continued

Appropriateness of going concern assumption in the preparation of the financial statement - continued

the opportunity to exchange their maturing bonds with the Subordinated Tier 2 Bonds issued by LSI. For this purpose, a credit facility agreement is being finalized between the Company and LSI for the funding of any shortfall needed for the redemption of the maturing bonds and BoV loan.

Any surplus funds will be retained by LSI to strengthen its capital base and SCR. If required, the Company and its subsidiaries will also embark on the disposal of certain assets.

The combined effects of the above are intended to safeguard the Group's financial and liquidity positions and to ensure that the business continues to be in a position to meet its liabilities as they fall due. The Directors confirm that, after considering the above, they expect that the Group will be able to sustain its operations over the next twelve months and in the foreseeable future and consider the going concern assumption in the preparation of these financial statements as appropriate as at the date of authorisation for their issue. Nevertheless the Directors are cognizant that there remains material uncertainty about the outcome of the Group's plans not least because of the possible impact that the COVID-19 pandemic may have on the local and global economy in the short to medium term. The non-execution of the plans or of them being unsuccessful, may impact the going concern of the parent company and the Group and may subsequently result in the Group not being able to realize its assets and discharge its liabilities in the normal course of the business

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

The following accounting pronouncements became effective from 1 January 2020 and have therefore been adopted:

- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)
- Amendments to Reference to the Conceptual Framework (Various Standards)
- COVID-19 Rent Related Concessions (Amendments to IFRS 16)

The adoption of these pronouncements did not result in substantial changes to the Group's accounting policies and did not have a significant impact on the Group's financial results or position and therefore no additional disclosures have been made.

Standards, interpretations and amendments to published standards as endorsed by the EU that were effective before 2020 for which the Group 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.

1. Basis of preparation - continued

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

IFRS 9 – Financial instruments – continued

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.

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 one 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.

Given that most of the Group's main business and activity relates to life insurance as manifested in the consolidated balance sheet assets and liabilities, the Group has evaluated its liabilities as at 31 December 2015, the prescribed date of assessment under the optional temporary relief provisions to the determine whether on a consolidated basis the Group can apply this exemption. At 31 December 2015 the Group concluded that its liabilities are predominately connected with insurance. In fact 81% of the total liabilities relates to the insurance business that is being written by the life company. The Directors have also concluded that the main company within the Group is the LifeStar Insurance Limited and thus, the Group does not engage in other significant activities unconnected with insurance.

Following, the evaluation of the prescribed date of assessment, the Group has further focused its energy and commitment towards the company that writes insurance business. The Directors believe that one of the main drivers in respect of the Group's shareholder value is the life portfolio business written by LifeStar Insurance Limited. Furthermore, following the restructuring that took place in 2016 and 2017, following the change in the main shareholder of the Group, a reassessment was deemed to be relevant in order to assess whether the temporary exemption of the aforementioned prescribed date of assessment is still relevant. The Directors concluded that the Group's insurance liabilities compared to the Group's total liabilities as at 31 December 2017 stood at 87%. Furthermore, the carrying amount of the liability arising from contracts within the scope of IFRS 4 is significant compared to the total carrying amount of the Group's liabilities.

Thus, the Directors have concluded that the temporary exemption of IFRS 9 also applies to the Group on a consolidated basis in line with the aforementioned arguments listed above.

Further to the above, the Group has not previously applied any version of IFRS 9. Therefore the Group is an eligible insurer that qualifies for optional exemption from the application of IFRS 9. As at 1 January 2018, the Group 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 Group will continue to apply IAS 39 until 1 January 2023.

1. Basis of preparation - continued

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 authorization for issue of these financial statements but are mandatory for the Group's accounting periods beginning on or after 1 January 2019. The Group has not early adopted these revisions to the requirements of IFRSs as adopted by the EU, and the Group's Directors are of the opinion that, with the exception of the below pronouncements, there are no requirements that will have a possible significant on the Group's financial statements in the period of initial application.

IFRS 17 - Insurance contracts

IFRS 17, 'Insurance contracts' 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. IFRS 17 is not yet endorsed by the EU. The Group's Directors are assessing the potential impact, if any, of the above IFRS on the financial statements of the Group in the period of initial application.

2. Consolidation

Subsidiaries

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

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

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

a. The aggregate of:
   - (i) the consideration transferred;
   - (ii) the amount of any non-controlling interest in the acquiree; and
   - (iii) in a business combination achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree.

b. The net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed.

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

2. Consolidation - continued

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

3. Intangible assets

(a) Goodwill

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

(b) Value of in-force business

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

(c) Computer software

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

4. Deferred income tax

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

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

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

5. Property, plant and equipment

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

5. Property, plant and equipment - continued

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 reporting period.

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

6. Assets held for sale

The Group 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.

7. Investment properties

Freehold and leasehold properties treated as investments principally comprise buildings that are held for long term rental yields or capital appreciation or both, and that are not occupied by the Group. Investment properties are initially measured at cost including related transaction costs. Investment properties are subsequently carried at fair value, representing open market value determined annually by external valuers, or by virtue of a Directors' valuation. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset.

If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. The fair value of investment properties reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the profit or loss during the financial period in which they are incurred. Unrealised gains and losses arising from changes in fair value (net of deferred taxation) are recognised in the profit or loss.

8. Investment in group undertakings

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

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

9. Other financial assets

IAS 39

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.

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

(i) Trade receivables

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

(ii) Investments

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

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

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

9. Other financial assets - continued

IAS 39 – continued

(ii) Investments - continued

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

designation eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

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

(d) Available-for-sale financial assets

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

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

Financial assets at fair value through profit or loss are subsequently re-measured at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are recognised in profit or loss.

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

9. Other financial assets - continued

IAS 39 – continued
(d) Available-for-sale financial assets - continued

The fair value of quoted financial assets is based on quoted market prices at the end of the reporting period. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis.

(e) Equity instruments that do not have a quoted market price

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 nominal value.

(iv) Shares issued by the Company

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

IFRS 9

Initial recognition and measurement

Financial assets are classified at initial recognition, at amortised cost, fair value through other comprehensive income (FVOCI), and fair value through profit or loss (FVTPL).

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the business model for managing them. With the exception of receivables that do not contain a significant financing component or for which the company has applied the practical expedient, the company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs.

In order for a financial asset to be classified and measured at amortised cost or FVOCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The company's business model for managing financial assets refers to how it manages its financial assets in order to generate cashflows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

(i) Financial assets at amortised cost (debt instruments);
(ii) Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);

9. Other financial assets – continued

IFRS 9 – continued
Subsequent measurement - continued

(iii) Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments); and
(iv) Financial assets at fair value through profit or loss

The company holds financial assets at amortised cost which meet both of the following conditions:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

10. Impairment of assets

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

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

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

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

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

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

10. Impairment of assets - continued

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

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

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.

(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 fair value less the costs to sell and value in use. Impairment losses and reversals are recognised in profit or loss.

(c) Impairment of non-financial assets

Assets that are subject to amortisation or depreciation, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, principally comprise property, plant and equipment and computer software. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). An impairment loss recognised in a prior year is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. Impairment losses and reversals are recognised in profit or loss.

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

11. Offsetting financial instruments

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

12. Insurance contracts and investment contracts with DPF

(a) Classification

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

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

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

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

(b) Recognition and measurement

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

Short term insurance contracts

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

Long-term contracts

<u>Insurance contracts without DPF</u>

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.

12. Insurance contracts and investment contracts with DPF – continued

(b) Recognition and measurement – continued

Investment 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.

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

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

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

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

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

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

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

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

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

(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 Group'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.

12. Insurance contracts and investment contracts with DPF – continued

(b) Recognition and measurement – continued

Investment contracts with DPF – continued

(iv) Life insurance and investment contracts with DPF liabilities - continued

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.

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 affected by external factors (such as court decisions), and further includes the portion of premiums received on in-force contracts that relate to unexpired risks at the end of the reporting period.

(c) Reinsurance contracts held

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts in accounting policy 12(a) are classified as reinsurance contracts held. Contracts that do not meet the classification requirements are classified as financial assets.

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurers' share of technical provisions or receivables from reinsurers (unless netted off against amounts payable to reinsurers). These assets consist of short-term balances due from reinsurers (classified within receivables), as well as longer term receivables (classified as reinsurers' share of technical provisions) that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

12. Insurance contracts and investment contracts with DPF – continued

Investment contracts with DPF – continued

(c) Reinsurance contracts held - continued

The Group assesses its reinsurance assets for impairment on an annual basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the profit or loss. The Group gathers objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets. These processes are described in accounting policy 10(a).

(d) Receivables and payables related to insurance contracts

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

13. Investments contracts without DPF

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

14. Assets held for sale

The Group 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.

15. Cash and cash equivalents

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

16. Borrowings

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

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

17. Share capital

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

18. Dividend distribution

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

19. Fiduciary activities

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

20. Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

21. Revenue recognition

Revenue 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 Group expects to be entitled in exchange for those goods or services. Revenue also includes interest, dividend and rental income. The following specific recognition criteria must also be met before revenue is recognised:

(a) Rendering of services

Premium recognition dealing with insurance contracts and investments contracts with DPF is described in accounting policy 12. Revenue arising from the issue of investment contracts without DPF is recognised in the accounting period in which the services are rendered.

21. Revenue recognition – continued

(a) Rendering of services - continued

Other turnover arising on rendering of services represents commission, consultancy and advisory fees receivable in respect of the Group's activities in providing insurance agency, brokerage or investment services. Revenues are recognised in the financial statements in line with fulfilment of the performance obligations and the consideration is allocated to each performance obligation and recognised as revenue as the performance obligation is performed over the duration of the contract.

(b) Dividend income

Dividend income is recognised when the 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.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the Group's revenue listed in Accounting Policy 20, the Group considers the effects of variable consideration, existence of a significant financing component, non-cash consideration, and consideration payable to the customer (if any).

If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

22. Foreign currencies

(a) Functional and presentation currency

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

23. Investment return

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

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

24. Leases

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

(i) Group 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 Group 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 Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Group 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) Group 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 Group 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 Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group 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 Group presents right-of-use asset that do not meet the definition of investment property as 'right-of-use assets'.

24. Leases - continued

(ii) Group 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 Group incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Estimating the incremental borrowing rate

The Group 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 Group 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 Group '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 Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

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 Group estimate of the amount expected to be payable under a residual value guarantee, if the Group 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 Group 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.

25. Employee benefits

The Group 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.

26. Current tax

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

Notes to the financial statements

1. Critical accounting estimates and judgements

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

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

(a) Fair valuation of investment properties

The determination of the fair value of investment properties at the end of the reporting period requires the use of significant management estimates. Details of the valuation methodology and key assumptions of investment property classified as Level 3 are disclosed in Note 14 to the financial statements.

(b) Value of in-force business

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

(c) Technical provisions

The Group's technical provisions at year-end are determined in accordance with accounting policy 12. Details of key assumptions and sensitivities to the valuation are disclosed in Note 17 to the financial statements.

2. Management of insurance and financial risk

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

Insurance risk

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

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

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 Group has developed its insurance underwriting strategy to diversify the type of insurance risk accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk and geographical location.

(a) Frequency and severity of claims

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

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

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

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

The Group has retention limits on any single life assured for term business or risk premium business. The Group reinsures the excess of the insured benefits over approved retention limits under a treaty reinsurance arrangement. Short term insurance contracts are also protected through a combination of selective quota share and surplus reinsurance. Further, the Group has a “CAT XL” reinsurance arrangement to cover its exposure in the case of an event affecting more than three lives.

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

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 Group’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 Group’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 Group uses appropriate base tables of standard mortality according to the type of contract being written. The Group does not take credit for future lapses in determining the liability for long term contracts in accordance with the insurance rules regulating its calculation.

2. Management of insurance and financial risk - continued

Financial risk

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

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

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

(a) Cash flow and fair value interest rate risk

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

2. Management of insurance and financial risk - continued

Market risk

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

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

	2020	2019
	€	€
Assets attributable to policyholders		
Assets at floating interest rates	**14,946,802**	15,335,250
Assets at fixed interest rates	**30,404,165**	38,312,041
	45,350,967	53,647,291
Assets attributable to shareholders		
Assets at floating interest rates	**3,316,531**	445,824
	3,316,531	208,125
Liabilities		
Technical provisions	**97,121,173**	92,317,831

As disclosed in Note 21 the Company issued a bond having a remaining nominal value of €10,000,000 (2019: €10,000,000) as at year end at a fixed rate of interest. It had also obtained a loan from its shareholder amounting to €36,541 (2019: €148,639) as well as from BOV of a nominal value of €3,000,000 (2019: €Nil). This exposure does not give rise to fair value interest rate risk since the bond and the loans are carried at amortised cost in the financial statements.

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

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

2. Management of insurance and financial risk - continued

Market risk - continued

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

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

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

The sensitivity for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. The Group's interest rate risk arises primarily on fixed-income and floating rate financial assets held to cover policyholder liabilities. Interest-bearing assets or liabilities attributable to the shareholders are not significant, or they mainly mature in the short term, and as a result the Group's income and operating cash flows are substantially independent of changes in market interest rates in this regard. An indication of the sensitivity of insurance results to a variation of investment return on policyholders' assets is provided in Note 11 to the financial statements in relation to the value of in-force business. Further sensitivity to investment return variations in relation to technical provisions is provided in Note 17 to the financial statements.

Should the carrying amounts of assets at fixed interest rates at the end of the reporting period increase/decrease by 10%, with all other variables held constant, the impact on the Group's pre-tax profit would be +/- €3,040,416 (2019: +/- €3,831,204). The Group is not exposed to significant cash flow interest rate risk on assets at floating interest rates as a reasonably possible change would not result in a significant cash flow interest rate risk.

(b) Price risk

The Group 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 or as available for sale. This risk is mitigated through the adherence to an investment policy geared towards diversification as described earlier. The Group is exposed to price risk in respect of listed equity investment. Approximately 35% (2019: 40%) of equity securities held at fair value through profit or loss in Note 16 relate to holdings in three local banks. The remaining equity securities held at fair value through profit or loss are mainly held in equities in the Telecommunication Services and Information Technology sectors.

2. Management of insurance and financial risk - continued

Market risk - continued

(b) Price risk - continued

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

	2020	2019
	€	€
Other Investments (Note 16)	**22,832,018**	20,850,121

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

The sensitivity analysis measures the change in the fair value of the instruments for a hypothetical change of 10% in the market price of financial assets at fair value through profit or loss. The amounts generated from the sensitivity analysis are forward-looking estimates of market risk assuming certain market conditions. Actual results in the future may differ materially from those projected results due to the inherent uncertainty of global financial markets. Should market prices at the end of the reporting period increase/decrease by 10% (2019: 10%), with all other variables held constant, the impact on the Group's pre-tax profit would be +/- €2,228,000 (2019: +/- €1,952,000). This sensitivity analysis is based on a change in an assumption while holding all assumptions constant and does not consider, for example, the mitigating impact of the DPF element on policyholder liabilities for contracts with a DPF.

(c) Currency risk

The Group's exposure to foreign exchange risk arises primarily from investments that are denominated in currencies other than the Euro. As at 31 December 2020, the Group's exposure to foreign currency investments (principally comprising a mix of US Dollar, UK Pound and Swiss Franc) represented 3.3% (2019: 6%) of the Group's total investments excluding the term deposits in Note 16. Approximately 11.4% (2019: 2.2%) of the Group's cash and cash equivalents and term deposits, are denominated in foreign currency (principally comprising a mix of US Dollar, UK Pound and Swiss Franc).

The risk arising from foreign currency transactions is managed by regular monitoring of the relevant exchange rates and management's reaction to material movements thereto.

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

Should exchange rates at the end of the reporting period differ by +/-10% (2019: +/-10%), with all other variables held constant, the impact on the Company's pre-tax profit would be +/- €457,000 (2019: +/- €487,000).

2. Management of insurance and financial risk - continued

Credit risk

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

- investments (including counterparty risk);
- reinsurers' share of technical provisions;
- amount due from insurance policyholders and intermediaries;
- trade and other receivables; and
- cash and cash equivalents.

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

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

Credit risk in respect of trade and other receivables is not deemed to be significant after considering the range of underlying debtors, and their creditworthiness. Receivables are stated net of impairment. Further detail in this regard is provided in Note 18 to the financial statements.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Group's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Group remains liable for payment to the policyholder. The creditworthiness of reinsurers is considered on an ongoing basis and by reviewing their financial strength prior to finalisation of any contract. The Group's reinsurer retained its Standard and Poor's rating of AAA to AA+ bracket as at 31 December 2020.

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

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

The following table illustrates the assets that expose the Group to credit risk as at the end of the reporting period and includes the Standard & Poor's, Moody's and ARC's 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.

2. Management of insurance and financial risk - continued

Credit risk - continued

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

	As at 31 December 2020				
	AAA to AA €	**A €**	**BBB to B €**	**Below B to unrated €**	**Total €**
Debt securities at fair value through profit or loss	2,164,582	6,263,730	18,024,340	941,285	27,393,937
	2,164,582	6,263,730	18,024,340	941,285	27,393,937
Loans and receivables					
Loans secured on policies	-	-	-	39,090	39,090
Other loans and receivables	-	3,084,845	-	-	3,084,845
Trade and other receivables				4,168,336	4,168,336
Term Deposits	-	-	-	3,010,223	3,010,223
Cash and cash equivalents	-	-	15,786,048	2,477,283	18,263,331
	-	3,084,845	15,786,048	9,694,932	28,565,825
Reinsurance share of technical provisions	20,749,175	-	-	-	20,749,175
Total assets bearing credit risk	**22,913,757**	**9,348,575**	**33,810,388**	**10,636,217**	**76,708,937**

	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	-	-	-	2,512,463	2,512,463
Term Deposits	-	-	-	3,502,449	3,502,449
Cash and cash equivalents	-	6,715	14,440,411	1,343,948	15,791,074
	-	3,292,344	14,440,411	9,339,882	27,072,637
Reinsurance share of technical provisions	17,568,236	-	-	-	17,568,236
Total assets bearing credit risk	**19,542,131**	**11,144,063**	**29,590,052**	**14,145,636**	**74,421,822**

2. Management of insurance and financial risk - continued

Credit risk - continued

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

As at 31 December 2020 and 2019 the Group had significant exposure with the Government of Malta through investments in debt securities. In 2020, these were equivalent to 7% (2019: 10%) of the Group's total investments.

The tables below analyse the Group'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	one and five years €	Between five and ten years €	Between ten and twenty years €	Between Over 20 years €	Total €
As at 31 December 2020						
Reinsurance share of Technical provisions	**1,037,459**	**4,772,312**	**2,697,392**	**4,357,326**	**7,884,686**	**20,749,175**
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

Liquidity risk

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

The Group is exposed to daily calls on its available cash resources in order to meet its obligations, including claims arising from contracts in issue by the Group. Other financial liabilities which expose the Group to liquidity risk mainly comprise the borrowings disclosed in Note 21 and trade and other payables disclosed in Note 22.

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

2. Management of insurance and financial risk - continued

Liquidity risk - continued

As at 31 December 2020

	Contracted undiscounted cash outflows					
	Less than one year €	Between one and two years €	Between two and five years €	Over five years €	Total €	Carrying amount €
Interest-bearing borrowings	11,084,933	587,674	1,771,242	295,207	13,739,056	13,009,058
Trade and other payables	7,726,514	-	-	-	7,726,514	7,726,514
	18,811,447	**587,674**	**1,771,242**	**295,207**	**21,465,570**	**20,735,572**

	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 €
Technical provisions	**6,877,195**	**27,802,157**	**16,735,537**	**24,695,346**	**48,315,862**	**124,426,097**

As at 31 December 2019

	Contracted undiscounted cash outflows					
	Less than one year €	Between one and two years €	Between two and five years €	Over five years €	Total €	Carrying amount €
Interest-bearing borrowings	648,639	10,500,000	-	-	11,148,639	10,057,204
Trade and other payables	8,380,857	-	-	-	8,380,857	8,380,857
	9,029,496	**10,500,000**	**-**	**-**	**19,529,496**	**18,438,061**

	Expected discounted cash outflows					
	Less than one year €	Between one and five years €	Between five and ten years €	Between ten and twenty years €	Over €	Total €
Technical provisions	**6,219,923**	**25,145,031**	**15,136,077**	**22,335,146**	**43,698,186**	**112,534,363**

3. Segmental analysis

The following is an analysis of the Group's revenue and result by reportable segment, assets, liabilities and other information for 2020.

	Investment and advisory services €	Business of insurance €	Agency services €	Property services €	Eliminations €	Group €
Year ended 31 December 2020						
Segment income						
Earned premiums, net of reinsurance	-	11,243,464	-	-	-	11,243,464
Commission and other fees receivable	718,439	305,038	2,144,636	-	-	3,168,113
Increment in the value of in-force business	-	104,791	-	-	-	104,791
Investment and other income	579,988	4,322,373	14,550	-	-	4,916,911
Net gains on investments at FVTPL	-	(2,394,511)	-	-	-	(2,394,511)
Net gains on investment property	-	2,055,651	-	10,000	-	2,065,651
Total revenue	**1,298,427**	**15,636,806**	**2,159,186**	**10,000**	**-**	**19,104,419**
Revenue from external customers	409,849	13,196,197	2,144,636	-	-	15,750,682
Intersegment revenues	310,000	55,189	-	-	(310,000)	55,189
Segment expenses						
Net claims incurred	-	10,301,196	-	-	-	10,301,196
Net change in technical provisions	-	1,368,079	-	-	-	1,368,079
Net operating expenses	1,251,455	4,649,731	1,202,418	148,275	249,848	7,501,727
Investment expenses	6,136	-	-	-	-	6,136
Total expenses	**1,257,591**	**16,319,006**	**1,202,418**	**148,275**	**249,848**	**19,177,138**

3. Segmental analysis - continued

	Investment and advisory services €	Business of insurance €	Agency and brokerage services €	Property services €	Eliminations €	Group €
Year ended 31 December 2020						
Segment (loss)/profit	**40,836**	**(682,200)**	**956,768**	**(138,275)**	**(249,848)**	**(72,720)**
Unallocated items						
Finance costs	-	-	-	-	-	(17,562)
Administrative expenses	-	-	-	-	-	(1,047,634)
Total unallocated items	-	-	-	-	-	(1,064,196)
Group profit						**(1,137,915)**
Tax expense						329,640
Profit after tax						**(808,275)**
Segment assets	762,007	152,872,162	2,008,260	7,048,337		162,690,766
Unallocated assets						3,623,241
						166,314,007
Segment liabilities	191,439	131,218,316	120,097	61,614		131,591,466
Unallocated liabilities						16,275,523
						147,866,988
Other segment items						
Capital expenditure	974	63,523	1,946	-	-	
Amortisation	-	234,366	-	-	-	
Depreciation	527	64,154	6,899	-	-	

The following is an analysis of the Group's revenue and result by reportable segment, assets, liabilities and other information for 2019.

	Investment and advisory services €	Business of insurance €	Agency services €	Property services €	Eliminations €	Group €
Year ended 31 December 2019						
Segment income						
Earned premiums, net of reinsurance	-	10,364,577	-	-	-	10,364,577
Commission and other fees receivable	448,007	-	1,853,748	-	(165,828)	2,135,927
Increment in the value of in-force business	-	1,366,889	-	-	-	1,366,889
Investment and other income	403,032	4,656,972	41,955	-	(411,853)	4,690,106
Net gains on investments at FVTPL	-	839,865	-	-	-	839,865
Net gains on investment property	-	498,058	-	40,000	-	538,058
Total revenue	**851,039**	**17,726,361**	**1,895,703**	**40,000**	**(577,681)**	**19,935,422**
Revenue from external customers	448,007	12,026,997	1,853,748	-	(165,828)	14,162,924
Intersegment revenues	-	4,622	-	-	-	4,622
Segment expenses						
Net claims incurred	-	8,345,640	-	-	-	8,345,640
Net change in technical provisions	-	3,311,772	-	-	-	3,311,772
Net operating expenses	1,650,558	3,840,327	1,606,136	196,753	(1,867,616)	5,426,158
Investment expenses	4,420	1,276,135	-	-	-	1,280,555
Total expenses	**1,654,978**	**16,773,874**	**1,606,136**	**196,753**	**(1,867,616)**	**18,364,125**

3. Segmental analysis - continued

	Investment and advisory services €	Business of insurance €	Agency and brokerage services €	Property services €	Eliminations €	Group €
Year ended 31 December 2019						
Segment (loss)/profit	**(803,939)**	**3,397,377**	**289,567**	**(156,753)**	**1,289,935**	**4,016,187**
Unallocated items						
Finance costs	-	-	-	-	-	(598,191)
Administrative expenses	-	-	-	-	-	(1,386,363)
Investment Income	-	-	-	-	-	34,031
Total unallocated items	-	-	-	-	-	(1,950,523)
Group profit						**2,065,664**
Tax expense						(908,736)
Profit after tax						**1,156,928**
Segment assets	1,080,505	150,230,713	1,892,625	7,455,642	(20,237,756)	140,421,729
Unallocated assets						13,246,040
						153,667,769
Segment liabilities	930,391	121,257,630	427,259	7,255,044	(12,265,926)	117,604,398
Unallocated liabilities						16,513,744
						134,118,142
Other segment items						
Capital expenditure	-	(27,267)	-	-	-	
Amortisation	-	209,132	-	-	-	
Depreciation	527	85,997	6,557	-	-	

3. Segmental analysis - continued

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

- Investment and advisory services - the provision of services in terms of the Investment Services Act (Cap. 370 of the Laws of Malta);
- Business of insurance - to carry on long-term business of insurance under the Insurance Business Act (Cap. 403 of the Laws of Malta);
- Agency and brokerage services - provision of agency or brokerage services for health or other general insurance in terms of the Insurance Distribution Act (Cap. 487 of the Laws of Malta); and
- Property services - to handle property acquisitions, disposals and development projects both long and short term.

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

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

All the Group’s turnover is primarily generated in and from Malta.

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

All non-current assets (other than financial instruments, deferred tax assets and rights under insurance contracts) are held in Malta with the exception of investment property located in Italy amounting to €6,700,000 (2019: €6,700,000), in Croatia of €680,000 (2019: €670,000). The Group has reclassified investment property which has a book value of €200,000 (2019: €200,000) to assets held-for-sale in the statement of financial position. This consist of a property in Spain which relates to the property segment. This property is expected to be sold within 12 months from the date of classification as non-current assets held-for-sale.

Revisionary bonuses declared in the year amounted to €980,789 (2019: €1,889,337).

4. Expenses by nature

	2020	2019
	€	€
Staff costs (Note 5)	**2,357,652**	2,496,190
Commission and direct marketing costs	**2,129,822**	1,481,652
Amortisation of computer software (Note 11)	**234,366**	209,976
Depreciation of property, plant and machinery (Note 13)	**72,319**	93,467
Other provisions	**182,305**	241,276
Legal and professional fees	**960,017**	1,101,626
Insurance and licence costs	**217,440**	267,078
IT related expenses	**325,495**	352,862
Staff training and welfare costs	**16,113**	88,446
Lease expenses	**138,122**	24,947
Other expenses	**1,044,657**	635,574
	7,678,308	6,925,585
Allocated as follows:		
Long term business technical account		
- claims related expenses	**125,733**	200,538
- staff costs	**987,144**	748,857
- net operating expenses	**3,101,121**	2,881,129
Non-technical account		
- staff costs	**1,370,508**	1,747,333
- commission and direct marketing costs	**325,879**	373,134
- other provisions	**182,305**	241,276
- other administrative expenses	**1,585,618**	733,318
	7,678,308	6,925,585

Auditor’s remuneration for the current financial year amounted to €104,000 (2019: €124,500) for the Group. Other fees payable to the auditor comprise €25,000 (2019: €25,500) for other assurance services, €5,700 (2019: €9,000) for tax services and €18,500 (2019: € nil) for other non-audit services.

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

5. Staff costs

	2020	2019
	€	€
Staff costs, including directors' emoluments (Note 8):		
Wages and salaries	2,240,858	2,379,770
Social security costs	116,794	116,420
	2,357,652	2,496,190

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

	2020	2019
	Number	Number
Managerial	7	10
Sales	4	4
Administrative	51	58
	62	72

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

6. Investment return and finance costs

	2020	2019
	€	€
Investment income		
Rental income from investment property	**709,092**	610,961
Dividends received from investments at fair value through profit or loss	**360,249**	739,185
Dividends received from available-for-sale investments	**18,254**	49,523
Interest receivable from		
- investments at fair value through profit or loss	**1,096,271**	1,264,904
- held-to-maturity investments		
- other loans and receivables	**314,293**	591,203
- available-for-sale investments	**1,244**	2,994
Other income	**685,581**	103,832
	3,184,984	3,362,602
Investment charges and expenses		
Investment management charges	**(55,373)**	(42,398)
Reversal of impairment/(impairment loss) on non-quoted equity	**205,237**	-
Loans & receivables written off	**-**	(15,675)
Interest payable on:		
- Interest-bearing borrowings	**(39,792)**	(22,959)
- Interest on bonds payable	**(500,000)**	(501,331)
Amortisation of bond issue costs	**(64,304)**	(64,128)
Amortisation of premium	**-**	-
Impairment loss on equity measured at cost	**(537,156)**	(1,222,445)
Other finance costs	**(28,736)**	(9,773)
	(1,020,124)	(1,878,709)
Movement in fair value		
Net gains on investment property and assets held for sale	**2,065,651**	538,058
Net fair value gain/ (loss) on investment – bonds	**(472,553)**	1,744,954
Net fair value gain/ (loss) on investment – equity and collective investment schemes	**(1,921,958)**	1,539,801
	(328,860)	3,822,813
Total investment return	**1,836,000**	5,306,706
Allocated as follows:		
Long term business technical account	**1,524,080**	4,061,506
Statement of comprehensive income	**311,920**	1,245,200
	1,836,000	5,306,706

7. Income tax

	2020 €	2019 €
Current tax charge	**325,840**	28,120
Deferred tax charge/ (credit)	**(655,480)**	402,205
Tax relating to value of in-force business	**-**	478,411
Tax (income)/ charge	**(329,640)**	908,736

Income tax recognised in other comprehensive income is as follows:

	2020 €	2019 €
Deferred tax		
Arising on income and expenses recognised in other comprehensive income:		
Revaluation of PPE	**(21,529)**	-
Revaluations of available-for-sale financial assets	**39,067**	47,722
	17,538	47,722

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

	2020 €	2019 €
Profit/(loss) before tax	**(1,137,915)**	2,065,664
Tax on profit/(loss) at 35%	**398,271**	722,982
Tax effect of:		
Non-deductible expenditure	**(459,462)**	533,330
Exempt income and income subject to a reduced rate of tax	**314,271**	(336,656)
Other differences	**76,560**	(10,920)
Tax expense	**329,640**	908,736

8. Directors' emoluments

	2020	2019
	€	€
Directors' emoluments	**183,750**	206,250

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

The above information for the Company includes salaries and emoluments amounting to €38,750 (2019: €38,750) that were recharged to group undertakings.

9. Earnings per share

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

	2020	2019
	€	€
Net profit/(loss) attributable to shareholders	(808,275)	1,156,928
Weighted average number of ordinary shares in issue		
Earnings per share (cents)	(2c7)	3c9

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

10. Dividends

The Directors of the Company do not recommend the payment of a dividend for 2020 as the Company had no distributable reserves at the end of the reporting period. No dividend was paid in 2019.

11. Intangible assets

	Goodwill €	Value of in-force business €	Computer software €	Total €
Year ended 31 December 2020				
Opening carrying amount	311,541	10,473,805	1,424,067	12,209,413
Increment in value in force business (Note 20)	-	68,114	-	68,114
Additions	-	-	345,977	345,977
Amortisation charge (Note 4)	-	-	(234,366)	(234,366)
Closing carrying amount	311,541	10,541,919	1,535,678	12,389,138
At 31 December 2020				
Cost or valuation	311,541	10,541,919	2,983,123	13,836,583
Accumulated amortisation	-	-	(1,447,445)	(1,447,445)
Carrying amount	**311,541**	**10,541,919**	**1,535,678**	**12,389,138**
Year ended 31 December 2019				
Opening carrying amount	311,541	9,585,327	1,683,165	11,580,033
Increment in value in force business (Note 20)	-	888,478	-	888,478
Additions	-	-	54,199	54,199
Amortisation charge (Note 4)	-	-	(209,976)	(209,976)
Write-off	-	-	(103,321)	(103,321)
Closing carrying amount	311,541	10,473,805	1,424,067	12,209,413
At 31 December 2019				
Cost or valuation	311,541	10,473,805	2,637,056	13,422,402
Accumulated amortisation	-	-	(1,212,989)	(1,212,989)
Carrying amount	**311,541**	**10,473,805**	**1,424,067**	**12,209,413**

11. Intangible assets - continued

Amortisation of computer software amounting to €234,366 (2019: €209,976) is included in expenses by nature (Note 4).

Computer software relates to the Group’s policy administration system. The carrying amount of the software is €1,535,768 (2019: €1,424,067) will be fully amortised in 9 years (2019: 10 years).

Impairment tests for goodwill

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

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

The value of in-force business (“VOIFB”) represents the net present value of projected future transfers to Shareholders from policies in force at the year end, after making provision for 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% (2019: 5.25%) and a growth rate of 3.2% to 4% (2019: 3.7% to 5%) depending on the type of policy.

The valuation assumes a margin of 1% (2019: 0.94%) between the weighted average projected investment return and the discount factor applied. The calculation also assumes lapse rates varying from 0% to 27% (2019: 0% to 26%), 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 €1,183,686 (2019: €688,000);
- a decrease in the projected investment return by 10% reduces the VOIFB by €969,289 (2019: €1,007,175); and
- an increase in the discount factor by 10% reduces the VOIFB by €617,233 (2019: €555,208).

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

12. Deferred tax

Deferred taxes are calculated on temporary differences under the balance sheet liability method using a principal tax rate ranging between 8% and 35% (2019: 8% and 35%). In particular temporary differences on investment properties situated in Malta that have been owned by the Group since 1 January 2004 are calculated under the liability method using a principal tax rate of 8% of the carrying amount, while investment properties situated in Malta that had been acquired by the Group before 1 January 2004 are calculated under the liability method using a principal tax rate of 10% of the carrying amount. Deferred tax on temporary differences on investment properties situated outside Malta has been calculated based on tax rates that have been enacted or substantively enacted at the end of the reporting period.

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

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

	2020	2019
	€	€
Year ended 31 December		
At beginning of year	**129,815**	(118)
Deferred tax (credit)/ charge	**(130,100)**	129,933
At end of year	**(285)**	129,815

Deferred income taxes are calculated on temporary differences under the liability method using a principal tax rate of 35% (2019: 35%).

The movement in deferred tax asset/(liability) for the current period can be summarised as follows:

	At beginning of the year	**Charged to income statement**	**At end of year**
	€	**€**	**€**
Unabsorbed Group Loss Relief	129,990	(129,990)	-
Accelerated tax depreciation	(175)	(110)	(285)
	129,815	(130,100)	(285)

12. Deferred income tax - continued

The movement in deferred tax asset/(liability) for the comparative period can be summarised as follows:

	At beginning of the year €	Charged to income statement €	At end of year €
Unabsorbed Group Loss Relief	129,990	-	129,990
Accelerated tax depreciation	(175)	-	(175)
	129,815	-	129,815

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

	2020 €	2019 (restated) €	2018 (restated) €
Year ended 31 December			
At beginning of the year (as previously reported)	3,199,700	2,845,217	3,009,014
Efect of prior year error (Note 29)	(252,737)	(252,737)	(252,737)
At the beginning of the year (as restated)	2,946,963	2,592,480	2,756,277
Credited to profit and loss account (Note x)	(822,257)	402,205	(83,116)
Credited to other comprehensive income (Note x)	(17,538)	(47,722)	(80,681)
At end of year	**2,107,168**	**2,946,963**	**2,592,480**

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

	2020 €	2019 (restated) €	2018 (restated) €
Fair value adjustments	3,087,254	3,706,706	3,067,930
Accelerated tax depriciation	405,686	404,616	257,517
Leases recognised under IFRS 16	(123)	-	-
Unutilised tax lossed and capital allowances	(1,634,315)	(1,386,480)	(947,694)
Others	248,666	222,121	214,727
Net deferred income tax liability	**2,107,168**	**2,946,963**	**2,592,480**

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

13. Property, plant and equipment

	Land and buildings €	Office furniture, fittings and equipment €	Total €
Year ended 31 December 2020			
Opening carrying amount	1,935,654	45,329	1,980,983
Additions	26,056	47,353	73,409
Revaluation for the year	269,117	-	269,117
Reclassification to investment property	(169,949)	-	(169,949)
Depreciation charge (Note 4)	(37,858)	(34,461)	(72,319)
Closing carrying amount	**2,023,020**	**58,221**	**2,081,241**
At 31 December 2020			
Cost	2,457,890	1,727,967	4,185,857
Accumulated depreciation	(434,870)	(1,669,746)	(2,104,616)
Carrying amount	**2,023,020**	**58,221**	**2,081,241**
Year ended 31 December 2019			
Opening carrying amount	1,985,774	73,699	2,059,473
Additions	-	21,853	21,853
Depreciation charge (Note 4)	(65,120)	(28,347)	(93,467)
Closing carrying amount	**1,920,654**	**67,205**	**1,987,859**
At 31 December 2019			
Cost	2,491,751	2,315,108	4,806,859
Accumulated depreciation	(571,097)	(2,247,903)	(2,819,000)
Carrying amount	**1,920,654**	**67,205**	**1,987,859**

€1,486,911 (2019: €1,648,464) worth of office furniture, fittings and equipment assets are fully depreciated and is still in use.

14. Investment property and assets held for sale

	2020	2019
	€	€
Year ended 31 December		
At beginning of year	**22,907,750**	22,569,692
Additions	**-**	-
Property reclassified to assets held for sale	**169,949**	(200,000)
Net fair value gains	**2,065,651**	538,058
At end of year	**25,143,350**	22,907,750
At 31 December		
Cost	**11,490,583**	11,320,634
Accumulated fair value gains	**13,652,767**	11,587,116
Net book amount	**25,143,350**	22,907,750

The Group has reclassified investment property which has a book value of €200,000 (2019: €200,000) to non-current 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 non-current assets held-for-sale.

Details about the Group's investment properties, including those classified as non-current assets held-for-sale, and information about the fair value hierarchy at 31 December 2020 and 2019 are as follows:

	Fair value measurement at end of the reporting period using:			
	Level 1	**Level 2**	**Level 3**	**Total**
	€	**€**	**€**	**€**
2020				
Investment property:				
Local property	-	-	17,763,350	17,763,350
Foreign property	-	-	7,580,000	7,580,000
Total	**-**	**-**	**25,343,350**	**25,343,350**
2019				
Investment property:				
Local property	-	-	15,537,750	15,537,750
Foreign property	-	-	7,570,000	7,570,000
Total	**-**	**-**	**23,107,750**	**23,107,750**

14. Investment property - continued

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

During 2020 the Group revalued its investment property on the basis of valuations obtained from an independent professionally qualified valuer. The fair value movements in relation to investment property were credited to profit or loss and are presented within 'Investment return and finance costs' (refer Note 6). Fair value movements in relation to property classified for "own use" were credited to Other Comprehensive Income.

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

	Significant unobservable input	**Narrative sensitivity**
	€	**€**
2020		
Local properties	Rental value per square metre, ranging from €90 to €280	The higher the price per square metre, the higher the fair value
	Rent growth of 1.6% per annum	The higher the rent growth, the higher the fair value
	Discount rate of 5.55%	The higher the discount rate, the lower the fair value
Foreign property – Croatia	Value per square metre of €136	The higher the price per square metre, the higher the fair value

	Significant unobservable input	**Narrative sensitivity**
	€	**€**
2019		
Local properties	Rental value per square metre, ranging from €90 to €280	The higher the price per square metre, the higher the fair value
	Rent growth of 1.6% per annum	The higher the rent growth, the higher the fair value
	Discount rate of 5.7%	The higher the discount rate, the lower the fair value
Foreign property – Croatia	Value per square metre of €133	The higher the price per square metre, the higher the fair value

14. Investment property - continued

The Group's investment property portfolio also includes a property of an exceptional nature – a Baronial castle situated outside of Rome, which accounts for 4.0% (2019: 4.4%) of the Group's total assets. The specialised nature of this property makes such an assessment particularly judgemental. A professional valuation of the property was obtained in 2020 to provide the most probable market value of the asset on an 'as is' basis taking cognisance of the building's physical condition, facilities and components. The valuation is based on an average value per square metre of €2,830 (2019: €2,830) based on a sales comparison approach.

The values proposed by the various valuation experts over the last 9 years varied materiality from each other resulting in a wide range of possible estimates. This highlights the significance of the judgements involved in estimating the fair value of this property as well as the subjectivity of each valuation. The Directors resolved to maintain the carrying value of this property towards the lower end of this range.

Details about the Group's investment properties classified as Level 3 at 31 December 2020 and 2019 are as follows:

	Local property €	**Foreign property €**	**Total €**
Year ended 31 December 2020			
At beginning of year	15,537,750	7,370,000	22,907,750
Additions	-	-	-
Property reclassified to assets held for sale	169,949	-	169,949
Fair value gains	2,055,651	10,000	2,065,651
At end of year	**17,763,350**	**7,380,000**	**25,143,350**
Year ended 31 December 2019			
At beginning of year	15,039,692	7,530,000	22,569,692
Additions	-	-	-
Property reclassified to assets held for sale	-	(200,000)	(200,000)
Fair value gains	498,058	40,000	538,058
At end of year	**15,537,750**	**7,370,000**	**22,907,750**

15. Investment in group undertakings

The principal group undertakings at 31 December are shown below:

Group undertakings	Registered Office	Principal place of business	Class of shares held	Percentage of shares held 2020	2019
Central Landmark Development Limited	Testaferrata Street, Ta' Xbiex Malta	Malta	Ordinary shares	**100%**	100%
Global Estates Limited	Testaferrata Street, Ta' Xbiex Malta	Malta	Ordinary 'A' shares	**100%**	100%
Global Properties Limited (Međunarodne Nekretnine d.o.o.)	26/A/3 Gunduliceva, Split Croatia	Croatia	Ordinary shares	**100%**	100%
GlobalCapital Financial * Management Limited	Testaferrata Street, Ta' Xbiex Malta	Malta	Ordinary shares	**100%**	100%
LifeStar Health * Insurance Agency Limited	Testaferrata Street, Ta' Xbiex Malta	Malta	Ordinary 'A' shares	**100%**	100%
LifeStar Life * Insurance Limited	Testaferrata Street, Ta' Xbiex Malta	Malta	Ordinary shares	**100%**	100%
Quadrant Italia S.R.L.	Via Bruxelles 34 Cap 00100 Rome RM Italy	Italy	Ordinary shares	**100%**	100%

* The distribution of dividends by these subsidiary undertakings may be restricted by the solvency requirements of relevant legislation, mainly the Insurance Business Act (Cap. 403 of the Laws of Malta), the Insurance Distribution Act (Cap. 487 of the Laws of Malta) and the Investment Services Act (Cap. 370 of the Laws of Malta) and any ad hoc specific notifications by the regulator to the marked regulated entities.

16. Other investments

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

	2020	2019
	€	€
Fair value through profit and loss	**74,930,424**	67,177,347
Available-for-sale investments	**1,205,377**	1,489,946
Investments in equity measured at cost	**1,362,102**	1,222,445
Loans and receivables	**3,123,936**	5,266,651
Term Deposits	**3,010,223**	3,502,449
Total investments	**83,632,062**	78,658,837

Included in the Group total investments are €25,399,514 (2019: €12,788,505) of assets held to cover linked liabilities. These relate to collective investment schemes which are classified as investments at fair value through profit or loss as described in accounting policy 12. Their expected recovery is back to back with the respective technical provision for linked liabilities which maturity table is disclosed in Note 2.

(a) Investments at fair value through profit or loss

	2020	2019
	€	€
Equity securities and collective investments schemes:		
- listed shares	**21,387,136**	18,839,331
- collective investment schemes	**26,149,351**	18,683,507
	47,536,487	37,522,838
Debt securities		
- listed	**27,393,937**	29,654,509
Total investments at fair value through profit or loss	**74,930,424**	67,177,347

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

	2020	2019
	€	€`
Within 1 year	**3,231,655**	2,828,461
Between 1 and 2 years	**778,711**	2,440,453
Between 2 and 5 years	**6,091,952**	5,491,678
Over 5 years	**17,291,619**	18,893,917
	27,393,937	29,654,509

16. Other investments - continued

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

	2020	2019
Weighted average effective interest rate at the balance sheet date	5%	6%

There were no Group investments which were pledged in favour of third parties at the financial year-end (2019: none).

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

	2020	2019
	€	€
Year ended 31 December		
At beginning of year	**67,177,347**	65,118,261
Additions	**12,445,278**	7,034,281
Disposals (sale and redemption)	**(7,977,462)**	(7,971,638)
Impairment loss	**(33,156)**	-
Net fair value gain/ (loss)	**3,318,417**	2,996,443
At end of year	**74,930,424**	67,177,347
At 31 December		
Cost	**64,163,228**	59,398,368
Accumulated fair value gains	**10,767,196**	7,778,979
Carrying amount	**74,930,424**	67,177,347

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

	2020	2019
	€	€
Banks	**1,662,092**	2,259,033
Energy	**1,984,835**	2,635,003
Government	**16,220,768**	17,533,484
Other	**7,526,242**	7,226,989
	27,393,937	29,654,509

16. Other investments - continued

(b) Available-for-sale investments

	2020	2019
	€	€
Equity securities	**1,205,377**	1,363,446
Listed corporate bonds	**-**	126,500
Total investments at available-for-sale	**1,205,377**	1,489,946

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

	2020	2019
	€	€
Year ended 31 December		
Balance at 1 January	**1,489,946**	1,018,860
Additions	**322,795**	725,770
Disposals	**(473,818)**	(166,985)
Foreign currency movement	**(21,927)**	48,652
Net fair value movement	**(111,619)**	(136,351)
Balance at 31 December	**1,205,377**	1,489,946
At 31 December		
Cost	**1,325,935**	1,476,958
Accumulated fair value and foreign currency movements	**(120,558)**	12,988
Net book amount	**1,205,377**	1,489,946

(c) Investments in equity measured at cost

	2020	2019
	€	€
Equity securities	**1,362,102**	1,222,445

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

	2020	2019
	€	€
Year ended 31 December		
Balance at 1 January	**1,222,445**	2,249,841
Additions	**-**	125,719
Impairment loss	**205,237**	(1,222,445)
Foreign currency movement	**(65,580)**	69,330
Balance at 31 December	**1,362,102**	1,222,445

16. Other investments - continued

(c) Investments in equity measured at cost - continued

The ultimate shareholder of LifeStar Holding p.l.c is a director of the foreign investments classified as investment in equity measured at cost, with a carrying amount as at year end of €1,362,102 (2019: €1,222,445). 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.

(d) Loans and receivables-

	2020	2019
	€	€
Loans secured on policies	**39,090**	71,022
Other loans and receivables	**3,084,846**	5,195,629
	3,123,936	5,266,651

	2020	2019
Year ended 31 December	**€**	€
Balance at 1 January	**5,266,651**	4,848,600
Additions	**-**	3,291,351
Disposals	**(1,941,931)**	(3,079,730)
Amortisation of premium	**(6,164)**	(5,570)
Reversal of the provision for impairment / (provision for impairment)	**(194,620)**	212,000
Balance at 31 December	**3,123,936**	5,266,651

Group

Loans secured on policies are substantially non-current in nature. They are charged interest at the rate of 12% (2019: 8%) per annum. 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 Group intends to sell in the short term.

16. Other investments - continued

(e) Term Deposits

Bank term deposits earn average interest of 1.3% per annum. As at year end, their carrying amount approximated to their fair value.

	2020	2019
Year ended 31 December	**€**	€
Balance at 1 January	**3,502,448**	-
Additions	**1,010,223**	3,502,448
Disposals	**(1,502,448)**	-
Balance at 31 December	**3,010,223**	3,502,448

17. Technical provisions – insurance contracts and investment contracts

	2020	2019
	€	€
Insurance contracts	**69,378,062**	67,429,889
Investment contracts with DPF	**28,800,396**	26,341,896
	98,178,458	93,771,785
Investment contracts without DPF	**26,247,639**	18,762,578
Total gross technical provisions	**124,426,097**	112,534,363

Insurance contracts are further analysed as follows:

	2020	2019
	€	€
Gross technical provisions - insurance contracts		
Short term insurance contracts		
- claims outstanding	**44,858**	43,000
- other provisions	**201,115**	123,168
Long term insurance contracts		
- claims outstanding	**906,643**	1,024,717
- long term business provision	**68,225,446**	66,239,004
	69,378,062	67,429,889
Reinsurers' share of technical provisions - insurance contracts		
Short term insurance contracts		
- claims outstanding	**(31,400)**	(30,100)
- other provisions	**(93,706)**	(86,234)
Long term insurance contracts		
- claims outstanding	**(346,624)**	(371,297)
- long term business provision	**(20,277,445)**	(17,080,605)
	(20,749,175)	(17,568,236)

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

Net technical provisions - insurance contracts		
Short term insurance contracts		
claims outstanding	**13,458**	12,900
other provisions	**107,409**	36,934
Long term insurance contracts		
claims outstanding	**560,019**	653,420
long term business provision	**47,948,002**	49,158,399
	48,628,888	49,861,653

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 2020			
At beginning of year	49,861,653	26,341,896	76,203,549
Charged to technical account			
- change in the provision for claims	(92,843)	40,546	(52,297)
- change in other technical provisions	(1,139,922)	2,417,954	1,278,032
At end of year	**48,628,888**	**28,800,396**	**77,429,284**
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**

Claims outstanding are further analysed as follows:

	2020 €	2019 €
Claim outstanding		
Short term insurance contracts	**44,858**	43,000
Long term insurance contracts	**906,643**	1,024,717
Investment contracts with DPF	**105,784**	65,237
	1,057,285	1,132,954

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

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

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 Group'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.

(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% (2019: 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	
	2020	2019
	€	€
10% loading applied to mortality assumptions – Gross	5,334,879	4,596,714
10% loading applied to mortality assumptions – Net	857,658	597,455
Lowering of investment return by 25 basis points	699,788	782,069

The above analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

18. Trade and other receivables

	2020	2019
	€	€
Trade receivables – third parties (Note i and Note ii)	**352,028**	834,922
Other loans and recievables:		
Receivables from other subsidiaries	**3,180**	-
Prepayments	**287,121**	656,319
Accrued investment income	**2,231,969**	679,743
Other receivables (Note iii)	**437,245**	316,833
	3,311,543	2,487,817

Note i: No trade receivables were written off as bad debts in 2020 (2019: Nil).

Note ii: As at 31 December 2020, trade receivables amounting to €326,934 (2019: €326,766) were fully performing and trade receivables amounting to €750,508 (2019: €508,154) were past due but not impaired. These dues related to a number of independent parties for whom there is no recent history of default. The ageing analysis of the trade receivables that are past due but not impaired is as follows:

	2020	2019
	€	€
Between 3 to 6 months	637,932	4,613
More than 6 months	112,576	406,777
	750,508	411,390

Note iii: Other receivables are unsecured, interest-free and repayable on demand. They are stated net of provision for impairment of €11,631 (2019: €87,474). The movement of €75,843 (2019: €87,474l) is included in the statement of comprehensive income non-technical.

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

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

All of the above amounts are current in nature.

19. Share capital

	2020 €	2019 €
Authorised:		
(2018: 200,000,000) ordinary shares of €0.291172 each (2018: 200,000,000) ordinary shares of €0.291172 each)	**58,234,400**	58,234,400
Issued and fully paid:		
(2018: 30,000,000) Ordinary shares of €0.291172 each (2018: 30,000,000) ordinary shares of €0.291172 each)	**8,735,160**	8,735,160

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or additional debt or sell assets to reduce debt.

Capital management

The Directors consider that capital management is of particular relevance in the areas of the Group that are subject to regulatory supervision.

LifeStar Insurance Limited, which is authorised by the Malta Financial Services Authority to carry out long term business of insurance, is required to hold regulatory capital to support its long-term insurance business as determined in accordance with Insurance Rule 5 issued by the Malta Financial Services Authority.

The capital of GlobalCapital Financial Management Limited is regulated by rules issued under the Investment Services Act and by the Financial Institutions Act.

The capital of LifeStar Health Limited is regulated by rules issued under the Insurance Distribution Act.

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

At both year-ends, LifeStar Health Limited satisfied the own funds requirements. Moreover, LifeStar Insurance Limited is sufficiently capitalised and was compliant at all times in line with the Solvency II requirements.

With respect to GlobalCapital Financial Management Limited, the company is required to hold capital resource requirements in compliance with the rules issued by the Malta Financial Services Authority. These minimum capital requirements (defined as "the capital resource requirements") must always be maintained throughout the year. The company monitors its capital level on a quarterly basis through detailed reports compiled with management accounts. Any transactions that may potentially affect the company's regulatory position are immediately reported to the directors for resolution prior to notifying the Malta Financial Services Authority. During the year the shareholder contributed EUR 703,421 by means of a shareholder's loan and EUR 504,000 by means of a shareholder's contribution. The shareholder's loan is unsecured, interest free, repayable at the discretion of the company and has no fixed repayment date.

19. Share capital - continued

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

During 2016 the Company also raised capital through the issue for subscription to the general public of €10,000,000 unsecured bonds, carrying a rate of interest of 5% per annum (Note 21). Such issue was raised for the purpose of redeeming the previous unsecured bonds which were issued in 2006 and carried a rate of interest of 5.6% per annum. The conditions outlined in the offering document to the issue contain restrictions as to the amount of secured borrowing which can be entered into by the Group. Management monitors such requirement on a regular basis, at least once a month, to ensure ongoing compliance with these requirements. As at the date of this report, according to management's best estimates, the Group had surplus net assets over the maximum permitted secured borrowing limit of €32,642,212 (2019: €29,738,261). Management are continuously monitoring this position to ensure that the bond covenant requirements are complied with.

20. Other reserves

	Value of in-force business €	Other unrealised gains €	Property revaluation reserve €	Investment compensation scheme €	Total €
Year ended 31 December 2020	9,486,151	(68,227)	1,062,461	8,162	10,488,547
Increase in value in-force business, transferred from profit and loss account	68,114	-	-	-	68,114
Revaluation of property, plant and equipment	-	269,117	-	-	269,117
Deferred tax on the revaluation of property, plant and equipment	-	(21,529)	-	-	(21,529)
Net loss on available-for-sale financial assets	-	(111,619)	-	-	(111,619)
Deferred tax movement on available-for-sale financial assets	-	39,067	-	-	39,067
At end of year	9,554,265	106,809	1,062,461	8,162	10,731,697

20. Other reserves – continued

	Value of in-force business €	Other unrealised gains €	Property revaluation reserve €	Investment compensation scheme €	Total €
Year ended 31 December 2019	8,597,673	20,402	1,062,461	8,162	9,688,698
Increase in value in-force business, transferred from profit and loss account	888,478	-	-	-	888,478
Net loss on available-for-sale financial assets	-	(136,351)	-	-	(136,351)
Deferred tax movement on available-for-sale financial assets	-	47,722	-	-	47,722
At end of year	9,486,151	(68,227)	1,062,461	8,162	10,488,547

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 represent 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 a property held to earn rentals or for capital appreciation.

The Investor Compensation scheme reserve represents to the required amount to be kept by the Group in relation to the Investor Compensation scheme regulations, 2013. Funds in this reserve were deposited in an interest-bearing bank account.

21. Interest-bearing borrowings

	2020 €	2019 €
5% bonds 2021	**9,972,869**	9,908,565
Bank loan	**3,000,000**	-
Loan from shareholder	**36,189**	148,639
Total borrowings	**13,009,058**	10,057,204

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

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

21. Interest-bearing borrowings - continued

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

The bonds were admitted to the official list of the Malta Stock Exchange. The quoted market price of the bonds at 31 December 2019 was €97.50 (2019: €98.00).

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

	2020	2019
	€	€
Proceeds		
€10,000,000, 5% bonds 2021	**10,000,000**	10,000,000
Less:		
Issue cost	**321,519**	321,519
Accumulated amortisation	**(294,388)**	(230,084)
	27,131	91,435
	9,972,869	9,908,565

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

During 2020, the Company entered into a loan agreement with BOV, pursuant to which it borrowed an amount of €3 million from BOV. This loan benefits from the support of the Malta Development Bank through the provision of a bank guarantee under the COVID-19 Loan Guarantee Scheme.

The loan is subject to a fixed rate of 2.5% for the first two years, increasing to 3% over the Base Rate of the Bank for the following six years.

The loan is guaranteed by a general hypothec issued by the company, by a personal guarantee issued by Prof Paolo Catalfamo and by a corporate guarantee issued by LifeStar Insurance Limited.

The following table sets out a maturity analysis of loan payments, to be paid after the reporting date.

2020 – MDB/BOV loan

	2020	2019
	€	€
Less than one year	**584,933**	-
One to two years	**587,674**	-
Two to three years	**590,414**	-
Three to four years	**590,414**	-
Four to six years	**885,621**	-
	3,239,056	-

21. Interest-bearing borrowings – continued

During 2018, the Company entered into an agreement with its majority shareholder, Investar p.l.c., whereby the latter has provided a loan totalling €500,000. Such loan bears an interest of 5% per annum. As at 31 December 2018 the maturity was June 2019, however during the current year under review the maturity of such amount was extended to May 2020. The loan was fully repaid during 2020 and the balance is nil as at 31 December 2020.

22. Trade and other payables

	2020	2019
	€	€
Trade payables	**6,015,572**	5,092,881
Accruals and deferred income	**907,711**	1,897,306
Accrued interest on 5% bonds payable	**309,756**	309,756
Other payables	**493,475**	1,080,914
	7,726,514	8,380,857

All of the above amounts are payable within one year.

Trade and other payables include outstanding court and arbitration cases against GlobalCapital Financial Management Limited. The provision as at the end of the reporting period amounts to €813,229 (2019: €1,257,035), which are shown net of amounts deposited at the Courts amounting to €394,747 (2019: €338,997).

23. Cash used in operations

Reconciliation of operating loss to cash used in operations:

	2020 €	2019 €
Cash flows (used in)/ generated from operating activities		
(Loss)/Profit before tax	**(1,137,915)**	2,065,664
Adjustments for:		
Amortisation on computer software	**234,366**	209,976
Amortisation of bond issue costs	**64,304**	64,304
Intangible asset written off	**-**	103,321
Net fair value & FX movement on FVTPL investments	**(3,285,261)**	(2,996,443)
Net fair value movement on investment property	**(2,065,651)**	(538,058)
Increment in value in-force business	**-**	(1,366,889)
Impairment on other equity measured at cost	**(205,237)**	1,222,445
Provision for impairment on receivables	**(75,843)**	87,474
Foreign exchange movement on AFS	**21,927**	(48,652)
Foreign exchange movement on other equity measured at cost	**65,580**	(69,330)
Amortisation of premium – Loans and receivables	**6,164**	-
Provision for impairment – Loans and receivables	**194,620**	-
Increase in net technical provisions	**8,710,796**	8,834,386
Depreciation	**72,319**	93,467
Interest on finance lease	**37,815**	41,946
Lease payments	(**131,679)**	(133,592)
Depreciation right of use	**113,208**	119,783
Dividend income	**(245,066)**	(788,708)
Interest income	**(1,411,807)**	(1,859,101)
Interest expense	**501,588**	501,331
Operating profit before working capital movements	**1,464,228**	5,536,932
Movement in trade and other receivables	**(2,102,260)**	578,066
Movement in trade and other payables	**1,691,913**	1,043,277
Net cash flow generated from/ (used in) operating activities	**1,053,881**	7,158,275

24. Cash and cash equivalents

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

	2020 €	2019 €
Cash at bank and in hand	**18,263,331**	15,791,074

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

25. Fair values

The following table presents the assets measured in the consolidated statement of financial position at fair value by level of the following fair value measurement hierarchy at 31 December 2020 and 31 December 2019:

- 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**	**Level 3**	**Total**
	€	**€**	**€**	**€**
2020				
Other Investments:				
Financial assets at fair value	49,530,909	25,399,515	-	74,930,424
Available-for-sale investments	1,205,377	-	-	1,205,377
Total	**50,736,286**	**25,399,515**	**-**	**76,135,801**
Financial liabilities at amortised cost				
- Other payables	-	493,474	-	493,474
- Amounts due to shareholders	-	-	-	-
- 5% bonds 2021	-	10,000,000	-	10,000,000
- MDB-BOV loan	-	3,000,000	-	3,000,000
Unit linked financial instruments	-	26,247,659	-	26,247,659
Total	**-**	**39,741,133**	**-**	**39,741,133**
2019				
Other Investments:				
Financial assets at fair value through profit or loss	49,172,846	18,004,501	-	67,177,347
Available-for-sale investments	1,489,946	-	-	1,489,946
Total	**50,662,792**	**18,004,501**	**-**	**68,667,293**
Financial liabilities at amortised cost				
- Other payables	-	2,252,196	-	2,252,196
- Amounts due to shareholders	-	100,000	-	100,000
- 5% bonds 2021	-	10,000,000	-	10,000,000
Unit linked financial instruments	-	18,762,578	-	18,762,578
Total	**-**	**31,114,774**	**-**	**31,114,774**

26. Related party transactions

Group

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

	2020	2019
	€	€
Loan from shareholder	(100,000)	(400,000)
Fees receivable in respect of advice provided to related funds (see note below)	2,213	6,065

GlobalCapital Financial Management Limited, a group undertaking, acts as Investment Advisor and Fund Manager to Global Funds SICAV p.l.c. The advisory fees earned by this group undertaking from its activity as Investment Advisor and Fund Manager are included in turnover, and during the year amounted to €2,213 (2019: €6,065). Global Funds SICAV p.l.c. is considered to be a related party by way of key management.

Interest receivable and payable from and to related parties is disclosed in Note 6. Amounts owed by or to related parties are disclosed in Notes 18 and 22 to these financial statements. No impairment loss has been recognised in 2020 and 2019 in respect of receivables from related parties. The terms and conditions of the related party balances do not specify the nature of the consideration to be provided in settlement. No guarantees have been given or received in relation to these balances.

Key management personnel during 2020 and 2019 comprised of the Board of Directors and the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Chief Technical Officer, Chief Compliance Office, Chief of Human Resources and Managing Directors of the Group. Total remuneration paid by the Group to its key management personnel amounted to €748,150 (2019: €955,369).

Also, the Group did not purchase any investment (2019: €78,724) in which the main shareholder of LifeStar Insurance Limited is also a director.

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

	2020	2019
	€	€
Malta Privatisation and Equity Fund	-	195,585
Melita International Equity Fund	-	51,541
Global Bond Fund Plus Accumulator	-	138,662
	-	385,788

26. Related party transactions - continued

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

	2020	2019
	%	%
Global Bond Fund Plus	-	13
Malta Privatisation and Equity Fund	-	19
Melita International Equity Fund	-	19

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

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

	2020	2019
	%	%
Global Bond Fund Plus	-	21
Malta Privatisation and Equity Fund	-	14
Melita International Equity Fund	-	22

The issuer of the above funds was put into voluntary liquidation on 12 March 2020.

As at the end of the reporting date, there were no bonds held by other related parties (2019: nil). The compensation to Directors in 2019 and 2018 is disclosed in Note 8 to the financial statements.

27. Leases

(a) Leases as the lessee (IFRS 16)

The Group leases property which generally run for a period of two to five years with the option to renew, and leases motor vehicles for a period of three years. 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.

2020

	Property	**Motor Vehicles**	**Total**
Balance on 1 January	573,823	72,555	646,378
Accumulated Depreciation	(85,253)	(27,955)	(113,208)
Balance on 31 December	**488,570**	**44,600**	**533,170**

27. Leases - continued

2019

	Property	Motor Vehicles	Total
Balance on 1 January	659,076	107,085	766,161
Accumulated Depreciation	(85,253)	(34,530)	(119,783)
Balance on 31 December	**573,283**	**72,555**	**646,378**

(ii) Amounts recognized in profit or loss

	Property	Motor Vehicles	Total
Depreciation of right-of-use asset	85,253	27,955	113,208
Interest expense on lease liabilities	28,154	2,982	31,136

(ii) Amounts recognized in statement of cash flows

	€
Year ended 31 December 2020	**131,679**
Total cash outflows for leases	

	€
Year ended 31 December 2019	133,592
Total cash outflows for leases	

(a) Leases as the lessor (IFRS 16)

The Group lease out certain property. Note 12 sets out information about investment property. The Group 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.

2020 – Operating leases under IFRS 16

	2020 €	2019 €
Less than one year	**650,016**	677,785
One to two years	**292,227**	650,016
Two to three years	**-**	292,227
Three to four years	**-**	-
Total	**942,243**	1,620,028

28. Contingent liabilities

In addition to the court cases made against subsidiaries of the Group (refer to Note 22), the Board of Directors considered other complaints received in respect of past actions by the Group to determine whether there could be a possible obligation. The directors estimate that the cash outflow from the possible obligation which may transpire in due course from such complaints amounts to €45,638 (2019: €45,638)

29. Prior period error

During the year under review, it was deemed necessary to adjust for a prior period adjustment relating to 2007 since It was determined that the reserves relating to the change in reinsurance provision was understated by €722,105. The impact being solely on retained earnings and reserves. The issue is still under discussion.

The following tables summarise the impact on the Group's financial statements:

Statement of financial position as at 31 December 2019:

	Impact of correction of error		
	As Previously Reported	**Adjustments**	**As Restated**
Retained earnings	(325,920)	469,368	143,448
Total equity	**(19,549,627)**	**469,368**	**(19,080,259)**
Trade and other paybles	(7,658,752)	(722,105)	(8,380,857)
Deferred tax liability	(3,199,700)	252,737	(2,946,963)
Total liabilities	**(134,118,142)**	**(469,368)**	**(134,587,510)**
Total equity and liabilites	**(153,667,769)**	**-**	**(153,667,769)**

Statement of financial position as at 31 December 2018:

	Impact of correction of error		
	As Previously Reported	**Adjustments**	**As Restated**
Retained earnings	(57,470)	469,368	411,898
Total equity	**(18,481,328)**	**469,368**	**(18,011,960)**
Trade and other paybles	(6,650,800)	(722,105)	(7,372,905)
Deferred tax liability	(2,845,217)	252,737	(2,592,480)
Total liabilities	**(119,344,555)**	**(469,368)**	**(119,813,923)**
Total equity and liabilites	**(137,825,883)**	**-**	**(137,825,883)**

30. Statutory information

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

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

Independent auditor's report

to the members of
LifeStar Holding p.l.c.

Independent auditor's report

To the shareholders of LifeStar Holding p.l.c. (formerly GlobalCapital p.l.c).

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of LifeStar Holding p.l.c (formerly GlobalCapital p.l.c) (the "Group") set out on pages 14 to 90, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group as at 31 December 2020, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU), and have been properly prepared in accordance with the requirements of the Companies Act, Cap. 386 (the "Act").

Our opinion is consistent with our additional report to the audit committee.

Basis for opinion

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

In conducting our audit we have remained independent of the Group and have not provided any of the non-audit services prohibited by article 18A of the Accountancy Profession Act, Cap. 281. The non-audit services that we have provided to the Group during the year ended 31 December 2020 are disclosed in note 4 to the financial statements.

Material uncertainty related to going concern

We draw attention to Note 1 to the financial statements which refers to the Group's financial position at 31 December 2020, to the unsecured bonds which mature and are payable on 2 June 2021 and which explains the plans that the Group has to repay the said bonds and to continue as a going concern. As stated in Note 1, these events and conditions, along with other matters set forth in Note 1, indicate that a material uncertainty exists that may cast doubt on the Group's ability to continue as a going concern. This matter is considered to be of fundamental importance to the understanding of the financial statements, due to its nature and significance. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include a description of the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. 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.

In addition to the matter described in the "Material uncertainty related to going concern" section, we have determined the matters below to be the key audit matters to be communicated in our report.

Valuation of technical provisions and value of in-force business

Key audit matter

At 31 December 2020, the Group's technical provisions on insurance and investment contracts underwritten, amounted to €124.4 million and represented 84% of total liabilities at that date. These are described and disclosed in section 12 of the accounting policies and notes 1, 2 and 17 to the financial statements.

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 Group's value of in-force business (VOIFB), detailed in section 3 of the accounting policies and note 11 to the financial statements, amounted to € 10.5 million at balance sheet date.

The VOIFB represents the discounted value of 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 Group's appointed actuary on an annual basis and is approved by the board of directors.

We focused on these areas because of the significance of the balances of technical provisions and VOIFB recognised at balance sheet date. Moreover, the measurement of these items is complex and involves significant judgement.

How the key audit matter was addressed in our audit

As part of our audit procedures over the valuation of technical provisions and VOIFB we obtained an understanding of the design and operation of the key controls over the Group's valuation of technical provisions and VOIFB and inspected relevant documentation including the actuarial function report. We assessed the competence, capability and objectivity of the actuaries appointed by the Group and obtained an understanding the work performed by the actuaries.

We reconciled the balances of technical provisions and VOIFB calculated by the actuaries to the respective amounts disclosed in the financial statements and performed 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 by inspecting a sample of underlying

policy documentation. We also involved our actuarial specialist team to assist with evaluating the appropriateness of the assumptions applied by the Group's appointed actuary in the calculation of the VOIFB and independently recalculated 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 reserves as at year end.

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

Fair value of investment properties

Key audit matter

The carrying amounts of the Group's investment properties carried at fair value as at 31 December 2020 amounts to € 25.3 million. Management determined the fair values through internal assessments made by the directors by reference to external independent valuations made during the period.

The fair value of investment properties was significant in our audit because the amounts are material to the financial statements of the Group.

The method used to determine the fair value of investment properties is fully described in note 14 to the financial statements.

How the key audit matter was addressed in our audit

We evaluated the suitability and appropriateness of the valuation methodology applied by management and reviewed and challenged the methodology applied and the underlying assumptions used by the independent valuation expert. We also assessed the competency and objectivity of the independent valuation experts appointed by the directors. We also communicated with management and those charged with governance and noted that they were able to provide satisfactory responses to our questions.

We also assessed the adequacy of the disclosures made in the financial statements relating to these properties.

Other information

The directors are responsible for the other information. The other information comprises (i) the Directors' report, (ii) Corporate Governance – Statement of Compliance, (iii) Nominations and Remuneration Committee Report, (iv) Statement of Directors' Responsibilities and (v) Statement of the Directors pursuant to Listing Rule 5.58 which we obtained prior to the date of this auditor's report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information, including the Directors' report.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. 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.

With respect to the Directors' report, we also considered whether the Directors' report includes the disclosures required by Article 177 of the Act.

Based on the work we have performed, in our opinion:

- The information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements, and
- the Directors' report has been prepared in accordance with the Act.

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

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

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRS as adopted by the EU and are properly prepared in accordance with the provisions of the Act and the Insurance Business Act. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate evidence regarding the financial information of the entities or business activities within the Group to express and opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with the 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 benefit of such communication.

Report on other legal and regulatory requirements

Report on the Statement of Compliance with the Principles of Good Corporate Governance

The Listing Rules issued by the Malta Listing Authority (the "Listing Rules") require the directors to prepare and include in their Annual Report a Statement of Compliance providing an explanation of the extent to which they have adopted the Code of Principles of Good Corporate Governance and the effective measures that they have taken to ensure compliance throughout the accounting period with those Principles.

The Listing Rules also require us, as the auditor of the Company, to include a report on the Statement of Compliance prepared by the directors.

We read the Corporate Governance - Statement of Compliance with the Code of Principles of Good Corporate Governance and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements included in the Annual Report. Our responsibilities do not extend to considering whether this statement is consistent with any other information included in the Annual Report.

We are not required to, and we do not, consider whether the Board's statements on internal control included in the Statement of Compliance with the Code of Principles of Good Corporate Governance cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

In our opinion, the Corporate Governance – Statement of Compliance set out on pages 9 to 12 has been properly prepared in accordance with the requirements of the Listing Rules.

Other matters on which we are required to report

We also have responsibilities

- under the Companies Act, Cap 386 to report to you if, in our opinion:
  - adequate accounting records have not been kept, or that returns adequate for our audit have not been received from branches not visited by us
  - the financial statements are not in agreement with the accounting records and returns
  - we have not received all the information and explanations we require for our audit
  - certain disclosures of directors' remuneration specified by law are not made in the financial statements, giving the required particulars in our report.

- in terms of Listing Rules to review the statement made by the Directors that the business is a going concern together with supporting assumptions or qualifications as necessary

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

In terms of the Listing Rules we are also required to consider whether the information that should be provided within the Remuneration Report as required by the Listing Rules, has been included.

In our opinion the Remuneration Report set out on pages 6 to 7 has been properly prepared in accordance with the requirements of the Listing Rules.

Auditor tenure

We were first appointed as auditors of the Group on 9 October 2020 and therefore this is the first year of our appointment.

The engagement partner on the audit resulting in this independent auditor's report is Mark Bugeja.

Mark Bugeja (Partner) for and on behalf of
GRANT THORNTON
Fort Business Centre
Triq L-Intornjatur, Zone 1
Central Business District
Birkirkara CBD 1050
Malta

22 April 2021