



GlobalCapital Life Insurance Limited

**Solvency and Financial Condition Report
2018
(SFCR)**

SOLVENCY AND FINANCIAL CONDITION REPORT

Contents

Executive Summary	3
A. Business Performance	4
A.1 Business	4
A.2 Underwriting performance	5
A.3 Investment Performance	6
A.4 Performance of other activities	7
A.5 Any other information	7
B. System of Governance	8
B.1 General information on the system of governance	8
B.2 Fit and proper requirements	11
B.3 Risk management system	12
B.4 Own Risk and Solvency Assessment (ORSA)	16
B.5 Internal control system	18
B.6 Internal audit function	20
B.7 Actuarial Function	21
B.8 Outsourcing	22
B.9 Adequacy of the system of governance	23
B.10 Any other information	23
C. Risk Profile	24
C.1 Underwriting Risk	24
C.2 Market risk	27
C.3 Credit risk	29
C.4 Liquidity risk	30
C.5 Operational risk	32
D. Valuation for solvency purposes	34
D.1 Assets	34
D.2 Technical provisions	36
D.3 Valuation of other liabilities	38
D.4 Any other information	38
E. Capital Management	40
E.1 Own Funds	40
E.2 Solvency Capital Requirement and Minimum Capital Requirement	42
E.3 Non-compliance with the MCR and non-compliance with the SCR	43
APPENDICES	44
Appendix A: GlobalCapital Group Structure	45
Appendix B: GCLI Organisational Structure	46
Appendix C: Quantitative Reporting Templates (QRTs)	47

Executive Summary

This Solvency and Financial Condition Report has been prepared by GlobalCapital Life Insurance Limited (hereinafter “GCLI”) in accordance with all applicable laws and regulations. It refers to the financial year ended on 31 December 2018 (“the reference date”).

GCLI is a life insurance company registered in Malta and regulated by the Malta Financial Services Authority. It is a fully owned subsidiary of GlobalCapital Plc, an insurance and financial services group.

The Company continued to undertake restructuring and transformation activity to align the business operations with the board approved strategy. Relentless efforts to differentiate ourselves from the market started during the course of 2017, with a stronger emphasis in the current year. The enhancements made to our product suite helped facilitate improved competitiveness and marketability, thus generating positive results.

Our business strategy is to maintain growth over our business planning horizon through adequate structures and commitment. There are also plans for expansion of business to other EU territories through freedom of Services following regulatory approval.

The Company maintains a robust system of governance which is deemed to be adequate in ensuring the sound and prudent management of the Company. The system of governance has continued to strengthen during 2018 following a number senior appointments and the introduction of new structures. Throughout 2018 we continued working on a continuous training and development program for the BOD as well as for our staff which was also introduced in the prior year. We continue investing heavily on technology and maintain state of the art systems and IT infrastructure.

Our risk management policy provides for a thoroughly articulated risk appetite statement and a closely monitored risk management system ensuring that the company is not exposed to any unwanted risks.

The Company registered a loss before taxation for the year ended 31st December 2018 of €1.45M compared to a profit before tax of €4.4M in the prior year. The Company’s total comprehensive income for the year closing at €2K compared to €4.7M in 2017. The Company’s results were materially impacted by the negative performance of the local and international markets coupled with a dividend of €1M received in 2017 from the Company’s subsidiary which didn’t materialise in the current year.

Furthermore, the Company maintains a solid capital position. At the reference date, the Solvency Capital Requirement amounted to €15.5 million (2017: €15.3 million) and the eligible own funds available to cover this requirement amounted to €26.06 million (2017: €25.8 million). Hence, the ratio of eligible own funds to SCR at the reference date amounted to 168% (2017: 169%). The Company is expected to maintain a robust capital position which is highly resilient to stressed conditions.

A. Business Performance

A.1 Business

A.1.1 **Name and legal form of undertaking**

GlobalCapital Life Insurance Limited is a limited liability company incorporated under the laws of Malta on December 21, 2001 with company Registration Number: C29086.

Its registered address is GlobalCapital Life Insurance Limited, Testaferrata Str., Ta' Xbiex, Malta

GCLI was established in 1965 through a Malta branch of British American Insurance Co. Ltd. It then became a Life Insurance Principal offering a comprehensive range of both Protection and Savings Insurance products.

A.1.2 **Supervisory authority**

The Company is authorised and regulated by the Malta Financial Services Authority (MFSA) of Notabile Road, Attard BKR 3000, Malta.

A.1.3 **External Auditors**

The external auditors for the financial year 2018 and 2017 were Ernst & Young Malta Limited, Regional Business Centre, Achille Ferris Street, Msida.

A.1.4 **Shareholders**

GCLI is a fully owned subsidiary of GlobalCapital Plc, a financial services and insurance group incorporated in Malta which is also listed on the Malta Stock Exchange. The Company is treated as a solo legal entity for insurance supervision purposes.

The main shareholders of GlobalCapital Plc are:

Investar Plc – 52.60%

BAI Co. (Mtius) Ltd. – 21.33%

Rizzo Farrugia & Co (Stockbrokers) Ltd – clients' accounts – 9.73%

A diagram of the structure of the group can be seen in Appendix A.

A.1.5 **Material lines of business and material geographical areas where the company carries out business**

The Company is authorised to carry on long-term insurance business in Malta as a principal under Class I (Life and Annuity) and Class III (Linked Long Term Contracts of Insurance) in terms of the Insurance Business Act, 1998.

GlobalCapital Life Insurance Limited is engaged principally in ordinary life assurance business (interest sensitive and term), industrial life assurance business (home service) and linked long term contracts of insurance.

It provides both single and regular premium savings and investment products and a range of life assurance products, including level and decreasing term, and group life policies. Critical illness and Permanent Total Disability coverages are also provided through mainly rider benefits attached to the main contracts.

A.1.6 Any significant business or other events that have occurred over the reporting period that have had a material impact on the undertaking

During 2018 the Company registered an increase in the ordinary business, mainly protection and unit linked, except interest sensitive single premium business, where a decrease was registered.

An important part of our business involves managing the treasury function, investing policyholder and shareholder funds across a wide range of financial investments, including equities, fixed income securities and to a lesser extent properties. GCLI results are sensitive to the volatility in the market value of these investments, either directly because we bear the investment risk, or indirectly because we earn management fees for investments managed on behalf of policyholders. Throughout 2018, investment conditions remained significantly challenging with the persisting low interest rate environment coupled with the weak local equity market.

The Company continued to undertake restructuring and transformation activity to align the business operations with the Board approved strategy. Significant efforts to differentiate ourselves from the market started during the course of 2017 with a stronger emphasis in the current year. During 2018, we enhanced the governance structure of the Company by appointing a dedicated managing director whereby a more focused approach is being taken.

Total assets increased by 7.5% from €125.3M at 31 December 2017 to €134.6M as at the end of the current reporting period. Gross Technical reserves increased by 11.6% from €88M to €98.2M. GlobalCapital Life Insurance Limited's Solvency II ratio stood at 168% as at year end.

The Company's value of in-force business for 2018 registered an increase of €1,468,461, in aggregate amounting to €9,585,327 at end of the current year (2017: €8,116,866) - this represents the projected future shareholder profits expected from the insurance policies in force as at year end appropriately discounted and adjusted for taxation.

A.2 Underwriting performance

The Company continued registering significant growth in all lines of business, mainly protection and unit linked. Gross written premium for the year amounted to €12.02M compared to €12.6M at the end of the comparative period, a decrease of 4.6% year on year. Claims incurred net of reinsurance were lower than those of the prior year. The Company has also intensified its efforts to recapture an amount of maturing business, which it completed successfully.

The reinsurance arrangements we have in place worked very effectively in reducing the underwriting exposure within the company's tolerance limits and to help smooth underwriting profitability as well as enable us to provide competitive premium rates for our protection business.

	2018	2017
	€	€
Gross premiums written		
Insurance contracts	6,798,454	6,553,132
Investment contacts with DPF	5,219,510	6,007,213
Total	12,017,964	12,560,345
Claims incurred, net of reinsurance		
Insurance contracts	4,775,942	4,666,617
Investment contacts with DPF	2,362,808	3,231,097
Total	7,138,750	7,897,714

The Company forecasts its results over its business planning horizon as part of its Own Risk and Solvency Assessment. According to our forecasts, we expect to maintain the same levels of growth and profitability to be enhanced further. In addition, there are plans to utilise our strong capital base and network of business affiliations for expanding the business to other EU regions through freedom of services upon regulatory approval.

A.3 Investment Performance

Investment performance remains key to our overall profitability as is typically the case with most life insurers. Our strategic asset allocation is determined following thorough investigations and asset liability modelling and aims to maximise returns subject to predefined risk tolerance limits safeguarding that no unwanted investment risk is taken on.

The Company's investment portfolio is managed by independent investment managers and their performance is reviewed monthly by the Company's investment Committee.

The current prolonged low interest rate environment introduces an additional challenge to the company and investment manager as the prices of fixed income securities are relatively expensive and secured yields are at historically low levels in the Eurozone. Inevitably in order to achieve sensible yields the investment manager is looking into lower rating issues to get the pick up through the credit spread but always within the investment grade corporate space and sovereign bonds. Each recommendation of the investment manager is investigated separately and the marginal increase in capital requirement is assessed by the Company prior to concluding any placement.

The management has implemented the ring-fencing of the interest sensitive business based on their guaranteed levels towards the end of 2017 and 2018. This has contributed to the more efficient investment management of the interest sensitive assets and reduce the level of volatility in the investment returns by following a more closely matched strategy.

The composition of the investment portfolio as at 31.12.2018 and 31.12.2017 was as follows:

ASSET CLASS - €'000s	2018	2017
Fixed Income Securities	35,908	41,749
Equities	19,137	20,553
Investment Property	15,240	14,766
Cash	10,195	8,811

A.3.1 Income and expenses arising from investments by asset class

Type - €'000s	2018	2017
Fixed Income Securities	2,033	1,960
Equities	486	1,323
Investment Property	58	560
Cash	1	1

Income arising is composed of dividends, interest and rental income received.

A.3.2 Any gains and losses recognised directly in equity

There were three items recognised in the Other Comprehensive income in 2018 (this is an extension of the income statement which is recognised directly in other reserves). These consisted of VIF of €1,468,461 (2017 - €1,261,787), and the loss on Available for Sale investments €149,838 (2017 - €40,813).

A.3.3 Information about any investments in securitisation.

A.4 Performance of other activities

A.4.1 Other material income and expenses

The Company does not have any material leasing arrangement or any other material income and expense item in addition to the underwriting and investment income and expenses outlined in the sections above.

A.5 Any other information

There is no other material information regarding the business and performance of the Company which has not already been disclosed in the sections above.

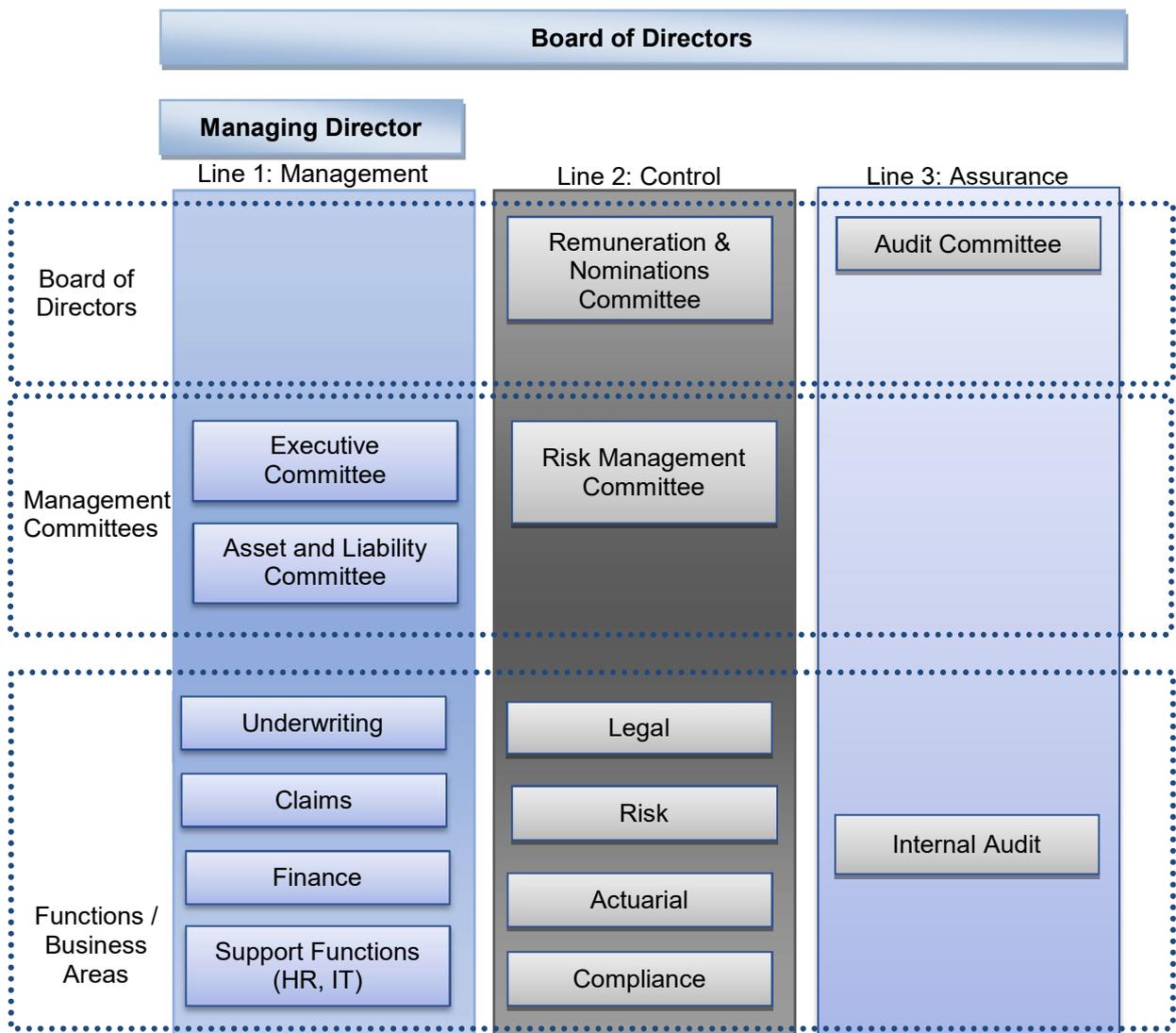
B. System of Governance

B.1 General information on the system of governance

GCLI is committed to implementing a sound governance framework that provides for the sound and prudent management of the business based on the following principles:

- Transparent organisational structure
- Strategic objectives and corporate values communicated throughout GCLI
- Clear lines of responsibility and accountability throughout GCLI
- BOD members and Senior Management are qualified for their positions, have a clear understanding of their role in the corporate governance and are able to exercise sound independent judgment about the affairs of GCLI and that Fit and Proper requirements are met
- There is appropriate oversight of GCLI's activities through the three lines of defence model
- Effective utilisation of the work conducted by internal and external auditors, as well as other control functions, given their critical contribution to sound corporate governance
- Compensation policies and practices are consistent with GCLI's ethical values, objectives, strategy and control environment

The Corporate Governance framework for GCLI is based on the 'three lines of defence model' as presented in the diagram below:



The “three lines of defence” model supports the implementation of a robust internal control system and is aligned with the ‘four eye principle’ that GCLI endorses. In practice, there is sufficient control and challenge at all levels of the organization.

B.1.1 The structure of the Board of Directors (BoD)

The BoD is responsible for leading and controlling the Company, devising strategies and plans for their implementation and reviewing and evaluating the Company’s performance against such strategies and plans.

The BoD organises and directs the affairs of GCLI in a manner that seeks to protect its policyholders’ funds, maximize the value of GCLI for the benefit of its shareholders, while complying with regulatory requirements and relevant governance standards.

The BoD is responsible for setting the appropriate “tone at the top” by providing appropriate Organisational values, ethics and priorities and by establishing and embedding an Organisational culture that supports the effective operation of the system of governance

Furthermore, the members of the BoD act as advisers and counsellors to the Managing Director and Senior Management and oversee the Senior Management’s performance.

The Directors are responsible for the general governance of GCLI, its proper administration and management and for the general supervision of its affairs. The day-to-day management of GCLI is delegated by the Directors to the Managing Director and the executive committee (the “Executive Committee”) consisting of the Company’s senior management.

B.1.1.1 Selection and Appointment of Board Members

The Directors are appointed in accordance with Article 139(3) of The Companies Act.

In accordance with the Company’s articles of association, a shareholder holding 14% or more of the voting rights, or a number of shareholders who between them hold 14% or more, of the issued share capital of GCLI are entitled to appoint one director for every such 14% holding by letter addressed to the Company. All shares not utilised to make appointments as aforesaid are entitled to vote in the election of Directors at the annual general meeting. The Chairman of the Board of Directors, is, in terms of the articles of association, appointed from amongst the appointed Directors by any member holding in the aggregate at least 40% of all voting rights. In the absence of any member having the required holding of voting rights, the Chairman will be appointed by the Board of Directors.

The directors of the Company shall not be required to retire by rotation. Their appointment shall stand until removed by their appointors.

The current members of the Board of Directors of GCLI are as below:

Prof. Paolo Catalfamo - Non-Executive Chairman

Ms Cristina Casingena - Managing Director

Mr Nick Taylor - Non-Executive director

Mr Joseph C Schembri - Non-Executive Director

Mr Mario Galea - Non-Executive Director

All members of the Board and Senior Management should fulfil the Fit and Proper requirements in accordance with the Solvency II framework. GCLI lays General criteria that need to be met for compliance with the Fit and Proper requirements which are documented in its Governance Policy.

B.1.1.2 Board Meetings

The BoD shall meet formally at least 4 times a year in the context of its regular duties in the annual business cycle. Additional meetings may also be held upon such need as identified by the senior management or by members of the BoD or its Committees.

B.1.1.3 Board Committees

For a more effective organisation of GCLI, the Board established the below-mentioned Committees.

Committee	Brief Terms of Reference	Composition
Audit Committee *	Ensures the operation of an effective system of internal controls within GCLI and oversees the selection and remuneration of external auditor	Mr Joseph C Schembri Mr Joseph Del Raso Mr Peter Astleford
Nominations and Remunerations Committee *	<p>The Nominations and Remuneration Committee is responsible for making recommendations for appointment to the Board and for reviewing the constitution of all Group's Boards, in order to ensure that appointments to Boards are conducted in a systematic, objective and consistent manner. It is also responsible for the review of performance of the Group's Board members and committees, the appointment of senior executives and management and the development of a succession plan for senior executives and management.</p> <p>Additionally, this committee monitors, reviews and advises on the Group's remuneration policy as well as approves the remuneration packages of senior executives and management.</p>	Mr Joseph C Schembri Mr Joseph Del Raso

** These committees are appointed at GlobalCapital plc level but their scope is extended and applicable at subsidiaries' level as well*

B.1.2 Organisational Structure

The Organisational structure and reporting lines of GCLI are designed to:

- Enable apportionment of responsibilities and clear accountabilities and responsibilities
- Facilitate prompt transfer of information to all persons who need it
- Prevent conflicts of interest
- Ensure the prudent and effective management of GCLI
- As previously mentioned GCLI's ultimate supervisory body is the BoD.

The Senior Management, through the Managing Director has the day to day responsibility for the implementation of the BoD's approved strategy and reports to the BoD. Reporting to the BoD is both structured, through planned meetings and regular reporting and ad hoc as required.

The Business Functions of GCLI have the responsibility for the implementation of the BoD's strategy in their business functions. They report directly to the Managing Director with regards to their day-to-day duties and to the management committees. In order to minimize the probability of a potential conflict of interest and preserve their operational independence, the key control functions have additional direct reporting lines to the BoD or Board Committees. These additional

reporting lines are implemented in order to ensure that these functions have the ability to escalate important issues directly to the BoD. Consequently, the Risk, Internal Audit, Compliance and Actuarial Functions have a reporting line to the Board of Directors.

The Organisational structure of GCLI is presented in Appendix B.

B.1.3 Key Functions

In accordance with the Solvency II framework the Key Functions recognised by the BoD are the following:

- Actuarial Function
- Risk Management Function
- Compliance Function
- Internal Audit Function

Details of the duties of these functions are shown in subsequent sections.

Each key function reports directly to the Board without any restrictions and the Board is ultimately responsible for reviewing the performance of the key functions and considering any recommendations made by these functions.

The Board is also responsible for ensuring that all key functions are operationally independent, which implies that each function should be free from any undue influence, control or constraint from any other key function or the Board itself.

The position of each function in the “three lines of defence model” are also clearly shown in the diagram in the previous section.

B.1.4 Remuneration policy and practices for the BoD and employees

The Company has in place a remuneration policy which ensures that any remuneration is in line with the market norms in order to enable the company attract competent and experienced resources and ensure that any resources that it engages do not take excessive risks that could be detrimental to the company. With regards to the awarding of any performance bonuses, at the end of each financial year the Managing Director together with the executive management propose what global amount of the company’s profits is to be distributed by way of performance bonus to the employees. The proposed amount is forwarded to the remuneration committee and the Board of Directors for final approval, and once this is approved the total amount is distributed to employees depending on their individual performance in the preceding year.

With regards to any commission-based remuneration, the company ensures that all commission rates are in line with market rates and that these rates do not expose the company to any potential risks, primarily mis-selling and policy churning.

The remuneration policy is reviewed and maintained by the Remuneration Committee and is approved by the BoD. The BoD are responsible for the implementation of the Remuneration Policy in GCLI and specifically its application to BoD.

B.2 Fit and proper requirements

Prior to the appointment of any member of the BoD, member of senior management or Key Function the company carries out an evaluation of the fitness and propriety of that individual. Furthermore, such appointments are subject to approval by the MFSA.

The function delegated with the responsibility for the Fit and Proper test is the Compliance function. The Compliance Function also bears the responsibility for monitoring the fitness and propriety of individuals on an ongoing basis.

The fit and proper test criteria satisfy at a minimum the relevant regulatory requirements as well as additional criteria laid down by GCLI.

The Fitness test assesses the individual's professional and technical competence through a consideration of:

- previous experience, knowledge and professional qualifications and whether these are adequate to enable sound and prudent management of the Company;
- proof of skill, care, diligence and compliance with the relevant standards of the area/sector he/she has previously worked in;

The Propriety test assesses honesty, integrity, reputation and financial soundness of the individual by considering their:

- reputation, including an enquiry as to whether there have been any criminal or financial antecedents or past experience with regulatory authorities which may cast doubt on the ability of that person to adequately discharge his/her duties in line with applicable rules, regulations and guidelines.

The assessment is facilitated through:

- personal questionnaires
- academic and/or professional qualification certificates
- certificate of non-bankruptcy
- clear criminal record certificate
- personal resume and
- personal declaration.

In particular, with regards to members of the BoD they must always have the collective knowledge of the financial and insurance market, business strategy, system of governance, financial and actuarial analysis and the regulatory framework and requirements.

The detailed criteria and documentation requirement in the context of the fit and proper test are describe in the company's governance policy which is also subject to review on an annual basis.

The fitness of employees is the responsibility of the Human Resources department and is implemented through the recruitment process.

Furthermore, all Directors and members of staff must comply with the Company's code of conduct.

B.3 Risk management system

B.3.1 Description of the company's risk management system

GCLI has implemented an effective risk management system which is designed to ensure timely identification and assessment of existing and emerging risk exposures as well their effective management. The risk management system is comprehensively addressed in the company's risk management policy which provides for the **risk governance**, a **risk appetite** statement and the **risk management framework**.

The risk management policy comprises of sub-policies for all main categories of risk namely: Underwriting Risk, Investment and Asset Liability Risk, Credit Risk, Liquidity Risk, Concentration Risk, Operational Risk and Reinsurance. It is approved by the BoD and is reviewed at least once a year.

B.3.1.1 Risk Appetite Statement

GCLI's vision is to be the best life insurance company in Malta by providing value for money insurance solutions. It is implementing an aggressive sales and marketing approach with a target to grow business by 35% in the next three years with products that meet specific criteria in relation to their profitability, risk profile and capital intensiveness.

The risk appetite statement lays down the level and nature of risks that are considered acceptable for the Company and the constraints within which it should operate in pursuing its strategy.

GCLI manages its risk appetite through a set of limits. The aggregate risk limits and the risk category limits are to be used by the Risk Management Function for the monitoring and reporting of overall risk exposure and by the BoD and Risk Committee for making decision on the Company's risk profile.

Overall GCLI sees itself as a low risk entity and risk tolerance limits have been set to reflect that.

The Company has a target of maintaining a solvency coverage ratio at all times in excess of 115%.

In this context, tolerance limits are set for all risk categories to ensure that on a worst-case scenario basis, risk exposures will not lead to losses threatening this target solvency ratio.

B.3.1.2 Risk Governance

The risk governance of the Company forms an integral part by defining the role of each function of the company in the Risk Management Framework. It is organised in a way that ensures the establishment of clear responsibility boundaries, the proper segregation of duties and the avoidance of conflicts of interest at all levels.

As mentioned in previous sub-sections, the system of governance is based on the "three lines of defence model" safeguarding that risk management is embedded into the organisational structure and decision-making processes of the company and that the risk management system is supported by appropriate internal controls and by information systems that provide relevant, accurate and reliable information.

The roles of the key functions in the Risk Management System are outlined below:

Body / Function	Roles in the risk management framework
BoD	<ul style="list-style-type: none"> • The responsibility for the approval and periodic review of the risk profile and risk appetite, as well as the risk strategy and the policies for managing risks, lies with the BoD, so as to ensure that the BoD takes all measures necessary for the monitoring and control of risks, in accordance with the approved risk strategy and policies. This information reaches the BoD through the Risk Committee
Risk Management Committee (RMC)	<ul style="list-style-type: none"> • RMC is responsible for the ongoing monitoring, assessment, reporting and management of the risk environment and the effectiveness of the risk management framework; • RMC should drive a consistent and sustainable risk profile that reflects GCLI's risk appetite and ensure timely recognition and remediation of current and emerging risks; • Ensure that the Risk Appetite Framework approved by the Board of Directors is embedded in all relevant areas of the business and monitor risk exposures versus appetite; • Review, monitor and report any breaches of risk limits and the adequacy of proposed actions; • Review the embeddedness and effectiveness of the Company's internal controls and risk management systems; • Assess and monitor the impact of any risk-related matters that transcend, or relate to, boundaries with other Group Business and/or Functions; • Oversight of risk emerging from the use of services provided by Group and third party providers;

Body / Function	Roles in the risk management framework
	<ul style="list-style-type: none"> Promote a supportive business culture in relation to risk management and controls;
Risk Management Function (RMF)	<ul style="list-style-type: none"> Supports the BoD in the determination and implementation of the risk strategy and capital planning; Coordinates the implementation of the risk management framework and is the main unit for risk management responsibilities; Regular reporting to the Senior Management and Risk Management Committee Risk management training to the BoD, Committees, Senior Management and Risk taking functions directly involved in the management and oversight of risk, on the contents of the current and other risk-specific policies, and for providing guidance on their application; Moreover, the RMF continuously reviews the compliance of this Policy with Solvency II requirements and the appropriateness of risk strategy with Company objectives, appetite and limits, and informs the Risk Management Committees of any changes that may be required; Monitors the risk profile of the Company against the BoD's risk appetite; Develops internal risk methodologies and models; The RMF also brings to the attention of the Risk Management Committee and the Board of any breaches of this Policy; The full responsibilities of the RMF are documented in the RMF Policy
Managing Director and Senior Management with risk taking capacity	<ul style="list-style-type: none"> The Company's Senior Management is responsible for the implementation of the risk strategy, as this has been approved by the BoD, and for the development of the policies, methodologies and procedures required to identify, measure, monitor and control every type of risk, in accordance with the nature and complexity of the Company's operations They also have the responsibility to apply the framework in their day to day activities
Business Units	<ul style="list-style-type: none"> The individual business units under the direction of their Heads have the responsibility to know and apply the requirements of the risk strategy and Policies in their area of business
Actuarial Function	<ul style="list-style-type: none"> The Actuarial function is a specialist function that advises the Senior Management of the Company on the calculation of technical provisions and capital requirements, as well as on the technical aspects of risk management and modelling.
Compliance Function	<ul style="list-style-type: none"> The Compliance Function applies suitable procedures for the purpose of achieving a timely and on-going compliance of the Company's risk management framework with existing and new laws and regulations.
Internal Audit	<ul style="list-style-type: none"> The Internal Audit Function undertakes independent reviews and testing of the risk management framework or of specific components of the framework and reports the results to the Audit Committee. The responsibilities of Internal Audit are governed by the Internal Audit Policy

B.3.1.3 Risk management Processes

The risk management framework is a continuous process encompassing of the following key stages:

Risk Identification

The identification process is facilitated by a continuous use and review of internal and external sources of information.

Quantitative risks are identified through observation of the company's exposures through its financial records. Emerging risks are identified through external data or information.

Qualitative risks are identified through identification of events, actions or inactions (risks) that have the potential to materially impact the achievement of the objectives or the intended operation of functions and business processes. These can relate to both threats to operations or failures to take advantage of opportunities.

Stress testing, scenario analysis and sensitivity analysis are also adopted for the purposes of identifying risk exposures over the business planning horizon through the ORSA process which is described in the next section.

Risk Assessment / Measurement

The main metric for assessing quantifiable risk exposures is the 99.5% value at risk. This is a measurement of the maximum loss occurring from predefined events with a probability of 1 in 200. Additional risk metrics are a predefined set of key risk indicators encompassing all risk areas. All risk metrics correspond to a risk tolerance limit explicitly stated within the risk appetite statement. This enables the comparison of actual risk exposures against the company's tolerances indicating where further mitigating action is necessary.

Non-quantifiable risks are measured and ranked based on established criteria for frequency and severity. The frequency and severity associated with risks are assessed on an inherent and residual basis, having considered both the existence and effectiveness of the controls, by following a four-step process:

- Assessing the frequency of risk events and their resulting severity (inherent risk);
- Identifying the controls in place that prevent or detect the occurrence of the risk event or mitigate its severity;
- Assessing the design and performance of each control; and
- Assessing the frequency of risk events and their resulting severity, having considered the effectiveness of existing controls (residual risk).

Once identified and measured, material risks are documented in the Risk Register. Risk and control owners are assigned to each risk to ensure accountability for managing all material risks and the related controls. The Risk Register is monitored regularly and amended where necessary to capture changes in risks facing the business or in the controls used to mitigate existing risks.

Risk Control and Mitigation

GCLI has a strong risk controls culture to ensure the mitigation of all risks in its risk universe. Controls are developed and used to safeguard the integrity of the Company's processes and systems.

Additionally, the RMF evaluates and adopts appropriate risk transfer methods to mitigate its exposure to the identified risks. Such methods may include purchasing reinsurance coverage, using derivatives as hedging instruments.

Unexpected risks exposures are also covered by own funds, in accordance with the Solvency II requirements.

GCLI's policies on risk transfer including the use of reinsurance or other instruments is documented in the Company's Reinsurance and Other Risk Mitigation Techniques Policy.

Once GCLI has identified and quantified its risks, it can implement a strategy for mitigating them with appropriate policies, procedures, systems, and controls. Within the established risk appetite and tolerance, GCLI would retain a certain portion of risk, transfer another portion (through insurance), and then finance those risks it could not insure.

Risk Monitoring and Reporting

The RMF has the responsibility to ensure that all material risk exposures are monitored on an on-going basis and that any risks that fall outside the approved risk appetite of the Company are identified and appropriately escalated to the Risk Committee.

Specifically, the RMF monitors the following for each risk:

- Actual exposure vs. Limit
- Key Risk Indicators
- Risk data and model validation
- Appropriateness and assumptions of risk measurement methodologies
- Unusual or material events
- Early warning indicators (in the internal and external environment of the Company)
- Policy breaches

In addition, on an annual basis:

- the Risk Register is formally reviewed by the Risk Management Function and any actions deemed necessary following such review are brought to the attention of the Board; and
- the Risk Management Function runs stress and scenario tests and reports the results and suggested courses of action to the Board.

B.4 Own Risk and Solvency Assessment (ORSA)

B.4.1.1 ORSA Process

ORSA can be defined as the entirety of the processes and procedures employed to identify, assess, monitor, manage and report the short and long term risks the Company faces or may face and to determine the own funds necessary to ensure that the Company's overall solvency needs are met at all times. The ORSA policy is the policy which governs the ORSA process.

Strategic decisions such as the introduction of new products, utilisation of additional distribution channels etc. are assessed and evaluated in the light of their effect on the Company's risk situation and risk-bearing capacity.

GCLI follows the steps below to implement its ORSA:

- i. **Identify and classify risks, including governance** - The Company identifies the material risks it faces at a particular point in time. This includes risks considered in the SCR formula, as well as risks not included in the standard formula such as liquidity, strategic and business risks.
- ii. **Assessment and measurement of risks** - the Company collects data, quantifies and aggregates risks using different approaches such as Value at Risk and stress testing. The assessment is done using predefined risk metrics. This also includes an assessment of the Solvency II standard formula and whether it adequately reflects the underlying risk profile of the company.

- iii. **Capital Allocation** – According to its risk profile, the Company determines the necessary risk capital required at that point in time.
- iv. **Capital planning** – The Company projects its risk profile based on its business plan and prepares a capital plan over the business planning horizon. The capital plan depends on its strategic objectives and financial projections and assumptions on future economic conditions.
- v. **Stress testing** - The Company applies stress and scenario testing to the forward-looking capital plan and develops actions that can be taken in unforeseen circumstances in the future. Stress tests complement the use of the standard formula by assessing the financial effect of events or sequence of events that lead to specific adverse scenarios. Thus, they can be used to understand the Company's vulnerability to its various risk exposures and the level of financial strain that it can withstand.
- vi. **Communicate and document the results** –The results are being discussed by the senior management and are then being presented to the BoD. The BoD reviews and challenges the results of the ORSA through minuted discussions.

B.4.1.2 Governing the ORSA

The ultimate responsibility for the ORSA process lies with the BoD. The BoD defines the corporate objectives and the risk strategies of the company which form significant inputs to the ORSA. The BoD also defines the stress testing program and also reviews, challenges and approves the ORSA Report. The BoD also sets the ORSA policy and reviews it every year.

The function mostly responsible for carrying out the ORSA is the Risk Management Function. However, due to its very nature, the ORSA requires input from across the whole Company and hence the Risk Management Function coordinates the ORSA process in conjunction with all the other functions as risk owners.

Significant input is required from the finance function for the preparation of the financial projections in accordance with the company's business plan and from the Actuarial function in quantifying future risks and assisting with the financial modelling of forecasted solvency assessments.

B.4.1.3 ORSA and decision-making processes

ORSA is considered as a very valuable assessment in addressing the risks inherent within the company's strategy and the BoD confirms that it is embedded in the decision-making processes of the company. In particular, the ORSA allows the management to take into account all the risks associated with the Company's business strategies and the required level of capital that the Company requires commit, explore alternative options and assess their impact and decide on the optimal strategy and advise to BoD accordingly.

B.4.1.4 Frequency of the ORSA

The Company currently intends to perform the ORSA at least annually. Furthermore, the assessment will be performed immediately following any significant changes to the environment that the company operates within.

These changes include, but are not limited to:

- Significant changes to the financial and political environment in which the Company operates
- Significant operational losses
- Material changes to the new business volumes
- Planned changes to the operating model of the company
- Significant changes in the Company's risk profile

B.4.1.5 Solvency needs and Risk Profile

In 2018, the Company undertook a detailed risk and solvency assessment as well as a forward-looking assessment of capital requirements comprising of the year 2018-2020. These assessments encompass all material risks that the Company faces or could expect to face over its planning period.

The assessment also addressed the adequacy of the standard formula and how it relates to the underlying risk profile of the company. The assessment provided satisfactory evidence for the adequacy of the standard formula and comfort that we can continue using this as a key risk metric. Furthermore, it provided confidence that the capital requirements address the material risk exposures and the available own funds provide a satisfactory buffer in safeguarding business continuity beyond the 99.5% confidence threshold.

Any risks not covered by capital are believed to be adequately mitigated through the control measures applied internally and no additional capital beyond the SCR was deemed necessary.

The BoD confirms that it has adequate capital availability for implementing its strategy.

B.5 Internal control system

Internal control is a process effected by GCLI's Board of Directors, management, and other personnel and is designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations

Every member of GCLI has a role in the system of internal control. Internal control is people-dependent and its strength depends on people's attitude toward internal control and their attention to it:

- The Board is responsible for setting the strategy, tone, culture and values of the Company
- Management, Operations, Risk Management, Compliance and Actuarial function design policies and procedures to ensure that an effective internal control system is established within the Company
- The Internal Audit function monitors the effectiveness of the internal control system

There are five interrelated components of effective internal control, which are discussed in the following sections:

- Control Environment
- Risk Management
- Control Activities
- Reporting
- Monitoring

Each of these are outlined below:

B.5.1.1 Control environment

The control environment sets the tone of the Company, influencing the control consciousness of its people. It is the foundation for all other components of the Company's internal control system, providing discipline and structure. Control environment factors include:

- Integrity and ethical values
- Commitment to competence
- Management's philosophy and operating style
- Organisational structure
- Assignment of authority and responsibility

- HR policies and practices

B.5.1.2 Risk Management

The risk management system entails the identification and analysis of relevant risks which threaten the achievement of the Company's objectives, forming a basis for determining how the risks should be managed. As an integral part of its Risk Management system, the Company identifies all reasonably foreseeable material risks and assesses the frequency and severity of such risks, recording such identification and assessment in the Risk Register.

The process is overseen by the Risk Management Committee and Risk Management function. The risk management process is described in detailed in the Company's Risk Management Policy.

B.5.1.3 Control Activities

Control activities are the policies and procedures that are designed to ensure that management directives are carried out, strategies are properly implemented and the necessary actions are taken to address material risks to the achievement of the Company's objectives. Control activities occur throughout the entire Company, at all levels and in all functions. They include a range of activities as diverse as:

- approval and authorization requirements, as required by the Company's procedure manual;
- segregation of duties, as reflected in the Company's organisational structure and in other controls outlined in the procedure manual;
- controls required by the Company's various policies, such as the Outsourcing Policy;
- verifications, reconciliations, reviews, controls over assets and other controls as identified in the procedure manual and which are primarily aimed at implementing the four-eyes principle.

The Company has appropriate documented policies, procedures, techniques, and mechanisms in place for each of its business areas (e.g. Underwriting, Claims) and control functions (Risk and Compliance). All relevant objectives and associated risks for each significant activity are identified in conjunction with conducting the risk identification process.

Up to date Company policies and procedures are distributed to all relevant personnel, who read and understand them. Management oversees the implementation of the Company's policies and procedures and ensure that control activities are properly applied. Monitoring personnel review the functioning of established control activities and remain alert for instances in which excessive control activities should be streamlined. They act timely on exceptions, implementation problems, or information that requires follow-up.

Control activities are regularly evaluated to ensure that they are still appropriate and working as intended.

B.5.1.4 Reporting

Financial and other information must be identified, captured and communicated in a form and timeframe that enables the management and the BoD to carry out their responsibilities. Management accounts, solvency assessments and risk reports are submitted to the BoD (directly or through Board committees) on a quarterly basis. Moreover, all key functions report to the Board on a regular basis on their activities, the adherence to their respective company policies together with any proposals for changes to the policy as considered necessary by the relevant function.

B.5.1.5 Monitoring of internal controls

The Company has established the necessary monitoring mechanisms that facilitate the understanding of the Company's situation and provide the Board with relevant information for the decision-making process. Management and monitoring personnel know their responsibilities for internal control and make control and control monitoring part of their regular operating processes.

Regular monitoring occurs during normal operations and includes on-going Management activities and actions taken by all personnel when performing their duties. It is performed continually and on a real-time basis, reacts dynamically to changing conditions and is ingrained in the Company's operations.

The effectiveness of the internal control system is monitored on a continuous basis by business areas and control owners, any deficiencies of the system are identified and rectified in a timely manner. As part of the internal control monitoring, the quality of performance over time is assessed and the findings of audits and other reviews are promptly resolved.

B.5.2 Compliance Policy and Compliance Function

GCLI's Compliance Department is sufficiently resourced to cater for the overall Compliance function of all the Group's licensed entities. The resources within the department are adequate both in terms of number, as well as in terms of expertise, in order to ensure compliance with all the applicable regulation and legislation. The resources within the compliance department have unhindered access to all areas of the company's operations at all times to enable them to fulfil their compliance function to the full.

The Compliance Function ensures that compliance awareness is promoted internally and externally and that compliance is an integral part of the corporate culture of all licensed entities within the group, including GCLI. Employees within the organization receive adequate training on compliance, data protection and Anti-Money Laundering issues on a set periodic basis and are encouraged to identify and report all breaches as necessary so that corrective action can be immediately taken and risks mitigated.

The role of the Compliance Function includes:

- a) advising the Board of Directors on compliance with any legislation, regulations and any other applicable laws, in so far as they apply to the company,
- b) the assessment of possible impact as regards changes in the legal environment on the company,
- c) the identification and assessment of any compliance/regulatory risks.
- d) providing the Board of Directors with regular reports on the progress of the Compliance plan, and any other matters which need to be brought to the attention of the Board of Directors .

The Company has in place a compliance plan and a compliance policy. The compliance policy delineates the responsibilities of the Board of Directors together with the delegated responsibilities of the resources within the Compliance Department and more specifically the responsibilities of the Compliance Function and its Holder. The Compliance policy is reviewed every year by the Board of Directors, and if required, it is updated to ensure that it remains relevant to the company and in line with the regulation. On the other hand, the annual compliance plan is drawn up every year by the Compliance Function and is approved by the Board of Directors.

B.6 Internal audit function

The Company's Internal Audit Policy establishes and maintains an Internal Audit Function, the objectives of which are:

- to independently examine and evaluate the functioning and effectiveness of the internal controls and all other elements of the system of governance;
- to assess compliance with internal strategies, policies, processes and reporting procedures.

The Company outsources its Internal Audit Function to KPMG Malta thus ensuring the independence and objectivity from any functions which have operational responsibilities. The Internal Audit Function reports to the Board through the Audit Committee.

The Internal Audit Function has an unrestricted right to obtain information relevant to the discharge of its responsibilities. This entails the prompt provision of all necessary information, the availability of all essential documentation and the ability to look into all activities and processes of the Company. To this effect, the Internal Audit Function has full, free and unrestricted access to all the personnel of the Company who shall, in turn, ensure that the Internal Audit Function obtains the necessary information about, and has the necessary access to, the Company's outsourced functions.

B.7 Actuarial Function

The Actuarial Function is a critical function for GCLI given the nature of its product suite and its operations. It is subject to the fit and proper criteria and according to the relevant legislation it should at all times be carried out by persons who are fit and proper to carry out the duties outlined below, in an objective manner and free from any undue influences. The Actuarial Function of GCLI is outsourced to Deloitte Actuarial Services Limited (Cyprus) and is executed by a Fellow of the Institute of Actuaries who fulfils all above criteria.

The Actuarial Function reports to the Managing Director and to the BoD and is subject to the audit of the Internal Audit Function regarding the adequacy and effectiveness of its procedures. GCLI has also assigned a Board member with the duty to oversee the Actuarial Function. The operating procedures of the function are described in detail in the Actuarial Function Manual.

The role of the Actuarial Function is to establish and maintain appropriate procedures, processes and systems sufficient to allow the Company to reasonably estimate its insurance obligations and exposures and the related capital requirements, in line with applicable laws and recognised professional standards. In this context, the Actuarial Function coordinates the assessment and validation of internal data to determine the level of compliance with recognised standards for data quality and, if necessary, recommends improvements.

Furthermore, the Actuarial Function is involved in the profit testing process of new products assessing them for profitability, capital intensiveness, risk profile, system compatibility and marketability. It also contributes all financial modelling in relation to risk management activities and the ORSA in particular.

The activities of the Actuarial Function during 2018 were as follows:

- Carried out the calculation of technical provisions and reserves for financial reporting on a quarterly basis in accordance with all relevant regulatory requirements
- Submitted reports in relation to the above calculations to the senior management and the BoD
- Provided modelling assistance for the calculation of Solvency Capital Requirements on a quarterly basis
- Assessment of data quality
- Expressed opinion on adequacy of Reinsurance Arrangements
- Expressed opinion on the company's underwriting policy
- Worked closely with the management and addressed areas of its expertise in relation to the company's ongoing operations
- Provided the modelling for carrying out the financial and solvency projections of the ORSA
- Attended meetings of the BoD
- Carried out investigations to the company's experience in terms of claims, lapses, expenses, new business volumes as well as Asset Liability Management.

B.8 Outsourcing

GCLI outsources the following key functions:

Function	Entity	Person Responsible
Actuarial Function	Deloitte Actuarial Services Ltd	Maria Michaelides
Risk Management Function	Deloitte Actuarial Services Ltd	Dimitris Dimitriou
Appointed Actuary	Deloitte Actuarial Services Ltd	Marios Schizas
Internal audit	KPMG	Alex Azzopardi

GCLI has opted to outsource these functions given the high level of specialisation and the limited availability of such skills in the domestic market. Furthermore, we have selected providers with significant expertise in their areas who can introduce knowhow and skillset in a beneficial way for the company. Outsourcing is also believed to be a cost-efficient approach for the selected functions.

Additional benefits of outsourcing include the safeguarding the continuity of services since GCLI does not rely on one person but a firm with a contractual obligation to provide the requested services under all circumstances.

It also saves on infrastructure and technology since the company does not need to invest in specialised software and relevant IT solutions.

The selected partners have over the years proven to be efficient in their dealings with the Company and provide comfort to the BoD in the quality of their service and the value they add to GCLI.

The Company acknowledges that outsourcing does not in any way relieve the Company of ultimate responsibility for the outsourced functions. In line with regulatory requirements, GCLI has appointed one member of senior management and one from the Board per Function with the responsibility of their oversight. Furthermore, the performance of providers is regularly reviewed and monitored by the BoD.

B.8.1 Outsourcing Policy

The criteria for the selection of service providers and the process for their appointment is laid down in the company's outsourcing policy which is approved by the BoD and reviewed once a year. In particular the Outsourcing Policy states that when choosing a service provider for any critical or important functions or activities GCLI ensures that:

- The potential service provider has the ability and capacity and any authorisation required by law to deliver the required functions or activities satisfactorily, taking into account the undertaking's objectives and needs;
- The service provider has adopted all means to ensure that no explicit or potential conflict of interests with GCLI impairs the needs of the outsourcing undertaking;
- It enters into a written agreement with the service provider which clearly allocates the respective rights and obligations of the undertaking and the service provider;
- The general terms and conditions of the outsourcing agreement are authorised and understood by the Managing Director. The outsourcing does not represent a breach of any data protection regulation or any other laws;
- The service provider is subject to provisions on the safety and confidentiality of information relating to GCLI or to its policyholders or beneficiaries.

In order to ensure against an undue increase in Operational Risk, when outsourcing critical or important functions or activities the Company shall:

- Verify that the service provider has adequate financial resources to take on the additional tasks GCLI plans to transfer and to properly and reliably discharge its duties towards GCLI

and that the staff of the service provider is chosen on the basis of criteria that give reasonable assurance that they are sufficiently qualified and reliable;

- Make sure the service provider has adequate contingency plans in place to deal with emergency situations or business disruptions and has periodic testing of backup facilities where that is necessary having regard to the function, service or activity outsourced.

Furthermore, the Policy lays down the minimum required contents of an outsourcing agreement safeguarding the quality of service provided, protecting the interests of GCLI, ensuring that conflicts of interest are avoided and that the service provider cooperates with internal or external auditors as well as the MFSA.

B.9 Adequacy of the system of governance

The system of governance has been designed to ensure that the management are able to provide the appropriate levels of oversight whilst allowing decisions to be made more quickly and ensuring that the Company's employees are empowered to make decisions at the right levels of the Company.

The Company continues to align its management and governance structure to proactively respond to the business and regulatory needs.

The BoD has the overall responsibility for setting the company's strategy and to safeguard that the strategy does not expose the Company to any unwanted levels of risk as defines in its risk appetite statement.

The Committees at BoD level have clearly defined terms of reference are empowered to make decisions within their limits of authority thereby allowing the company to adapt to changes in an agile and flexible manner.

Once the strategy and the business plan are agreed the executive management are delegated with the responsibility to implement it and to operate within these constraints. The organisation of GCLI is such that enables the implementation of the BoD strategy in an effective manner whilst adequate oversight is taking place through the second line of defence functions.

The risk management system is integrated into the strategy and the business planning process and is generally embedded in the decision-making processes of the Company. This ensures that the strategy results in an acceptable risk profile. It also facilitates awareness of the risk exposures of the Company and provides early warning signals for the management to take corrective action and ensure sufficient and smooth emergence of profits.

B.10 Any other information

Nothing to report

C. Risk Profile

GCLI believes that a robust and effective risk management framework is crucial to maintaining successful business operations and delivering sustainable, long-term profitability. Quantifiable risks are assessed through the 99.5% Value at risk as measured with the Solvency II standard formula (SCR). The Company aims to hold sufficient capital at all times to protect itself from losses occurring due to such risks. Non-quantifiable risks are measured through qualitative analyses and a frequency/severity approach.

In addition to capital, the company manages all risks through its processes and procedures and its internal control framework and by monitoring exposures and benchmarking those against its risk appetite.



The Company's risk profile is mainly driven by its exposure to the investment markets. Market risk forms around 50% of the total risk portfolio of GCLI. The second largest exposure (26% of undiversified SCR) arises from credit risk mainly in relation to investment holdings (bonds, deposits, cash at bank), an intercompany loan and reinsurance recoverables. The third material risk exposure of GCLI, underwriting risk, is the result of the insurance operations of the Company. The exposure to operational risk is relatively small.

The risk profile of GCLI as at 31 December 2018 was in line with its risk strategy.

C.1 Underwriting Risk

C.1.1 ***Overview of any material risk exposures anticipated over the business planning period***

GCLI's key underwriting risks in order of magnitude are:

- Lapse risk: Risk of higher lapse rates or lower lapses than expected, as well as the risk of mass lapse (an instantaneous one-of shock lapse event)
- Expense risk: risk of higher than anticipated acquisition costs or maintenance expenses.
- Mortality risk: risk of higher mortality experience than expected at the time of underwriting.
- Life catastrophe risk: risk of a catastrophic event occurring which would lead to an instantaneous one-of shock mortality event
- Disability-morbidity risk: the risk of higher disability, sickness and morbidity rates than expected

The mix of business written remains broadly similar to previous years, both in terms of lines of business written, underwriting profile and geographical location. As such, no material changes have been noted in respect of the underwriting profile.

C.1.2 Risk Assessment/Measurement

GCLI measures its Underwriting risk primarily using the standard formula, the adequacy of which was assessed during the latest ORSA. The measurement addresses four sources of risk; Mortality Risk, Lapse Risk, Expense Risk and Catastrophe risk. These exposures are assessed by calculating the impact on the Best Estimate Liabilities when allowing in the projections for a number of risk events as listed below:

- An instantaneous permanent increase of 15% in the mortality rates
- An instantaneous permanent increase of 50% on lapse rates
- An instantaneous permanent decrease of 50% on lapse rates
- The discontinuance of 40% of the insurance policies (one-off)
- Expenses loaded by 10% plus an increase of 1 percentage point to the expense inflation rate
- Catastrophe scenario assuming one-off instantaneous increase of 0.15 percentage points to the mortality rates

GCLI also adopts other risk assessment tools such as stress and scenario testing, maintenance of a risk register, comparison of actual exposure and risk tolerance limits and use of Key Risk Indicators.

GCLI currently ranks its overall residual exposure to underwriting risk as a medium risk exposure.

C.1.3 Risk Concentration

C.1.3.1 Information on any material risk concentrations the undertaking is exposed to

No material risk concentrations have been identified. This is because of:

- GCLI's well-diversified insurance portfolio: The portfolio enjoys high levels of diversification with respect to age, gender, smoker status, socio- economic class, level of life insurance cover, type of insurance cover and degree of underwriting applied at inception of the cover.
- Low catastrophe risk: The catastrophe risk (assessed using the two scenarios prescribed by the standard formula) is very low (€0.7m).
- Reinsurance: GCLI manages its exposure to any one risk and to catastrophic events using reinsurance. Thus, the loss to GCLI is generally limited to its retention.

Some underwriting risk concentration emerges from the current absence of geographical diversification as the policyholders are residents of Malta almost to their entirety.

C.1.4 Risk Mitigation

C.1.4.1 Information on the techniques currently used

C.1.4.1.1 Product design process

All new products, prior to their launch are thoroughly assessed through a profit testing analysis carried out by the Actuarial Function. This test the underlying profitability of the products and its sensitivity, the capital intensiveness and any inherent risks. Furthermore, market research and internal analyses help assess the marketability and competitiveness of our products. Training is also provided to the TIIs to ensure that products are targeted to the appropriate clientele. IT is also engaged in ensuring that proposed products are compatible with the Company's systems and IT infrastructure. Availability of reinsurance is critical prior to the launch of any new product.

C.1.4.1.2 Reinsurance

GCLI uses reinsurance to protect against claims volatility. A proportional reinsurance arrangement is in place for all product lines. Any single policy where the sum insured is beyond the treaty limits is reinsured on a facultative basis. A detailed analysis is undertaken on an annual basis to assess the most appropriate reinsurance structure in accordance to the business, capital and risk strategies of the company. The actuarial function also issues an opinion on the adequacy of reinsurance arrangements annually. The credit rating and the financial condition of the key reinsurance counterparties are reviewed on a quarterly basis, so that corrective action is taken in the event of a deterioration in their financial quality.

C.1.4.1.3 Portfolio Monitoring

The senior management of the Company receives and reviews regular reports on the gross written premium, risks written (Sum Assured), claims, surrenders and reserves.

The management of the Company undertakes the reviews above to ensure that the company is protected against the risk of inadequate pricing. The frequency of the reviews, will enable the management to take quick action to resolve any issues identified. As a result of the regular monitoring, GCLI has maintained healthy levels of profitability.

C.1.4.1.4 Clear delegation of underwriting and claims authorities

There is a clear delegation of underwriting and claims authorities within the company and peer review requirements, with the most complex risks and claims requiring review and sign-off by the Managing Director. This ensures that the risks and claims are assessed by personnel of appropriate experience and expertise and the premium charged reflects the characteristics of each risk and appropriate claim provisions are put in place.

Clear delegation of underwriting and claims authorities and peer review ensures that the operational risks related with underwriting, claims and reserving; risk of insuring unintended exposures, risk of fraudulent claims or claims overpayment and the risk of inadequate pricing or under-reserving are reduced.

C.1.4.1.5 Lapses/surrenders

Dedicated, experienced staff handles all surrenders and lapse requests. This is to ensure, through discussion with the policyholder, that the decision to surrender is indeed the most appropriate for the policyholder and GCLI may recommend other products that would better satisfy his/her needs.

Persistency analyses are carried out regularly and these are segmented by product to provide an early warning signal of increases in lapses/surrenders. Where this is observed, the management investigates the underlying reason and takes corrective action to remediate this. Furthermore, continuous training is provided to the TIIIs to minimise the risk of mis-selling.

C.1.5 Risk Sensitivity

The risk management function carries out stress tests as part of its annual risk assessment. This ensures that potential adverse scenarios are considered and negative outcomes can be adequately mitigated either through controls implemented, through timely remedial actions or through the commitment of additional capital.

The stress tests performed in relation to underwriting risk were as follows:

- A 10% increase in the budgeted expenses
- A 15% increase in future expense inflation assumption
- A 50% increase in the lapse rates of the conventional portfolio
- A 50% decrease in the lapse rates of the interest-sensitive portfolio
- A 10% increase in the mortality rates

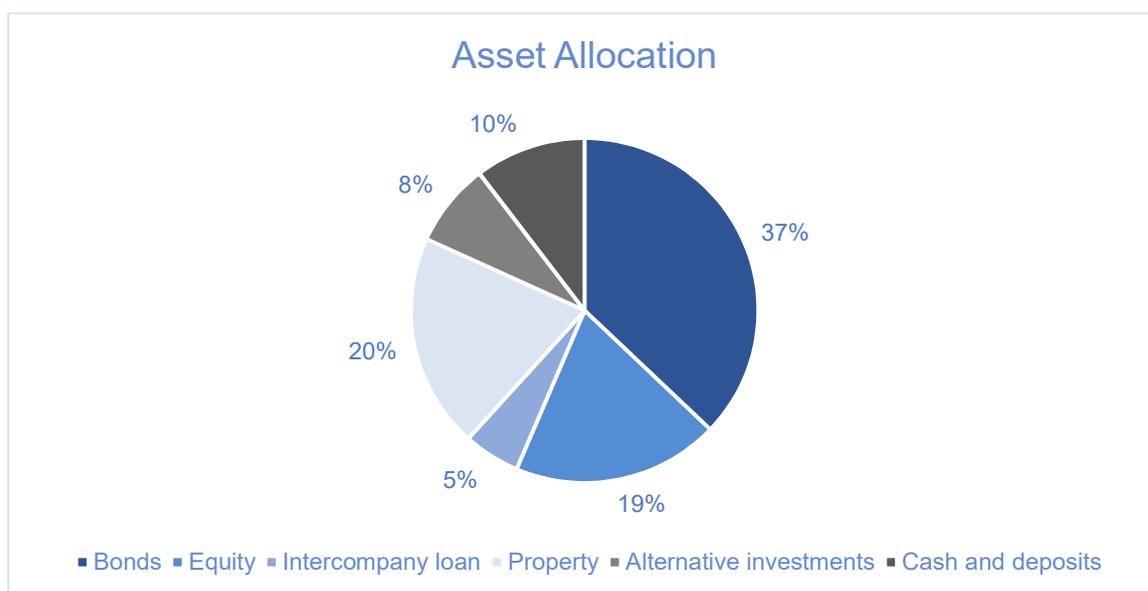
The impact on the solvency ratio of all the above risks is less than 10 percentage points exhibiting adequate recovery rate and resilience.

C.2 Market risk

C.2.1 Overview of any material risk exposures anticipated over the business planning period and how they are managed

The Company is exposed to market (Investment) risk through its asset portfolio and in particular from the level or volatility of market prices of financial instruments which have an impact upon the value of the assets and liabilities of the Company.

Market risk reflects the risk arising from the level or volatility of market prices of financial instruments which have an impact upon the value of the assets and liabilities of the Company.



As at 31 December 2018, GCLI's investment assets include property, equity, bonds, cash alternative investments and an intercompany loan. Investments are subject to credit risk (including counterparty default risk, spread risk and concentration risk relating to credit risk) and liquidity risk which are dealt with in the respective sections below. Market risk arises in the following forms both on the asset and on the liability side as the value of technical provisions depends on market conditions:

- Interest rate risk: *the sensitivity of the values of assets, liabilities and financial instruments to changes in the term structure of interest rates, or in the volatility of interest rates*
- Equity risk: *the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of market prices of equities*
- Property risk: *the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of market prices of real estate*
- Currency risk: *the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of currency exchange rates*
- Concentration risk: *additional risks to an insurance undertaking stemming from lack of diversification in the asset portfolio*

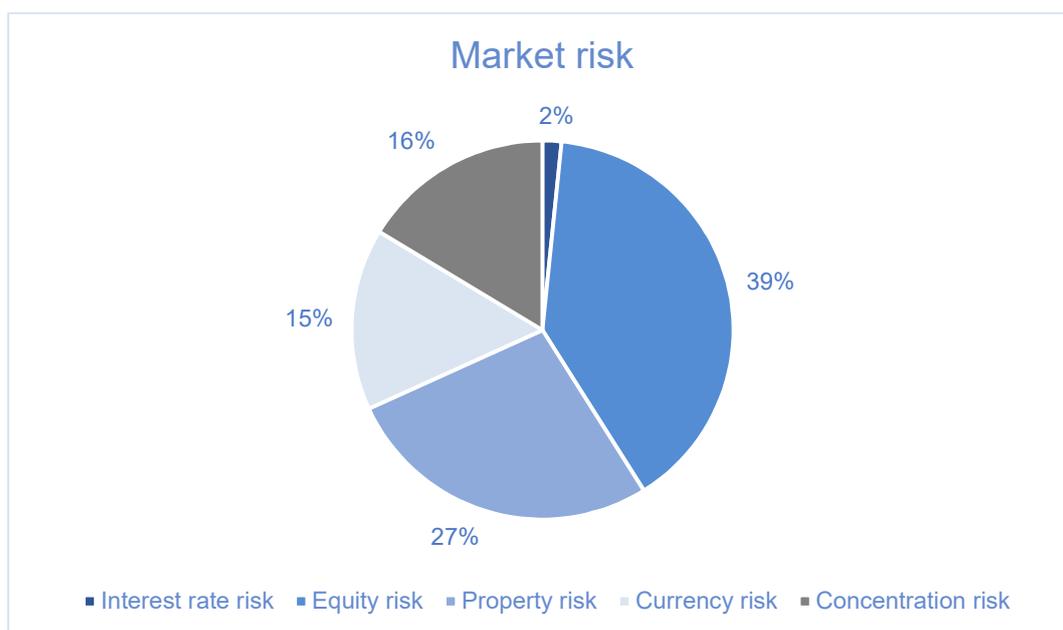
C.2.2 Risk Assessment/Measurement

GCLI measures its market risk using the standard formula, the adequacy of which was assessed during the latest ORSA. The measurement is done separately for the sub-categories mentioned above. Then the aggregate market risk measure allows for diversification between its components.

GCLI also adopts other risk assessment tools such as stress and scenario testing (both on the current position and over the business planning horizon), maintenance of a risk register, comparison of actual exposure and risk tolerance limits and use of Key Risk Indicators.

Over the business planning horizon, GCLI expects its own funds to increase materially as business is written on profitable terms. Inevitably, the higher capital base will introduce additional market risk.

With the support of the RMF, the Company assesses the impact of any material investment decisions on its solvency coverage ratio.



The primary sources of market risk are equity risk and property risk arising from exposure to such investment securities. The overall current market risk exposure is considered to be high.

C.2.3 Risk Concentration

Overall the investment portfolio of GCLI is well diversified across and within different asset classes, with respect to issuers/counterparties, industries, countries. Part of the Company's investments are held through collective investment vehicles which further enhance the level of diversification within the portfolio.

Risk concentration is present within the investment portfolio with regards to country. The Company has a high exposure overall to Malta in terms of cash at bank, government bonds, property and listed equities. Nonetheless, the high creditworthiness of banks in Malta and of Malta government stocks reduce the overall risk.

C.2.4 Risk Mitigation

Market risk is mitigated through the investment policy adopted by GCLI which safeguards limited exposure to risky asset classes and minimum diversification limits.

The Asset and Liability Committee (ALCO) reviews investment related information regularly to ensure that the portfolio is invested in line with the investment guidelines and the risk appetite of the Company. Furthermore, external financial advisors are appointed to provide independent investment advice.

In addition, the Risk Management Functions produces Investment Key Risk Indicators (KRIs) which are presented to and discussed with the Risk Committee.

The continued effectiveness of the risk mitigation techniques and controls is monitored through the ALCO and additional oversight is provided by the Board of Directors.

C.2.5 Prudent Person Principle

The Solvency II regulations require investment of assets in accordance to the “Prudent Person Principle”. In light of this, the Company has aligned its investment policy and ALM strategy with this principle.

GCLI regularly reviews the financial condition of its investment counterparties and ensures that the currency, nature and duration of assets is appropriate to the characteristics of its liabilities, avoiding excessive reliance on any one counterparty or asset class or geographical location.

Prior to any material investment especially on the alternative space an SCR impact is generated that helps the investment manager and the investment committee understand the marginal impact on the SCR and the solvency coverage ratio of the proposed investment.

The Company has not invested in derivatives or other inadmissible financial instruments.

C.2.6 Risk Sensitivity

C.2.6.1 Stress tests and scenario analyses

The risk management function carries out stress tests as part of its annual risk assessment. This ensures that potential adverse scenarios are considered and negative outcomes can be adequately mitigated either through controls implemented, through timely remedial actions or through the commitment of additional capital.

The stress tests performed in relation to market risk were as follows:

- TVOG stress: Future market volatility 50% higher than expected which impacts the time value of the guarantees inherent in the interest sensitive portfolio.
- A 20% decrease in property market values
- Black Monday: An instantaneous decrease in equity market values by 20%.

The results of the testing above indicated that the Company is sufficiently capitalised and able to withstand an extreme market event and maintain a strong solvency position in excess of its risk appetite.

C.3 Credit risk

C.3.1 Overview of any material risk exposures anticipated over the business planning period and how they are managed

Credit risk refers to the risk of loss or of adverse change in the financial situation, resulting from fluctuations in the credit standing of counterparties. GCLI is exposed to credit risk arising from the following exposures:

- Cash at bank
- Bonds and deposits
- Securitisations
- Intercompany loan
- Reinsurance recoverables
- Premium receivables

C.3.2 Risk Assessment/Measurement

GCLI measures its credit risk using the standard formula, the adequacy of which was assessed during the latest ORSA. With respect to exposures to banks, bond issuers, loan holders and reinsurers the assessment depends highly on the credit rating of the counterparties which defines the probability of default. On the other hand, for premium receivables the assessment is based on how long overdue these are and the probability of default is determined based on that.

Credit risk as measured through the SCR is composed of spread risk by 60%, counterparty default risk by 26% and concentration risk by 14%. Credit risk forms 26% of the total undiversified SCR.

GCLI also adopts other risk assessment tools such as stress and scenario testing (both on the current position and over the business planning horizon), maintenance of a risk register, comparison of actual exposure and risk tolerance limits and use of Key Risk Indicators.

The overall credit risk exposure is considered to be High primarily driven by spread risk.

C.3.3 Risk Concentration

Risk concentration with respect to credit risk arises primarily from the following:

- Use of a single reinsurance counterparty
- Intercompany loan
- A single securitisation position

C.3.4 Risk Mitigation

The Company mitigates its credit risk, through the credit risk policy, which prescribes minimum creditworthiness requirements for its investment counterparties and reinsurers and by ensuring an adequate level of diversification in its investment portfolio.

The credit rating and the financial condition of all key counterparties are reviewed at least quarterly and management is ready to take action in the event of a deterioration in the credit quality.

Moreover, the terms and conditions of the reinsurance contracts stipulate exit terms in the event of changes in the financial conditions of the counterparties.

C.3.5 Risk Sensitivity

The risk management function carries out stress tests as part of its annual risk assessment. This ensures that potential adverse scenarios are considered and negative outcomes can be adequately mitigated either through controls implemented, through timely remedial actions or through the commitment of additional capital.

The stress test performed in relation to credit risk examined the impact of an instantaneous deterioration of the credit quality of all counterparties by one step. The impact on the solvency ratio of all of the above risks was around 15 percentage points which indicates that the Company is able to maintain a strong solvency position in excess of its risk appetite.

C.4 Liquidity risk

Liquidity risk is defined as the risk that the Company is unable to realise investments and other assets (or realise them at excessive cost) in order to settle its financial obligations when they fall due.

The liquidity risk of the company is generally very low as:

- A significant proportion of the assets is invested in short-term products, including cash and bank deposits.
- Most of the assets held (corporate bonds, government bonds, equities) are highly tradeable securities which enables fast and low-cost liquidation of assets.

The composition of the asset portfolio is not expected to change over the business planning horizon in a way that would introduce liquidity risk.

C.4.1 Risk Assessment/Measurement

GCL's liquidity requirements are assessed monthly in order to meet the Company's stated liquidity objectives. A projection is performed each month from the accounts department to assess whether all obligations due will be met by the expected cash inflows mainly from premiums due.

C.4.2 Risk Concentration

Sources of cash in and cash out flows such as insurance receivables, claims (deaths, surrenders), expenses etc., are diversified and to a large extent independent. Thus risk concentration within liquidity risk is limited.

C.4.3 Risk Mitigation

The company has developed investment guidelines (reviewed and approved by the Board) which, among others limit investment in illiquid assets and ensure appropriate number of counterparties and levels of asset diversification are in place.

The Company adopts a prudent liquidity risk management approach by maintaining a sufficient proportion of its assets in cash and marketable securities through the ability to close out market positions. Senior management is updated on a regular basis on the cash position of the Company illustrating, inter alia, actual cash balance net of operational commitments falling due in the short term as well as investment commitments falling due in the medium and long term.

GCL also minimizes liquidity risk by:

- ensuring that the Accounting function designs and implements proper controls, documented in the procedure manual, to ensure that inflows are actively managed, monitored and followed up;
- ensuring that income generated from the investment portfolio is duly received by the Company;
- catering for unexpected cash flows, since the quota for highly liquid assets provides a good buffer over and above the maximum historic cash outflows;
- considering the effect of any proposed new business on liquidity and liquidity risk at Board level;
- closely monitoring the timing of claims payments and reinsurance recoveries.

C.4.4 Expected profit included in future premiums

The following table shows the expected profit included in the future premiums per line of business.

€'000s	UNIT-LINKED INSURANCE	INSURANCE WITH PROFIT PARTICIPATION	OTHER LIFE INSURANCE	TOTAL
Expected profits included in future premiums	4,472	2,778	4,989	12,239

C.4.4.1 Methods and main assumptions used to calculate the expected profit included in future premiums

The expected profits included in future premiums are calculated as the difference between the best estimate liability calculated in accordance with Article 77 of that Directive and a calculation of the best estimate liability under the assumption that the premiums relating to existing insurance contracts that are expected to be received in the future are not received for any reason other than

the insured event having occurred, regardless of the legal or contractual rights of the policyholder to discontinue the policy. The methodology used in the computation of this figure is in line with the relevant guidelines issued by EIOPA.

For the unit-linked insurance portfolio, the calculation was based on the assumption that all policies are paid-up and for the other life insurance portfolio that all policies lapse as these contracts will cease to be in-force if premiums are not paid at the next policy anniversary according to the products term and conditions.

C.4.5 Risk Sensitivity

Given that liquidity is not a material risk for the Company, no specific risk sensitivity is performed.

C.5 Operational risk

Operational risk refers to the risk of loss arising from inadequate or failed internal processes, people, systems, or from external events. This risk encompasses all exposures faced by the Company's functions in the course of conducting the Company's business, including but not limited to, accounting and financial reporting, business continuity, claims management, information technology and data processing, legal and regulatory compliance, outsourcing and reinsurance. The company is exposed to the following types of operational risk:

Type	Description
Business Disruption & Systems Failure	Interruption of business activity due to system or communication failures
Financial Integrity & Reporting	Disclosure of materially incorrect or untimely information
External Fraud	Acts intended to defraud, misappropriate property or circumvent the law by an external party
Internal Fraud	Acts intended to defraud, misappropriate property or circumvent the law by an internal party
Process Risks	Failure to execute or process transactions timely and accurately with clients and other counterparties
Clients, Products and Business Practices	Lack of productivity and poor customer service

As a result of significant operational improvements adopted during the year, the Company has identified a few cases of fraudulent past incidents related with TIIs and has taken all necessary steps to remediate this.

C.5.1 Risk Assessment/Measurement

GCLI measures operational risk through the following:

- a qualitative assessment of operational risks is performed at least once a year during which potential sources of risk are identified, then a frequency severity assessment is performed both before and after any risk mitigation/control actions taken thus measuring inherent and residual risk.
- a quantitative assessment based on the standard formula.

C.5.2 Risk Concentration

Currently there are no material operational risk concentrations.

C.5.3 Risk Mitigation

The Company addresses its operational risk through the following:

- an Operational Risk Policy is in place to ensure that operational risks are properly identified, recorded, addressed and controlled

- an Outsourcing Policy is in place to minimise the operational risks that result from outsourcing
- an internal control system is in place
- a business continuity plan is in place to ensure continuity and regularity in the performance of activities
- Regular Internal Audit
- Performance management and reviews to ensure employees are satisfied with their work and perform to the best of their abilities
- Legal advice is sought at the earliest opportunity from specialised lawyers
- Peer review of material work and appropriate underwriting, claims and other authority limits in place
- Insurance against property damage that could cause business disruption

C.5.4 Risk Sensitivity

As part of the business and capital planning processes, the risk management function carries out stress tests to feed into the ORSA. With regards to operation risk, the impact of a reputational damage scenario (e.g. related other group companies, fraud) leading to 30% mass lapses on the in-force portfolio and 30% lower new business volumes is assessed.

The results of the testing above indicated that the company is sufficiently capitalised and able to withstand such extreme operational loss event and maintain a strong solvency position in excess of its risk appetite.

D. Valuation for solvency purposes

D.1 Assets

D.1.1 Value of assets

All assets and liabilities, listed in the Table below are valued in accordance with the Solvency II Framework. Assets and liabilities are valued on the assumption that the Company will pursue the business as a going concern. No changes in the valuations methods occurred during the year under review.

The Company does not have any intangible assets or off-balance sheet assets or liabilities.

Assets	Solvency II Valuation	
	2018 (€'000)	2017 (€'000)
Investments	73,107	78,144
Deferred Tax Asset	330	330
Reinsurance Assets	5,677	3,945
Property	4,591	4,650
Goodwill	0	0
Other Assets	36,076	25,620
Total Assets	119,782	112,689

D.1.2 Description of bases, methods and main assumption used for valuation for solvency purposes

Investments

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.

Deferred Tax Assets

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that taxable profit will be available against which these deferred tax assets can be utilised.

Reinsurance Recoverables

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.

Properties

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.

D.1.3 Differences between IFRS and Solvency II valuation

The differences between the IFRS and Solvency II valuation of the key assets are described in detail below:

Intangible assets

Under IFRS, intangible assets are measured at cost less their accumulated amortisation and where applicable, possible impairment. Global Capital mainly recognises computer software which relates to the Company's policy administration system and value of in-force business ("VOIFB") which 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.

Under Solvency II, an intangible asset other than goodwill is only recognised at a value not equal to zero if it can be sold separately and the undertaking can demonstrate the existence of a market value for the same or similar assets. The Company considers that both the VOIFB and computer software do not meet the conditions established in the Solvency II regulations for market value recognition, and therefore are reported at a zero value.

Property, plant & equipment held for own use

In accordance with Solvency II criteria, property, plant & equipment must be measured at fair value. Under IFRS, property, plant, and equipment for own use is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. This value has been considered as its fair value under Solvency II and therefore no adjustment to the valuation was needed.

Investments (other than assets held for index-linked and unit-linked contracts)

All investments must be measured at fair value on the Solvency II balance sheet, regardless of the accounting portfolio under which they are classified. The determination of fair value is performed by following the same procedures and methodology used for determining fair value based on IFRS 13.

IFRS 13 defines fair value as the price received in exchange for an asset or paid for transferring a liability during an orderly transaction between market participants at the valuation date. In a fair value valuation, the transaction should take place in the main asset or liability's market, and where this does not exist, in the most advantageous market. Valuation techniques appropriate to the circumstances for which there is sufficient data to conduct a fair value measurement must be used, maximizing the use of relevant observable variables while minimizing the use of variables which cannot be observed.

In order to increase the coherence and comparability of the fair value measurements, IFRS 13 establishes a fair value hierarchy making it possible to classify the valuation technique variables used to determine fair value in three different levels.

Although not all assets and liabilities may have available observable market transactions or information, in any case the purpose of a fair value appraisal is always the same: estimate the price for an orderly transaction for selling or transferring the liability between market participants at the valuation date in present market conditions.

Under "Investments", based on the Solvency II balance sheet, the following investments are included:

• **Property (other than for own use)**

In accordance with Solvency II criteria, properties which are not considered for own use and are used to earn payments, capital gains or both must be measured at fair value.

Under IFRS, such properties are valued at its appraisal value, determined by an external, independent and qualified architect.

The appraisal value has been considered as its fair value under Solvency II and therefore no adjustment to the valuation was needed.

• **Holdings in related companies**

In accordance with Article 212 of the Solvency II Directive 2009/138/EC, related parties and subsidiaries are companies in which there is an investment or over which there is a dominant or significant influence.

Wherever possible, investments in related companies are measured at their listed prices on active markets as regards the Solvency II balance sheet.

• **Equities, bonds and collective investment undertaking**

Equities and collective investment undertakings

Equities and collective investment undertakings are recognised at fair value on the financial statements and therefore do not reflect valuation differences in comparison with the Solvency II values.

Bonds

Under IFRS, accrued interest for bonds is accounted for as “Any other assets, not elsewhere shown”, whilst the Solvency II value of the bonds is equal to the market value.

Reinsurance recoverables

Reinsurance recoverables represent the difference between Gross and Net provisions. On a solvency II valuation these are valued on a best estimate basis.

Receivables (trade, not insurance)

This heading includes operational receivables, which are not involved in insurance transactions, and therefore are not reflected in the above two sections. For the purposes of the Solvency II balance sheet, these were valued in accordance with IFRS, based on their face value.

Any other assets, not elsewhere shown

The difference between the IFRS value and the Solvency II value of €352k relates to the accrued interest of bonds, which under IFRS is accounted for under “Any other assets, not elsewhere shown”.

D.2 Technical provisions

D.2.1 Value of Technical Provisions

The value of the Company’s technical provisions is equal to the sum of the best estimate and the risk margin, which are calculated separately. The table below shows the value of technical provisions as at 31 December 2018 both gross and net of reinsurance (RI) recoverables by line of business.

€'000 _s	INSURANCE WITH PROFIT PARTICIPATION	UNIT-LINKED INSURANCE	OTHER LIFE INSURANCE	TOTAL
Gross Best Estimate	70,700	8,169	1,751	80,621

Risk Margin	5,241	526	147	5,914
GROSS TECHNICAL PROVISIONS	75,941	8,696	1,898	86,535
RI Recoverables	-	1,373	4,304	5,677
NET TECHNICAL PROVISION	75,941	7,323	- 2,406	80,857

D.2.2 Description of the bases, methods and main assumptions used

The best estimate corresponds to the probability-weighted average of future cash-flows, taking account of the time value of money, using the risk-free interest rate term structure prescribed by EIOPA for the valuation date.

The estimated future cash flows take account of all the cash inflows and outflows that are expected to be required to settle the insurance obligations over the lifetime thereof, including expenses expected to be incurred in servicing these obligations.

The estimates take account of the uncertainties surrounding the cash flow projections.

Future policyholder behaviour relating to contractual options, namely the likelihood of policy lapse during the remaining period is duly considered where applicable.

The projected future cash flows are based on the Company's past experience and the actuary's expectations regarding the future cash flows that are expected to arise from the underlying insurance contracts.

The best estimate is calculated on a gross basis i.e. without deduction of the amounts recoverable from reinsurance contracts and on a net basis.

D.2.2.1 Insurance with profit participation

For the Insurance with profit participation policies the best estimate liability (BEL) set up has been derived from the accumulated account value of each policy as at 31.12.2018 and the present value of the expected future cashflows related to these policies. The cash flow projections are performed on a best estimate basis (i.e. without any prudence margins) and discounting is performed using the EUR risk free curve (with no volatility adjustment) as at the valuation date, published by EIOPA.

D.2.2.2 Unit-Linked Insurance

For the Unit-Linked Business the best estimate liability (BEL) set up has been derived from the value of the units allocated to the policies that were in force on the valuation date and the present value of the expected future cashflows related to these policies. The cash flow projections are performed on a best estimate basis (i.e. without any prudence margins) and discounting is performed using the EUR risk free curve (with no volatility adjustment) as at the valuation date, published by EIOPA.

D.2.2.3 Other Life Insurance

The BEL for Other Life Insurance is calculated as the expected present value of all future cashflows arising in relation to other life insurance policies (premiums, expenses, claims etc.). The cash flow projections are performed on a best estimate basis (i.e. without any prudence margins) and discounting is performed using the EUR risk free curve (with no volatility adjustment) as at the valuation date, published by EIOPA.

D.2.3 Risk Margin

The Risk Margin is designed to ensure that the value of technical provisions is equivalent to the amount that a third undertaking would be expected to require in order to take over and meet the Company's insurance obligations. The risk margin is calculated by determining the cost of providing an amount of eligible own funds equal to the SCR necessary to support the Company's

reinsurance obligations over their lifetime thereof. This rate, called the Cost-of-Capital, is prescribed at 6%.

D.2.4 Recoverables

Reinsurance recoverables represent the difference between Gross and Net best estimates. A reduction of reinsurance recoverables has been made to allow for expected losses due to the default of a counterparty.

D.2.5 Description of the level of uncertainty associated with the value of technical provisions

Uncertainty relates primarily to how future actual experience will differ from the best estimate assumptions used to calculate the technical provisions. The key assumptions are expenses, lapse rates, mortality rates. A robust assumption setting process, which includes the performance of experience investigations on at least an annual basis, is followed in order to ensure the uncertainty is well understood and minimised. The comparison of best estimates against experience, the checks on data and controls incorporated throughout the valuation process further reduce the level of uncertainty

D.2.6 Differences between IFRS and Solvency II valuation

Lower technical provisions emerge under Solvency II as prudence margins are removed from the assumption basis and there is a shift to a best estimate approach. Moreover, the removal of zeroization of negative reserves and allowance of future profits, result in further reduction of the net technical provisions.

Furthermore, Solvency II technical provisions include the Risk Margin which is explained in section D2.3 above.

The differences are summarised as follows in €'000s:

NET TECHNICAL PROVISIONS (€'000s)	INSURANCE WITH PROFIT PARTICIPATION	UNIT-LINKED INSURANCE	OTHER LIFE	TOTAL
Solvency II	75,941	7,323	-2,406	80,857
IFRS	68,610	12,789	3,677	85,075
DIFFERENCE	7,331	-5,466	-6,083	- 4,218

D.2.7 Other Information

GCLI has not used any of the following:

- The volatility adjustment referred to in Article 77d of Directive 2009/138/EC
- The transitional risk-free interest rate-term structure referred to Article 308c of Directive 2009/138/EC
- The transitional deduction referred to in Article 308d of Directive 2009/138/EC

D.3 Valuation of other liabilities

Other liabilities include trade payables and accruals and deferred income which stand at equal values under both SII and IFRS reporting.

D.4 Any other information

Disclosure of any other material information regarding the valuation of assets and liabilities for solvency purposes.

E. Capital Management

E.1 Own Funds

E.1.1 Objectives, policies and processes employed for managing its own funds

The objective of capital management is to maintain, at all times, sufficient own funds to cover the SCR and MCR with an appropriate buffer. These should be of sufficient quality to meet the eligibility requirements in Article 82 of the Delegated Regulation. The Company holds regular meetings of the Executive Committee and BoD level, which are at least quarterly, in which the ratio of eligible own funds over SCR and MCR are reviewed. As part of own funds management, the Company prepares annual solvency projections and reviews the structure of own funds and future requirements. The business plan, which forms the base of the ORSA, contains a three-year projection of funding requirements and this helps focus actions for future funding.

E.1.2 Information on the structure, amount and quality of own funds at the end of the reporting period and at the end of the previous reporting period

The following table shows the structure of own funds as at 31 December 2018 and 2017:

OWN FUNDS (€000 _s)	DEC-18	DEC-17
Ordinary share capital	9,170	9,170
Preference shares	800	800
Reconciliation reserve	15,757	15,480
An amount equal to the value of net deferred tax assets	330	330
Other Own Funds	-	-
TOTAL BASIC OWN FUNDS	26,058	25,780

E.1.3 Eligible amount of own funds to cover SCR & MCR

The composition of Own Funds as at 31.12.2018 and the classification into tiers is shown below:

ELIGIBLE OWN FUNDS €'000	TOTAL	TIER 1	TIER 2	TIER 3
Ordinary share capital (net of own shares)	9,170	9,170		
Preference shares	800		800	
Deferred tax assets	330			330
Reconciliation reserve	15,757	15,757		
Other own funds not specified above	0	0	0	0
TOTAL ELIGIBLE OWN FUNDS	26,058	24,927	800	330

All of the above own funds items are eligible to cover the SCR. However, the deferred tax asset being classified as tier 3 is not eligible to cover the MCR.

As shown above, own funds are mostly composed of Tier 1 ordinary share capital and retained profits and this is not expected to change over the projection horizon. Consequently, these own funds items have no maturity or call dates and therefore their duration expands beyond the duration of liabilities

E.1.4 IFRS Equity vs Own Funds

The following summary table shows the comparisons and movement in the IFRS and Solvency II valuation of assets, liabilities and Own Funds.

	IFRS €'000s	SOLVENCY II €'000s	MOVEMENT €'000s
Total Assets	134,633	119,782	14,851
Total Liabilities	105,721	93,724	11,996
Total Own Funds	28,913	26,058	2,855

The movement in the valuation of assets and liabilities arises from the differences in the valuation of IFRS and Solvency II standards, below:

- Deferred Acquisition Cost (DAC) is not included under Solvency II
- Differences in gross technical provisions and reinsurance recoverables (as explained in the previous section)
- Recalculation of the deferred tax asset to allow for the tax associated with the different profits recognised in the Solvency II balance sheet.

E.1.5 Plans to raise additional own funds

On the basis of the projections made in the ORSA, the BoD of GCLI is confident that according to its corporate strategy, sufficient profits will emerge over the projection horizon to cover for the increasing capital requirements as the volume of business increases. The BoD confirms that the Company is sufficiently capitalised and that the risk of a potential insolvency over the business projection horizon is immaterial.

Although based on the above projections the Company is sufficiently capitalised, realistic plans as to how to raise additional capital if and when required are in place and are described below.

– Access to capital markets

The intermediate parent company of GlobalCapital Life Insurance is GlobalCapital Plc, a listed entity on the Malta Stock Exchange. Being a public entity leads to creation of additional financing sources, enhanced visibility and credibility of the business and provides the resources for the business as it needs to grow. Being listed significantly increases the Company's profile. It highlights the Company's ambitions, organisational structure and financial strength as part of meeting the required quality standards and transparency objectives. The benefits of better visibility and reputation is often quoted by issuers as an important impact towards its network of suppliers and providers, and is also used to expand business activities with existing clients and new prospects.

– Dependence on a particular investor base, investors or other members of the group

Investar plc is GlobalCapital Plc's single largest shareholder, which in its capacity remains committed to support the financial needs of the life company.

– Impact of other undertakings seeking to raise own funds at the same time (at solo and parent level)

On 12 April 2019, the directors of GlobalCapital Financial Management ('GCFM'), a fellow subsidiary, resolved to increase the issued share capital of GCFM through the capitalisation of an amount due to the intermediate parent company. This capitalisation will contribute to the maintenance of own funds balance at the level which should be equal to or in excess of its capital resources requirement. All other undertakings forming part of the Group are adequately capitalised and based on the projected horizon, the need is not foreseen to raise capital to sustain the intended growth plans.

– Ability to raise own funds of an appropriate quality and in an appropriate timescale

The Company remains adequately capitalised over the projected horizon.

– The Group may also consider the following options to raise own funds which may be used to fund capital requirements of the life company:

- Disposal of group property assets owned by the intermediate parent
- Issuance of different classes of new Ordinary Shares
- Issuance of new plain vanilla bonds
- Issuance of bond with a convertibility option into ordinary shares
- Issuance of redeemable preference shares with convertibility options
- Shareholder loans

E.2 Solvency Capital Requirement and Minimum Capital Requirement

E.2.1 Amounts of SCR and MCR

As at 31 December 2018 the SCR of GCLI was calculated at €15,502K and the MCR at €3,876K.

E.2.2 Breakdown of SCR by risk modules

The following table shows the SCR split by risk modules:

SOLVENCY CAPITAL REQUIREMENT	€'000s
Market risk	17,755
Counterparty default risk	1,778
Life Underwriting risks	5,817
Health underwriting risk	0
Non-Life underwriting risk	0
Sum of risk components	25,350
<i>Diversification effects</i>	<i>-4,739</i>
Diversified risk	20,612
Intangible asset risk	0
Basic SCR	20,612
Operational risk	753
Adjustments	-5,863
SCR	15,502

E.2.3 Simplifications

No simplifications have been used for any of the modules or sub-modules of the SCR.

E.2.4 Undertaking-specific parameters

GCLI has not used undertaking-specific parameters for any of the parameters of the standard formula.

E.2.5 Information on the inputs used to calculate the MCR

The inputs used in the calculation of the MCR are presented in the table below:

MINIMUM CAPITAL REQUIREMENT	€'000s
Linear MCR	3,255
SCR	15,502
MCR cap	6,976
MCR floor	3,876

Combined MCR	3,876
Absolute floor of the MCR	3,700
MCR	3,876

E.3 Non-compliance with the MCR and non-compliance with the SCR

E.3.1 Non-compliance with the MCR & SCR

GCLI has been continuously compliant with the both the MCR and the SCR throughout the year.

E.3.2 Any reasonably foreseeable risk of non-compliance with the MCR or SCR

Based on the projections of the solvency position performed as part of the ORSA and on the resilience the Company has shown to the stress tests performed, there is no reasonably foreseeable risk of non-compliance with the MCR or SCR.

E.3.3 Plans to ensure compliance with SCR and MCR is maintained

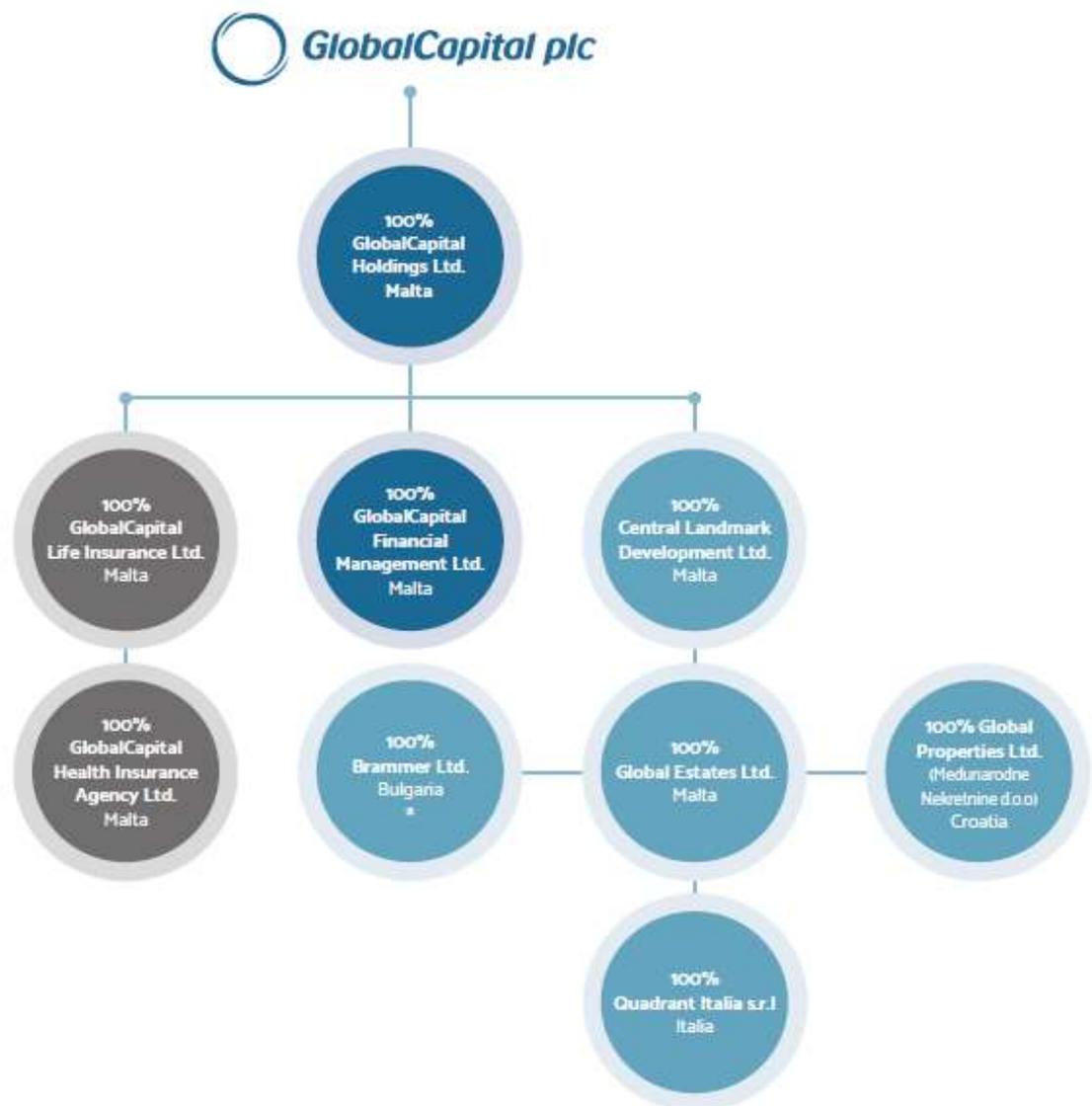
GCLI will closely monitor actual experience compared to what was assumed in the ORSA projections. Should any material deviation occur, an investigation will take place to identify the underlying source and take corrective actions.

Moreover, ORSA projections will continue to be performed every year so as to ensure each and every year that the business strategy of the Company will be in line with its target solvency ratio.

Despite being sufficiently capitalised (based on the above projections), a medium-term capital management plan has been developed which includes realistic plans as to how to raise additional capital if and when required.

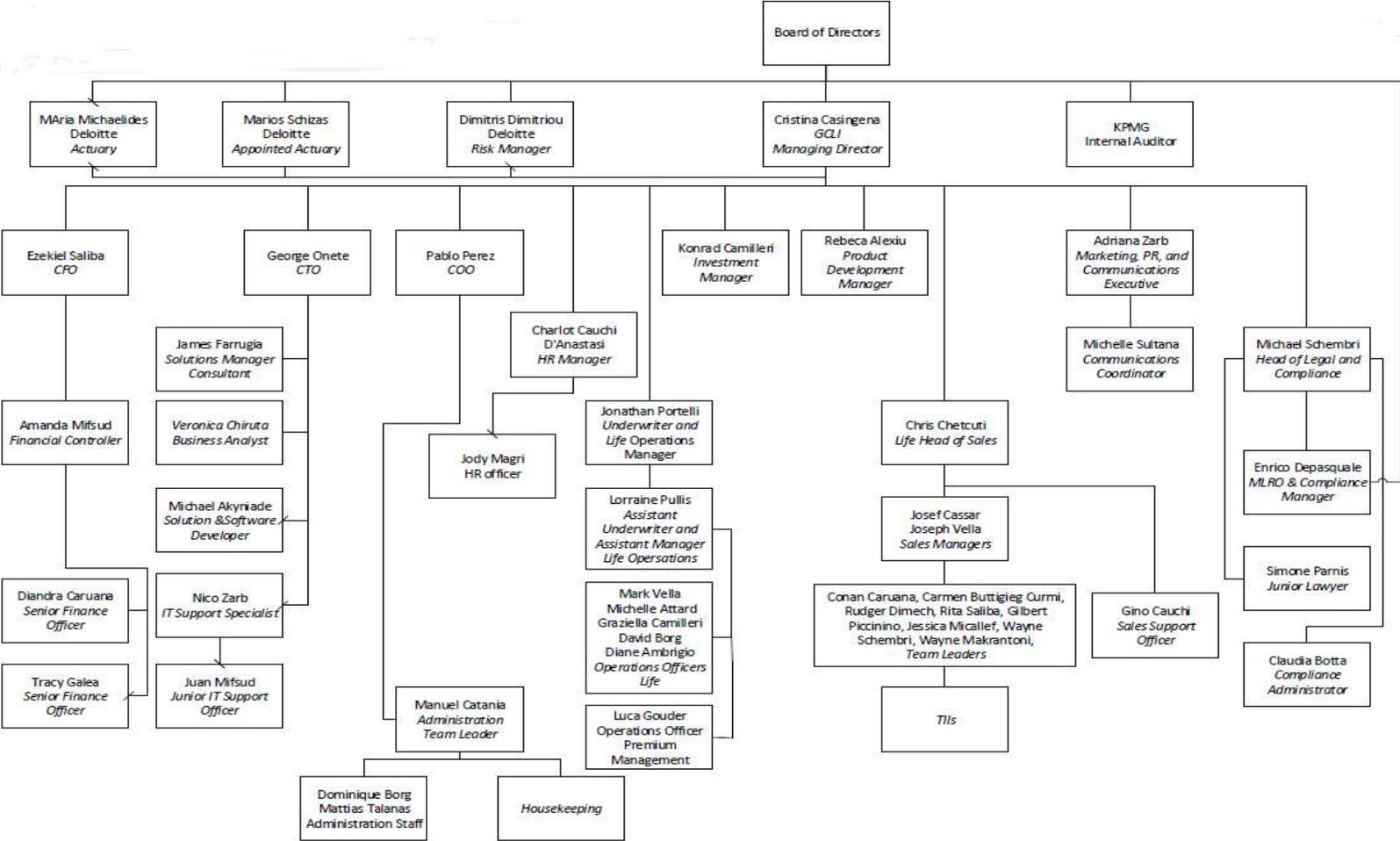
APPENDICES

Appendix A: GlobalCapital Group Structure



* Liquidated after year-end.

Appendix B: GCLI Organisational Structure



Appendix C: Quantitative Reporting Templates (QRTs)

- S.02.01 – Balance sheet
- S.12.01 – life and health SLT Technical Provisions
- S.17.01 – non-life Technical Provisions
- S.23.01 - own funds
- S.25.01 – SCR for Standard Formula
- S.28.01 – MCR only life or only non-life

- S.05.01 – premiums claims and expenses by LOB
- S.05.02 – premiums claims and expenses by country
- S.19.01 – non-life insurance claims information
- S.22.01 – impact of long term guarantees and transitional measures