

# ***GlobalCapital plc***

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## **FINANCIAL ANALYSIS SUMMARY GlobalCapital plc**

**June 2017**



**Calamatta Cuschieri**  
INVESTMENT ADVISORS & STOCKBROKERS

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The Directors  
GlobalCapital plc  
Testaferrata Street  
Ta' Xbiex, XBX 1403  
Malta

20<sup>th</sup> June 2017

Dear Sirs,

**GlobalCapital plc - Financial Analysis Summary**

In accordance with your instructions, and in line with the requirements of the Listing Authority Policies, we have compiled the Financial Analysis Summary "FAS" set out on the following pages and which is being forwarded to you together with this letter.

The purpose of the financial analysis is that of providing an update by means of summarising key financial data appertaining to Global Capital p.l.c ("the issuer") in relation to the €10 million Unsecured 5% Bonds 2021 issuance programme in 2016. The data is derived from various sources or is based on our own computations as follows:

- (a) The forecast data for the financial year ending 2017 has been extracted from the forecast financial information provided by the management of the Issuer and Guarantor.
- (b) Our commentary on the results of the Issuer and on its financial position is based on the audited statutory financial statements and assisted by management of the issuer.
- (c) The ratios quoted in the Financial Analysis Summary have been computed by us applying the definitions set out in the "Glossary and Definitions" section of the Analysis.
- (d) The principal relevant market players listed in the "Comparative Analysis" section of the document have been identified by management. Relevant financial data in respect of competitors has been extracted from public sources such as the web sites of the companies concerned or financial statements filed with the Registrar of Companies.

The FAS is meant to assist potential investors by summarising the more important financial data set out in the Prospectus. The Analysis does not contain all data that is relevant to potential investors and is meant to complement, and not replace independent financial and/or investment advice. The FAS does not constitute an endorsement by our firm of the listed bonds that the issuer has outstanding on the Official List of the Malta Stock Exchange and should not be interpreted as a recommendation to invest in the Bonds. We shall not accept any liability for any loss or damage arising out of the use of the FAS and no representation or warranty is provided in respect of the reliability of the information contained in the updated FAS. Potential investors are encouraged to seek professional advice before investing in the bonds.

Yours sincerely,



Nick Calamatta  
Director

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## 1. Scope of Analysis

In line with the Listing Authority Policies of the MFSA, this Financial Analysis Summary “FAS” represents an update to the one originally published on the 12<sup>th</sup> May 2016 as part of the prospectus in relation to the issue of the €10 million Unsecured 5% Bonds 2021 issuance programme in 2016. The scope of this FAS is to provide an update on the performance and financial position of Global Capital p.l.c (“the issuer”).

## 2. Information about the Issuer

### 2.1 Issuer’s key activities

The principal object of the Issuer is to carry on the business of a holding and investment company. The Issuer does not itself undertake any trading activities. Accordingly, the Issuer is economically dependent on the financial and operating performance of the business of its subsidiaries. The Issuer operates exclusively in and from Malta. The Subsidiaries operate primarily in the following business sectors:

- i. Business of insurance;
- ii. Investment and advisory services;
- iii. Insurance intermediation activities; and
- iv. Property holding and management

### 2.2 Directors and Executive Management

#### ***The Board***

The Board of Directors of the Issuer is composed of the following persons:

Name	Role
Prof. Paolo Catalfamo	Non-Executive Director and Chairman
Prof. Andrea Gemma	Non-Executive Director
Dr. Joseph Del Raso	Non-Executive Director
Mr. Reuben Zammit	Executive Director
Mr. Joseph Schembri	Non-Executive Director
Mr. Jacopo Di Stefano	Non-Executive Director
Mr. Luca Galli	Non-Executive Director

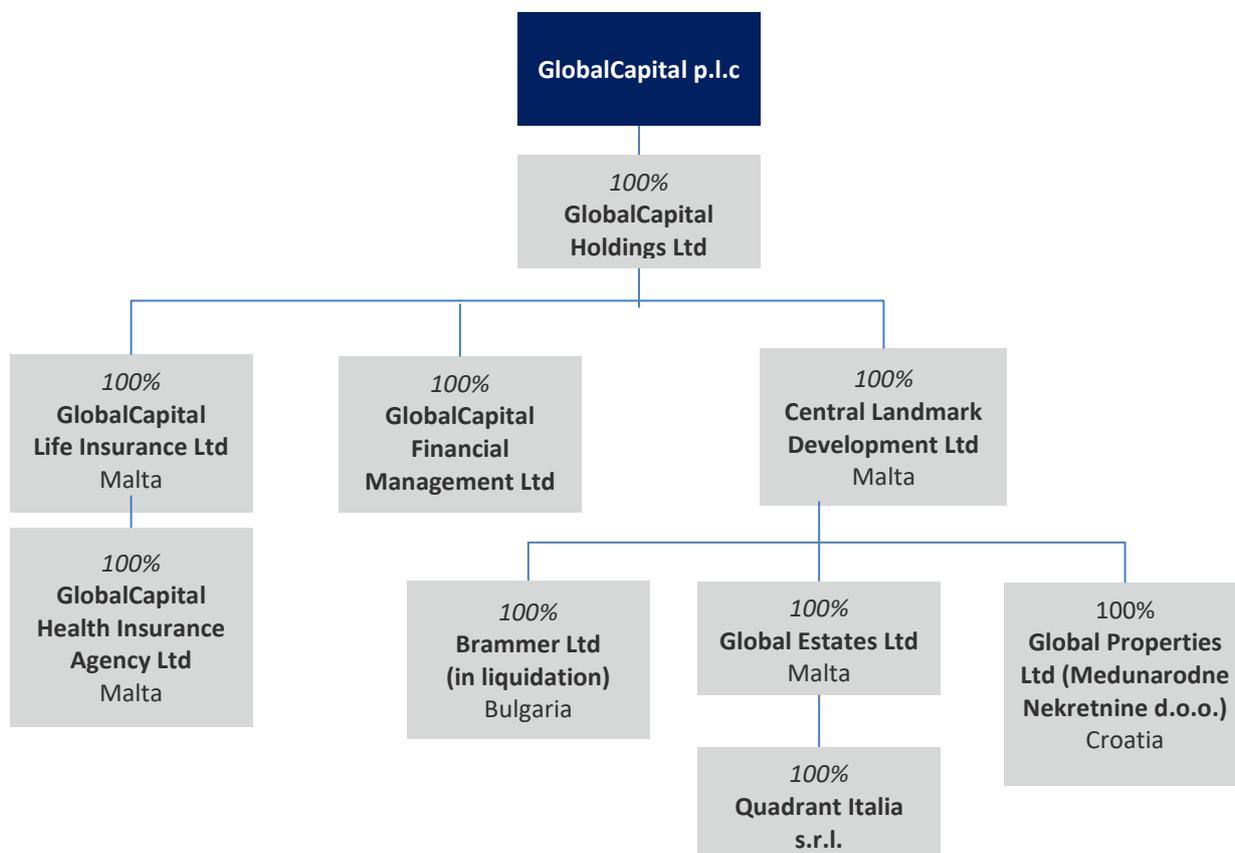
### **Group Executive Management**

The Executive Committee is vested with responsibility for the Group’s day-to-day business and the implementation of the strategy set out by the Directors. The members of the Executive Committee are employed on an indefinite basis with the Company. The Executive Committee is chaired by the Group’s CEO and is composed of the executive heads of the Group as follows:

<b>Name</b>	<b>Designation</b>
Mr. Reuben Zammit	Chief Executive Officer
Mr. Shawn Bezzina	Chief Financial Officer
Mr. Paul Said	Chief Operations Officer
Mr. Jonathan Camilleri	Life Operations Manager

The business address of the members of the Executive Committee is that of the Issuer.

### **2.3 Group structure and major assets owned by the group.**



#### **GlobalCapital Life Insurance Ltd**

GCLI is a Company that is principally engaged in the ordinary life insurance business, industrial life assurance business and linked long-term contracts of insurance.

It provides both regular premium and single premium saving products and a range of life assurance products, including term, interest-sensitive endowment and group life policies. These products are also referred to as non-linked contracts. Earned premiums stem from interest sensitive and conventional insurance contracts.

All premiums earned relate to commitments where Malta is the country of commitment.

#### **GlobalCapital Health Insurance Agency Limited**

The principle activity of the Company is to carry on business as an agent in all classes of health insurance, in terms of the Insurance Intermediaries Act (Cap. 487).

#### **GlobalCapital Fund Management Limited**

The Company's principal activities are to provide investment, fund advisory and fund administration services in terms of the Investment Services Act (Cap. 370) as well as to execute money broking and foreign exchange trading in terms of the Financial Institutions Act (Cap. 376).

The Company sold its business portfolio to a third party during 2013 and ceased all insurance intermediary business except to the extent required to run-off previous outstanding claims. .

#### **GlobalCapital Holdings plc**

The Company's principal activity is to act as a holding company.

#### **Central Landmark Developments**

The Company's principal activity is to hold property-related investments.

#### **Brammer Ltd**

The Company's principal activity is to hold property-related investments in Bulgaria.

#### **Global Estates Ltd**

The Company's scope is to serve as a holding company.

#### **Quadrant Croatia (Globe Properties Ltd)**

The Company's principal activity is to hold property-related investments in Croatia.

#### **Quadrant Italia s.r.l.**

The Company's principal activity is to hold property-related investments in Italy. The main property of which relates to a castle held in the province of Rieti.

### **3. Recent important events in the development of the company**

On 15 October 2015, Investar acquired 1,180,000 Ordinary Shares from Aberdeen Asset Management p.l.c, which represented 8.93% of the issued Ordinary Shares of the Company.

On 1 April 2016, GlobalCapital plc announced the results of the Rights Issue. The Company revealed that a total of 1,618,396 Rights, offered at the nominal price of €0.291172 per share, were taken up. The remaining 15,174,056 Rights that were not taken up (i.e. the Lapsed Rights) were subsequently all taken up by Eligible Shareholders at prices ranging between a high of €0.35 and a low of €0.2915 per share for a total value of €4,424,257.81. As a consequence the Company's issued share capital increased by 127% to 30,000,000 shares.

On the 13 May 2016, the Board of Directors announced that they had submitted an application to the Listing Authority requesting the admissibility to listing on the official list of the Malta Stock Exchange of €10,000,000 5% Bonds 2021. Following regulatory approval, a further supplement dated 30 May 2016 was issued extending the offering period. In its announcement dated 8 June 2016 the Company communicated that the issue was oversubscribed. The issue was admitted to listing on the Malta Stock Exchange on 13 June 2016 and commenced trading on the 15 June 2016. The proceeds generated from the equity and debt issues were used to settle both principal and interest of the 5.60% bond that matured on 2 June 2016, the principal amount of which amounted to €13.8M.

## **4. Review of Business Activities**

### ***4.1 Consolidated results***

GlobalCapital plc.'s consolidated results registered pre-tax earnings for the year amounting to €2.8M compared to €5.6M in 2015. The results include a significant reduction in fair value gains on the Group's financial and property investment portfolios amounting to €1.4M for the year compared to €7.3M as at the end of the previous reporting period.

Group assets increased by 11.9% from €101M at 31 December 2015 to €113.1M as at 31 December 2016 whereas shareholder funds more than doubled and this through a combination of the increase in share capital and other reserves. The Group's net asset value at end of the year stood at €15.1M (2015: €7.3M).

### ***4.2 Strategic Direction***

During the financial year 2016, the Board of Directors embarked on consolidating the Company's position in the local market by strengthening its financial base through a capitalisation, debt restructuring, the repayment of the maturing bond and strengthening the financial operating results of its subsidiaries. The latter together with the positive results reported over the last four consecutive reporting periods led to a significant improvement in the Group's debt to equity ratio which reduced from 188% as at end December 2015 to 64% as at end of the current reporting period.

The strategic objectives of the Group are to:

- strengthen its operational efficiencies;
- enhance the financial strength and resilience of its business model;
- focus on profitable and flexible products and solutions;
- improve its position in the local insurance market;
- passport insurance products in other EU jurisdictions;
- invest in the Group's brand whilst building on its reputation;
- attract and retain qualified human resources;
- create a dynamic organisation encouraging personal and career development;
- align the goals of Management and employees with those of the Company's shareholders;
- maintain the highest standards of corporate governance; and
- provide customers with security and peace of mind in both their insurance and investment needs.

While retaining its primary focus on its existing insurance business, the Issuer's growth strategy for the future includes a re-focus on asset management and unit-linked life insurance business. The Group will continue its efforts to divest itself of its portfolio of investment properties.

### **4.3 Update on subsidiaries**

#### **GlobalCapital Life Insurance Limited**

GlobalCapital Life Insurance Limited ('GCLI') registered a profit before taxation for the year ended 31 December 2016 of €3.5M compared to €5.5M in the prior year. GCLI's total comprehensive income for the year recorded a significant improvement, closing at €6.9M compared to €5.4M at end 2015.

The net assets of GCLI increased by 18.6% from €20.8M as at the end of 2015 to €24.6M as at the end of the current reporting period.

The life insurance company continued registering significant growth in all lines of business, mainly protection and unit linked. Gross written premium for the year amounted to €10.7M compared to €9.3M at the end of the comparative period, an increase of 15% year on year. Claims incurred net of reinsurance remained in line with those of the prior year. GCLI has also intensified its efforts to recapture an amount of maturing business, which it completed successfully.

An important part of the 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. Global Capital's results are sensitive to the volatility in the market value of these investments, either directly because they bear the investment risk, or indirectly because they earn management fees for investments managed on behalf of policyholders. Throughout 2016, investment conditions remained quite challenging with the persisting low interest rate environment. The low yields generated on GCLI's investment portfolio adversely impacted the profitability for the year as they resulted in a 28% increase in the interest sensitive non unit reserve on the prior reporting period.

GCLI continued to undertake restructuring and transformation activity to align the business operations with the board approved strategy. Relentless efforts to differentiate themselves from the market started during the course of the year and will continue, with a stronger emphasis in 2017. The enhancements

made to their product suite helped facilitate improved competitiveness and marketability, thus generating positive results.

Total assets increased by 12.1% from €98.1M at 31 December 2015 to €109.9M as at the end of the current reporting period. Technical provisions increased by 11.2% from €71.1M to 78.9M. GCLI's Solvency II ratio stood at 189% as at year end compared to 180% in 2015.

GCLI's value of in-force business for 2016 registered an increase of €1.8M, in aggregate amounting to €6.9M at the end of the current year - this represents the projected future shareholder profits expected from the insurance policies in force as at year end appropriately discounted and adjusted for taxation.

The board of directors approved a 2016 bonus declaration of 2.5% for the Guaranteed Savings Bond, 3.5% for Money Plus and 3.0% (2015 – 3.75%) for all other interest sensitive products. GCLI also announced a bonus rate of 0.75% (2015 – 1.1 %) for paid up policies and committed to a terminal bonus for policies maturing during the course of 2017.

#### **GlobalCapital Health Insurance Agency Limited**

GlobalCapital Health Insurance Agency Limited registered a profit before tax of €1.1M compared to a prior period profit of €740K. The increase was driven by a sharp increase in revenue from €1.65M as at 31 December 2015 to €1.99M as at end of current reporting period together with a notable reduction in operating costs.

Net assets decreased from €3.27M as at end 2015 to €1.04M at end 2016, following a dividend distribution of €3M (2015: Nil) to its immediate parent.

#### **GlobalCapital Financial Management Limited**

The financial year ending 31 December 2016 was a challenging year for GlobalCapital Financial Management Limited ('GCFM'). GCFM experienced a significant drop in revenue, decreasing by 22% from €858K during 2015 to €667K during the current reporting period, primarily driven by a reduction in trailer fees. Moreover, GCFM's costs increased marginally, which was expected, following the decision to retain this line of business. Results were dampened by the provision charge for the year amount to €520K.

GCFM's net assets as at end of the current reporting period amounted to €772K (2015: €1.39M).

#### **Other subsidiaries**

The remaining subsidiaries within the Group, other than GlobalCapital Holdings Limited which is an investment holding company, are property holding companies carrying no operating activities. Brammer Limited is in the process of being liquidated following the sale of the properties it owned in Bulgaria. The process is expected to be completed during the course of 2017.

## 5. Performance Review and Forecasts

The objective of this section is to present the historical performance of Global Capital plc, the issuer and guarantor of the €10 million Unsecured 5% Bonds 2021. The FY2016 figures have been extracted from the latest audited financial statements together with the figures for the previous two years. Forecasted figures were provided by management for guidance going forward.

### 5.1 Income Statement Review

	2014	2015	2016	2017F
	€	€	€	€
Commission and fees receivable	2,724,420	2,568,299	2,704,144	2,639,978
Commission payable and direct marketing costs	(145,333)	(147,059)	(154,797)	(265,706)
Balance on the long term business of insurance technical account before tax	1,316,623	941,509	(2,359,112)	(212,134)
Increment in the value of in-force business	610,968	1,355,385	2,821,660	4,796,778
Staff costs	(1,170,867)	(949,264)	(994,611)	(1,597,543)
Other expenses	(1,858,397)	(1,773,405)	(1,218,904)	(1,135,917)
Investment income, net of allocation to the insurance technical account	632,402	4,265,075	2,133,463	
Investment expenses, net of allocation to the insurance technical account	(92,281)	(983,446)	(241,906)	
Finance costs, net of allocation to the insurance technical account	(983,512)	(805,841)	(651,179)	(528,922)
<b>Profit/(loss) for the year before impairment charges and fair value movements on investment properties</b>	<b>1,034,023</b>	<b>4,471,253</b>	<b>2,038,758</b>	<b>3,696,534</b>
Net gains on investment property, net of allocation to the insurance technical account	53,003	1,251,839	1,260,469	748,471
Other provisions	275,875	(116,587)	(519,513)	0
Impairment of balances due from group companies	-	-	-	
<b>Profit/(loss) before tax</b>	<b>811,151</b>	<b>5,606,505</b>	<b>2,779,714</b>	<b>4,445,005</b>
Tax (expense)/credit	(588,480)	(1,481,762)	(926,557)	(1,993,810)
Profit/(loss) for the financial year attributable to the shareholders of the company	222,671	4,124,743	1,853,157	2,451,195
<i>Other comprehensive income/(loss)</i>				
<i>Items that will not be reclassified to profit or loss</i>				
Revaluation of property, net of deferred tax	-	-	1,062,461	0
<i>Items that may be reclassified subsequently to profit or loss</i>				
Net (loss)/gain on available-for-sale financial assets	(139,063)	72,799	(45,407)	0
<b>Total comprehensive gain/(loss) for the year, net of tax, attributable to the shareholders of the company</b>	<b>83,608</b>	<b>4,197,542</b>	<b>2,870,211</b>	<b>2,451,195</b>
<b>Profit per share (cents)</b>	<b>1c7</b>	<b>15c7</b>	<b>7c1</b>	<b>8c2</b>

## 5.1.1 Changes in Technical Account

### Technical Account

The technical account represents the operations of GCLI, which is licensed to carry out the long-term business of insurance. GCLI is licenced under the Insurance Business Act.

	2015	2016	2016F	Variance	2017F
	€000	€000	€000		€000
<b>Technical account</b>					
Earned premiums, net of reinsurance	8,477	9,662	7,880	22.6%	9,829
Investment income including FV gains on investments	5,978	1,039	2,605	-60.1%	2,911
Investment contract fee income	741	871	1,272	-31.5%	1,477
Total technical income	15,195	11,572	11,757	-1.6%	14,217
Claims incurred, net of reinsurance	(9,171)	(9,309)	(7,533)	23.6%	(6,485)
Change in provisions for claims	(155)	(1,555)	0		-
Change in other technical provisions, net of reinsurance	(2,966)	(2,024)	(1,835)	10.3%	(4,503)
Net operating expenses	(1,961)	(2,569)	(2,633)	-2.4%	(3,441)
Total technical charges	(14,254)	(13,932)	(12,001)	16.1%	(14,429)
Balance on the long term business of insurance technical account before tax	942	(2,359)	(245)	-862.9%	(212)
% change:					
Earned premiums, net of reinsurance	11.8%	14%	-7.00%		1.7%
Investment income including FV gains	70.2%	(82.6%)	-56.40%		180.0%
Investment contract fee income	132.6%	17.5%	71.70%		69.6%
Total	33.1%	(23.8%)	-22.60%		22.9%
Claims incurred, net of reinsurance	9.8%	1.5%	-17.90%		(30.3%)

FY16 technical account performance was adversely affected by a sharp drop in investment income derived from fair value gains on investments. Also, despite an increase in premiums earned, this was partly offset by an increase in claims. Total technical account charges decreased by 2.26%, however this was vastly outweighed by the drop in total technical income which fell by 23.84% to result in a negative balance on the long term business of insurance technical account before tax of €2,359,112. The manner of apportionment of investment income differs between the two reporting periods and had an impact on the technical account.

## 5.1.2 Segmental Analysis

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

Year ended 31 December 2016 (€)	Investment and advisory services	Business of insurance	Agency services	Property services	Other	Eliminations	Group
<b>Segment income</b>							
Earned premiums, net of reinsurance	-	9,661,870	-	-	-	-	9,661,870
Commission and other fees receivable	671,230	-	2,032,914	-	-	-	2,704,144
Investment income	-	9,607,169	13,749	1,101	3,034,679	(6,101,131)	6,555,567
Net gains on investments at fair value through profit and loss	-	-	29,977	1,685	-	-	31,662
Net gains on investment property	-	1,484,111	-	143,075	-	-	1,627,186
<b>Total revenue</b>	<b>671,230</b>	<b>20,753,150</b>	<b>2,076,640</b>	<b>145,861</b>	<b>3,034,679</b>	<b>(6,101,131)</b>	<b>20,580,429</b>
Revenue from external customers	676,416	10,728,328	1,986,342	-	-	-	13,391,086
Intersegment revenues	9,388	3,032,940	5,774	1,101	3,034,095	-	6,083,298
Segment expenses							
Net claims incurred	-	(9,308,577)	-	-	-	-	(9,308,577)
Net change in technical provisions	-	(2,024,346)	-	-	-	-	(2,024,346)
Net operating expenses	(1,270,159)	(2,842,276)	(957,988)	(196,075)	(403,400)	101,131	(5,568,767)
Unrealised losses on investment property	-	(207,061)	-	-	(23,914)	-	(230,975)
Investment expenses	(15,574)	(36,434)	-	(2)	-	-	(52,010)
<b>Total expenses</b>	<b>(1,285,733)</b>	<b>(14,418,694)</b>	<b>(957,988)</b>	<b>(196,077)</b>	<b>(427,314)</b>	<b>101,131</b>	<b>(17,184,675)</b>
Segment profit / loss	(614,503)	6,334,456	1,118,652	(50,216)	2,607,365	(6,000,000)	3,395,754
Finance Costs	-	-	-	-	-	-	(616,040)
Group Profit before tax							<b>2,779,714</b>
Tax expense							(926,557)
<b>Profit after tax</b>							<b>1,853,157</b>
<b>Segment Assets</b>	<b>1,002,917</b>	<b>104,194,747</b>	<b>1,621,066</b>	<b>6,144,919</b>	<b>15,275,719</b>	<b>(23,819,891)</b>	<b>104,419,477</b>
Unallocated assets							8,723,779
Total Segment Assets							<b>113,143,256</b>
<b>Segment Liabilities</b>	<b>756,582</b>	<b>83,548,837</b>	<b>74,256</b>	<b>145,013</b>	<b>1,333,849</b>	<b>(8,081,759)</b>	<b>77,776,778</b>
Total Segment Liabilities							<b>20,246,686</b>
<b>Other segment items</b>							<b>98,023,464</b>
Capital expenditure	-	306,340	-	-	-	-	
Amortisation	-	140,993	-	-	59,458		
Depreciation	-	42,009	109	-	17,389		

### 5.1.3 Breakdown of Investment Income

Year ended (€)	2015	2016
<b>Investment income</b>		
Rental income from investment property	891,163	818,366
Dividends from investments:		
Dividends received from investments at FV through P/L	644,643	357,399
Dividends received from available-for-sale investments	42,450	34,617
Interest receivable from:		
investments at FV through P/L	1,202,168	1,202,152
held-to-maturity investments	355,805	321,740
other loans and receivables	22,622	5,896
Net exchange gains	71,880	-
Net gains on investment property	3,193,578	1,629,999
Gain on sale of property held for development	16,145	-
Net gains on financial investments at FV through P/L	5,004,595	-
Gain on buy-back of interest-bearing borrowings	72	-
Other income	49,418	33,204
	<b>11,494,539</b>	<b>4,403,373</b>
<b>Investment charges and finance costs</b>		
Net losses on financial investments at FV through P/L	940,967	52,636
Investment management charges	25,078	31,715
Net exchange losses	-	141,624
Interest payable on:		
Interest on bond	756,644	591,721
Amortisation charge on held-to-maturity investments	17,401	15,931
Amortisation of bond issue costs	49,197	59,458
	<b>1,789,287</b>	<b>893,085</b>
<b>Total investment return/(loss)</b>	<b><u>9,705,252</u></b>	<b><u>3,510,288</u></b>
<b>Allocated as follows:</b>		
Long term business technical account	5,977,625	1,009,441
Statement of comprehensive income	3,727,627	2,500,847
	<b><u>9,705,252</u></b>	<b><u>3,510,288</u></b>

## 6. Balance Sheet Review

### Group consolidated statement of financial position

Financial Year Ending (€)	2014	2015	2016	2017F
<b>ASSETS</b>				
Intangible assets	6,233,654	7,162,730	8,854,111	13,587,146
Property, plant and equipment	2,709,197	2,449,842	2,050,253	2,255,467
Investment property	20,395,208	15,237,008	18,664,160	18,114,152
Deferred tax asset	413	307	-	-
Other investments	51,937,471	55,580,847	58,363,399	88,412,553
Reinsurers' share of technical provisions	2,326,819	3,612,349	7,653,972	8,049,418
Taxation receivable	495,046	581,058	86,654	86,654
Property held for development	679,930	-	-	-
Trade and other receivables	1,991,047	2,555,144	3,160,841	2,736,451
Cash and cash equivalents	2,571,167	5,440,651	14,309,866	17,553,938
Non-current assets held-for-sale	156,429	8,415,000	-	-
<b>Total assets</b>	<b>89,496,381</b>	<b>101,034,936</b>	<b>113,143,256</b>	<b>150,795,779</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Capital and reserves attributable to the company's shareholders</b>				
Share capital	3,845,668	3,845,668	8,735,160	23,735,160
Share premium account	16,970,641	16,970,641	16,970,641	16,970,641
Other reserves	3,344,169	4,297,968	7,149,101	11,945,879
Investment reserve	-	-	-	-
Accumulated Losses	(20,997,931)	(17,754,188)	(17,735,110)	(18,560,095)
<b>Total equity</b>	<b>3,162,547</b>	<b>7,360,089</b>	<b>15,119,792</b>	<b>34,091,586</b>
Technical provisions				
<i>Insurance contracts</i>	44,971,497	49,383,544	54,517,077	57,521,864
<i>Investment contracts with DPF</i>	17,369,207	17,030,087	17,564,138	19,062,543
<i>Investment contracts without DPF</i>	3,467,840	4,651,692	6,913,657	21,242,011
<i>Provision for claims outstanding</i>	256,782	444,557	1,188,194	1,151,939
Interest bearing borrowings	14,027,626	13,801,023	9,715,830	9,715,830
Deferred tax liability	2,079,702	3,104,849	2,099,185	2,099,185
Trade and other payables	3,921,051	5,211,363	5,972,928	5,858,365
Current tax liabilities	240,129	47,732	52,455	52,455
<b>Total liabilities</b>	<b>86,333,834</b>	<b>93,674,847</b>	<b>98,023,464</b>	<b>116,704,192</b>
<b>Total equity and liabilities</b>	<b>89,496,381</b>	<b>101,034,936</b>	<b>113,143,256</b>	<b>150,795,779</b>

## 7. Cash Flow Statement Review

Financial Year Ending (€)	2014	2015	2016	2017F
Cash (used in)/generated from operations	(1,395,214)	985,106	2,670,795	3,776,209
Dividends received	359,777	687,093	392,016	776,018
Interest received	1,478,592	1,151,276	1,902,581	1,842,574
Interest paid	(934,315)	(756,644)	(591,721)	(501,953)
Tax paid	(94,451)	(563,272)	(1,408,337)	(349,076)
<b>Net cash (used in)/generated from operating activities</b>	<b>(585,611)</b>	<b>1,503,559</b>	<b>2,965,334</b>	<b>5,543,772</b>
Purchase of intangible assets	(819,873)	(51,456)	-	(124,700)
Purchase of property, plant and equipment	(6,959)	(26,515)	(148,914)	
Purchase of investment property	(173,910)	(62,526)	(156,846)	(425,000)
Purchase of financial assets at fair value through profit or loss	(8,435,057)	(6,840,829)	(8,962,441)	(16,750,000)
Proceeds on maturity of held-to-maturity investments	-	725,352	500,179	-
Proceeds from disposal of investments at fair value through profit or loss	6,615,169	6,414,776	5,470,333	-
Proceeds from disposal of available-for-sale financial assets	344,723	332,321	29,353	-
Proceeds from disposal of investment property	107,398	-	8,415,000	-
Proceeds from property classified as non-current assets held for sale	180,000	156,429	12,444	-
Proceeds on maturity of cash instruments	600,000	1,000,000	-	-
Net movement on other investments				-
loans and receivables	(11,151)	(5,827)	12,444	-
<b>Net cash (used in)/generated from investing activities</b>	<b>(1,599,660)</b>	<b>1,641,725</b>	<b>5,159,108</b>	<b>(17,299,700)</b>
Proceeds from issue of shares	-	-	4,889,492	15,000,000
Redemption of Bond	-	-	(13,823,200)	-
Net proceeds on bond	-	-	9,678,481	-
Payment for purchase of own debt	(2,386,553)	(275,800)	-	-
<b>Net cash (used in)/generated from financing activities</b>	<b>(2,386,553)</b>	<b>(275,800)</b>	<b>744,773</b>	<b>15,000,000</b>
Movement in cash and cash equivalents	(4,571,824)	2,869,484	8,869,215	3,244,072
Cash and cash equivalents at the beginning of the year	7,142,991	2,571,167	5,440,651	14,309,866
<b>Cash and cash equivalents at the end of the year</b>	<b>2,571,167</b>	<b>5,440,651</b>	<b>14,309,866</b>	<b>17,553,938</b>

During 2015, Cashflow from operating activities increased significantly from the previous year from an outflow of €1.4m to an inflow of €1.0m. This was mainly attributed to a significant improvement in profit before tax of €7.0m (€0.8 in 2014) and an increase in technical provisions as a result of higher fund values in interest sensitive products and a decrease in provisions for claims outstanding. Operating cash positions was also positively impacted by an increase in payables, up to €1.1m from €0.5m in FY 2014.

Cashflow from investing activities was positively impacted by realised fair value gains from the disposal of financial assets. Management reports that the proceeds from investments sold and cash received on maturity were then reinvested.

In the financial year 2016, cash from operating activities increased significantly to €2,965,334 in 2016 (2015: €1,503,559), boosted by a sharp increase in the cash generated from operations and interest received. Net cash generated from investing activities increased sharply to €5,159,108 in 2016 (2015: €1,641,725), boosted by the sale of property. Net cashflows from financing activities also increased to €744,773 in 2016 (2015: -€275,800) as a result of the rights issue and net proceeds from the roll-over of the outstanding debt issue. The resultant total movement in cash of €8,869,215 increased the cash and cash equivalents at the end of the year to €14,309,866.

## 8. Financial Summary and Ratio Analysis

FY Ending Apr	2014	2015	2016
	Audited	Audited	Audited
<b>Income Statement</b>			
Commission and fees receivable	€ 2,724,420	€ 2,568,299	€ 2,704,144
Balance on long term insurance tech a/c	€ 1,316,623	€ 941,509	-€ 2,359,112
Increment in the value of in-force business	€ 610,968	€ 1,355,385	€ 2,821,660
Net investment income (non-tech)	€ 632,402	€ 4,265,075	€ 2,133,463
Net gains on invest. Property (non-tech)	€ 53,003	€ 1,251,839	€ 1,260,469
Total comprehensive income	€ 83,608	€ 4,197,542	€ 2,870,211
EPS	0.017	0.157	0.071
<b>Balance Sheet</b>			
Cash and Cash Equivalents	€ 2,571,167	€ 5,440,651	€ 14,309,866
Total Assets	€ 89,496,381	€ 101,034,936	€ 113,143,256
Total Liabilities	€ 86,333,834	€ 93,674,847	€ 98,023,464
Total Equity	€ 3,162,547	€ 7,360,089	€ 15,119,792
NAV / Share	€ 0.24	€ 0.56	€ 0.50
<b>Cashflow</b>			
Cash from Operations	-€ 1,395,214	€ 985,106	€ 2,670,795
Capex	€ 6,959	€ 26,515	€ 148,914
Free Cash Flow	-€ 1,402,173	€ 958,591	€ 2,521,881
<b>Ratios</b>			
<i>Profitability</i>			
Return on Common Equity	2.6%	57.0%	19.0%
Return on Assets	0.1%	4.2%	2.5%
<i>Solvency</i>			
Solvency I Ratio	209%	304%	N/A
Solvency II Ratio	N/A	180%	189%
Debt to Capital	81.60%	65.20%	39.1%
Debt to Equity	443.5%	187.50%	64.3%
Interest Cover	1.4x	-2.7x	-1.3x

Total comprehensive income declined from €4.2m to €2.9m despite an increase in the level of commission and fees receivable and an increase in the value of in-force business. This was mainly attributable to a steep decline in the balance on long term insurance technical account and a decline in net investment income.

Following the rights issue and results of operating activities, total equity increased from €7.4m to €15.1m. Debt to Capital and Debt to Equity ratios also improved significantly on prior years as a result of capital operations.

## Interest Cover and Solvency Ratio

### Income statement summary and projections

€000	FY13	FY14	FY15	FY16	FY17P
EBIT (before FV movements)	(5,425)	(1,291)	(2,124)	(804)	148
Bond interest	<u>(934)</u>	<u>(912)</u>	<u>(775)</u>	<u>(616)</u>	<u>(500)</u>
Realised profits before tax	(6,360)	(2,203)	(2,899)	(1,420)	(352)
Tax	<u>522</u>	<u>(588)</u>	<u>(1,482)</u>	<u>(927)</u>	<u>(1,994)</u>
Realised profits after tax	(5,838)	(2,792)	(4,381)	(2,347)	(2,346)
Add: Unrealised FV gains	1,442	2,404	7,151	1,378	-
Add: Increment in VOIFB	<u>735</u>	<u>611</u>	<u>1,355</u>	<u>2,822</u>	<u>4,797</u>
Profit after tax	<u>(3,661)</u>	<u>223</u>	<u>4,125</u>	<u>1,853</u>	<u>2,451</u>
% Interest cover	(5.8x)	(1.4x)	(2.7x)	(1.3x)	0.3x

Source: Audited financial statements / Management information

The interest cover is a ratio that highlights the company's ability to meet its debt servicing obligations. The company has 0.3x ratio projected for the year ending 2017.

Management's financial projections illustrate the Group's strategy to continue to grow its insurance and asset management business through product development, growth in the sales force and by entering new markets (Italy).

This strategy is however not expected to generate significant increases in short term profitability and liquidity compared to the levels reported in FY15.

Given the nature of the business, the projected consolidated cash position does not necessarily reflect liquidity as:

- Excess liquidity is typically included in the life portfolio and invested in financial instruments
- The ability to distribute cash upwards to GC plc may be limited by regulatory capital requirements and the availability of realised retained profits at each subsidiary level

The Group's liquidity position is based primarily on realised retained earnings and regulatory capital requirements at each subsidiary level.

## 9. Comparative Analysis

The profile of Global Capital plc is very particular when compared to other listed issuers on the Malta Stock Exchange and therefore can't be compared on a like with like basis. The purpose of the table below compares the proposed debt issuance of the group to other debt instruments with similar duration. One must note that that given the material differences in profiles and industries, the risks associated with the Group's business and that of other issuers is therefore also different.

Comparative Analysis	Nominal Value (€)	Yield to Maturity (%)	Interest Cover (times)	Total Assets (€'million)	Net Asset Value (€'million)	Net Debt/Capital (%)	Net Debt/ Equity (%)
6% Simonds Farsons Cisk plc € 2017 - 2020	15,000,000	4.75%	8.3	162.6	109.5	31.2	46.3
5.8% IHI plc € 2021	20,000,000	4.21%	-0.2	1,220.3	646.8	44.6	84.1
6.6% Eden Finance plc € 2017 - 2020	13,984,000	5.86%	2.2	165.5	92.6	43.8	78.3
6.2% Tumas Investments plc € 2017 -2020	25,000,000	4.89%	2.6	181.4	81.4	48.6	108.4
6% MIH plc € 2021	12,000,000	6.00%	-0.1	277.2	131.7	51.9	109.3
5.5% MIH plc € 2020	20,000,000	4.80%	-0.1	277.2	131.7	51.9	109.3
5.5% Pendergardens Dec plc € 2020 S1	15,000,000	4.60%	1.5	63.3	11.5	47.5	261.8
6% Pendergardens Dev plc € 2022 S2	27,000,000	4.15%	1.5	63.3	11.5	47.5	261.8
5.75% Central Business Centres plc € 2021	3,000,000	4.62%	0.4	16.1	10.3	28.6	44.9
<b>5% Global Capital plc € 2021</b>	<b>10,000,000</b>	<b>5.28%</b>	<b>-1.3</b>	<b>113.1</b>	<b>15.1</b>	<b>39.1</b>	<b>64.3</b>

Source: Audited Annual Reports FY2016 / Bloomberg

Global Capital has a low amount of leverage compared to other issuers on the Malta Stock Exchange. Despite this, the bond is offering a comparatively attractive yield to maturity of 5.28% compared to the average of 4.92% among issuers listed above as at 8<sup>th</sup> May 2017.

## 10. Glossary and Definitions

<b>Income Statement</b>	
Revenue	Total revenue generated by the Group from its business activities during the financial year, that is, the operations of BCT and EQR
Operating Expenses	Operating expenses include the cost of terminal operations and management expenses in maintaining the investment property of EQR.
EBITDA	EBITDA is an abbreviation for earnings before interest, tax, depreciation and amortisation. EBITDA can be used to analyse and compare profitability between companies and industries because it eliminates the effects of financing and accounting decisions.
Profit after tax	Profit after tax is the profit made by the Group during the financial year both from its operating as well as non-operating activities.
<b>Profitability Ratios</b>	
Operating profit margin	Operating profit margin is operating income or EBITDA as a percentage of total revenue.
Net profit margin	Net profit margin is profit after tax achieved during the financial year expressed as a percentage of total revenue.
Profit before Tax (PBT)	Profit before Tax is the profit is achieved during the financial year after deducting all relevant expenses including interest expenses. This however does not include tax expense.
<b>Efficiency</b>	
Return on Equity	Return on equity (ROE) measures the rate of return on the shareholders' equity of the owners of issued share capital, computed by dividing profit after tax by shareholders' equity.
Return on capital employed	Return on capital employed (ROCE) indicates the efficiency and profitability of a company's capital investments, estimated by dividing operating profit by capital employed.
Return on Assets	Return on assets (ROA) is computed by dividing profit after tax by total assets.
<b>Equity Ratios</b>	
Earnings per share	Earnings per share (EPS) is the amount of earnings per outstanding share of a company's share capital. It is computed by dividing net income available to equity shareholders by total shares outstanding as at balance sheet date
<b>Cash Flow Statement</b>	
Cash flow from operating activities	Cash generated from the principal revenue-producing activities of the Company.
Cash flow from investing activities	Cash generated from the activities dealing with the acquisition and disposal of long-term assets and other investments of the Company.
Cash flow from financing activities	Cash generated from the activities that result in change in share capital and borrowings of the Company.
<b>Balance Sheet</b>	
Non-current assets	Non-current asset are the Group's long-term investments, which full value will not be realised within the accounting year. Non-current assets are capitalised rather than expensed, meaning that the Group allocates the cost of the asset over the number of years for which the asset will be in use, instead of allocating the entire cost to the accounting year in

	which the asset was purchased. Such assets include intangible assets (goodwill on acquisition), investment properties, and property, plant & equipment.
Current assets	Non-current asset are the Group's long-term investments, which full value will not be realised within the accounting year. Non-current assets are capitalised rather than expensed, meaning that the Group allocates the cost of the asset over the number of years for which the asset will be in use, instead of allocating the entire cost to the accounting year in which the asset was purchased. Such assets include intangible assets (goodwill on acquisition), investment properties, and property, plant & equipment.
Current assets	Current assets are all assets of the Company, which are realisable within one year from the balance sheet date. Such amounts include inventory, accounts receivable, cash and bank balances.
Current liabilities	All liabilities payable by the Company within a period of one year from the balance sheet date, and include accounts payable and short-term debt.
Net debt	Borrowings before unamortised issue costs less cash and cash equivalents.
Non-current liabilities	The Company's long-term financial obligations that are not due within the present accounting year. The Company's non-current liabilities include bank borrowings and bonds.
Total equity	Total equity includes share capital, reserves & other equity components, and retained earnings.
<b>Financial Strength Ratios</b>	
Liquidity ratio	The liquidity ratio (also known as current ratio) is a financial ratio that measures whether or not a company has enough resources to pay its debts over the next 12 months. It compares a company's current assets to its current liabilities.
Interest cover	The interest coverage ratio is calculated by dividing a company's operating profit of one period by the company's interest expense of the same period.
Gearing ratio	The gearing ratio indicates the relative proportion of shareholders' equity and debt used to finance a company's assets, and is calculated by dividing a company's net debt by net debt plus shareholders' equity.