Credit Finance Company Limited

Annual report
for the year ended 31 December 2016

Registered number: 107372

Credit Finance Company Limited

Annual report for the year ended 31 December 2016

Director's report for the year ended 31 December 2016

The director presents the annual report and the audited financial statements of Credit Finance Company Limited (the "company") for the year ended 31 December 2016.

Principal activities

Credit Finance Company Limited is registered in Gibraltar as a private company limited by shares. It was set up to provide finance on projects considered to be of benefit to the economy and the community. This includes the issue of commercial loans and the funding of pension commutations under the Pensions Act and lump sum retirement payments under the Early Exit Scheme.

Review of business and future developments

During the year, the company acquired 49% of the share capital of Shell LNG Gibraltar Limited as once this starts operating the return is expected to be in excess of 6%. This company is registered in Gibraltar as private company limited by shares.

The director is satisfied in the performance of the company and does not anticipate any change in the company's business taking place in the foreseeable future.

Results and dividends

The company's profit for the financial year is shown on page 6 and shows that the company made a profit during the current year of £2,597,094 (2015: £1,242,921).

The director does not recommend the payment of a dividend. The profit during the year of £2,597,094 (2015: £1,242,921) was transferred to reserves.

Director

The director who held office during the year and up to the date of signing these financial statements is given below:

GDC (Directors) Limited

Statement of director's responsibilities

The director is responsible for preparing the director's report and the financial statements in accordance with applicable law and regulations.

Company law requires the director to prepare financial statements for each financial year. Under that law the director has prepared the financial statements in accordance with the applicable law and Gibraltar Accounting Standards (Gibraltar Generally Accepted Accounting Practice), including Gibraltar Financial Reporting Standard 102 ('GFRS 102'), The Financial Reporting Standard applicable in Gibraltar.

Under Company law, the director must not approve the financial statements unless it is satisfied that they give a true and fair view of the state of affairs of the company and the profit or loss of the company for that period.

Director's report for the year ended 31 December 2016 - continued

Statement of director's responsibilities - continued

In preparing these financial statements, the director is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable Gibraltar Accounting Standards, including GFRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The director is responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable it to ensure that the financial statements comply with the Companies Act 2014. It is also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to auditors

At the date the director's report is approved, the director confirms:

- as far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- the director has taken all the steps that it ought to have as director in order to make itself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Independent auditors

The auditors, PricewaterhouseCoopers Limited, have indicated their willingness to continue in office and a resolution concerning their appointment will be proposed at the Annual General Meeting.

Secretary and registered office

The current company secretary is GOC (Secretaries) Limited and the registered office address is 206-210 Main Street, Gibraltar.

By order of the board,

GOC (Secretaries) Limited C · SANTOS
Company Secretary

Gibraltar,

Date 06 NOV 2018

pwc

Independent auditor's report
To the members of Credit Finance Company Limited

Report on the audit of the financial statements

Our opinion

In our opinion, the accompanying financial statements of Credit Finance Company Limited (the "company"):

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with Gibraltar Financial Reporting Standards; and
- have been properly prepared in accordance with requirements of the Companies Act 2014.

What we have audited

We have audited the financial statements of the company, which comprise:

- the balance sheet as at 31 December 2016;
- the profit and loss account for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, including a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Other information

The directors are responsible for the other information. The other information comprises the Directors' Report for the year ended 31 December 2016 (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

pwc

Report on the audit of the financial statements - continued

Other information - continued

With respect to the Directors' Report, we also considered whether the disclosures required by the Companies Act 2014 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2014 requires us also to report on certain opinions and matters as described below:

Directors' Report

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Directors' Report for the year ended 31 December 2016 is consistent with the financial statements; and
- the Directors' Report has been prepared in accordance with the requirements of the Companies Act 2014.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Directors' Report.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with applicable law in Gibraltar and Gibraltar Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

pwc

Independent auditor's report
To the members of Credit Finance Company Limited - continued

Report on the audit of the financial statements - continued

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

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern; and
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Use of this report

This report, including the opinion on the financial statements and the opinions on other matters prescribed by the Companies Act 2014, has been prepared for and only for the company's members, as a body in accordance with Section 257 of the Companies Act 2014, and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

In our opinion, based on the work undertaken in the course of the audit:

- we have received all the information and explanations we require for our audit.

Colin Vaughan
Statutory auditor
For and on behalf of
PricewaterhouseCoopers Limited
Gibraltar
6 November 2018

Profit and loss account for the year ended 31 December 2016

	Note	2016 £	2015 £
Interest income	5	**26,951,269**	27,069,575
Finance costs	6	**(22,789,447)**	(22,599,066)
Net finance income		**4,161,822**	4,470,509
Net foreign exchange gain/(loss)		**1,278,781**	(527,668)
Administrative expenses		**(22,449)**	(50,754)
Profit on ordinary activities before taxation	7	**5,418,154**	3,892,087
Tax on ordinary activities	10	**(2,821,060)**	(2,649,166)
Profit for the financial year		**2,597,094**	1,242,921

The company has no recognised gains and losses other than the profit for the financial year above and therefore no separate statement of other comprehensive income has been presented.

All items included above relate to continuing operations.

Balance sheet as at 31 December 2016

	Note	2016 £	2015 £
Fixed assets			
Investment in associate	11	**4,440,777**	-
Investments: financial asset at amortised cost	12	**60,394,138**	48,021,556
		64,834,915	48,021,556
Current assets			
Investments: financial asset at amortised cost	12	**9,215,758**	7,792,866
Debtors: amounts receivable after more than one year	13	**48,431,760**	46,439,099
Debtors: amounts receivable within one year	13	**315,350,345**	333,677,292
		372,997,863	387,909,257
Creditors: amounts falling due within one year	14	**(211,718,855)**	(126,172,484)
Net current assets		**161,279,008**	261,736,773
Total asset less current liabilities		**226,113,923**	309,758,329
Creditors: amounts falling due after more than one year	15	**(188,937,500)**	(275,179,000)
Net assets		**37,176,423**	34,579,329
Capital and reserves			
Share capital	16	**30,000,000**	30,000,000
Retained earnings		**7,176,423**	4,579,329
Total equity		**37,176,423**	34,579,329

The financial statements on pages 6 to 19 were approved and signed by the director on 06 NOV 2018

For and on behalf of
GDC (Directors) Limited A. MENA
Director

The notes on pages 10 to 19 form an integral part of these financial statements.

Statement of changes in equity for the year ended 31 December 2016

	Called up share capital £	Retained earnings £	Total £
At 1 January 2015	30,000,000	3,336,408	**33,336,408**
Profit for the financial year	-	1,242,921	**1,242,921**
At 31 December 2015	30,000,000	4,579,329	**34,579,329**
Profit for the financial year	-	2,597,094	**2,597,094**
At 31 December 2016	**30,000,000**	**7,176,423**	**37,176,423**

The notes on pages 10 to 19 form an integral part of these financial statements.

Statement of cash flows for the year ended 31 December 2016

	Note	2016 £	2015 £
Cash flow used in operating activities	17	**(2,607,173)**	(18,518,043)
Interest received from loans	13	**3,022,370**	2,756,598
Tax paid		**(3,534,231)**	(4,184,656)
Net cash used in operating activities		**(3,119,034)**	(19,946,101)
Cash flow from investing activities			
Acquisition of investment in associate	11	**(4,440,777)**	-
Loans provided to associate	11	**(1,784,167)**	-
Proceeds on the maturity of fixed rate notes	13	**22,000,000**	41,000,000
Interest received from fixed rate notes	13	**19,807,619**	21,317,117
Acquisition of investments	12	**(15,309,503)**	(23,736,637)
Cash inflow from investments	12	**5,635,309**	3,964,687
Net cash generated from investing activities		**25,908,481**	42,545,167
Cash flow from financing activities			
Interest paid on issued preference shares	15	**(22,789,447)**	(22,599,066)
Net cash used in financing activities		**(22,789,447)**	(22,599,066)
Net movement of cash and cash equivalents		-	-
Cash and cash equivalents at 1 January		-	-
Cash and cash equivalents at 31 December		-	-

The notes on pages 10 to 19 form an integral part of these financial statements.

Notes to the financial statements for the year ended 31 December 2016

1 General information

The company is registered in Gibraltar as a private company limited by shares and it is wholly owned by Gibraltar Development Corporation, a statutory body established under the Gibraltar Development Corporation Act, by virtue of its 100% ownership of the company's ordinary share capital.

Credit Finance Company Limited is a money-lending institution. It was set up to provide finance on projects considered to be of benefit to the economy and the community. This includes the issue of commercial loans and the funding of pension commutations under the Pensions Act and lump sum retirement under the Early Exit Scheme.

2 Statement of compliance

The financial statements of the company have been prepared in compliance with Gibraltar Accounting Standards, including Gibraltar Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in Gibraltar' ('GFRS 102') and the Companies Act 2014.

3 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

These financial statements are prepared on a going concern basis and under the historical cost convention.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in applying the company accounting policies. The areas which require a higher degree of judgement or complexity or where assumptions and estimates are significant to the financial statements are disclosed in note 4.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the provision of finance in the ordinary course of the company's activities. The company recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity and when specific criteria have been met as described below.

(i) Income from investments

Income from investments are recognised on an accrual basis. The amount represents the annual interest of 6.5% on the gratuities paid to the civil servants who have elected to commute a percentage of their pension that is payable under the Pensions Act and on the lump sum retirement paid to the employees under the Early Exit Scheme.

(ii) Interest income

Interest income for all interest bearing financial instruments is recognised on an accrual basis using the effective interest method.

Notes to the financial statements for the year ended 31 December 2016 - continued

3 Summary of significant accounting policies - continued

Current tax

Where necessary, provision is made at the applicable rate for corporation tax payable on the profits for the period, as adjusted for tax purposes.

Investment in associate

Investment in associate is held at cost less accumulated impairment losses.

Financial instruments

The company has chosen to adopt Sections 11 and 12 of GFRS 102 in respect of financial instruments. All of the company's financial instruments are measured at amortised cost.

(i) Financial assets

Basic financial assets are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at the effective rate of interest. Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment or bad debt. If an asset is impaired or provided for, the impairment loss or bad debt write-off is recognised in profit and loss account.

Financial assets are derecognised when (a) contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risk and rewards of the ownership of the asset are transferred to another party or (c) despite having retained some significant risks and rewards of ownership, control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated or third party without imposing additional restrictions.

(ii) Financial liabilities

Basic financial liabilities, including trade and other payables are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measure at the present value of the future receipts discounted at a market rate of interest.

Financial liabilities, including other creditors and accruals are classified as creditor amounts due within one year if payment is due within one year or less. If not, they are presented as creditor amounts due after more than one year. Other creditors and accruals are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Preference shares, which result in fixed returns to the holder or are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in the profit and loss account as an interest expense.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

(iii) Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the debtor and settle the creditor simultaneously.

Notes to the financial statements for the year ended 31 December 2016 - continued

4 Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical judgements in applying the entity's accounting policies

Investment: financial asset at amortised cost

The company entered into an agreement with the Government of Gibraltar and individual pensioners to finance the gratuities that are payable to civil servants who have elected to commute a percentage of their pension that is payable under the Pensions Act. At the point of retirement each pensioner seeking a gratuity in respect of part or the whole of their pension enters into an agreement with the Government of Gibraltar and the company to assign part or the whole of their pension as applicable to the company. The pensioner receives their commutation from the company; the Government of Gibraltar then pays the equivalent of the corresponding pension directly to the company. The company charges interest at 6.5% on the outstanding balance until this is repaid in full.

The company entered into additional agreements with the Government of Gibraltar and each eligible retiring employee. The Government has agreed a number of Early Exit schemes with eligible retiring employees payable over 10 years (the "Early Exit Scheme payments"). The agreements allow the employee to assign the Early Exit Scheme payments receivable to the company in exchange for an up-front lump sum payable by the company. The Government of Gibraltar then pays the assigned Early Exit Scheme payments to the company over the period of 10 years. The company charges interest at 6.5% on the outstanding balance until this is repaid in full.

The director analysed the economic substance of the arrangement, noting that the company's initial cash outflow secures future cash inflows for future periods. As a result, the director opted to classify the financial asset as an investment measured at amortised cost.

Redeemable preference shares

The company issued redeemable preference shares that the director has classified as a financial liability. The director considers that there is a legally binding agreement that results in an obligation for the company to deliver cash or another financial asset. The redemptions of each share issue are set at the date of issue, resulting in a fixed future redemption date. The redemption date can be extended by the holder of the shares. At the date of each issue, the interest is set at a fixed rate which is payable on an annual basis.

As a result of the terms of each issue of redeemable preference share, the director has classified the redeemable preference shares as a financial liability and presented the interest payable on those shares as an interest expense in the profit and loss account.

(b) Critical accounting estimates and assumptions

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows.

Recoverability of financial investments measured at amortised cost and debtors

The company's debtors and financial investment measured at amortised cost are subject to the requirement for the director to conduct an impairment review at the end of each reporting period. In conducting the review, the director first assess whether there is objective evidence that a financial asset has suffered an impairment by reviewing factors including but not limited to, observable data about the counterparty and the economy in which it operates. Where there is objective evidence that a financial asset has suffered an impairment loss, the director compares the asset's carrying value against the present value of estimated cash flows, realising an impairment charge if necessary.

Notes to the financial statements for the year ended 31 December 2016 - continued

4 Critical accounting judgements and estimation uncertainty - continued

(b) Critical accounting estimates and assumptions - continued

Recoverability of financial investments measured at amortised cost and debtors - continued

In performing this assessment, the director considers the financial ability of the counterparty to make the contractual payments, as well as its financial position taking into account the Gibraltar economy and any other aspects that could result in difficulty in the counterparty meeting its obligations to the company.

As a result of the above, the director does not believe that there are any impairment indicators that would require an adjustment to the carrying value of the assets.

Impairment of investment in associate

If there is an indication that the investment in the associate may be impaired, the director will compare the asset's carrying value with its recoverable amount. In determining impairment indicators, the director considers external sources of information including, technological, market, economical or environmental factors, and internal factors, such as the financial performance and position of the associate. The recoverable amount of the asset is the higher of the fair value less costs to sell and value in use, which is defined as the present value of future cash flows as a result of the asset's continued use. Both the fair value and the value in use calculation require the director to estimate significant inputs that are required for the calculation. In performing the estimates, the director uses relevant information to support the calculation.

As a result of the above, the director does not believe that there are any impairment indicators that would require an adjustment to the carrying value of the asset.

5 Interest income

	Note	**2016** **£**	2015 £
Interest income from investments	12	**4,121,280**	2,995,860
Interest income from loans	13	**3,022,370**	2,756,598
Income from fixed rate notes	13	**19,807,619**	21,317,117
		26,951,269	27,069,575

6 Finance costs

	Note	**2016** **£**	2015 £
Interest paid on issued preference shares	15	**22,789,447**	22,599,066

Notes to the financial statements for the year ended 31 December 2016 - continued

7 Profit on ordinary activities

	2016 £	2015 £
Profit on ordinary activities is stated after charging:		
Audit fees	**7,000**	7,000

8 Director's emoluments

There were no director's emoluments paid during the current or preceding year.

9 Employee information

The company had no employees during the current or preceding year.

10 Tax on ordinary activities

Analysis of tax charge in the year

Current taxation	2016 £	2015 £
Current tax charge for the year	**2,820,760**	2,649,116
Tax penalty	**300**	50
	2,821,060	2,649,166

Factors affecting tax charge for the year

		2016 £	2015 £
Profit on ordinary activities before taxation		**5,418,154**	3,892,087
Notional tax at 10%		**541,815**	389,209
Non-deductible expenses	(i)	**2,278,945**	2,259,907
Tax charge for the year		**2,820,760**	2,649,116

(i) In accordance with guidance issued by the Commissioner of Income Tax to the Gibraltar Society of Accountants in August 2013, interest paid on redeemable preference shares should be treated as a dividend payment for tax purposes, irrespective of the accounting treatment. Accordingly this interest paid has not been allowed as a tax expense in computing the assessable income of the company

Notes to the financial statements for the year ended 31 December 2016 - continued

11 Investment in associate

	Place of incorporation	Number of shares held	Percentage held	2016 £	2015 £
Shell LNG Gibraltar Limited	Gibraltar	98 shares of £1 each	49%	**4,440,777**	-

During the year, the company acquired 49% of the issued share capital of Shell LNG Gibraltar Limited ("Shell LNG"), contributing to the capital of the company in the amount of £4,440,777. Shell LNG was incorporated to develop an onshore small-scale liquefied natural gas receiving and regasification terminal in Gibraltar. Once the plant starts operating it is expected to produce a return in excess of 6%. The net assets of Shell LNG were £2,732,518 at 31 December 2016 and the company recorded a loss of £6,269,066.

The capitalisation of Shell LNG is to be in proportion of 20% by equity participation in the form of shares and 80% by shareholders loan. As at 31 December 2016, the loan provided by the company was £1,784,167 (see note 13).

12 Investments: financial assets at amortised cost

	2016 £	2015 £
Fixed asset investments:		
Investments in financial asset at amortised cost	**60,394,138**	48,021,556
Current asset investments:		
Investments in financial asset at amortised cost	**9,215,758**	7,792,866
Total investments in financial asset at amortised cost	**69,609,896**	55,814,422

Movement in investments in financial asset at amortised cost	2016 £	2015 £
At 1 January	**55,814,422**	33,046,612
Acquisition of investments	**15,309,503**	23,736,637
Interest accrued	**4,121,280**	2,995,860
Cash inflow from investments	**(5,635,309)**	(3,964,687)
At 31 December	**69,609,896**	55,814,422

The company entered into an agreement with the Government of Gibraltar and individual pensioners to finance the gratuities that are payable to civil servants who have elected to commute a part or the whole of their pension that is payable under the Pensions Act. The pensioner receives their commutation from the company; the Government of Gibraltar then pays the equivalent of the corresponding pension directly to the company. The company charges interest at 6.5% on the outstanding balance until this is repaid in full.

Notes to the financial statements for the year ended 31 December 2016 - continued

12 Investments: financial assets at amortised cost - continued

The company entered into additional agreements with the Government of Gibraltar and each eligible retiring employee. The Government has agreed a number of Early Exit schemes with eligible retiring employees payable over 10 years (the "Early Exit Scheme payments"). The agreements allow the employee to assign the Early Exit Scheme payments receivable to the company in exchange for an up-front lump sum payable by the company. The Government of Gibraltar then pays the assigned Early Exit Scheme payments to the company over the period of 10 years. The company charges interest at 6.5% on the outstanding balance until this is repaid in full.

The director analysed the economic substance of the arrangement, noting that the company's initial cash outflow secures future cash inflows for future periods. As a result, the director opted to classify the financial asset as an investment measured at amortised cost.

13 Debtors

Amounts receivable after more than one year		2016 £	2015 £
Loans receivable	(i)	**46,647,593**	46,439,099
Loan to associate	(ii)	**1,784,167**	-
		48,431,760	46,439,099

Amounts receivable within one year		2016 £	2015 £
Loans receivable	(i)	**26,503,629**	23,291,118
Amounts due from a related party	(iii)	**1,002,816**	400,610
Fixed rate notes	(iv)	**287,843,900**	309,843,900
Other debtors		**-**	141,664
		315,350,345	333,677,292

(i) These amounts represent commercial loans receivable that were issued for projects that are considered to be of benefit to the economy and the community. The loans have average repayment terms of 5 years and accrued interest of £3,022,370 (2015: £2,756,598) during the year

(ii) The company provided loans to its associate in the amount of £1,784,167. This amount incurs 5% annual interest and the final repayment date is 31 December 2030. The interest is payable quarterly but only begins to accrue once the associate is operational.

(iii) The amounts due from a related party represents cash held by HM Government of Gibraltar on behalf of the company. This amount is unsecured, interest free and have no fixed terms of repayment.

(iv) The company invested in fixed rate notes issued by a related party that accrue interest at the rate of 6.5% and 8% respectively and are repayable on demand. During the year, the company received proceeds from the repayment of fixed rate notes amounting to £22,000,000 (2015: £41,000,000). The interest income earned and received during the year was £19,807,619 (2015: £21,317,117).

Notes to the financial statements for the year ended 31 December 2016 - continued

14 Creditors: amounts falling due within one year

	2016 £	2015 £
Accruals and other creditors	**53,406**	35,364
Corporation tax liability	**602,949**	1,316,120
Redeemable preference shares (see note 15)	**211,062,500**	124,821,000
	211,718,855	126,172,484

15 Creditors: amounts falling due after more than one year

	2016 £	2015 £
Redeemable preference shares	**188,937,500**	275,179,000

Redeemable preference shares represents 400,000,000 fully paid shares of £1 each. The shares are redeemable at a specific date specified at the time of issuance, which can be extended by the shareholder. Redeemable preference shares entitle the holder to dividends at a specified rate which is generally between 3 to 8 percent per annum. The total interest incurred and paid during the year was £22,789,447 (2015: £22,599,066). As the shares are mandatorily redeemable on a specified date, they are recognised as liabilities.

16 Called up share capital

	2016 £	2015 £
Authorised		
30,000,000 ordinary shares of £1 each	**30,000,000**	30,000,000
1,000,000,000 redeemable preference shares of £1 each	**1,000,000,000**	1,000,000,000
	1,030,000,000	1,030,000,000
Allotted and fully paid		
Equity		
30,000,000 ordinary shares of £1 each	**30,000,000**	30,000,000
Liability		
400,000,000 redeemable preference shares of £1 each (see note 15)	**400,000,000**	400,000,000

Notes to the financial statements for the year ended 31 December 2016 - continued

17 Notes to the cash flow statement

	2016 £	2015 £
Profit for the financial year	**2,597,094**	1,242,921
Adjustments for:		
Tax on profit on ordinary activities	**2,821,060**	2,649,166
Finance costs	**22,789,447**	22,599,066
Interest income	**(26,951,269)**	(27,069,575)
	1,256,332	(578,422)
Working capital movements:		
Increase in debtors	**(3,881,547)**	(17,953,082)
Increase in creditors less non-cash transaction	**18,042**	13,461
Cash flow used in operating activities	**(2,607,173)**	(18,518,043)

18 Related party transactions

The director considers that the transactions during the year with related parties were as follows:

	2016 £	2015 £
Gibraltar statutory bodies		
Finance cost	**(22,789,447)**	(22,599,066)
Interest income from loans	**35,201**	20,342
Government and entities under common control		
Interest income from investments	**4,121,280**	2,995,860
Income from fixed rate notes	**19,807,619**	21,317,117
Corporation tax expense	**(2,821,060)**	(2,649,166)

Notes to the financial statements for the year ended 31 December 2016 - continued

18 Related party transactions - continued

The director considers that the balances with related parties as at 31 December were as follows:

	2016	2015
	£	£
Gibraltar statutory bodies		
Loans receivable	**485,201**	470,342
Redeemable preference shares	**(400,000,000)**	(400,000,000)
Government and entities under common control		
Investments in financial asset at amortised cost	**69,609,896**	55,814,422
Loan receivable	**23,975,439**	21,668,559
Other debtors	**-**	141,664
Fixed rate notes	**287,843,900**	309,843,900
Amounts due from a related party	**1,002,816**	400,610
Accruals and other creditors	**(38,906)**	(27,864)
Corporation tax liability	**(602,949)**	(1,316,120)
Associate		
Investment in associate	**4,440,777**	-
Loan to associate	**1,784,167**	-

19 Immediate parent undertaking and ultimate controlling party

The immediate parent undertaking as at 31 December 2016 was the Gibraltar Development Corporation, a statutory body established by the Gibraltar Development Corporation Act.