redsands insurance

Red Sands Insurance Company (Europe) Limited

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

Company Registration No. 87598

RED SANDS INSURANCE COMPANY (EUROPE) LIMITED

CONTENTS

DIRECTORS, OFFICERS AND OTHER INFORMATION

Directors:
Paul Savignon MBE
Adamo Valy
John Henderson
Emilio Gomez

Secretary:
John Henderson

Registered Office:
Level 3, Ocean Village
Business Centre
23 Ocean Village
Promenade
Gibraltar

Auditors:
EY Limited
Regal House
Queensway
Gibraltar

DIRECTORS' REPORT

The directors submit their report and the audited financial statements for the year ended 31 December 2017.

Principal Activity

The Company holds an insurance licence issued by the Financial Services Commission to carry on General Insurance Business in Gibraltar. The Company is currently licensed for the following classes of business:

1 – Accident
2 – Sickness
3 – Land vehicles
5 – Aircraft
6 – Ships
7 – Goods in transit
8 – Fire and natural causes
9 – Damage to property
10 – Motor vehicle liability
11 – Aircraft liability
13 – General liability
14 – Credit
15 – Suretyship
16 – Miscellaneous financial loss
17 – Legal expenses
18 – Assistance

The Company focuses primarily on specialist short term lines. It currently has a broad diversified portfolio, writing several different types of business.

Review of the business

The results for the year are shown in the profit and loss account on pages 11 and 12. The shareholders' funds total £25.6m (2016: £24.3m) after declaring a dividend of £4.0m (2016: £3.5m).

Throughout 2017, the Company has maintained its strategic objective of supporting its established distribution partners and the Company is pleased to report that this has produced good results.

The Company's distributors continue to strengthen their respective market positions and the Company's market share in pet, ancillary motor products and insurance backed guarantee markets continues to produce year on year growth.

Gross written premium increased by 16% from £122m to £142m with profit after tax for the current year of £5.3m.

The Company's technical result for 2017 was £5m with an underwriting margin of 3.5% and a combined ratio of 95.6% compared to the prior year's 95.5%.

The Company's commitment to its policyholders is reflected in its claims processes and payments.

During the course of 2017, the Company paid out more than £81m worth of claims to its policyholders.

In contrast to last year, 2017 was a good year for investments, and more in line with overall past performance. The changes implemented by the Company's Investment Committee have had a positive impact on results whilst ensuring the Company have an appropriately diversified and robust portfolio.

The Investment Committee continue to work closely with the Company's team of independent investment consultants in ensuring the Company's portfolio meets the requirements of the Company.

Solvency II, this remains a key area of focus for the Company and both the Board and executive team are heavily involved in ensuring our continuous compliance with the regulations and various reporting deadlines.

In line with the reporting requirements of Solvency II, the Company issued the annual quantitative reports in 2017, along with the Solvency & Financial Condition Report (SFCR) and the Regulatory Supervisory Report (RSR).

The second "Own Risk and Solvency Assessment" (ORSA) for the Red Sands Group was finalised towards the end of 2017 and subsequently submitted to the Gibraltar Financial Services Commission (GFSC).

This living document includes a summary of group own risks, business plan assumptions, stress and scenario tests and well as a forward-looking view on solvency. Market-wide feedback on the ORSA, issued by the European Insurance and Occupational Pensions Authority (EIOPA) and feedback to the Gibraltar market issued by the GFSC was taken into account when updating the Company's ORSA for 2017.

The unaudited Solvency II SCR coverage as at 31 December 2017 was calculated to be 141.8%.

The Company is in a strong position to meet the additional requirements of the General Data Protection Regulations (GDPR) which came into effect in May 2018.

The Company's business partners have been working hard on meeting the requirements of the Insurance Distribution Directive (IDD) and its implementation into their respective businesses.

Directors

The directors of the Company during the year and as at the date of signing this report were as follows:

- Paul Savignon MBE
- Adamo Valy
- Ed O'Regan (resigned 31 May 2018)
- Emilio Gomez
- John Henderson (appointed 26 April 2018)

DIRECTORS' REPORT
continued

Future developments

Whilst the true impact of Brexit remains to be seen, the Company remains positive and the Company are keen to create opportunities for further growth whilst actively dealing with the challenges it presents for its business and mitigating any associated risks.

The Company launched two new business lines towards the end of 2017 and early indications are very positive. The Company continues to actively engage with its existing distribution partners in developing new products to complement its current book of business. The Company welcome new markets and the prospect of exploring new products with knowledgeable business partners, particular in the digital market.

As always, as a team we look forward to working closely with its current distribution and reinsurance partners to achieve the Company's business goals for 2018.

Principal risks and uncertainties

The principal risks and uncertainties arising from the Company's general insurance business arise from fluctuations in timing, frequency and severity of claims compared to our expectations and inaccurate pricing.

The Company is also exposed to financial risks primarily through its investments, reinsurance assets and policyholder liabilities.

These risks are discussed in Note 10 to the financial statements.

Financial risk management objectives and policies

Information on the use of the financial instruments by the Company and its management of financial risk is disclosed in Note 10 to the financial statements. In particular, the Company's exposure to price risk, credit risk and liquidity risk are separately disclosed in that note. The Company's exposure to cash flow risk is also addressed under each of these disclosures.

Dividend

During the year, the Company paid dividends of £4.0m (2016: £3.5m) to the shareholders.

Going concern

The Company has considerable financial resources and as a consequence, the directors believe that the Company is well placed to manage its business risks successfully.

The directors believe that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Company continues to adopt the going concern basis in preparing the financial statements.

Statement of Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Company and of the profit or loss for that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards 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 directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Gibraltar Companies Act 2014 and the Insurance Companies (Accounts Directive) Regulations 1997. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The maintenance and integrity of the Company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Auditors

The retiring auditors are EY Limited who are eligible for re-appointment.

Emilio Gomez	Paul Savignon
Director	Director

27 June 2018

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF RED SANDS INSURANCE COMPANY (EUROPE) LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Red Sands Insurance Company (Europe) Limited ('the Company'), which comprise the statement of financial position as at 31 December 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of the company's 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 the Companies Act 2014 and the Insurance Companies (Accounts Directive) Regulations 1997.

This report, including the opinion, 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.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF RED SANDS INSURANCE COMPANY (EUROPE) LIMITED

continued

Key audit matter	How our audit addressed the key audit matter	Key observations commented to the Audit Committee

Key audit matter – Valuation of technical provision for claims outstanding

As at 31 December 2017, the Company reported technical provisions for claims outstanding of £16.0m gross of reinsurance and £15.8m net of reinsurance.

(refer to page 17 Note 3.1 Judgments and key sources of estimation uncertainty, page 18 Note 3.2 Significant accounting policies, page 23 Note 5 Claims incurred net of reinsurance, pages 26 to 32 Note 10 Risk management policies)

Key audit matter	How our audit addressed the key audit matter	Key observations commented to the Audit Committee
At the balance sheet date, the Board makes an estimate of the technical provision for claims outstanding. This estimate is based on the expected ultimate cost of settling claims arising out of events which have occurred as at the balance sheet date, including incurred but not reported claims and claims handling expenses, less amounts already paid in respect of those claims. The estimate is made using significant judgements about various economic and noneconomic assumptions, giving rise to a high degree of estimation uncertainty and the final outcome will likely be different from the estimate as at the balance sheet date. This mitigated by the short tail nature of the majority of the book of business. Due to the use of significant judgement in the selection of methodologies and assumptions and the high degree of estimation uncertainty associated with the outcome, this area has been assessed a significant risk area and an area where the risk of management override of controls is higher.	Our audit procedures comprised of: • a walkthrough to confirm our understanding of the Company's reserving process and to understand and assess the design and implementation of the controls relevant to the identified risk; • a combination of test of controls and substantive procedures to validate the integrity of the data used in the valuation, which includes amounts of claims already reported to the Company but are still outstanding and claims already paid as at the balance sheet date; • obtaining an understanding of the methodologies and key assumptions used by the Board in estimating the valuation of claims reserves; • an evaluation of the reasonableness of the key assumptions and methodologies; • a retrospective review of the prior period estimate; • a reconciliation of the reserves recorded on the financial statements against the Board's valuation calculations; and • whether reserving is consistent with the previous period and are in accordance with the Company's accounting policy and the applicable reporting framework.	We conclude that the methodologies and key assumptions adopted by the Board in setting the technical provision for claims outstanding as at 31 December 2017 are reasonable. Accordingly, we conclude that the Company's estimate of the valuation of technical provision for claims outstanding as at 31 December 2017 is reasonable.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF RED SANDS INSURANCE COMPANY (EUROPE) LIMITED
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Responsibilities of Management and Those charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements in accordance with applicable law in Gibraltar and Gibraltar Financial Reporting Standards, and for such internal control as management 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, management is 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 skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstance, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF RED SANDS INSURANCE COMPANY (EUROPE) LIMITED

continued

Report on Other Legal and Regulatory Requirements

Opinion on other matter prescribed by the Companies Act 2014

In our opinion the Directors' Report has been properly prepared in accordance with the Companies Act 2014 and the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2014 requires us to report to you if, in our opinion:

- we have identified material misstatements in the Directors' Report.
- we have not received all the information and explanations we require for our audit.

Other matters we are required to address

- We were appointed by the Company on 29 November 2013 to audit the financial statements for the year ended 31 December 2013 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is 5 years, covering the years ended 31 December 2013 to 31 December 2017.
- The non-audit services prohibited by the Financial Services (Auditors) Act were not provided to the Company and we remain independent of the Company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.
- Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud:

  The objectives of our audit:

  - in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management; and
  - in respect to irregularities, considered to be non-compliance with laws and regulations, are to obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements ('direct laws and regulations'), and perform other audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements. We are not responsible for preventing non-compliance with laws and regulations and our audit procedures cannot be expected to detect non-compliance with all laws and regulations.

Our approach was as follows:

- We obtained a general understanding of the legal and regulatory frameworks that are applicable to the Company and determined the direct laws and regulations related to elements of Company law and tax legislation, and the financial reporting framework. Our considerations of other laws and regulations that may have a material effect on the financial statements included permissions and supervisory requirements of the Gibraltar Financial Services Commission (GFSC).
- We obtained a general understanding of how the Company complies with these legal and regulatory frameworks by making enquiries of management and those responsible for legal and compliance matters. This involved obtaining understanding of the Company's policies and procedures in place to prevent and detect non-compliance with laws and regulations.
- We made enquires of members of senior management regarding their knowledge or awareness of any noncompliance or potential non-compliance with laws and regulations that could affect the financial statements. We also reviewed correspondence between the Company and the GFSC and reviewed minutes of Board and sub-committee meetings for indicators of non-compliance with laws and regulations. • We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur, by considering the controls that the Company has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud. We also considered areas of significant judgement, and the impact these have on the control environment. Where this risk was considered to be higher, we

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF RED SANDS INSURANCE COMPANY (EUROPE) LIMITED
continued

performed audit procedures to address each identified fraud risk as highlighted in the key audit matters section above. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.

Dale Cruz

Statutory auditor for and on behalf of

EY LIMITED

Registered auditors

Chartered Accountants
Regal House
Queensway
Gibraltar
29 June 2018

PROFIT AND LOSS ACCOUNT for the year ended 31 December 2017

STATEMENT OF COMPREHENSIVE INCOME for the year ended 31 December 2017

TECHNICAL ACCOUNT - GENERAL BUSINESS	Notes	2017 £	2016 £
Earned premiums, net of reinsurance			
Gross written premiums	4	**141,947,843**	122,229,630
Outward reinsurance premiums	4	**(1,296,057)**	(1,329,353)
Net written premiums		**140,651,786**	120,900,277
Change in the provision			
for unearned premiums – gross and net	4	**(4,671,236)**	(5,960,226)
		(4,671,236)	(5,960,226)
Earned premiums, net of reinsurance		**135,980,550**	114,940,051
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	5	**(81,939,668)**	(63,897,460)
Reinsurers' share	5	**80,677**	41,806
		(81,858,991)	(63,855,654)
Change in the provision for claims			
Gross amount	5	**(1,033,181)**	(5,006,252)
Reinsurers' share	5	**(378,449)**	406,732
		(1,411,630)	(4,599,520)
Claims incurred, net of reinsurance		**(83,270,621)**	(68,455,174)
Net operating expenses	7	**(48,025,258)**	(41,598,538)
Balance on the Technical Account - General Business		**4,684,671**	4,886,339

The notes on pages 17 to 39 form part of these financial statements.

PROFIT AND LOSS ACCOUNT for the year ended 31 December 2017

STATEMENT OF COMPREHENSIVE INCOME for the year ended 31 December 2017 *continued*

NON-TECHNICAL ACCOUNT	Notes	2017 £	2016 £
Balance on the General Business Technical Account		**4,684,671**	4,886,339
Investment income			
Income from land and building		**-**	9,800
Income from group undertakings		**84,008**	104,871
Income from other financial investments		**537,715**	819,857
Gain/ (loss) on the realisation of investments	14	**966,062**	(1,008,408)
Unrealized gains on investments		**1,056,766**	1,543,941
Investment expenses and charges		**(237,583)**	(49,148)
Other income		**2,900**	32,719
Other charges	19	**(1,149,281)**	(1,077,115)
Profit on ordinary activities before tax		**5,945,258**	5,262,856
Tax on profit on ordinary activities	9	**(626,306)**	(611,594)
Profit for the financial year		**5,318,952**	4,651,262
Other comprehensive income		**-**	-
Total comprehensive income for the financial year		**5,318,952**	4,651,262

The Company has had no discontinued activities in the year. Accordingly, the above results relate solely to continuing activities and include all recognised gains and losses in arriving at the total comprehensive income for the year.

The notes on pages 17 to 39 form part of these financial statements.

PROFIT AND LOSS ACCOUNT for the year ended 31 December 2017

STATEMENT OF FINANCIAL POSITION as at 31 December 2017

ASSETS	Notes	**2017** £	2016 £
Intangible assets			
Development costs	11	-	-
Investments			
Land and building	12	**720,000**	720,000
Investments in group undertakings	13	**2,693,123**	3,352,795
Other financial investments	14	**69,125,218**	58,524,943
		72,538,341	62,597,738
Reinsurers' share of technical provisions			
Claims outstanding	5	**234,698**	613,147
Debtors			
Debtors arising out of direct insurance operations – intermediaries		**5,702,146**	5,684,221
Other debtors	15	**22,138**	3,748,736
		5,724,284	9,432,957
Other assets			
Tangible assets	16	**54,441**	6,435
Cash at bank and in hand		**11,609,884**	8,135,418
		11,664,325	8,141,853
Prepayments and accrued income			
Accrued interest		**15,451**	121,779
Deferred acquisition costs	17	**10,498,613**	10,112,901
Other prepayments and accrued income	18	**13,789,346**	12,239,107
		24,303,410	22,473,787
Total assets		**114,465,058**	103,259,482

The notes on pages 17 to 39 form part of these financial statements.

PROFIT AND LOSS ACCOUNT for the year ended 31 December 2017

STATEMENT OF FINANCIAL POSITION as at 31 December 2017 *continued*

LIABILITIES AND SHAREHOLDER'S EQUITY	Notes	2017 £	2016 £
Capital and reserves			
Called up share capital	21	**3,006,000**	3,006,000
Share premium account		**5,994,000**	5,994,000
Profit and loss account		**16,604,601**	15,285,649
Total shareholders' funds		**25,604,601**	24,285,649
Subordinated liability	19	**17,753,001**	17,072,007
Technical provisions			
Provision for unearned premiums	4	**45,484,313**	40,813,077
Claims outstanding	5	**16,048,346**	15,015,165
		61,532,659	55,828,242
Creditors			
Creditors arising out of direct insurance operations		**133,749**	-
Creditors arising out of reinsurance operations		**-**	311,258
Amounts owed to credit institutions	14	**-**	34,983
Other creditors including taxation and social security	20	**5,095,155**	3,852,037
		5,228,904	4,198,278
Accruals and deferred income		**4,345,893**	1,875,306
Total liabilities and shareholders' funds		**114,465,058**	103,259,482

Approved and signed on behalf of the Board of directors on 27 June 2018.

Emilio Gomez
Director

Paul Savignon
Director

The notes on pages 17 to 39 form part of these financial statements.

PROFIT AND LOSS ACCOUNT for the year ended 31 December 2017

STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2017

	2017			
	Called up share capital	**Share premium account**	**Profit and loss account**	**Total**
	£	**£**	**£**	**£**
At 1 January	**3,006,000**	**5,994,000**	**15,285,649**	**24,285,649**
Profit and total comprehensive income for the year	**-**	**-**	**5,318,952**	**5,318,952**
Dividends paid	**-**	**-**	**(4,000,000)**	**(4,000,000)**
At 31 December	**3,006,000**	**5,994,000**	**16,604,601**	**25,604,601**

	2016			
	Called up share capital	Share premium account	Profit and loss account	Total
	£	£	£	£
At 1 January	3,006,000	5,994,000	14,134,387	23,134,387
Profit and total comprehensive income for the year	-	-	4,651,262	4,651,262
Dividends paid	-	-	(3,500,000)	(3,500,000)
At 31 December	3,006,000	5,994,000	15,285,649	24,285,649

During the year, the Company paid dividends to ordinary shareholders of £1.33 per share (2016: £1.17 per share).

The notes on pages 17 to 39 form part of these financial statements.

PROFIT AND LOSS ACCOUNT for the year ended 31 December 2017

STATEMENT OF CASH FLOWS for the year ended 31 December 2017

CASH FLOWS FROM OPERATING ACTIVITIES	Notes	2017 £	2016 £
Profit on ordinary activities before tax		**5,945,258**	5,262,856
Adjustments for:			
(Gains) / losses on financial investment		**(2,147,634)**	1,438,385
Change in net technical provisions	4,5	**6,082,866**	10,559,746
Change in deferred costs	7,17	**(385,712)**	(568,463)
Unrealised foreign exchange loss		**770,887**	3,617,275
Amortisation of loan to group undertakings	13	**(84,008)**	(11,468)
Depreciation and amortization of tangible and intangible assets	16	**7,902**	7,954
Change in operating assets and liabilities:			
Debtors		**3,703,652**	(2,712,632)
Prepayments and accrued income		**(2,087,954)**	(4,630,896)
Creditors		**1,030,723**	598,069
Accruals		**3,655,901**	1,340,292
Interest received		**644,043**	12,098
Interest paid	19	**(1,169,076)**	(1,077,351)
Income tax paid		**(662,339)**	(643,020)
Net cash inflow from operating activities		**15,304,509**	13,192,845
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase and sale of financial investments		**(7,888,972)**	(10,511,924)
Loan principal received from (additional loans to) subsidiaries	13	**75,000**	(44,246)
Purchase of tangible assets	16	**(55,908)**	(3,278)
Net cash outflow from investing activities		**(7,869,880)**	(10,559,448)
CASH FLOWS FROM FINANCING ACTIVITIES			
Ordinary share dividend paid		**(4,000,000)**	(3,500,000)
Net cash outflow from financing activities		**(4,000,000)**	(3,500,000)
Effect of exchange rate changes		**39,837**	(666,517)
Net increase in cash and cash equivalents		**3,474,465**	(1,533,120)
Cash and cash equivalents at beginning of year		**8,135,418**	9,668,538
Cash and cash equivalents at 31 December		**11,609,883**	8,135,418

The notes on pages 17 to 39 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. **Company information**

   Red Sands Insurance Company (Europe) Limited is a limited liability company incorporated in Gibraltar. The registered office is Level 3, Ocean Village Business Centre, 23 Ocean Village Promenade, Gibraltar GX111AA. The financial statements cover those of the individual entity and are prepared as at and for the year ended 31 December 2017.

2. **Basis of preparation**

   These financial statements have been prepared in compliance with Financial Reporting Standards ("FRS") 102 and 103, being applicable Gibraltar Accounting Standards (Gibraltar Generally Accepted Accounting Practice). Gibraltar legislation applied in the preparation of these financial statements is the Insurance Companies (Accounts Directive) Regulations 1997.

   The financial statements have been prepared under the historical cost convention except for certain financial instruments which are measured at fair value, as specified in the accounting policies below.

   The financial statements are presented in Sterling which is the presentation and functional currency of the Company and rounded to the nearest £.

3. **Accounting policies**

   3.1 Judgements and key sources of estimation uncertainty

   The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The following are the key sources of estimation uncertainties and areas where judgment made have had the most significant effect:

   Insurance contract technical provisions

   The Company's most critical accounting estimate is the ultimate liability arising from claims made under insurance. Estimates have to be made for both the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred, but not yet reported at the reporting date ('IBNR'). It can take a significant amount of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form a majority of the liability in the balance sheet.

   The provision for claims outstanding is made on an individual basis and is based on the ultimate cost of all claims notified but not settled by the balance sheet date. The provision also includes the estimated cost of claims incurred but not reported at the balance sheet date based on statistical methods.

   The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is generally available. Claims IBNR may often not be apparent to the insurer until many years after the event giving rise to the claim has happened. Classes of business where the IBNR proportion of the total reserve is high will typically display greater variations between the initial estimates and the final outcomes because of the greater degree of difficulty of estimating those reserves. Classes of business where claims are typically reported relatively quickly after the claim event will tend to display lower levels of volatility. In calculating the estimated cost of unpaid claims the Company uses a variety of estimation techniques, generally based upon statistical analyses of historic experience, which assumes that the development pattern of the current claims will be consistent with past experience.

   Similar judgements, estimates and assumptions are used in the assessment of adequacy of provisions for unearned premium. Judgement is also required in determining whether the pattern of insurance service provided by a contract requires amortisation of unearned premium on a basis other than time apportionment.

   Further details are given in Notes 4 and 5.

   Taxation

   Management estimation is required to determine the amount of deferred tax assets that can be recognised, based upon likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. Further details are contained in Note 9.

   Operating lease commitments

   The Company has entered into commercial property leases. The classification of such leases as operating or finance leases require the Company to determine, based on an evaluation of the terms and conditions of the arrangements, whether it retains or acquires the significant risks and rewards of ownership of these assets and accordingly whether the lease requires an asset and liability to be recognised in the balance sheet. Further details are contained in Note 22.

NOTES TO THE FINANCIAL STATEMENTS

3.2 Significant accounting policies

Intangible assets

Intangible assets are made up of development costs and are stated at cost less accumulated amortisation and impairment. The intangible asset have been amortised over a period of three years.

Tangible assets

Tangible assets are stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is provided at rates calculated to write off the cost less estimated residual value, of each asset over its expected useful life from the date the asset comes into use, as follows:

- Leasehold improvements - 6 years straight line
- Fixtures and fittings - 3 years straight line
- IT equipment - 3 years straight line
- Motor vehicles - 3 years straight line

Impairment of assets

Intangible and tangible assets are subject to an impairment review if there are events or changes in circumstances that indicate that their carrying amount may not be fully recoverable. The impairment review comprises a comparison of the carrying amount of the intangible assets with its recoverable amount, which is the higher of net realisable value and value in use. The carrying value of the intangible asset is written down by the amount of any impairment and the loss is recognised in the profit and loss account in the period in which it occurs. If the occurrence of an external event gives rise to the reversal of an impairment loss, the reversal is recognised in the profit and loss account by increasing the carrying amount of the asset in the period in which it occurs. The carrying amount of the intangible asset will only be increased up to the amount that it would have had the original impairment not occurred.

Investments in group undertakings

Investments in group undertakings are measured at fair value with changes in fair value recognised in the profit and loss account.

The underlying properties of the investees are independently revalued every three years by qualified external valuators, in accordance with the guidance notes issued by the Royal Institution of Chartered Surveyors.

Investment in group undertakings is derecognised on disposal or when the Company ceases to have control.

Land and building

Land and building is held as an investment property, to earn rentals or for capital appreciation or both, is initially recognised at cost and subsequently re-measured at fair value with changes in fair value recognised in the profit and loss account.

Full valuations in accordance with the guidance notes issued by the Royal Institution of Chartered Surveyors are made by independent, professionally qualified valuers every three years.

Investment property is de-recognised on disposal or when no future economic benefits are expected from its use or disposal.

Financial investments

Financial investments comprise the following:

Derivative instruments

The Company uses forward foreign currency contracts to reduce exposure to foreign exchange rates. Derivative financial instruments are initially measured at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value through profit or loss. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair value of the forward currency contracts is calculated by reference to current forward exchange contracts with maturity profiles. The Company does not undertake any hedging transactions.

Shares and other variable yield securities and unit in unit trusts and Debt securities and other fixed income securities

These investments are recognised initially at fair value which is normally the transaction price (but excludes any transaction costs). Subsequently, they are measured at fair value through profit or loss except for those equity investments that are not publicly traded and whose fair value cannot otherwise be measured reliably which are recognised at cost less impairment until a reliable measure of fair value becomes available.

If a reliable measure of fair value is no longer available, the instrument's fair value on the last date the instrument was reliably measurable is treated as the cost of the instrument.

Fair value of financial assets

The Company uses the following hierarchy for determining the fair value of financial instruments by valuation technique:

(i) Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities. Quoted in an active market in this context means quoted prices are readily and regularly available and those

NOTES TO THE FINANCIAL STATEMENTS

prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted price is usually the bid price.

(ii) Level 2: when quoted prices are unavailable the instrument is valued using inputs that are observable either directly or indirectly including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs that are observable such as interest rates and yield curves observable at commonly quoted intervals, implied volatility or credit spreads and market corroborated inputs.

(iii) Level 3: when observable inputs are not available, unobservable inputs are used to measure fair value by use of valuation techniques. The objective of using the valuation technique is to estimate what the fair value would have been on the measurement date.

See Note 14 for details of financial instruments classified by fair value hierarchy.

Cash and cash equivalents

Cash at bank and in hand on the balance sheet comprise cash at bank and in hand with no time restriction.

Deposits with credit institutions, within other financial investments on the balance sheet, comprise sums the withdrawal of which is subject to a time restriction.

For purposes of the statement of cash flow, cash and cash equivalents consist of cash at bank and in hand and deposits with credit institutions, net of outstanding bank overdrafts.

Investment income

Dividends are recognised when the investments to which they relate are declared 'ex-dividend'. Rent is recognised on an accrual basis. Interest income is recognised on a time proportionate basis taking into account effective interest yield.

Realised gains and losses represent the difference between net sales proceeds and purchase price and are recognised through the profit and loss account. Unrealised gains and losses on investments represent the difference between the current value at the balance sheet date and their purchase price and are recognised through the profit and loss account.

Debtors and creditors

Debtors and creditors, other than those arising from insurance and reinsurance contracts, with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the income statement in other operating expenses.

Loan receivables are basic instruments are initially recorded at the present value of future payments discounted at the market rate of interest of similar loan. Subsequently, they are measured at amortised cost using the effective interest method.

Foreign currencies

(i) Functional and presentation currency

Items included in these financial statements and are measured and presented using Sterling (£), the currency of the primary economic environment in which the Company operates (the 'functional currency'), which is also the Company's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

In respect to assets and liabilities arising from the Company's separately identifiable foreign business, the assets and liabilities are translated at the exchange rate ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the profit and loss account.

Offsetting of financial instruments

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

Operating lease commitments

Rentals payable under operating leases are charged to the profit and loss account as incurred over the lease term.

Dividends

Interim dividends are recognised when paid and final dividends are booked as a liability when they are approved by the members passing a written resolution.

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Taxation and deferred tax

Current taxation

Current taxation is provided for on the basis of tax rates and tax laws that have been enacted or substantially enacted at the year-end date.

Deferred taxation

Deferred tax is recognised in respect of all significant timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Subordinated liability

Subordinated liability relates to capital instruments issued to raise capital. The loan is a basic financial instrument which constitutes a financing transaction and is initially measured at the present value of the future payments discounted at market rate of interest for a similar debt instrument. This is then subsequently measured at amortised cost using the effective interest method.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are integral part of the effective interest rate. The effective interest rate amortisation is included in finance cost in the profit or loss account.

See Note 19 for details.

Insurance contracts

Product classification

Insurance contracts are those contracts when the Company (the insurer) has accepted significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Once a contract has been classified as insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

Gross written premiums

Gross written premiums comprise the total premiums payable for the whole period of cover provided by the insurance contracts entered during the reporting period, regardless of whether these are wholly due for payment in the reporting period, together with any adjustments arising in the reporting period to such premiums receivable in respect of business written in prior reporting periods. They are accounted for from the inception date of the policy to which they relate. Additional or return premiums are treated as a re-measurement of the initial premium. Gross written premiums are disclosed gross of commission payable to intermediaries and exclude taxes based on premiums.

Outward reinsurance premiums are accounted for in the same accounting period as the related direct insurance.

Acquisition costs

Acquisition costs comprise direct costs arising from the conclusion of insurance contracts and are deferred over the period in which the related premiums are earned.

Deferred acquisition costs are costs arising from conclusion of insurance contracts that are incurred during the reporting period but which relate to a subsequent reporting period and which are carried forward to subsequent reporting periods. Deferred acquisition costs are amortised over the period in which the related premiums are earned.

Guarantee fund levies

Provision is made at the balance sheet date for levies declared by the Financial Services Compensation Scheme based on premium income recognised in the financial statements and are deferred over the period in which the related premiums are earned.

Profit commission

Profit commissions are accounted for on an accruals basis.

Claims incurred

Claims include all claims occurring during the year, whether reported or not, related internal and external

NOTES TO THE FINANCIAL STATEMENTS

claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

Claims outstanding

The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money.

Unearned premiums reserve

The unearned premiums reserve comprises the proportion of gross premiums written which is to be earned in the following or subsequent financial years.

For policies with a defined period of insurance, the unearned premiums reserve is calculated by apportioning premiums over the period to which they relate on a pro rata basis adjusted to take account of the incidence of risk.

In instances where the period of insurance is not finite, premiums are fully earned on the date of inception of the policy and an appropriate loss reserve is immediately created.

Reinsurance assets and liabilities

Contracts with reinsurers where the Company is compensated for losses incurred on insurance contracts issued are classified as reinsurance contracts held.

The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as longer-term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

The Company assesses its reinsurance assets for impairment on an annual basis. The Company monitors if a reinsurance asset is impaired by having regard to market data on the financial strength of each of the reinsurance companies. The impairment loss is recorded in the income statement.

Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

Gains or losses on buying reinsurance are recognised in the statement of profit or loss immediately at the date of purchase and are not amortised. There were no such gains recognised in 2017.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of profit or loss.

Insurance receivables are derecognised when the derecognition criteria for financial assets have been met.

Insurance payables

Insurance payables are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method. Insurance payables are derecognised when the obligation under the liability is settled, cancelled or expired.

4. Provisions for unearned premiums, net of reinsurance

	2017		
	Gross	**Reinsurance**	**Net**
	£	**£**	**£**
Premiums written in the year	**141,947,843**	**(1,296,057)**	**140,651,786**
Unearned premiums carried forward	**(45,484,313)**	**-**	**(45,484,313)**
Unearned premiums brought forward	**40,813,077**	**-**	**40,813,077**
Change in the provision for unearned premiums	**(4,671,236)**	**-**	**(4,671,236)**
Premiums earned	**137,276,607**	**(1,296,057)**	**135,980,550**

	2016		
	Gross	Reinsurance	Net
	£	£	£
Premiums written in the year	122,229,630	(1,329,353)	120,900,277
Unearned premiums carried forward	(40,813,077)	-	(40,813,077)
Unearned premiums brought forward	34,852,851	-	34,852,851
Change in the provision for unearned premiums	(5,960,226)	-	(5,960,226)
Premiums earned	116,269,404	(1,329,353)	114,940,051

Included in the premiums earned were foreign exchange losses arising on translation of the provision for unearned premiums as at the reporting date of £169,506 (2016: loss of £455,328).

NOTES TO THE FINANCIAL STATEMENTS

5. Claims outstanding, net of reinsurance

	2017 Gross	2017 Reinsurance	2017 Net
	£	£	£
Claims paid during the year	**81,792,249**	**(80,677)**	**81,711,572**
Claims handling fees during the year	**147,419**	**-**	**147,419**
	81,939,668	**(80,677)**	**81,858,991**
Outstanding claims carried forward	**16,048,346**	**(234,698)**	**15,813,648**
Outstanding claims brought forward	**(15,015,165)**	**613,147**	**(14,402,018)**
Change in provision for claims outstanding	**1,033,181**	**378,449**	**1,411,630**
Claims incurred	**82,972,849**	**297,772**	**83,270,621**

Included in claims incurred were foreign exchange losses arising on translation of claims outstanding as at the reporting date of £52,834.

	2016 Gross	2016 Reinsurance	2016 Net
	£	£	£
Claims paid during the year	63,832,825	(41,806)	63,791,019
Claims handling fees during the year	64,635	-	64,635
	63,897,460	(41,806)	63,855,654
Outstanding claims carried forward	15,015,165	(613,147)	14,402,018
Outstanding claims brought forward	(10,008,913)	206,415	(9,802,498)
Change in provision for claims outstanding	5,006,252	(406,732)	4,599,520
Claims incurred	68,903,712	(448,538)	68,455,174

Included in claims incurred were foreign exchange losses arising on translation of claims outstanding as at the reporting data of £73,517.

NOTES TO THE FINANCIAL STATEMENTS

6. Segmental information

	2017			
	Credit & Suretyship	**Misc & Other**	**Accident & Health**	**Total**
	£	**£**	**£**	**£**
Gross written premiums	**2,764,379**	**136,316,140**	**2,867,324**	**141,947,843**
Gross earned premiums	**2,473,869**	**131,935,415**	**2,867,323**	**137,276,607**
Gross claims incurred	**(554,714)**	**(81,391,412)**	**(1,026,723)**	**(82,972,849)**
Gross operating expenses	**(1,348,826)**	**(44,884,816)**	**(1,791,616)**	**(48,025,258)**
Gross technical result	**570,329**	**5,659,187**	**48,984**	**6,278,500**
Reinsurance balance	**-**	**(1,593,829)**	**-**	**(1,593,829)**
	570,329	**4,065,358**	**48,984**	**4,684,671**

	2016			
	Credit & Suretyship	Misc & Other	Accident & Health	Total
	£	£	£	£
Gross written premiums	3,021,452	117,208,262	1,999,916	122,229,630
Gross earned premiums	2,403,602	111,865,886	1,999,916	116,269,404
Gross claims incurred	(539,006)	(67,505,441)	(859,264)	(68,903,712)
Gross operating expenses	(1,371,765)	(38,895,928)	(1,330,845)	(41,598,538)
Gross technical result	492,831	5,464,517	(190,193)	5,767,155
Reinsurance balance	-	(880,816)	-	(880,816)
	492,831	4,583,701	(190,193)	4,886,339

The Company writes insurance in the EEA. All contracts of insurance are concluded in Gibraltar. Premiums written for direct insurance total £141,947,843 (2016: £122,229,630) and for reinsurance business nil (2016: Nil), and have been concluded by the Company in Gibraltar.

The reinsurance balance represents the charge to the technical account from the aggregate of all items relating to reinsurance outwards including items recorded as reinsurance commissions and profit participation.

NOTES TO THE FINANCIAL STATEMENTS

7. Net operating expenses

	2017	2016
	£	£
Acquisition costs - commissions	**37,359,639**	32,615,106
Change in deferred acquisition costs	**(385,712)**	(568,463)
Profit commission payable	**3,501,277**	2,496,820
Administrative expenses (see note 8)	**7,550,054**	7,055,075
	48,025,258	41,598,538

8. Administrative expenses

		2017	2016
Administrative expenses include:		**£**	£
Staff costs:	Wages and salaries	**533,400**	494,309
	Social security costs	**27,618**	25,065
	Other staff costs	**54,365**	53,366
		615,383	572,740
Depreciation and amortisation		**7,902**	7,954
Non-executive directors' fees		**41,850**	41,641
Audit fees		**49,016**	66,127
Operating lease rentals (see Note 22)		**77,459**	77,459
Consultancy Fees		**3,787,242**	2,541,723
Foreign exchange losses		**646,081**	(70,480)
Other Costs		**2,325,121**	1,732,097

Other than the directors, the Company had an average 10 employees (2016: 9) during the year. Included in wages and salaries is directors' remuneration of £99,500 (2016: £100,115). Audit fees for the year include tax compliance fees amounting to £3,175.

	2017	2016
	£	£
Administration and finance	**3**	3
Underwriting	**7**	6
	10	9

9. Taxation

The Company is liable to corporation tax in Gibraltar in accordance with the Income Tax Act on income derived from a source within Gibraltar.

	2017	2016
Current tax:	**£**	£
Gibraltar corporation tax on profit for the year	**626,306**	611,594
Adjustment in respect of previous periods	**-**	-
Tax on profit on ordinary activities	**626,306**	611,594

The tax assessed for the year is higher than the standard rate of Corporation tax in Gibraltar of 10% (2016: 10%). The differences are explained below:

Profit on ordinary activities before tax	**5,945,258**	5,262,856
Profit on ordinary activities multiplied by the standard rate of Corporation Tax of 10%	**594,526**	526,286
Effects of:		
Expenses not deductible for tax purposes	**18,832**	5,977
Income not taxable	**-**	42,567
Other temporary differences	**12,948**	36,764
Tax on profit on ordinary activities	**626,306**	611,594

10. Risk management policies

(a) Governance framework

The Company's activities expose the business to a number of key risks which have the potential to affect its ability to achieve its business objectives. The Board is responsible for the Company's internal control and for reviewing its effectiveness. The systems of internal control are designed to manage rather than eliminate risk and aim to provide reasonable and not absolute assurance.

The following describes the Company's capital, financial and insurance risk management policies.

Underwriting and investment activities are also monitored by the Board with the help from external consultants, as appropriate.

The Company maintains an efficient capital structure, consistent with the Company's risk profile and the regulatory and market requirements of its business.

(b) Capital risk management objectives, policies and approach

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for the shareholders, to comply with the requirements of the Gibraltar Financial Services Commission (GFSC), and to maintain financial strength to support new business growth. In order to maintain the capital structure, the Company may adjust the amounts of dividends paid, return capital to shareholders or issue new shares.

The GFSC specifies the minimum amount and type of capital that must be held by the Company and maintained at all times throughout the financial year.

In 2015, the Company issued a EUR 20,000,000 subordinated note at an issue price of 100% of the principal amount, which qualifies as Tier 2 Capital under Solvency II. The note is subject to a floating interest rate and will mature in January 2026. Further details are contained in Note 19.

(c) Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the claim results. By the very nature of an insurance contract, risk is based on fortuity and is therefore unpredictable. The principal risks that the Company faces under its insurance contracts are that the business will be under-priced or under-reserved. The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

A proportion of the Company's insurance risks are written by third parties under delegated underwriting authorities. The third parties are closely vetted in advance and are subject to tight reporting requirements. In addition, the performance of these contracts is closely monitored by underwriters and regular audits are carried out.

NOTES TO THE FINANCIAL STATEMENTS

Details of the concentration of the Company's outstanding claim liabilities by type of contract are provided in Note 5.

Key assumptions

The principal assumption underlying the liability estimates is that the future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each accident year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example: one–off occurrence; changes in market factors such as public attitude to claiming; economic conditions; as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

Other key circumstances affecting the reliability of assumptions include delays in settlement and changes in foreign currency rates.

Sensitivities

The claim liabilities are sensitive to the key assumptions that follow. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

The following analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit before tax and equity. It should be noted that movements in these assumptions are non-linear.

	Change in assumptions	Impact on gross liabilities	Impact on net liabilities	Impact on profit before tax	Impact on equity
	£	£	£	£	£
Miscellaneous fin Loss - Pet	+-10% claims reserve	1,141,120	764,550	764,550	688,095
Miscellaneous fin Loss - Pet	+-5% loss ratio	4,940,800	4,940,800	4,940,800	4,446,720
Miscellaneous fin Loss - Warranty	+-10 claims reserve	157,750	157,750	157,750	141,975
Credit & Suretyship - IBGs	+-10% claims reserve	114,000	114,000	114,000	102,600

Claims development table

The following tables show the estimates of cumulative incurred claims, including both claims notified and IBNR for each successive accident year at each reporting date, together with cumulative payments to date. The cumulative claims estimates and cumulative payments are translated to sterling at the rate of exchange that applied at the end of the accident year. The company has taken advantage of the transitional rules of FRS 103 that permit only five years of information to be disclosed upon adoption. The claims development information disclosed is being increased from five years to ten years over the period.

Ultimate Gross claims	**2012 and prior**	**2013**	**2014**	**2015**	**2016**	**2017**	**Total**
	GBP 000	**GBP 000**	**GBP 000**	**GBP 000**	**GBP 000**	**GBP 000**	**GBP 000**
At end of the accident year	36,297	40,547	50,777	59,935	78,912	97,988	
One year later	36,297	39,269	47,382	49,926	63,897		
Two years later	36,297	39,269	47,382	49,926			
Three years later	36,297	39,269	47,382				
Four years later	36,297	39,269					
Five years later	36,297						
Cumulative Gross claims incurred	**36,297**	**39,269**	**47,382**	**49,926**	**63,897**	**97,988**	**334,759**
Claims paid	**(36,297)**	**(39,269)**	**(47,382)**	**(49,926)**	**(63,897)**	**(81,940)**	**(318,711)**

NOTES TO THE FINANCIAL STATEMENTS

Gross claims outstanding	-	-	-	-	-	**16,048**	**16,048**
Gross earned premiums	**62,056**	**73,816**	**85,647**	**99,500**	**116,269**	**137,277**	
	58.49%	**53.20%**	**55.32%**	**50.18%**	**54.96%**	**71.38%**	

Ultimate net claims	**2012 and prior GBP 000**	**2013 GBP 000**	**2014 GBP 000**	**2015 GBP 000**	**2016 GBP 000**	**2017 GBP 000**	**Total GBP 000**
At end of the accident year	24,301	26,778	37,715	47,333	78,258	97,673	
One year later	24,301	25,232	32,372	37,530	63,856		
Two years later	24,301	25,232	32,372	37,530			
Three years later	24,301	25,232	32,372				
Four years later	24,301	25,232					
Five years later	24,301						
Cumulative net claims incurred	**24,301**	**25,232**	**32,372**	**37,530**	**63,856**	**97,673**	**280,964**
Claims paid	**(24,301)**	**(25,232)**	**(32,372)**	**(37,530)**	**(63,856)**	**(81,859)**	**(265,150)**
Net claims outstanding	-	-	-	-	-	**15,814**	**15,814**
Net earned premiums	**47,590**	**56,428**	**67,014**	**79,946**	**114,940**	**135,981**	
Claims incurred ratio	**51.06%**	**44.72%**	**48.31%**	**46.94%**	**55.56%**	**71.83%**	

(d) Financial risk

The Company is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and policyholder liabilities. In particular, the key financial risk is that the proceeds from the financial assets are not sufficient to fund the obligations arising from policies as they fall due. The most important components of financial risk are cash flow interest rate risk, price risk, credit risk, liquidity risk and currency risk. The Company manages these positions to achieve investment returns in excess of obligations under insurance contracts.

(d.1) Credit risk

Credit risk is the risk that a counterpart will be unable to pay amounts in full when due. Key areas where the Company is exposed to credit risk are:

The Company monitors its exposure to any single counterparty, or groups of counterparties, and to geographical and industry segments. The Company's exposure to insurance receivables from policy holders and intermediaries is managed through the application of internal credit vetting processes and active credit control procedures. Wherever possible, the Company includes premium payment warranties in its terms and conditions which give it the right to cancel policies in the event of nonpayment.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim, the Company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalisation of their annual contract renewal. In addition, the recent payment history of reinsurers is used to update the reinsurance purchasing strategy.

The maximum exposure to credit risk at the balance sheet date is represented by the carrying amount of each asset on the balance sheet. No financial assets are past due or impaired at the balance sheet date and management expects no significant losses from the non-performance by these counterparties.

NOTES TO THE FINANCIAL STATEMENTS

The table below provides information regarding the credit risk exposure of the Company at 31 December 2017 by classifying assets according to Standard & Poor's credit ratings of the counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as speculative grade and have not been rated.

31 December 2017	**AAA**	**AA**	**BBB**	**BB**	**Not rated**	**Total**
	£	**£**	**£**	**£**	**£**	**£**
Investment in group undertakings	-	-	-	-	2,693,123	2,693,123
Shares and other variable yield securities and units in unit	6,262,979	-	-	-	33,494,033	39,757,012
Shares and other variable yield securities and units in unit trusts – at Cost	-	-	-	-	998,819	998,819
Debt securities and other fixed income securities – at FVPL	-	-	-	-	1,787,489	1,787,489
Deposits with credit institutions	7,572,463	13,076,686	2,641,957	-	2,730,516	26,021,622
Other loans – at amortised cost	-	-	-	-	507,766	507,766
Derivative contracts – at FVPL	52,510	-	-	-	-	52,510
Reinsurers' share of claims outstanding	-	234,698	-	-	-	234,698
Debtors arising out of direct insurance operations	-	-	-	-	5,702,146	5,702,146
Other debtors	-	-	-	-	22,138	22,138
Cash at bank and in hand	-	-	11,608,304	-	1,580	11,609,884
Total	13,887,952	13,311,384	14,250,261	-	47,937,610	89,387,207

31 December 2016	AAA	AA	BBB	BB	Not rated	Total
	£	£	£	£	£	£
Investment in group undertakings	-	-	-	-	3,352,795	3,352,795
Shares and other variable yield securities and units in unit trusts – at FVPL	2,507,849	-	-	-	28,694,696	31,202,545
Shares and other variable yield securities and units in unit trusts – at Cost	-	-	-	-	2,507,465	2,507,465
Debt securities and other fixed income securities	-	409,236	10,405,073	3,233,526	236,916	14,365,751
Other loans	-	-	-	-	-	-
Deposits with credit institutions	2,509,450	3,610,000	4,329,732	-	-	10,449,182
Reinsurers' share of claims outstanding	613,147	-	-	-	-	613,147
Debtors arising out of direct insurance operations	-	-	-	-	5,684,221	5,684,221
Other debtors	-	-	3,318,094	-	430,642	3,748,736
Cash at bank and in hand	-	-	8,135,418	-	-	8,135,418
Total	5,630,446	4,100,236	26,188,317	3,233,526	40,906,735	80,059,260

(d) Financial risk

It is the Company's policy to maintain accurate and consistent risk ratings across its credit portfolio. This enables management to focus on the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Company's rating policy. The attributable risk ratings are assessed and updated regularly.

During the year, no credit exposure limits were exceeded.

The company actively manages its product mix to ensure that there is no significant concentration of credit risk.

(d.2) Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Company manages this risk by maintaining sufficient liquid assets or assets that can be converted into liquid assets at short notice and without capital loss to meet the expected cash flow requirements. The Company's investment guidelines to the investment managers sets out various short term cash requirements. All of the Company's liabilities at the balance sheet date are shortterm creditors payable in one year or less. The Company has no liabilities with fixed repayment dates.

(d.3) Maturity profiles

The table below summarises the maturity profile of the Company's financial liabilities based on remaining undiscounted contractual obligations, including interest payable, and outstanding claim liabilities based on the estimated timing of claim payments resulting from recognised insurance liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately.

31 December 2017	Up to a year	1-2 years	2-5 years	5-10 years	Over 10 years	Total
	£	£	£	£	£	£
Subordinated liability	-	-	-	17,753,001	-	17,753,001
Claims outstanding	16,048,346	-	-	-	-	16,048,346
Creditors	133,749	-	-	-	-	133,749
Accruals and deferred income	4,345,893	-	-	-	-	4,345,893
Total	**20,527,988**	**-**	**-**	**17,753,001**	**-**	**38,280,989**

31 December 2016	Up to a year	1-2 years	2-5 years	5-10 years	Over 10 years	Total
	£	£	£	£	£	£
Subordinated liability	-	-	-	17,072,007	-	17,072,007
Claims outstanding	15,015,165	-	-	-	-	15,015,165
Creditors	346,241	-	-	-	-	346,241
Accruals	1,875,306	-	-	-	-	1,875,306
Total	**17,236,712**	**-**	**-**	**17,072,007**	**-**	**34,308,719**

(d.4) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate and price risk.

NOTES TO THE FINANCIAL STATEMENTS

(d.4.a) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company is exposed to currency risk in respect of its insurance business in currencies other than sterling. Currency risk is mitigated by maintaining financial assets denominated in the same currencies as its liabilities. The matching of assets and liabilities prevents economic exposure to currency risk but it does not prevent exposure to exchange gains or losses. The Company does not actively trade in derivatives, however, uses forward contracts to manage foreign exchange risk.

The table below summarises the exposure of the financial assets and liabilities to foreign currency exchange risk at the reporting date, as follows:

2017	EUR	USD	PLN	Others*	TOTAL
Financial assets					
Other financial investments	16,836,946	2,672,926	-	-	19,509,872
Debtors arising out of insurance operations	291,115	-	(25,253)	37,092	302,954
Deferred acquisition costs	744,976	-	194,469	-	939,445
Cash at bank	302,673	120,618	26,316	2,048	451,655
Financial liabilities					
Subordinated liability	(17,753,001)	-	-	-	(17,753,001)
Provision for unearned premiums - gross	(2,602,109)	-	(557,836)	-	(3,159,945)
Claims outstanding	(420,302)	-	(364,127)	(48,968)	(833,397)
Total	**(2,599,702)**	**2,793,544**	**(726,431)**	**(9,828)**	**(542,417)**

* includes SEK, HUF and CZK

2016	EUR	USD	PLN	Others*	TOTAL
Financial assets					
Other financial investments	17,161,034	13,340,568	-	-	30,501,602
Debtors arising out of reinsurance operations	16,188	-	(59,978)	10,452	(33,338)
Deferred acquisition costs	633,955	-	360,072	-	994,027
Cash at bank	101,695	34,055	502,950	4,398	643,098
Financial liabilities					
Subordinated liability	(17,072,007)	-	-	-	(17,072,007)
Provision for unearned premiums - gross	(2,192,470)	-	(1,049,410)	-	(3,241,880)
Claims outstanding	(255,667)	-	(323,157)	(19,710)	(598,534)
Total	(1,607,272)	13,374,623	(569,523)	(4,860)	11,192,968

* includes SEK, HUF and ZAR

(d.4.b) Interest rate risk

At 31 December 2017, if the exchange rate of foreign currencies had varied by 5% against Sterling with all other variables held constant, the profit for the year and equity would have been higher or lower by £24,409 and £27,121 (2016: £312,648 and £351,831).

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company's investment in fixed rate instruments exposes it to fair value interest risk. Interest on fixed rate instruments is priced at inception of the financial instrument and is fixed until maturity. The Company monitors interest rate risk by reviewing the duration of the investment portfolio. The Company's policy also requires it to manage the maturities of interest bearing financial assets and interest bearing financial liabilities.

Insurance liabilities are not discounted and therefore not exposed to interest rate risk.

At 31 December 2017, if the interest rate on fixed rate investments varied by 100 basis points, with all other variables held constant, the profit for the year and equity would have been higher or lower by £26,744 and £29,716 (2016: £38,738 and £24,419).

The method used for deriving sensitivity information did not change from previous period.

(d.4.c) Equity price risk

Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk and currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Company's equity price risk exposure relates to its investments whose values will fluctuate as a result of changes in market prices. The Company mitigates its price risk by investing only in particular types of assets and limiting its exposure to certain types of investments.

At 31 December 2017, if the fair value of investments varied by 5%, with all other variables held constant, the profit for the year and equity would have been lower or higher by £1,686,327 and £1,686,327 (2016: £1,560,127 and £1,404,115).

The method used for deriving sensitivity information did not change from previous period.

11. Intangible assets

Development costs relate to costs incurred by the Company in relation to the development of its online underwriting system. These have been written off on a straight line basis over a three year period. Although the value is now zero, the software is still in use.

12. Land and building

Land and building is held as an investment property.

	2017	2016
	£	£
As at 1 January	**720,000**	664,000
Revaluation during the year	**-**	56,000
As at 31 December	**720,000**	720,000

The historic cost of the above property is £664,000.

The leasehold property was professionally valued by Gibsons Chartered Surveyors in October 2016, in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors, on the basis of fair value in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors. The valuation was undertaken using the comparable method of valuation on the real areas of construction and registered land assuming that all licenses etc. are in place. Reinstatement valuation has been undertaken on the basis of total reinstatement of the house, pool, gardens, etc. as at the date of valuation including site clearance and fees.

The directors consider that the market value is not less than the current carrying value. There are no restrictions on title and the property is not pledged for liabilities. The investment in land and buildings is classified as Level 2 in the fair value hierarchy.

NOTES TO THE FINANCIAL STATEMENTS

13. Investments in group undertakings

	2017	2016
	£	£
Shares in group undertakings		
Shares in Moonscape Holdings Limited ("MHL")	**229,297**	317,772
	229,297	317,772
Loans to group undertakings		
Loan to MHL	**2,463,826**	3,035,023
	2,693,123	3,352,795

Movement in shares in group undertakings £	
As at 1 January 2017	317,772
Additions	600,000
Fair value adjustments	(688,475)
As at 31 December 2017	**229,297**

(a) Details of investments in subsidiary undertakings are as follows:

Direct subsidiaries	Country of incorporation and registered office	Class of shares held	% of nominal value held by the Company	% of nominal value held by the Group	Capital and reserves £	Profit & (loss) £
MHL	British Virgin Islands	Ordinary	100%	100%	222,878[1]	(616,784)[1]

[1]The figures are based on the unaudited financial statements for the period ended 31 December 2017.

(b) Details of loans to group undertakings are as follows:

The loan to MHL earned interest of £84,008 (2016: £104,871). The loan bore interest at a rate of 3% above the Bank of England's base rate. The loan is unsecured and repayable not later than 31 December 2018.

14. Other financial investments

	2017	
	Carrying Value	**Purchase price**
Financial assets	**£**	**£**
Shares and other variable-yield securities and units in unit trusts – at FVPL	39,757,012	39,375,451
Shares and other variable-yield securities and units in unit trusts – at cost	998,819	998,819
Debt securities and other fixed income securities – at FVPL	1,787,489	1,697,405
Deposits with credit institutions – at amortised cost	26,021,622	26,021,622
Other loans – at amortised cost	507,766	500,000
Derivative contracts – at FVPL	52,510	-
	69,125,218	68,593,297

Financial liabilities	**£**	£
Derivative contracts – at FVPL	**-**	-

14. Other financial investments (continued)

	2016	
	Carrying Value	Purchase price
Financial assets	£	£
Shares and other variable-yield securities and units in unit trusts – at FVPL	31,202,545	32,572,007
Shares and other variable-yield securities and units in unit trusts – at cost	2,507,465	2,367,581
Debt securities and other fixed income securities – at FVPL	14,365,751	14,425,180
Other loans – at amortised cost	-	-
Deposits with credit institutions – at amortised cost	10,449,182	10,449,182
	58,524,943	59,813,950
Financial liabilities	£	£
Derivative contracts – at FVPL	(34,983)	-

Investments in shares and other variable-yield securities and units in unit trusts and debt securities and other fixed income securities are listed.

Debt securities and fixed income securities are designated on initial recognition at fair value through profit or loss. Debt securities and fixed income securities consist of securities with maturity dates which range from December 2018 to September 2026 and securities with no fixed maturity dates.

The amount of change during the period and cumulatively in the fair value of financial instruments held at fair value through profit or loss (other than derivatives) attributable to changes in credit risk was £1,015,702 gain and £524,155 gain (2016: £1,634,049 loss and £1,578,025 loss).

There was no material change in fair value for financial instruments held at fair value (other than derivatives) attributable to own credit risk in the current or comparative period.

There have been no day 1 profits recognised in respect of financial instruments designated at fair value through profit or loss.

Derivative contracts above relate to open foreign currency forward contracts classified as trading instruments. The table below shows the derivative financial instruments with their notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding as of 31 December 2017 and 2016 are not indicative of either market risk or credit risk.

		2017	2016
*Currency forward contracts notional amounts**			
Buy:			
	EUR	**4,256,559**	6,281,410
	USD	**-**	680,019
	PLN	**953,900**	908,500
Sell:			
	EUR	**206,665**	3,582,784
	USD	**3,701,770**	20,846,505
	PLN	**-**	-
	CZK	**-**	-
	HUF	**-**	-

* *The notional amounts pertain to original currencies*

The asset arising from the gain on derivative contracts amounting to £52,510 (2016: loss of £34,983) as at the year-end was classified as 'other financial investments' on the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS

The investment return on the profit and loss account includes £55,361 (2016: £72,490) of interest income in respect of financial instruments that are not at 'fair value through profit or loss'.

The following table shows financial investments recorded at fair value analysed between the three levels in the fair value hierarchy.

31 December 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
	£	**£**	**£**	**£**
Financial assets				
Shares and other variable yield securities and units in unit trusts	-	39,757,012	-	**39,757,012**
Debt securities and other fixed income securities	1,779,376	8,113	-	**1,787,489**
Derivative contracts	52,510	-	-	**52,510**
	1,831,886	**39,765,125**	**-**	**41,597,011**
Financial liabilities				
Derivative contracts	-	-	-	-

31 December 2016	Level 1	Level 2	Level 3	Total
	£	£	£	£
Financial assets				
Shares and other variable yield securities and units in unit trusts	-	31,202,545	-	31,202,545
Debt securities and other fixed income securities	14,365,751	-	-	14,436,751
	14,436,751	31,202,545	-	45,568,296
Financial liabilities				
Derivative contracts	(34,983)	-	-	-

Included in Level 1 category are financial assets that are measured by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Included in the level 2 category are financial assets measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions. For example, assets for which pricing is obtained via pricing services but where prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in private equity funds with fair values obtained via fund managers and assets that are valued using the Company's own models whereby the significant inputs into the assumptions are market observable.

Deposits with credit institutions include €4,077,193 (2017: £3,622,178; 2016: £3,611,809) of assets held separately as security for standby letter of credit to the amount of €3,402,000. Debt and other fixed income securities consist of securities with maturity dates which range up to January 2024 and securities with no fixed repayment dates.

NOTES TO THE FINANCIAL STATEMENTS

Gain on the realisation of investments

Included within the £966,062 gain (2016: £1,008,408 loss) on the realisation of investments in the non-technical account is the reversal of unrealised investment gain of £136,258 recognised in previous years in respect of investment disposals during the year.

15. Other debtors

	2017	2016
	£	£
Subordinated loans	**-**	397,655
Amounts owed by group undertakings	**22,138**	32,987
Other	**-**	3,318,094
	22,138	3,748,736

The above subordinated loans are unsecured, interest bearing loans which are due in more than one year.

16. Tangible Assets

	Fixtures and fittings	**IT equipment**	**Motor vehicles**	**Leasehold improvements**	**Apartment**	**Total**
	£	**£**	**£**	**£**	**£**	**£**
Cost						
At 1 January	34,864	71,709	13,445	63,974	-	183,992
Additions	-	9,114	-	-	46,794	55,908
Disposals	-	-	-	(1,809)	-	(1,809)
At 31 December 2017	34,864	80,823	13,445	62,165	46,794	238,091
Depreciation:						
At 1 January 2017	(34,485)	(65,653)	(13,445)	(63,974)	-	(177,557)
Charged in year	(215)	(5,097)	-	-	(2,590)	(7,902)
Disposals	-	-	-	1,809	-	1,809
At 31 December 2017	(34,700)	(70,750)	(13,445)	(62,165)	(2,590)	(183,650)
Net book value						
At 31 December 2017	**164**	**10,073**	**-**	**-**	**44,204**	**54,441**
At 31 December 2016	379	6,056	-	-	-	6,435

NOTES TO THE FINANCIAL STATEMENTS

17. Deferred acquisition cost

	2017	2016
	£	£
A 1 January	**10,112,901**	9,544,438
Change in deferred acquisition cost	**385,712**	568,463
At 31 December	**10,498,613**	10,112,901

18. Other prepayments and accrued income

	2017	2016
	£	£
Advanced commission	**12,134,092**	10,356,865
Claims funds	**439,003**	827,570
Other prepayments	**1,216,251**	1,054,672
At 31 December	**13,789,346**	12,239,107

19. Subordinated liability

In the year 2015, the Company issued a EUR 20,000,000 subordinated note at an issue price of 100% of the principal amount. The note is subject to a floating interest rate and will mature in January 2026.

The forex impact for the year amounted to £680,994 (2016: £2,366,125).

In the event of liquidation, the amounts payable to the noteholders in respect of principal and interest (including arrears of interest) shall be subordinated to the payment in full of all other unsubordinated creditors of the Company (including all policyholders of insurance policies and all policy beneficiaries of the Company) whose claims are not for any reason subordinated in any manner provided that, subject to such payment in full, the noteholder will be paid in priority to:

(a) holders of any unsubordinated loans granted to, or notes issued by the issuer; and
(b) to any class of share capital issued by the Company.

Interest paid on subordinated liability during the year amounted to £1,149,281 (2016: £1,077,351) and included as other charges in the non-technical account.

20. Other creditors including taxation and social security

	2017	2016
	£	£
Insurance premium tax	**5,094,815**	3,852,037
Other	**340**	-
At 31 December	**5,095,155**	3,852,037

21. Called up share capital

	2017	2016
	£	£
Authorised:		
50,000,000 ordinary shares of £1 each	**50,000,000**	50,000,000
5,000 Class "A" redeemable preference shares of £1 each	**5,000**	5,000
5,000 Class "B" redeemable preference shares of £1 each	**5,000**	5,000
5,000 Class "C" redeemable preference shares of £1 each	**5,000**	5,000
5,000 Class "D" redeemable preference shares of £1 each	**5,000**	5,000
5,000 Class "E" redeemable preference shares of £1 each	**5,000**	5,000
	50,025,000	50,025,000

	2017	2016
	£	£
Allotted, called up and fully paid:		
Ordinary shares of £1 each	**3,000,000**	3,000,000
Class "A" redeemable preference shares of £1 each	**3,000**	3,000
Class "B" redeemable preference shares of £1 each	**3,000**	3,000
	3,006,000	3,006,000

The redeemable preference shares do not carry a redemption date and can only be redeemed at the discretion of the directors after prior approval from the Commissioner of Insurance. Upon redemption the preference shareholders are entitled to the nominal amount of the preference share including any premium paid.

In respect to each class of redeemable preference share the directors may in their absolute discretion and subject always to obtaining the approval of the Commissioner of Insurance declare a dividend to be paid out from the distributable reserves attributable to the class of redeemable preference share.

22. Obligations under leases

The Company has an annual commitment of £77,459 under an operating property lease.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	2017	2016
	£	£
Later than one year and not later than five years	**309,836**	309,836
	309,836	309,836

The above subordinated loans are unsecured, interest bearing loans which are due in more than one year.

NOTES TO THE FINANCIAL STATEMENTS

23. Related party transactions

During the year, the Company entered into transactions with its related parties. The transactions entered into and balances outstanding as at 31 December are as follows:

	Expenses		**Amounts dues from parties**	
	2017	2016	**2017**	2016
Entity with common director	**21,753**	21,753	**-**	-
Entities under common ownership	**60,000**	60,000	**32,987**	32,987

Key management personnel

All directors and certain senior employees who have authority and responsibility for planning, directing and controlling the activities of the Group are considered to be key management personnel. Total remuneration is respect of these individuals is £247,000 (2016: £165,052).

24. Controlling party

The Company is a wholly owned subsidiary of Red Sands Group Holdings Limited, a Company incorporated in Gibraltar. The Jaap t'Hooft Trust is the ultimate controlling party.

redsands insurance

redsands insurance

Red Sands Insurance Company
(Europe) Limited
Level 3, Ocean Village Business Centre
23, Ocean Village Promenade, Gibraltar