



Red Sands Insurance Company (Europe) Limited

**REPORT AND
FINANCIAL STATEMENTS**
FOR THE YEAR ENDED
31 DECEMBER 2018

Company Registration No. 87598

RED SANDS INSURANCE COMPANY (EUROPE) LIMITED

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DIRECTORS, OFFICERS AND OTHER INFORMATION

Directors:

Paul Savignou MBE
Shaun Cawdery
Richard Foster
Emilio Gomez
John Henderson
Adamo Valy

Secretary:

Ania Kostyk

Registered Office:

Level 3
Ocean Village Business Centre
23, Ocean Village Promenade
Gibraltar

Auditors:

EY Limited
Regal House
Queensway
Gibraltar

Independent Reserving Actuary:

Milliman LLP
11 old Jewry
London
EC2R 8DU

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 2018.

Principal Activity

The Company holds an insurance licence issued by the Gibraltar 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 as shown in the profit and loss account on pages 11 and 12. The shareholders' funds total £31.6m (2017: £25.6m). There were no dividends declared during the year (2017: £4m).

Throughout 2018, the Company has maintained its strategic objective of supporting its established distribution partners and the Company is pleased to report that it has produced good results.

As a result of the continuing uncertainty around the UK and Gibraltar's withdrawal from the European Union, the Company ceased writing new business in the EU27 by 31 December 2018. Following receipt of approval from the Gibraltar Financial Services Commission in February 2019, the Company completed a portfolio transfer of all accident and sickness policies held by EU27 policyholders.

The Company continues to see encouraging growth in gross written premium in its core pet and ancillary motor products, and has seen stable performance in the insurance backed guarantee market, resulting in overall gross written premium increasing by 12.9% (2017: 16.1%) from £142m to £160m. As a result of strong underwriting discipline during growth, the Company's technical result for 2018 was £8m (2017: £5m).

The Company's commitment to its policyholders is reflected in its claims processes and payments. During the course of 2018, the Company paid out £92m (2017: £82m) worth of claims to its policyholders.

The Company has continued to work closely with the Company's team of independent investment consultants and seeks to build a portfolio to meet the requirements of the Company. Total investment losses after fees during 2018 were £0.4m (2017: gains of £2.4m), largely due to normal market fluctuations in the asset classes held by the Company. The Company does not actively seek to time the market and normal market fluctuations are planned into the investment thesis and monitored with our independent investment consultants.

As a result, the profit after tax for the current year was £6.0m (2017: £5.3m).

The Company's solvency position remains robust, with the unaudited Solvency II solvency capital requirement coverage ratio calculated as 168.9% at 31 December 2018 (2017: 141.8%).

The Company's Brexit plan was to complete a portfolio transfer of General Business Class 1 (Accident) and Class 2 (Sickness) policies to Red Sands Life Assurance Company (Europe) Limited. The Company was pleased that regulatory approval was granted for the portfolio transfer and this was completed in February 2019.

Directors

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

- Paul Savignon MBE
- Shaun Cawdery (appointed 11 September 2018)
- Richard Foster (appointed 20 November 2018)
- Emilio Gomez
- John Henderson (appointed 26 April 2018)
- Ed O'Regan (resigned 31 May 2018)
- Adamo Valy

Future developments

The Company is enthusiastic to engage in new markets and to explore new products with knowledgeable business partners. The Company believes this is key to its continued growth and it is keen to see new opportunities during 2019.

The directors are extremely pleased with what has been accomplished so far. As always, they look forward to continuing to work closely with their current distribution and reinsurance partners.

DIRECTORS' REPORT

continued

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 its 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

The directors do not recommend the payment of a dividend (2017: £4m).

Going concern

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 period, which give a true and fair view of the state of affairs of the Company and of the profit or loss for that period. 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect 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
Director



Shaun Cawdery
Director

26 June 2019

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 2018, and the statement of comprehensive income, statement of changes in equity 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 2018 and of the Company's profit 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
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Key audit matter – Valuation of technical provision for claims outstanding

As at 31 December 2018, the Company reported technical provisions for claims outstanding of £18.7m gross of reinsurance and £18.5m net of reinsurance.

(refer to page 16 Note 3.1 Judgments and key sources of estimation uncertainty, page 17 Note 3.2 Significant accounting policies, page 22 Note 5 Claims outstanding, net of reinsurance, pages 25 to 32 Note 10 Risk management policies)

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
- assessing 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 2018 are reasonable. Accordingly, we conclude that the Company's estimate of the valuation of technical provision for claims outstanding as at 31 December 2018 is reasonable.

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

continued

Responsibilities of Management and Those charged with Governance for the Financial Statements

Management is responsible for the preparation and true and fair presentation 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 management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 6 years, covering the years ended 31 December 2013 to 31 December 2018.
- 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 non-compliance 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.

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

Where this risk was considered to be higher, we 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
27 June 2019

STATEMENT OF COMPREHENSIVE INCOME for the year ended 31 December 2018

PROFIT AND LOSS ACCOUNT

TECHNICAL ACCOUNT - GENERAL BUSINESS

	Notes	2018 £	2017 £
Earned premiums, net of reinsurance			
Gross written premiums	4	160,188,445	141,947,843
Outward reinsurance premiums	4	(650,597)	(1,296,057)
		<hr/>	<hr/>
Net written premiums		159,537,848	140,651,786
Change in the provision			
for unearned premiums – gross	4	(2,296,717)	(4,671,236)
		<hr/>	<hr/>
Earned premiums, net of reinsurance		157,241,131	135,980,550
		<hr/>	<hr/>
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	5	(92,456,643)	(81,939,668)
Reinsurers' share	5	343,529	80,677
		<hr/>	<hr/>
		(92,113,114)	(81,858,991)
		<hr/>	<hr/>
Change in the provision for claims			
Gross amount	5	(2,680,782)	(1,033,181)
Reinsurers' share	5	6,295	(378,449)
		<hr/>	<hr/>
		(2,674,487)	(1,411,630)
		<hr/>	<hr/>
		(94,787,601)	(83,270,621)
		<hr/>	<hr/>
Net operating expenses	7	(54,370,777)	(48,025,258)
		<hr/>	<hr/>
Balance on the Technical Account -			
General Business		8,082,753	4,684,671
		<hr/>	<hr/>

The notes on pages 16 to 37 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME for the year ended 31 December 2018 *continued*

PROFIT AND LOSS ACCOUNT NON-TECHNICAL ACCOUNT

	Notes	2018 £	2017 £
Balance on the General Business			
Technical Account		8,082,753	4,684,671
Investment income			
Income from group undertakings		74,934	84,008
Income from other financial investments		595,843	537,715
(Losses)/gain on the realisation of investments	13	(1,316,804)	966,062
Unrealized gains on investments		410,580	1,056,766
Investment expenses and charges			
Investment management expenses		(204,279)	(237,583)
Other income		174,079	2,900
Other charges	18	(1,086,372)	(1,149,281)
Profit on ordinary activities before tax		6,730,734	5,945,258
Tax on profit on ordinary activities	9	(745,788)	(626,306)
Profit for the financial year		5,984,946	5,318,952
Other comprehensive income		-	-
Total comprehensive income for the financial year		5,984,946	5,318,952

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.

STATEMENT OF FINANCIAL POSITION as at 31 December 2018

ASSETS		2018	2017
	Notes	£	£
Investments			
Land and building	11	720,000	720,000
Investments in group undertakings	12	2,786,143	2,693,123
Other financial investments	13	71,779,631	69,125,218
		<hr/>	<hr/>
		75,285,774	72,538,341
Reinsurers' share of technical provisions			
Claims outstanding	5	240,993	234,698
Debtors			
Debtors arising out of direct insurance operations		7,305,330	5,702,146
Other debtors	14	40,230	22,138
		<hr/>	<hr/>
		7,345,560	5,724,284
Other assets			
Tangible assets	15	48,747	54,441
Cash at bank and in hand		15,598,361	11,609,884
		<hr/>	<hr/>
		15,647,108	11,664,325
Prepayments and accrued income			
Accrued interest		-	15,451
Deferred acquisition costs	16	11,408,068	10,498,613
Other prepayments and accrued income	17	16,556,433	13,789,346
		<hr/>	<hr/>
		27,964,501	24,303,410
Total assets			
		126,483,936	114,465,058
		<hr/> <hr/>	<hr/> <hr/>

The notes on pages 16 to 37 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION as at 31 December 2018 *continued*

LIABILITIES AND SHAREHOLDER'S EQUITY		2018	2017
	Notes	£	£
Capital and reserves			
Called up share capital	20	3,006,000	3,006,000
Share premium account		5,994,000	5,994,000
Profit and loss account		22,589,547	16,604,601
		<hr/>	<hr/>
Total shareholders' funds		31,589,547	25,604,601
Subordinated liability			
		17,407,582	17,753,001
		<hr/>	<hr/>
Technical provisions			
Provision for unearned premiums	4	47,781,030	45,484,313
Claims outstanding	5	18,729,128	16,048,346
		<hr/>	<hr/>
		66,510,158	61,532,659
Creditors			
Creditors arising out of direct insurance operations		215,203	133,749
Amounts owed to credit institutions	13	52,086	-
Other creditors including taxation and social security	14	6,156,865	5,095,155
		<hr/>	<hr/>
		6,424,154	5,228,904
Accruals and deferred income			
		4,552,495	4,345,893
		<hr/>	<hr/>
Total liabilities and shareholders' funds		126,483,936	114,465,058
		<hr/> <hr/>	<hr/> <hr/>

Approved and signed on behalf of the Board of directors on 26 June 2019.



Emilio Gomez
 Director



Shaun Cawdery
 Director

STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2018

	2018			
	Called up share capital £	Share premium account £	Profit and loss account £	Total £
At 1 January	3,006,000	5,994,000	16,604,601	25,604,601
Total comprehensive income for the year	-	-	5,984,946	5,984,946
At 31 December	3,006,000	5,994,000	22,589,547	31,589,547

	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
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

The notes on pages 16 to 37 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

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 GX11 1AA. The financial statements cover those of the individual entity and are prepared as at and for the year ended 31 December 2018.

2. Basis of preparation

These financial statements have been prepared in compliance with Gibraltar Financial Reporting Standards (GFRS) 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 or amortised cost, as specified in the accounting policies below.

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

The Company has taken advantage of the disclosure exemption available under FRS 102.1.12 and therefore has not presented a statement of cash flows on the basis that the results of the Company form part of the consolidated financial statements of Red Sands Group Holdings Limited.

Going concern

The accounts have been prepared on a going concern basis. In considering the appropriateness of this assumption, the Board of Directors have reviewed the Company's projections for the next twelve months and beyond, including cash flow forecasts and stress tested ultimate outcome scenario and regulatory capital requirements.

As a result of this review the Board of Directors' have satisfied themselves that the Company has adequate resources to continue in operational existence for the foreseeable future and believe that it is appropriate to prepare the financial statements on a going concern basis.

3. Accounting policies

3.1 Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, 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 judgements 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

Further details are given in Notes 4 and 5.

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 21.

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 is being amortised over a period of three years. The Directors consider that this period is appropriate.

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 to 4 years straight line
- IT equipment - 3 years straight line
- Motor vehicles - 3 years straight line

Impairment of assets

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 assets with its recoverable amount, which is the higher of net realisable value and value in use. The carrying value of the 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 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 valuers, 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 derecognised 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 recognised 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 hedge accounting 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 excluding 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

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 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 13 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 without time restriction.

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

Investment income

Dividends are recognised when the investments to which they relate are declared 'ex-dividend'. Rent is recognised on an accruals 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 notes receivables which 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

Functional and presentation currency

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

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 statement.

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 a straight-line basis over the period of the lease and the asset is not recognised in the statement of financial position.

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

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 18 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 insurance policies.

Acquisition costs

Acquisition costs comprise of 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 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

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 written premium 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 2018 or 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 profit and loss account.

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.

Equity

Called up share capital is measured at par value for all shares issued and outstanding. When the shares are sold at a premium, the difference between the proceeds and the par value is credited to 'Share premium account'. Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are chargeable to 'Share premium account'.

'Profit and loss account' represents accumulated earnings/(losses) of the Company less dividends declared.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

4. Provisions for unearned premiums, net of reinsurance

	2018		
	Gross £	Reinsurance £	Net £
Premiums written	160,188,445	(650,597)	159,537,848
Unearned premiums carried forward	(47,781,030)	-	(47,781,030)
Unearned premiums brought forward	45,484,313	-	45,484,313
Change in the provision for unearned premiums	(2,296,717)	-	(2,296,717)
Premiums earned	157,891,728	(650,597)	157,241,131
		2017	
	Gross £	Reinsurance £	Net £
Premiums written	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

Included in premiums earned were foreign exchange gains arising on translation of the provision for unearned premiums as at 31 December 2018 of £25,171 (2017: £169,506).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

5. Claims outstanding, net of reinsurance

	2018		
	Gross £	Reinsurance £	Net £
Claims paid	92,303,145	(343,529)	91,959,616
Claims handling fees	153,498	-	153,498
	<u>92,456,643</u>	<u>(343,529)</u>	<u>92,113,114</u>
Outstanding claims carried forward	18,729,128	(240,993)	18,488,135
Outstanding claims brought forward	(16,048,346)	234,698	(15,813,648)
	<u>2,680,782</u>	<u>(6,295)</u>	<u>2,674,487</u>
Change in provision for claims outstanding			
Claims incurred	<u>95,137,425</u>	<u>(349,824)</u>	<u>94,787,601</u>
	2017		
	Gross £	Reinsurance £	Net £
Claims paid during the year	81,792,249	(80,677)	81,711,572
Claims handling fees	147,419	-	147,419
	<u>81,939,668</u>	<u>(80,677)</u>	<u>81,858,991</u>
Outstanding claims carried forward	16,048,346	(234,698)	15,813,648
Outstanding claims brought forward	(15,015,165)	613,147	(14,402,018)
	<u>1,033,181</u>	<u>378,449</u>	<u>1,411,630</u>
Change in provision for claims outstanding			
Claims incurred	<u>82,972,849</u>	<u>297,772</u>	<u>83,270,621</u>

Included in claims incurred were foreign exchange gains arising on translation of claims outstanding as at 31 December 2018 of £8,200 (2017: loss of £52,834).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

6. Segmental information

	2018			
	Credit & Suretyship £	Misc & Other £	Accident & Health £	Total £
Gross written premiums	2,809,001	154,053,910	3,325,534	160,188,445
Gross earned premiums	964,585	153,601,609	3,325,534	157,891,728
Gross claims incurred	(134,261)	(94,134,895)	(868,269)	(95,137,425)
Gross operating expenses	(397,739)	(52,810,680)	(1,170,977)	(54,379,396)
Gross technical result	432,585	6,659,034	1,286,288	8,374,907
Reinsurance balance	-	(292,154)	-	(292,154)
	432,585	6,363,880	1,286,288	8,082,753

	2017			
	Credit & Suretyship £	Accident & Misc & Other £	Health £	Total £
Gross written premiums	2,764,379	136,316,141	2,867,323	141,947,843
Gross earned premiums	2,473,868	131,935,416	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	570,328	5,659,188	48,984	6,278,500
Reinsurance balance	-	(1,593,829)	-	(1,593,829)
	570,328	4,065,359	48,984	4,684,671

The Company writes insurance in the EEA. All contracts of insurance are concluded in Gibraltar and there has been no inwards reinsurance business in the year.

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

for the year ended 31 December 2018

7. Net operating expenses	2018	2017
	£	£
Acquisition costs - commissions	42,996,506	37,359,639
Change in deferred acquisition costs	(909,455)	(385,712)
Profit commission payable	4,303,272	3,501,277
Administrative expenses (see note 8)	7,989,073	7,550,054
Reinsurance commission	(8,619)	-
	54,370,777	48,025,258
	<hr/> <hr/>	<hr/> <hr/>
8. Administrative expenses	2018	2017
	£	£
Administrative expenses include:		
Staff costs: Wages and salaries	599,491	533,400
Social security costs	29,456	27,618
Other staff costs	72,838	54,365
Depreciation and amortisation (note 15)	19,348	7,902
Non-executive directors' fees	46,733	41,850
Audit fees	54,917	49,016
Operating lease rentals (Note 21)	82,320	77,459
Consultancy Fees	4,510,915	3,787,242
Foreign exchange losses	150,941	646,081
Policy administration fees	950,452	804,062
Regulatory costs	504,465	557,082
Professional fees	224,257	208,168
Marketing fees	200,000	200,000
Other Costs	542,940	2,325,121
	7,989,073	7,550,054
	<hr/> <hr/>	<hr/> <hr/>

Other than directors, the Company had an average of 9 employees (2017: 10) during the year. Included in wages and salaries is directors' remuneration of £175,365 (2017: £99,500). Audit fees for the year include tax compliance fees amounting to £2,185 (2017: £3,175).

	2018	2017
	£	£
Administration and finance	3	3
Underwriting	5	7
Management	1	-
	9	10
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

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.

	2018	2017
	£	£
Current tax:		
Gibraltar corporation tax on profit for the year	745,788	626,306
The tax assessed for the period is higher than the standard rate of corporate tax in Gibraltar of 10% (2017: 10%). The differences are reconciled below:		
Profit on ordinary activities before tax	6,730,734	5,945,258
Profit on ordinary activities multiplied by the standard rate of Corporation Tax of 10%	673,073	594,526
Effects of:		
Expenses not deductible for tax purposes	152,108	18,832
Income not taxable	(108,136)	-
Other temporary differences	28,743	12,948
Tax on profit on ordinary activities	745,788	626,306

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 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. As at 31 December 2018, the Company has a solvency position in excess of the minimum solvency II margin. The solvency position as at 31 December 2018 is unaudited and is subject to normal regulatory review upon submission of this report and financial statements, together with regulatory returns.

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

mature in January 2026. Further details are contained in Note 18.

(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.

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: once-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 £
<i>Miscellaneous financial loss lines:</i>					
Pet	+/-10% claims reserve	1,432,246	1,408,455	1,408,455	1,267,610
Pet	+/-5% loss ratio	5,909,482	5,909,482	5,909,482	5,318,534
Warranty	+/-10 claims reserve	309,932	309,932	309,932	278,939
<i>Credit and suretyship lines:</i>					
IBGs	+/-10% claims reserve	105,678	105,678	105,678	95,110

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 2015 to 2020.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

Ultimate Gross claims	2012 & prior £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000	2018 £'000	Total £'000
At the end of the underwriting year	36,297	40,547	50,777	59,935	78,912	97,988	95,143	
One year later	36,297	39,269	47,382	49,926	63,897	97,829		
Two years later	36,297	39,269	47,382	49,926	63,897			
Three years later	36,297	39,269	47,382	49,926				
Four years later	36,297	39,269	47,382					
Five years later	36,297	39,269						
Six years later	36,297							
Cumulative Gross claims incurred	36,297	39,269	47,382	49,926	63,897	97,929	95,143	429,743
Claims paid	(36,297)	(39,269)	(47,382)	(49,926)	(63,897)	(81,940)	(76,414)	(411,014)
Gross claims outstanding	-	-	-	-	-	-	18,729	18,729
Gross earned premiums	62,056	73,816	85,647	99,500	116,269	137,276	157,892	
Claims paid	58.49%	53.20%	55.32%	50.18%	54.96%	71.26%	60.26%	
Ultimate net claims	2012 & prior £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000	2018 £'000	Total £'000
At end of the underwriting year	24,301	26,778	37,715	47,333	78,258	97,673	94,902	
One year later	24,301	25,232	32,372	37,530	63,856	97,514		
Two years later	24,301	25,232	32,372	37,530	63,856			
Three years later	24,301	25,232	32,372	37,530				
Four years later	24,301	25,232	32,372					
Five years later	24,301	25,232						
Six years later	24,301							
Cumulative net claims incurred	24,301	25,232	32,372	37,530	63,856	97,514	94,902	375,707
Claims paid	(24,301)	(25,232)	(32,372)	(37,530)	(63,856)	(97,514)	(76,414)	(357,219)
Net claims outstanding	-	-	-	-	-	-	18,488	18,488
Net earned premiums	47,590	56,428	67,014	79,946	114,940	135,981	157,241	
Claims incurred ratio	51.06%	44.72%	48.31%	46.94%	55.56%	71.71%	60.35%	

(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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

(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 non-payment.

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 date. 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.

The table below provides information regarding the credit risk exposure of the Company at 31 December 2018 by classifying assets according to Standard & Poor's credit ratings of the counterparties. AAA is the highest possible rating. Assets that fall outside of the range AAA to BBB are classified as speculative grade and have not been rated.

31 December 2018

	AAA-AA	A-BBB	Speculative grade (BB or lower)	Not rated	Total
	£'000	£'000	£'000	£'000	£'000
Investment in group undertakings	-	-	-	2,786	2,786
Shares and other variable yield securities and units in unit - at FVPL	-	-	-	30,410	30,410
Shares and other variable yield securities and units in unit trusts – at Cost	-	-	-	988	988
Debt securities and other fixed income securities – at FVPL	-	-	8	-	8
Deposits with credit institutions	19,407	7,078	-	2,790	29,275
Other loans at amortised cost	-	-	-	10,975	10,975
Derivative contracts – at FVPL	-	123	-	-	123
Reinsurers' share of claims outstanding	241	-	-	-	241
Debtors arising out of direct insurance operations	-	-	-	7,305	7,305
Other debtors	-	-	-	40	40
Cash at bank and in hand	8,039	7,558	-	1	15,598
Total	27,687	14,759	8	55,295	97,749

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

31 December 2017	AAA-AA	A-BBB	Speculative grade (BB or lower)	Not rated	Total
	£'000	£'000	£'000	£'000	£'000
Investment in group undertakings	-	-	-	2,693	2,693
Shares and other variable yield securities and units in unit trusts – at FVPL	6,263	-	-	33,494	39,757
Shares and other variable yield securities and units in unit trusts – at Cost	-	-	-	999	999
Debt securities and other fixed income securities	-	-	-	1,787	1,787
Debts with credit institutions	20,649	2,642	-	2,731	26,022
Other loans at amortised cost	-	-	-	508	508
Derivative contracts - at FVTPL	53	-	-	-	53
Reinsurers' share of claims outstanding	235	-	-	-	235
Debtors arising out of direct insurance operations	-	-	-	5,702	5,702
Other debtors	-	-	-	22	22
Cash at bank and in hand	-	11,608	-	1	11,608
Total	27,200	14,250	-	47,937	89,387

(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.

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

As at 31 December 2018	Up to a year £'000	1-2 years £'000	2-5 years £'000	5-10 years £'000	Total £'000
Subordinated liability	-	-	-	17,408	17,408
Claims outstanding	18,729	-	-	-	18,729
Creditors	267	-	-	-	267
Accruals and deferred income	4,552	-	-	-	4,552
Total	23,548	-	-	17,408	40,956
As at 31 December 2017	Up to a year £	1-2 years £	2-5 years £	5-10 years £	Total £
Subordinated liability	-	-	-	17,753	17,753
Claims outstanding	16,048	-	-	-	16,048
Creditors	134	-	-	-	134
Accruals	4,346	-	-	-	4,346
Total	20,528	-	-	17,753	38,281

(d.3) 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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

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

As at 31 December 2018	EUR	USD	PLN	Others*	TOTAL
	£'000	£'000	£'000	£'000	£'000
<i>Financial assets</i>					
Other financial investments	7,585	4,728	-	-	12,313
Debtors arising out of insurance operations	30	-	(50)	(24)	(44)
Cash at bank	8,613	-	-	-	8,613
<i>Financial liabilities</i>					
Subordinated liability	(17,408)	-	-	-	(17,408)
Claims outstanding	(377)	-	(212)	(29)	(618)
Total	(1,557)	4,728	(262)	(53)	2,856

* includes SEK, HUF and CZK

As at 31 December 2017	EUR	USD	PLN	Others*	TOTAL
	£'000	£'000	£'000	£'000	£'000
<i>Financial assets</i>					
Other financial investments	16,837	2,673	-	-	19,510
Debtors arising out of insurance operations	291	-	(25)	37	303
Cash at bank	303	121	26	2	452
<i>Financial liabilities</i>					
Subordinated liability	(17,753)	-	-	-	(17,753)
Claims outstanding	(420)	-	(364)	(49)	(833)
Total	(742)	2,794	(363)	(10)	1,679

* includes SEK, HUF and ZAR

(d.4.b) Interest rate risk

At 31 December 2018, if the interest rates had varied by 5% against Sterling with all other variables held constant, the profit for the year and equity would have been higher by £136,000 or lower by £142,800 and £142,800 (2017: £24,409 and £27,121 respectively).

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 2018, 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 by £416,628 or lower by £394,809 (2017: £26,744 and £29,716 respectively).

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

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 2018, 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 £1,520,499 (2017: £1,686,327 respectively).

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

11. Land and building

Land and building is held as an investment property.

	2018 £	2017 £
As at 1 January	720,000	720,000
Additions during the year	-	-
Revaluation during the year	-	-
As at 31 December	<u>720,000</u>	<u>720,000</u>

The historic cost of the above property is £664,000 (2017: £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 carrying value reflects the market value. There are no restrictions on title and the property is not pledged for liabilities.

12. Investments in group undertakings

	2018 £	2017 £
<i>Shares in group undertakings</i>		
Shares in Moonscape Holdings Limited ("MHL")	206,179	229,297
<i>Loans to group undertakings</i>		
Loan to MHL	2,579,964	2,463,826
	<u>2,786,143</u>	<u>2,693,123</u>
<i>Movement in shares in group undertakings £</i>		
As at 1 January 2018	229,297	317,772
Additions	-	600,000
Fair value adjustments	(23,118)	(688,475)
As at 31 December 2018	<u>206,179</u>	<u>229,297</u>

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

Subsidiary	Direct or indirect	Country of incorporation	Class of shares	% of nominal value held	Capital & reserves	Profit & (loss) for the year
MHL	Direct	British Virgin Islands	Ordinary	100%	206,179	(16,669)

¹The figures are based on the unaudited financial statements for the period ended 31 December 2018.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

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

The loan to MHL earned interest of £74,934 (2017: £84,008). The loan bears interest at a rate of 3% above the Bank of England's base rate. The loan is unsecured and repayable upon the sale of the underlying property.

13. Other financial investments

	2018		2017	
	Carrying Value £	Purchase Price £	Carrying Value £	Purchase price £
<i>Financial assets</i>				
Shares and other variable-yield securities and units in unit trusts – at FVPL	30,409,979	29,744,655	39,757,012	39,375,451
Shares and other variable-yield securities and units in unit trusts – at cost	988,105	988,105	998,819	998,819
Debt securities and other fixed income securities – at FVPL	8,114	44,677	1,787,489	1,697,405
Deposits with credit institutions – at amortised cost	29,274,954	29,274,954	26,021,622	26,021,622
Other loans – at amortised cost	10,975,154	10,975,154	507,766	500,000
Derivative contracts – at FVPL	123,325	-	52,510	-
Total	71,779,631	71,027,545	69,125,218	68,601,063
<i>Financial liabilities</i>				
Derivative contracts – at FVPL	52,086	-	-	-

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 January 2019 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 £157,116 gain and £628,761 gain (2017: £296,702 gain and £471,645 gain).

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 2018 and 31 December 2017 are not indicative of either market risk or credit risk.

		2018	2017
<i>Currency forward contracts notional amounts*</i>			
Buy:	EUR	5,821,698	4,256,559
	PLN	958,413	953,900
Sell:	EUR	-	206,665
	USD	6,158,596	3,701,770

* The notional amounts pertain to original currencies

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

The investment return on the profit and loss account includes £483,598 (2017: £54,471) 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.

At 31 December 2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<i>Financial assets</i>				
Shares and other variable yield securities and units in unit trusts	9,199	16,306	4,905	30,410
Debt securities and other fixed income securities	-	-	8	8
Derivative contracts	123	-	-	123
	9,322	16,306	4,913	30,541
<i>Financial liabilities</i>				
Derivative contracts	52	-	-	52
	52	-	-	52
 At 31 December 2017	 Level 1 £'000	 Level 2 £'000	 Level 3 £'000	 Total £'000
<i>Financial assets</i>				
Shares and other variable yield securities and units in unit trusts	-	39,757	-	39,757
Debt securities and other fixed income securities	1,779	8	-	1,787
Derivative contracts	53	-	-	53
	1,831	39,765	-	41,597
<i>Financial liabilities</i>				
Derivative contracts	-	-	-	-
	-	-	-	-

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.

Gain on the realisation of investments

Included within the £1,316,804 loss (2017: £966,062 gain) on the realisation of investments in the non-technical account is the reversal of unrealised investment gain of £132,866 (2017: £136,258) recognised in previous years in respect of investment disposals during the year.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

14. Other debtors

	2018	2017
	£	£
Amounts owed by group undertakings	40,230	22,138

15. Tangible Assets

	Furniture Fixtures & fittings £	IT equipment £	Motor £	Leasehold improvements £	Total £
Cost					
At 1 January 2018	81,658	80,823	13,445	62,165	238,091
Additions	4,538	9,116	-	-	13,654
At 31 December 2018	86,196	89,939	13,445	62,165	251,745
Depreciation:					
At 1 January 2018	37,290	70,750	13,445	62,165	183,650
Charged in year	12,343	7,005	-	-	19,348
At 31 December 2018	49,633	77,755	13,445	62,165	202,998
Net book value at 31 December 2018	36,563	12,184	-	-	48,747
Net book value at 31 December 2017	44,368	10,073	-	-	54,441

16. Deferred acquisition cost

	2018	2017
	£	£
A 1 January	10,498,613	10,112,901
Change in deferred acquisition cost (note 7)	909,455	385,712
At 31 December	11,408,068	10,498,613

17. Other prepayments and accrued income

	2018	2017
	£	£
Advanced commission	14,992,516	12,134,092
Claims funds	593,552	439,003
Other prepayments	970,365	1,216,251
At 31 December	16,556,433	13,789,346

Advanced commissions relate to commissions paid to intermediaries in advance of the premium receipts, which are subject to clawback arrangements in the event of policy cancellation. Other prepayments relate to reinsurance premiums paid in advance, corporation tax rebates due and other general prepayments.

18. 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 a gain of £345,419 (2017: loss of £680,994).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

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 £1,086,372 (2017: £1,149,281) and included as other charges in the non-technical account.

19. Other creditors including taxation and social security

	2018	2017
	£	£
Insurance premium tax	5,325,229	5,094,815
Amounts owed to group undertakings	7,795	-
Other	823,841	340
	<hr/>	<hr/>
At 31 December	6,156,865	5,095,155
	<hr/> <hr/>	<hr/> <hr/>

Other creditors relates to taxation payable. Amounts owed to group undertakings related to a balance due to the immediate controlling entity (note 24).

20. Called up share capital

	2018	2017
	£	£
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
25,000 Nominal shares of £1 each	25,000	-
	<hr/>	<hr/>
	50,050,000	50,025,000
	<hr/> <hr/>	<hr/> <hr/>
	2018	2017
	£	£
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
	<hr/>	<hr/>
	3,006,000	3,006,000
	<hr/> <hr/>	<hr/> <hr/>

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

21. Obligations under finance leases

The Company has an annual commitment of £82,320 (2017: £77,459) under an operating property lease.

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

	2018	2017
	£	£
Within one year	82,320	77,459
Later than one year and not later than five years	82,320	232,377
	164,640	309,836

22. Guarantees

The Company issued a deed of guarantee during the year over a £5.5m loan in favour of Shaw International Holdings Limited. The guarantee was issued for a fee of £150,000, and supported a change in ownership structure of one of the Company's key distribution partners and therefore helped to secure the long term partnership currently enjoyed. The Guarantee shall continue in force until the loan is settled in full by the debtor.

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:

	Income/ Expenses		Amounts dues (to)/from parties	
	2018	2017	2018	2017
	£	£	£	£
Entity with common director	(23,367)	(21,753)	27,591	-
Entities under common ownership	60,000	60,000	4,492	22,138
Entity over which the Company has control	74,934	-	8,147	-
Entity with control over the Company	-	-	(7,795)	-

The amounts due from related parties are non interest bearing, unsecured and are due and demandable.

Key management personnel

All directors and certain senior employees who have authority and responsibility for planning, directing and controlling the activities of the Company are considered to be key management personnel. Total remuneration in respect of these individuals is £344,487 (2017: £247,000).

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.



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