



**REPORT AND  
FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED  
31 DECEMBER 2014

Company Registration No. 101001

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## **DIRECTORS, OFFICERS AND OTHER INFORMATION**

### **Directors:**

Paul Savignon  
Adamo Valy  
Ed O'Regan  
Emilio Gomez

### **Secretary:**

Anne-Marie Lopez

### **Registered Office:**

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

### **Auditors:**

EY Limited  
Regal House  
Queensway  
Gibraltar

### **Appointed Actuary:**

John McKenzie, FFA  
Milliman Limited  
11 Old Jewry  
London  
EC2R 8DU

## DIRECTORS' REPORT

The directors submit their report and the audited financial statements for the year ended 31 December 2014.

### Principal Activity

The principal activity of Red Sands Life Assurance Company (Europe) Limited ("the Company") is the provision of insurance services. The Company is licensed by the Gibraltar Financial Services Commission, under the Financial Services (Insurance Companies) Act, to underwrite Long Term Business Insurance in class I (Life & Annuity).

### Review of business

The year just ended was a tough but satisfying year with continued growth overall for the Company.

We remain excited by the solid platform and well-respected business that 4Life Direct, our local distribution and administration partner, has built and the potential that this creates for future growth in Poland, Hungary, the Czech Republic, Slovakia and elsewhere in Europe.

Gross Written Premium in 2014 increased by 29% to £10.3m from £8m in 2013. Although this represents a good increase in premium overall, it was slightly behind expectations at the start of the year. This was primarily down to lower than targeted gross policy sales and weakening local currencies. Policy sales in Poland continue to be impacted by higher than expected advertising costs, further impacted by 4Life Direct's consolidation of its sales activity and increased focused on quality over quantity. However, this was offset to an extent by the performance of the Hungarian business, which continues to perform quite well and was ahead of target.

Our focus remains on supporting our partners on providing uncomplicated, easy to understand and affordable insurance products and services to the European market, but particularly to that segment of the market which has not previously had access to, or cannot afford, traditional insurance agents or insurers. With this in mind, 4Life Direct continued to expand its distribution and marketing initiatives from purely telesales and direct mail, to include greater online and mobile initiatives.

A strategic decision was made during the year to expand into new territories. The new Czech and Slovakian businesses will operate the exact same business model as that successfully established in Poland and Hungary and are expected to offer similar uncomplicated and

easy to understand life assurance products. We are excited to work with our existing distribution partners to expand our own underwriting capability and geographic reach in this regard.

Regulation continues to play an important role in shaping how we do business. We are committed to ensuring compliance with all relevant consumers, data protection and other regulations, both at home and across Europe where we operate. In this regard, we continue to proactively engage with local regulatory bodies, legal counsel and industry experts to ensure compliance with both specific local and pan-European regulations.

Significant investment continues to be made into the company's policy admin and servicing system. In particular, the claims system has been developed to allow greater efficiency and reporting capability, including the ability to process claims within 24 hours. During the course of 2014 we paid more than £1.6m worth of benefits to clients in Poland and Hungary and the improvements in our claims system helped us ensure that these claims were paid as quickly as possible.

We continue to reinsure a large portion of all business with some of the world's highly-rated international reinsurance groups. In addition to providing valuable product and technical experience, the arrangement also provides capital support to boost an already solid balance sheet. We look forward to continuing to work with these groups in 2015 and beyond.

Through our Investment Committee, we are proactively involved in the management of our investments and receive expert guidance from our external team of consultants. Overall investment returns for 2014 were just under 7.4% for the year. The company continues to focus on managing its investment risk exposure and identifying appropriate assets to match its liabilities.

The overall result for 2014 was a profit of £1.1m. The value of in force business (net of reinsurance) increased by 9.63% to £16.1m during the year.

We remain committed to maintaining a financially sound and solid capital base from which to support our existing and significant new business growth planned for 2015. At the end of 2014 the company had a solvency cover ratio of 275% of the EU's required minimum margin.

## DIRECTORS' REPORT

*continued*

We have started 2015 fully focused on our final preparations for Solvency II and engaging the market on new opportunities for 2015.

With respect to Solvency II, the board is fully engaged in the implementation of Pillars I, II and III and initial capital assessments indicate that we will meet our SCR requirements by the 1st January 2016. The Audit, Risk and Corporate Governance Committee is overlooking the company's Solvency II work.

The company is incredibly proud of what has been achieved thus far and looks forward to building on that success in 2015. In particular, we look forward to working closely with our existing distribution and reinsurance partners, as they look to expand their operations to other exciting European territories.

We believe we have the right team in place to meet these goals and look forward to yet another excellent year.

### Results

The results for the year are as shown in the profit and loss account on pages 6 and 7.

### Financial risk management objectives and policies

The financial risk management policies are shown in note 2 to the financial statements.

### Long term business provision

The total held separately in the balance sheet as Long Term Business Provision amounted to £2,379,935 at the year-end (2013: £1,267,933). The description and underlying assumptions of the provisions are set out in note 14.

### Dividends

The directors do not recommend the payment of a dividend.

### Directors

The directors of the Company during the year were as follows:

P Savignon  
A Valy  
E O'Regan  
E Gomez

### 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 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.

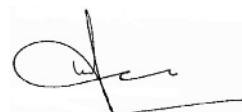
The maintenance and integrity of the Company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

### Auditors

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

A handwritten signature in black ink, appearing to be 'Ed O'Regan'.

Ed O'Regan  
Director

A handwritten signature in black ink, appearing to be 'Paul Savignon'.

Paul Savignon  
Director

25 June 2015

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF RED SANDS LIFE ASSURANCE COMPANY (EUROPE) LIMITED**

### **Report on the Financial Statements**

We have audited the financial statements of Red Sands Life Assurance Company (Europe) Limited for the year ended 31 December 2014 which comprise the profit and loss account, the balance sheet, the cash flow and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 182 of the Companies Act 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.

### **Directors' responsibilities for the financial statements**

The directors are responsible for the preparation and true and fair presentation of these financial statements in accordance with applicable law in Gibraltar and Gibraltar Accounting Standards ("Gibraltar Generally Accepted Accounting Practice"). This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditor's responsibilities**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair

presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinion**

In our opinion, the financial statements:

- give a true and fair view, in accordance with Gibraltar Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2014 and of the company's profit and cash flows for the year then ended; and
- have been properly prepared in accordance with the Companies Act and the Insurance Companies (Accounts Directive) Regulations 1997 and other applicable legislation.

### **Opinion on other matter prescribed by the Companies Act**


In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF RED SANDS LIFE ASSURANCE COMPANY (EUROPE) LIMITED**

### **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 requires us to report to you if, in our opinion:

- the company has not kept proper accounting records;  
or
- if information specified by law regarding directors' remuneration and other transactions is not disclosed;  
or
- we have not received all the information and explanations we require for our audit.



Angelique Linares

Statutory auditor for and on behalf of

### **EY LIMITED**

Registered Auditors

Chartered Accountants

Regal House

Queensway

Gibraltar

25 June 2015

## PROFIT AND LOSS ACCOUNT for the year ended 31 December 2014

<b>TECHNICAL ACCOUNT - LONG TERM BUSINESS</b>		<b>2014</b>	<b>2013</b>
	Notes	£	£
<b>Earned premiums, net of reinsurance</b>			
Gross written premiums	4	<b>10,331,309</b>	8,015,753
Outward reinsurance premiums	1	<b>(3,585,496)</b>	(3,402,771)
		<b>6,745,813</b>	4,612,982
<b>Claims incurred, net of reinsurance</b>			
Claims paid			
- Gross amount	3	<b>(1,616,314)</b>	(1,028,776)
- Reinsurer's share	3	<b>594,915</b>	567,709
		<b>(1,021,399)</b>	(461,067)
Change in the provision for claims			
- Gross amount	3	<b>23,377</b>	(51,779)
- Reinsurer's share	3	<b>(62,096)</b>	(12,625)
		<b>(38,719)</b>	(64,404)
		<b>(1,060,118)</b>	(525,471)
<b>Long-term business provision, net of reinsurance</b>			
Change in long-term business provision			
- Gross amount	14	<b>(1,272,278)</b>	(173,595)
- Reinsurer's share	14	<b>345,358</b>	203,192
		<b>(926,920)</b>	29,597
<b>Net operating expenses</b>	5	<b>(2,185,910)</b>	(2,831,590)
<b>Balance on the Technical Account for Long Term Business</b>		<b>2,572,865</b>	1,285,518

The notes on pages 11 to 21 form part of these financial statements.



**PROFIT AND LOSS ACCOUNT for the year ended 31 December 2014**

<b>NON – TECHNICAL ACCOUNT</b>	Notes	<b>2014</b>	2013
		<b>£</b>	£
<b>Balance on the long term Business</b>			
<b>Technical Account</b>		<b>2,572,865</b>	1,285,518
<b>Investment income</b>			
Income from other investments		<b>201,110</b>	230,962
Gains on realisation of investments		<b>151,962</b>	206,562
<b>Unrealised gains/(losses) on investments</b>		<b>156,883</b>	(85,346)
<b>Investment expenses and charges</b>			
Investment management expenses		<b>(9,088)</b>	(12,930)
<b>Other charges</b>	6	<b>(1,958,103)</b>	(887,324)
<b>Profit on ordinary activities before tax</b>		<b>1,115,629</b>	737,442
Tax on profit on ordinary activities	7	-	-
<b>Profit for the financial year</b>		<b>1,115,629</b>	737,442

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 profit for the year. This profit is stated on an historical cost basis as adjusted for the revaluation of certain investments.

The notes on pages 11 to 21 form part of these financial statements.

**BALANCE SHEET as at 31 December 2014**

	Notes	2014 £	2013 £
<b>ASSETS</b>			
<b>Intangible assets</b>			
Development costs	8	<b>343,143</b>	340,912
<b>Investments</b>			
Financial investments	9	<b>6,748,569</b>	6,966,452
<b>Reinsurer's share of technical provisions</b>			
Long term business provision	14	<b>1,016,216</b>	671,977
Claims outstanding	3	<b>45,956</b>	109,232
		<hr/>	<hr/>
		<b>1,062,172</b>	781,209
<b>Debtors</b>			
Debtors arising out of direct insurance operations		<b>464,287</b>	208,657
Debtors arising out of reinsurance operations		<b>1,327,113</b>	1,464,300
Other debtors		<b>866,670</b>	56,212
		<hr/>	<hr/>
		<b>2,658,070</b>	1,729,169
<b>Other assets</b>			
Cash at bank and in hand		<b>3,553,132</b>	617,458
<b>Prepayments and accrued income</b>			
Accrued interest		<b>75,401</b>	90,783
Other prepayments		<b>57,391</b>	647,455
		<hr/>	<hr/>
		<b>132,792</b>	738,238
		<hr/>	<hr/>
<b>Total assets</b>		<b>14,497,878</b>	11,173,438
		<hr/> <hr/>	<hr/> <hr/>

The notes on pages 11 to 21 form part of these financial statements.

**BALANCE SHEET as at 31 December 2014**

*continued*

	Notes	2014 £	2013 £
<b>LIABILITIES</b>			
<b>Capital and reserves</b>			
Called up share capital	10, 11	<b>3,505,250</b>	3,505,250
Share premium account	11	<b>5,244,750</b>	5,244,750
Profit and loss account	11	<b>401,121</b>	(714,508)
<b>Shareholders' funds</b>		<b>9,151,121</b>	8,035,492
<b>Technical provisions</b>			
Long term business provision	14	<b>2,379,935</b>	1,267,933
Claims outstanding	3	<b>203,528</b>	248,837
		<b>2,583,463</b>	1,516,770
<b>Creditors</b>			
Creditors arising out of reinsurance operations		<b>2,664,951</b>	1,592,344
Amounts owed to group undertakings		<b>30,988</b>	3,764
		<b>2,695,939</b>	1,596,108
<b>Accrual and deferred income</b>		<b>67,355</b>	25,068
<b>Total liabilities and shareholders' funds</b>		<b>14,497,878</b>	11,173,438

Approved and signed on behalf of the Board of directors on 25 June 2015.



Ed O'Regan  
Director



Paul Savignon  
Director

The notes on pages 11 to 21 form part of these financial statements.

## CASH FLOW STATEMENT for the year ended 31 December 2014

	Notes	2014 £	2013 £
<b>Net cash inflow/ (outflow) from general business</b>	12	<b>2,941,475</b>	(3,670)
<b>Capital expenditure</b>			
Purchase of intangible assets	8	<b>(223,684)</b>	(232,453)
		<b>2,717,791</b>	(236,123)
<b>CASH FLOWS WERE INVESTED AS FOLLOWS:</b>			
<b>Increase/ (decrease) in cash holdings</b>		<b>2,935,674</b>	(404,108)
<b>Net portfolio investment</b>			
Purchase of financial investments		<b>5,456,884</b>	8,532,381
Sale of financial investments		<b>(5,983,612)</b>	(8,485,612)
<b>Net investment of cash flows</b>	13	<b>2,408,946</b>	(357,339)
Changes in market values	13	<b>308,845</b>	121,216
		<b>2,717,791</b>	(236,123)
Portfolio investments net of financing brought forward		<b>7,583,910</b>	7,820,033
<b>Portfolio investments net of financing as at 31 December</b>	13	<b>10,301,701</b>	7,583,910

The notes on pages 11 to 21 form part of these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Principal accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

#### Basis of accounting

The financial statements have been prepared under the historical cost convention as adjusted by the revaluation of certain investments, in accordance with Gibraltar Accounting Standards and with the recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers.

Gibraltar legislation applied in the preparation of these financial statements includes the Companies Act and the Insurance Companies (Accounts Directive) Regulations 1997.

#### Premiums

Premiums on long-term insurance contracts written are recognised as income when receivable. For single premium business, this is the date from which the policy is effective. For regular premium contracts, receivables are taken when payments are due. Premiums are shown before the deduction of commission. Where policies lapse due to non-receipt of premiums, then all the related premium income accrued but not received from the date they are deemed to have lapsed is offset against premiums. Outward reinsurance premiums are accounted for in the same accounting period as the related insurance policies.

#### Acquisition costs

All acquisition costs arising from premiums written are charged to the long-term business technical account in the year in which the liability under the policy is established.

#### Investment income

Income from other investments comprises of investment income such as interest and dividend income. Interest income is recognised on an accruals basis. Dividend income is recognised when received.

Realised gains or 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 of investments at the balance sheet date and their purchase price and are recognised through the profit and loss account.

#### Claims incurred

Long-term business claims reflect the cost of all claims arising during the year, including claims handling costs, where applicable.

#### Claims outstanding

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.

#### Long Term Business Provision

The technical provisions are determined by the Appointed Actuary. Movements in the Long Term Business Provision are recognised in the profit and loss account. See note 14.

#### Reinsurance recoveries

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

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.

#### Intangible assets

Intangible assets are made up of software development costs and are stated at cost less accumulated amortisation. The intangible asset is

## NOTES TO THE FINANCIAL STATEMENTS *continued*

being amortised over a period of three years. The Directors consider that this period is appropriate as it is the period over which the Directors expect that the related operations will produce positive cash flows, and therefore it is the period over which the Company will expect to derive a positive net return on these costs.

### **Impairment of assets**

Intangible 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.

### **Financial investments**

Financial investments comprise the following:

- Shares and other variable-yield securities and units in unit trusts shown at fair value;
- Debt securities and other fixed income securities shown at fair value;
- Derivative contracts shown at fair value; and
- Deposits with credit institutions shown at cost.

The Company has designated on initial recognition its investments in shares and other variable-yield securities and units in unit trusts, debt securities and other fixed income securities and derivative contracts as financial assets at fair value through profit or loss. The fair values of quoted financial investments are based on current bid prices. If the market for an investment is not active, fair value is established by using other valuation techniques.

### **Taxation and deferred tax**

The taxation charged is based on the taxable profits for the accounting period.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more tax.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised only to the extent that the directors consider it is more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted.

### **Foreign currencies**

#### *(i) Functional and presentation currency*

Items included in these financial statements are measured and presented using British pounds (£), 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.

**NOTES TO THE FINANCIAL STATEMENTS** *continued*

**Offsetting**

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.

**2. Risk management policies**

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

The Board is responsible for the Company's internal control and for reviewing their effectiveness. The systems of internal control are designed to manage rather than eliminate risk and aim to provide reasonable and not absolute assurance. Underwriting and investment activities are also monitored by the Board with the help from external consultants, as appropriate.

**Financial risk**

The Company is exposed to financial risk through its financial assets, financial liabilities 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.

**a) Interest rate and price risk**

Interest rate and price risk arises primarily from the Company's investment portfolio. Interest rate risk is the risk that the value of future cashflows of a financial instrument will fluctuate because of changes in interest rates. In addition, to the extent that claims inflation is correlated to interest rates, liabilities to policyholders are exposed to interest rate risk. Price risk is the risk that the value of investments decreases due to market factors.

The Company monitors interest rate risk by reviewing the duration of the investment portfolio and of the policyholder liabilities. The Company mitigates its price risk by investing only in particular types of assets and limiting its exposure to certain types of investments. There are no floating interest rate investments thus no sensitivity analysis has been performed.

**b) Credit risk**

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

- exposure to corporate bonds and deposits with credit institutions;
- reinsurers' share of insurance liabilities and amounts due from reinsurers for claims already paid;
- amounts due from insurance policyholders and intermediaries; and
- loans to third parties.

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.

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 policyholders 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

## NOTES TO THE FINANCIAL STATEMENTS *continued*

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.

### **c) 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 short-term creditors payable in one year or less. The Company has no liabilities with fixed repayment dates.

### **d) Currency risk**

The Company currently writes all 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 but uses forward contracts to manage foreign exchange risk.

### **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's insurance risks are introduced by a third party who has been vetted in advance and is subject to tight reporting requirements.

### **Capital risk management**

The Company maintains an efficient capital structure, consistent with the Company's risk profile and the regulatory and market requirements. The Company is required to hold a minimum amount and type of capital that must be maintained at all times throughout the financial year. In reporting its financial strength, capital and solvency is measured using the regulations prescribed by the FSC, in accordance with the relevant EU directives. These regulatory capital tests are based upon required levels of solvency capital and a series of prudent assumptions in respect of the type of business written by the Company.

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 FSC, 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.



## NOTES TO THE FINANCIAL STATEMENTS

### 3. Claims incurred, net of reinsurance

	Gross £	2014 Reinsurance £	Net £
Claims paid	1,616,314	(594,915)	1,021,399
Outstanding claims carried forward	203,528	(45,956)	157,572
Outstanding claims brought forward	(248,837)	109,232	(139,605)
Foreign exchange	21,932	(1,180)	20,752
	<u>(23,377)</u>	<u>62,096</u>	<u>38,719</u>
Claims incurred	<u><u>1,592,937</u></u>	<u><u>(532,819)</u></u>	<u><u>1,060,118</u></u>
	Gross £	2013 Reinsurance £	Net £
Claims paid	1,028,776	(567,709)	461,067
Outstanding claims carried forward	248,837	(109,232)	139,605
Outstanding claims brought forward	(197,156)	122,077	(75,079)
Foreign exchange	98	(220)	(122)
	<u>51,779</u>	<u>12,625</u>	<u>64,404</u>
Claims incurred	<u><u>1,080,555</u></u>	<u><u>(555,084)</u></u>	<u><u>525,471</u></u>

### 4. Segmental information

	2014 £	2013 £
Non - participating contracts: Individual periodic premiums	<u><u>10,331,309</u></u>	<u><u>8,015,753</u></u>

All premiums earned during the year relate to direct business and have been concluded by the company in Gibraltar.

### 5. Net operating expenses

	2014 £	2013 £
Acquisition costs– initial commissions	4,239,632	4,997,645
Administration expenses	1,080,343	826,190
Reinsurance commissions and profit participations	<u><u>(3,134,065)</u></u>	<u><u>(2,992,245)</u></u>
	<u><u>2,185,910</u></u>	<u><u>2,831,590</u></u>

## NOTES TO THE FINANCIAL STATEMENTS

### 6. Other charges

	2014	2013
	£	£
Legal and professional fees	1,427,737	541,171
Audit fees	21,058	20,060
Amortisation	221,453	203,541
Other administrative expenses	117,653	124,672
Foreign exchange (gains)/losses	170,202	(2,120)
	<u>1,958,103</u>	<u>887,324</u>

### 7. 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.

	2014	2013
	£	£
<b>Current tax:</b>		
Gibraltar corporation tax on profit for the year	-	-
	<u>-</u>	<u>-</u>

The tax assessed for the period is at the standard rate of corporate tax in Gibraltar of 10% (2013: 10%).

Profit/(loss) on ordinary activities before tax	1,115,629	737,442
	<u>1,115,629</u>	<u>737,442</u>
Profit/(loss) on ordinary activities multiplied by the standard rate of Corporation Tax of 10%	111,563	73,744
<b>Effects of:</b>		
Expenses not deductible for tax purposes	27,444	5,646
Difference between depreciation and capital allowance	-	12,069
Income not taxable	(50,995)	(35,218)
Impact of tax losses	(88,012)	(56,241)
	<u>-</u>	<u>-</u>
Tax on profit/(loss) on ordinary activities	-	-
	<u>-</u>	<u>-</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 8. Intangible assets

	<b>Development Costs £</b>
<b>Cost:</b>	
At 1 January 2014	865,409
Additions	223,684
	<hr/>
At 31 December 2014	<b>1,089,093</b>
	<hr/>
<b>Amortisation:</b>	
At 1 January 2014	524,497
Charged for the year	221,453
	<hr/>
At 31 December 2014	<b>745,950</b>
	<hr/>
<b>Net book value:</b>	
<b>At 31 December 2014</b>	<b>343,143</b>
	<hr/> <hr/>
At 31 December 2013	340,912
	<hr/> <hr/>

Development costs relate to costs incurred by the Company in relation to the development of its online underwriting and administration system. These costs are being written off on a straight line basis over a three year period, which is the period over which the Directors expect that the existing system will produce positive cash flows for the Company.

### 9. Financial investments

	<b>2014 £</b>	2013 £
Shares and variable-yield securities and units in units trust:	<b>3,745,035</b>	4,259,052
Debt securities and fixed income securities	<b>2,798,908</b>	2,724,913
Derivative contracts	<b>204,626</b>	(17,513)
	<hr/>	<hr/>
	<b>6,748,569</b>	6,966,452
	<hr/> <hr/>	<hr/> <hr/>

All investments, other than deposits held with credit institutions have been designated as financial assets at fair value through the profit or loss account. The book cost value of the above investments which are held at market value is £6,536,514 (2013: £6,561,391).

Debt securities and fixed income securities consist of securities with maturity dates which range from March 2019 to January 2024 and securities with no fixed maturity dates.

Derivative contracts above relate to open foreign currency forward contracts. The nominal value of the open contracts as at 31 December 2014 was £3,875,689 (2013: £5,059,326) which are valued at a profit of £204,626 (2013: loss of £17,513) at the year end.

## NOTES TO THE FINANCIAL STATEMENTS

### 10. Called up share capital

	2014 £	2013 £
<b>Authorised:</b>		
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
	<u>50,025,000</u>	<u>50,025,000</u>
	2014 £	2013 £
<b>Allotted, called up and fully paid:</b>		
3,500,000 Ordinary shares of £1 each	3,500,000	3,500,000
1,500 Class A, redeemable preference shares of £1 each	1,500	1,500
1,750 Class B, redeemable preference shares of £1 each	3,750	3,750
	<u>3,505,250</u>	<u>3,505,250</u>

### 11. Reconciliation of shareholders' funds and movement in reserves

	Share capital £	Share premium £	Profit and loss account £	Total £
At 1 January 2014	3,505,250	5,244,750	(714,508)	8,035,492
Profit for the year	-	-	1,115,629	1,115,629
<b>At 31 December 2014</b>	<u>3,505,250</u>	<u>5,244,750</u>	<u>401,121</u>	<u>9,151,121</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 12. Reconciliation of operating profit to net cash flows

	2014 £	2013 £
Operating profit before taxation after interest	1,115,629	737,442
Amortisation	221,453	203,541
Increase in reinsurers' share of technical provisions	(280,963)	(190,165)
Increase in debtors	(928,901)	(667,306)
Decrease/(increase) in prepayments and accrued income	605,446	(416,071)
Increase in technical provisions	1,066,693	227,179
Increase in creditors	1,099,831	300,090
Increase/(decrease) in accruals	42,287	(198,380)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>2,941,475</b>	<b>(3,670)</b>

### 13. Movement in opening and closing portfolio investments net of financing

	At 1 January 2014 £	Cash Flow £	Changes in market values £	At 31 December 2014 £
Shares and variable yield				
securities and units in unit trusts	4,259,052	(443,504)	(70,513)	3,745,035
Derivative contracts	(17,513)	(106,608)	328,747	204,626
Debt and other fixed income				
securities	2,724,913	23,384	50,611	2,798,908
Cash at bank and in hand	617,458	2,935,674	-	3,553,132
<b>Total</b>	<b>7,583,910</b>	<b>2,408,946</b>	<b>308,845</b>	<b>10,301,701</b>

### 14. Long Term Business Provision

	2014 £	2013 £
Non-linked provision	1,939,935	977,933
Resilience reserve	440,000	290,000
<b>Gross long term business provision</b>	<b>2,379,935</b>	<b>1,267,933</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 14. Long Term Business Provision (contd)

	Gross £	Reinsurance £	Net £
Long-term business provision brought forward	1,267,933	(671,977)	595,956
Movement in the provision during the year	1,272,278	(345,358)	926,920
Foreign exchange effects	(160,276)	1,119	(159,157)
	<hr/>	<hr/>	<hr/>
Long-term business provision carried forward	2,379,935	(1,016,216)	1,363,719
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The long term business provisions have been calculated on the basis of assumptions as to interest and mortality rates and other factors considered appropriate by the Appointed Actuary.

The principal assumptions underlying the calculation of the long term business provisions, as disclosed in the actuarial report as at 31 December 2014 are:

Non-linked provision	Per annum		Other assumptions
	2014	2013	
Valuation interest rate	3.0%	3.5%	The company plans to continue with similar investment strategy
Mortality rates	120%	120%	of Polish/Hungarian population Mortality
Expenses:			
Administration fees	99.00 6,600	92.4 6,600	Zloty per policy p.a. (Poland) Forint per policy p.a. (Hungary)
Claims handling	385 22,000	385 22,000	Zlotys per claim (Poland) Forint per claim (Hungary)
Contribution to overhead expenses	5.5%	5.5%	Of Gross premiums (Poland) and Hungary)
Expense inflation rate	2.75% 3.30%	3.52% 3.52%	Poland Hungary
Lapse rate	0%	0%	

#### Additional reserve for closure

The Appointed Actuary has determined that an additional reserve for closure is not required based on the nature of the business model and the provisions made for overhead expenses.

## NOTES TO THE FINANCIAL STATEMENTS

### 15. Related party transaction and balances

Transactions during the year and balances at the end of the year with related parties that require disclosure in accordance with Financial Reporting Standard No. 8 were as follows:

	Income/ (Expenses)		Amounts due (to)/ from parties	
	2014	2013	2014	2013
	£	£	£	£
Millfield Investments Limited	<b>(10,000)</b>	(10,000)	-	-
Red Sands Insurance Company (Europe) Limited	-	-	<b>(30,988)</b>	(3,764)

The above entities are considered related parties since they are under common ownership and/or have directors in common, who exercise influence over the financial and operating policies of the Company.

### 16. Controlling Party

The Company is a wholly owned subsidiary of Manzillo Holdings Limited, a Company incorporated in the British Virgin Islands. The Jaapt'Hoof Trust is the ultimate controlling party.



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