



**REPORT AND
FINANCIAL STATEMENTS**
FOR THE YEAR ENDED
31 DECEMBER 2010

Company Registration No. 87598

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DIRECTORS, OFFICERS AND OTHER INFORMATION

Directors:

Miles Japhet
Christopher Lathey
Egbert Le Roux
Paul Savignon
Adamo Valy

Secretary:

Ed O'Regan

Auditors:

Baker Tilly (Gibraltar) Limited
Regal House
Queensway
Gibraltar

Registered Office:

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

DIRECTORS' REPORT

The directors submit their report and the audited financial statements for the year ended 31 December 2010.

Principal Activity

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

- 1 - Accident
- 2 - Sickness
- 3 - Land vehicles
- 5 - Aircraft
- 6 - Ships
- 7 - Goods in transit
- 8 - Fire and natural causes
- 9 - Damages 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.

Results

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

Dividend

During the year, the Company paid dividends of £1,250,000 (2009: £2,500,000) to the ordinary shareholder.

Financial risk management objectives and policies

The financial risk management policies are shown on page 18 in the notes to the financial statements.

Directors

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

M Japhet	
C Lathey	
E Le Roux	(appointed 27 July 2010)
P Savignon	
A Valy	
L Perlman	(resigned 27 July 2010)

Review of Business

We could not have achieved what we did this year without the huge effort of our team and our business partners. Before we carry on with our review we would just like to say a massive thanks to our team who contributed well beyond the call of duty and always do. Without them our achievements would not have been possible.

2010 has turned out to be a very satisfactory year considering the turbulence in the global economy over the preceding two years. The economies in our main markets are still recovering from the recession and although growth has returned, it is still very weak. Against this backdrop, we managed to grow gross written premium by a whopping 51% from £30m to £46m. Profits grew by 21% from £2.7m to £3.3m. The underwriting margin remained constant compared to 2009 at 12% whilst the combined ratio for 2010 was 93.6%, a 2% deterioration on the prior year. This deterioration is solely attributable to a one-off payment of a profit share.

Our decision to exit from the After-the-event legal expense insurance market in 2008 is proving to have been the right decision as this line of business continues to affect our profitability. This programme, which we expect to be fully run-off by end 2011, made a further loss of £0.8m during 2010 and as such was a drag on the results above.

The main premium growth emanated from our pet insurance products (127%) and our ancillary motor products business (22%). We are very excited about the further growth potential in both these areas and our

DIRECTORS' REPORT

continued

business partners have now established themselves as key providers in their markets.

Our increased focus on investing our assets more efficiently has also had a positive impact with investment income returning to acceptable levels. We shall continue to remain cautious in our investment decisions and continually improve our process to manage the asset base as effectively as possible.

Our solvency margin at year end remains satisfactorily at 133% of the required EU regulated margin. In order to assist us in our solvency management, we have entered into a multi-year quota share reinsurance contract that will assist us in managing the growth of our premium levels.

We have made great progress in readying ourselves for Solvency II. The QIS5 study under Pillar 1 did not raise any huge potential hurdles and any higher capital requirement is within our current targeted solvency levels set by management. Our ongoing process to improve procedures and documentation as required by Pillar 2 is progressing well and we believe that our own internal targets to achieve this will be fully implemented by the end of 2011.

Our new accounting system and internal underwriting systems are now both operational. The aim is to have all our lines of business operating on the new underwriting system by the end of 2011. Those lines that have been transferred to the new system are operating well with increased reporting functionality, especially to manage the underwriting risk.

“Looking forward”

The past year has been one of consolidation and focus on assisting our partners to grow to their true potential. As a result, most of our major business partners are growing premium through increased market share. Such growth does not come without its constraints and as such we are in the middle of raising additional capital. Once this has been completed, it will also allow us to focus on growing our partnership base through new ventures.

We shall continue to focus our efforts in improving our risk, asset and solvency management in order to improve our return on capital.

Statement of Directors' responsibilities

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

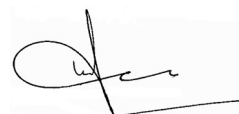
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare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

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.

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 are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

The retiring auditors are Baker Tilly (Gibraltar) Limited who are eligible for re-appointment.



Director



Director

24 June 2011

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

This report is made solely to the company's members, as a body, in accordance with section 182 of the Gibraltar Companies Act. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Report on the Financial Statements

We have audited the financial statements of Red Sands Insurance Company (Europe) Limited for the year ended 31 December 2010 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Directors' responsibilities

The directors are responsible for the preparation and the true and fair presentation of these financial statements in accordance with the Gibraltar Companies Act, the Insurance Companies (Accounts Directive) Regulations 1997 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 auditor's judgment, 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 controls relevant to the entity's preparation 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, 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 2010 and of its results for the year then ended.

Report on Other Legal and Regulatory Requirements

In addition to reporting on the financial statements, Gibraltar legal and regulatory requirements also require us to:

- (a) Report to you our opinion as to whether the financial statements have been properly prepared in accordance with the Gibraltar Companies Act and the Insurance Companies (Accounts Directive) Regulations 1997.
- (b) State in our report whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

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

(c) Report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

Opinion

In our opinion, the financial statements have been properly prepared in accordance with the Gibraltar Companies Act and the Insurance Companies (Accounts Directive) Regulations 1997 and the information given in the Directors' Report is consistent with the financial statements.

We have nothing to report to you in respect of our responsibility set out in (c) above.

A handwritten signature in black ink, appearing to read 'A. Linares', with a horizontal line underneath.

Angelique Linares
Statutory auditor for and on behalf of

BAKER TILLY (GIBRALTAR) LIMITED

Registered Auditors

Chartered Accountants
Regal House
Queensway
Gibraltar

24 June 2011

PROFIT AND LOSS ACCOUNT for the year ended 31 December 2010

TECHNICAL ACCOUNT

	Notes	2010 £	2009 £
Earned premiums, net of reinsurance			
Gross written premiums	2	46,186,254	30,528,726
Outward reinsurance premiums	2	(12,468,470)	(41,491)
Net written premiums		33,717,784	30,487,235
Change in the gross provision for unearned premiums			
	2	(6,761,290)	(3,558,718)
Change in the provision for unearned Premiums, reinsurers' share			
	2	(4,599)	2,852
		(6,765,889)	(3,555,866)
Earned premiums, net of reinsurance		26,951,895	26,931,369
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	3	(20,065,978)	(14,231,956)
Reinsurer's share	3	9,949,366	-
		(10,116,612)	(14,231,956)
Change in the provision for claims			
Gross amount	3	(2,799,315)	(198,558)
Reinsurer's share	3	623,982	-
		(2,175,333)	(198,558)
Claims incurred, net of reinsurance		(12,291,945)	(14,430,514)
Net operating expenses	5	(12,896,849)	(10,483,199)
Balance on the Technical Account		1,763,101	2,017,656

The notes on pages 11 to 25 form part of these financial statements.

PROFIT AND LOSS ACCOUNT for the year ended 31 December 2010

NON – TECHNICAL ACCOUNT

	Notes	2010 £	2009 £
Balance on the General Business			
Technical Account		1,763,101	2,017,656
Investment income			
Income from investments in group undertakings		340,000	-
Income from other investments		826,548	201,682
Gain/(Loss) on the realisation of investments		639,070	(4,753)
Unrealisation (loss)/gain on investments		(240,144)	504,652
Investment expenses and charges		(91,291)	(56,000)
Other income		49,983	61,440
Profit on ordinary activities before tax		3,287,267	2,724,677
Tax on profit on ordinary activities	7	(450)	(450)
Profit for the financial year	16	3,286,817	2,724,227

The Company has had no discontinued activities in the year. Accordingly, the above results for the Company 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 listed investments.

BALANCE SHEET as at 31 December 2010

	Notes	2010 £	2009 £
ASSETS			
Intangible assets			
Development costs	9	47,948	-
Investments			
Land and buildings	10	514,270	514,270
Investment in group undertakings	11	3,250,000	1,500,000
Other financial investments	12	19,391,856	15,260,028
		23,156,126	17,274,298
Reinsurers' share of technical provisions			
Provision for unearned premiums	2	-	4,599
Claims outstanding	3	623,982	-
		623,982	4,599
Debtors			
Debtors arising out of direct insurance operations – intermediaries		3,625,126	3,733,684
Debtors arising out of reinsurance operations		254,936	543,494
Other debtors	13	635,892	528,716
Amounts owed by group undertakings		165,943	45,375
		4,681,897	4,851,269
Other assets			
Tangible assets	14	94,232	108,306
Cash at bank and in hand		7,571,409	2,715,594
		7,665,641	2,823,900
Prepayments and accrued income			
Accrued interest		106,063	10,761
Deferred acquisition costs		6,628,230	4,958,073
Other prepayments and accrued income		1,934,097	1,659,013
		8,668,390	6,627,847
Total assets		44,843,984	31,581,913

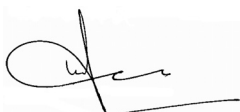
The notes on pages 11 to 25 form part of these financial statements.

BALANCE SHEET as at 31 December 2010

continued

	Notes	2010 £	2009 £
LIABILITIES			
Capital and reserves			
Called up share capital	15,16	3,006,000	3,006,000
Share premium account	16	5,994,000	5,994,000
Profit and loss account	16	4,359,714	2,322,897
Total shareholders' funds		13,359,714	11,322,897
Technical provisions			
Provision for unearned premiums	2	22,739,315	15,978,025
Claims outstanding	3	5,646,207	2,846,892
		28,385,522	18,824,917
Creditors			
Creditors arising out of direct insurance operations		36,118	43,386
Creditors arising out of reinsurance operations		756,143	194,566
Other creditors including taxation and social security		1,543,075	786,947
Amounts owed to group undertakings		162,220	98,892
		2,497,556	1,123,791
Accruals and deferred income		601,192	310,308
Total liabilities and shareholders' equity		44,843,984	31,581,913

Approved and signed on behalf of the Board of directors on 24 June 2011.



Director



Director

The notes on pages 11 to 25 form part of these financial statements.

CASH FLOW STATEMENT for the year ended 31 December 2010

	Notes	2010 £	2009 £
Net cash inflow from general business	17	12,068,322	5,450,695
Taxation paid	7	(450)	(450)
Capital expenditure			
Purchase of intangible and tangible assets	9	(80,319)	(112,648)
Acquisition and disposal			
Acquisition of shares in group undertakings	11	(1,750,000)	(1,500,000)
Equity dividends paid	16	(1,250,000)	(2,500,000)
		8,987,553	1,337,597
CASH FLOWS WERE INVESTED AS FOLLOWS:			
Increase in cash holdings	18	4,855,815	972,970
Net portfolio investment (excluding cash at bank)			
Purchase of financial investments		11,135,155	8,425,573
Sale of financial investments		(7,402,253)	(9,075,565)
Purchase of investment property		-	514,720
Net investment of cash flows		8,588,717	837,698
Changes in market values and exchange rate effects	18	398,926	499,899
		8,987,643	1,337,597
Portfolio investments net of financing brought forward	18	18,489,892	17,152,295
Portfolio investments net of financing carried forward	18	27,477,535	18,489,892

The notes on pages 11 to 25 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 listed investments and in accordance with United Kingdom Accounting Standards as adopted by Gibraltar and with the recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers.

The Company has taken advantage of the exemption not to prepare and deliver group financial statements as it is a wholly owned subsidiary of the ultimate holding company Manzillo Holdings Limited. As such, these financial statements show only the results of the individual Company and not the group.

Critical accounting estimates and judgments in applying accounting policies

The company makes estimates and assumptions that affect the reported amounts of assets and liabilities. These estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company's most critical accounting estimate is the ultimate liability arising from claims made under insurance.

Claims incurred

Claims incurred include all losses occurring during the year, whether reported or not, related handling costs, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

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. 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 claims incurred but not reported ("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.

Premiums

Premiums written are accounted for from the inception date of the policy to which they relate. Outward reinsurance premiums are accounted for in the same accounting period as the related direct insurance. Premiums are disclosed gross of commission payable to intermediaries and exclude taxes based on premiums.

NOTES TO THE FINANCIAL STATEMENTS *continued*

Unearned premiums reserve

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

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

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

Reinsurance 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.

Acquisition costs

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

Guarantee fund levies

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

Investment income

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

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.

Profit commission

Profit commissions are accounted for on an accruals basis.

Taxation and deferred tax

No provision is made for corporation tax, nor for deferred tax, as the Company is exempt from paying corporation tax on its profits (see note 7).

Intangible fixed assets

Intangible fixed assets are made up of development costs and are stated at cost less accumulated amortisation. The intangible asset is 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 cashflows, and therefore it is the period over which the Company will expect to derive a positive net return on these costs.

NOTES TO THE FINANCIAL STATEMENTS *continued*

Impairment of assets

Intangible fixed 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 fixed assets with its recoverable amount, which is the higher of net realisable value and value in use. The carrying value of the intangible fixed 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 fixed asset will only be increased up to the amount that it would have had the original impairment not occurred.

Investments

Financial investments comprise the following:

- Hedged equity funds shown at market value;
- Debt securities and other fixed income securities shown at market value;
- Participation in investment pools shown at redeemable value;
- Derivative contracts shown at market value;
- Other which are shown at cost;
- Deposits with credit institutions which are shown at cost.

The Company has designated on initial recognition its financial assets held for investment purposes (investments) at fair value through profit and loss account. 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.

“Other” financial investments relate to unsecured deep discounted bonds with trading partners of the Company, which earn interest at market rates and have maturity dates of up to three years from inception.

Shares in group undertakings are stated at cost.

Tangible assets

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

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

Land and buildings

Land and buildings are carried at open market value. Full valuations are made by independent, professionally qualified valuers every three years. The aggregate surplus or deficit on revaluation is taken to the non-technical account.

No depreciation or amortisation is provided in respect of land and buildings as the directors consider that the residual value is not less than the current carrying value. Depreciation is only one of the factors reflected in the annual valuations, and the amounts which might otherwise have been shown cannot reasonably be separately identified or quantified.

NOTES TO THE FINANCIAL STATEMENTS *continued*

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.

Operating leases

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

Dividends

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

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.

NOTES TO THE FINANCIAL STATEMENTS

2. Earned premiums net of reinsurance

	Gross £	2010 Reinsurance £	Net £
Premiums receivable	46,186,254	(12,468,470)	33,717,784
Unearned premiums carried forward	(22,739,315)	-	(22,739,315)
Unearned premiums brought forward	15,978,025	(4,599)	15,973,426
	(6,761,290)	(4,599)	(6,765,889)
Premiums earned	39,424,964	(12,473,069)	26,951,895
	Gross £	2009 Reinsurance £	Net £
Premiums receivable	30,528,726	(41,491)	30,487,235
Unearned premiums carried forward	(15,978,025)	4,599	(15,973,426)
Unearned premiums brought forward	12,419,307	(1,747)	12,417,560
	(3,558,718)	2,852	(3,555,866)
Premiums earned	26,970,008	(38,639)	26,931,369

NOTES TO THE FINANCIAL STATEMENTS

3. Claims incurred net of reinsurance

	Gross £	2010 Reinsurance £	Net £
Claims paid	20,007,794	(9,949,366)	10,058,428
Claims handling fees	58,184	-	58,184
	<u>20,065,978</u>	<u>(9,949,366)</u>	<u>10,116,612</u>
Outstanding claims carried forward	5,646,207	(623,982)	5,022,225
Outstanding claims brought forward	(2,846,892)	-	(2,846,892)
	<u>2,799,315</u>	<u>(623,982)</u>	<u>2,175,333</u>
Claims Incurred	<u>22,865,293</u>	<u>(10,573,348)</u>	<u>12,291,945</u>
<i>Current year claims incurred</i>	22,867,293	(10,573,348)	12,293,945
<i>Claims incurred on prior year claims</i>	(2,000)	-	(2,000)
	<u>22,865,293</u>	<u>(10,573,348)</u>	<u>12,291,945</u>
	Gross £	2009 Reinsurance £	Net £
Claims paid	14,192,578	-	14,192,578
Claims handling fees	39,378	-	39,378
	<u>14,231,956</u>	<u>-</u>	<u>14,231,956</u>
Outstanding claims carried forward	2,846,892	-	2,846,892
Outstanding claims brought forward	(2,648,334)	-	(2,648,334)
	<u>198,558</u>	<u>-</u>	<u>198,558</u>
Claims Incurred	<u>14,430,514</u>	<u>-</u>	<u>14,430,514</u>
<i>Current year claims incurred</i>	14,753,180	-	14,753,180
<i>Claims incurred on prior year claims</i>	(322,666)	-	(322,666)
	<u>14,430,514</u>	<u>-</u>	<u>14,430,514</u>

NOTES TO THE FINANCIAL STATEMENTS

4. Segmental information

	2010				
	Credit & Suretyship	Assistance	Misc	Other	Total
	£	£	£	£	£
Gross written premiums	1,374,997	510,949	43,754,810	545,498	46,186,254
Gross earned premiums	944,057	510,949	37,424,460	545,498	39,424,964
Gross claims incurred	(103,311)	(462,248)	(21,158,318)	(1,141,416)	(22,865,293)
Gross operating expenses	(398,969)	(5,159)	(14,130,418)	(38,645)	(14,573,191)
Gross technical result	441,777	43,542	2,135,724	(634,563)	1,986,480
Reinsurance balance	15,489	-	(238,868)	-	(223,379)
	457,266	43,542	1,896,856	(634,563)	1,763,101
	2009				
	Credit & Suretyship	Assistance	Misc	Other	Total
	£	£	£	£	£
Gross written premiums	981,386	606,006	28,710,345	230,989	30,528,726
Gross earned premiums	701,343	606,006	25,431,670	230,989	26,970,008
Gross claims incurred	204,649	(538,686)	(13,019,734)	(1,076,743)	(14,430,514)
Gross operating expenses	(261,109)	(6,060)	(10,014,906)	(213,292)	(10,495,367)
Gross technical result	644,883	61,260	2,397,030	(1,059,046)	2,044,127
Reinsurance balance	12,168	-	(38,639)	-	(26,471)
	657,051	61,260	2,358,391	(1,059,046)	2,017,656

The Company writes insurance in the EEA. All contracts of insurance are concluded in Gibraltar. Premiums written for direct insurance total £44,409,098 (2009: £29,865,102) and for reinsurance business £1,777,156 (2009: 663,624), and have been concluded by the Company in Gibraltar.

The reinsurance balance represents the charge to the technical account from the aggregate of all items relating to reinsurance outwards.

NOTES TO THE FINANCIAL STATEMENTS

5. Net operating expenses

	2010 £	2009 £
Acquisition costs - commissions	13,358,110	9,776,049
Change in deferred acquisition costs	(1,670,157)	(1,165,188)
Profit commission	1,215,408	532,106
Administrative expenses (see note 6)	1,669,830	1,352,400
Reinsurance commissions and profit participation	(1,676,342)	(12,168)
	<u>12,896,849</u>	<u>10,483,199</u>

6. Administrative expenses

	2010 £	2009 £
Administrative expenses include:		
Staff costs:		
Wages and salaries	441,595	322,079
Social security costs	16,559	10,585
Other staff costs	29,150	50,831
	<u>487,304</u>	<u>383,495</u>
Depreciation	46,445	22,789
Directors fees	19,167	18,000
Audit fees	30,760	20,644
	<u>487,304</u>	<u>383,495</u>

Other than the directors, the Company has 10 employees (2009: 8). Included in wages and salaries is directors' remuneration of £70,000 (2009:£65,000).

7. Taxation

The Company was granted a Taxation Exemption Certificate under the Companies (Taxation and Concessions) Act 1983 in consequence of which it was only liable to taxation at the fixed annual rate of £450. The Exemption Certificate expired on 31 December 2010. From 1 January 2011 onwards, the Company is subject to taxation in Gibraltar at a standard rate of 10% on taxable income.

8. 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 its 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.

NOTES TO THE FINANCIAL STATEMENTS

8. Risk Management Policies (contd)

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.

a) Interest rate and price risk

Interest rate and price risk arise primarily from the Company's investment portfolio. Interest rate risk is the risk that the value of future cashflows from financial instruments 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. All deposits with credit institutions have fixed interest rates and maturities of less than 3 months.

Sensitivity analysis

Interest Rate Risk	£	
Average interest bearing assets	24,472,950	
Actual interest received for the year	826,548	
<i>Avg. rate of interest (3.35%)</i>		
Net Profit for the year	3,285,658	
If interest had been earned		
at 2% or 4%;	2%	4%
	£	£
Interest received for the		
year would be	489,459	978,918
Effect on net profit	337,089	152,370
for the year		
Net Profit would be	2,948,569	3,438,028

b) 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:

- Exposure to corporate bonds, deposits with credit institutions and equities;
- Reinsurers' share of insurance liabilities and amounts due from reinsurers for claims already paid;
- Amounts due from insurance policyholders and intermediaries.

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 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.

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

NOTES TO THE FINANCIAL STATEMENTS

8. Risk Management Policies (contd)

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 writes a small proportion 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.

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.

Capital Risk Management

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

The Financial Services Commission (FSC) specifies the minimum amount and type of capital that must be held by the Company. The minimum required capital 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. 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.

9. Intangible assets	Development Costs £
Cost:	
At 1 January 2010	-
Additions	53,941
	<hr/>
At 31 December 2010	53,941
	<hr/>
Amortisation:	
At 1 January 2010	-
Charged for the year	5,993
	<hr/>
At 31 December 2010	5,993
	<hr/>
Net book value:	
At 31 December 2010	47,948
	<hr/> <hr/>
At 31 December 2009	-
	<hr/> <hr/>

Development costs relate to costs incurred by the Company in relation to the development of its online underwriting system. These 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 cashflows for the Company.

10. Land and buildings	2010	2009
	£	£
Investment property		
- original cost	514,270	514,270
	<hr/> <hr/>	<hr/> <hr/>

The property was acquired on 14 July 2009 and is located in Gibraltar. At the year-end, the Directors do not consider the market value to be materially different to the purchase price.

NOTES TO THE FINANCIAL STATEMENTS

11. Investment in group undertaking

Shares in group undertakings	£
As at 1 January 2010	1,500,000
Purchased during year	1,750,000
	<hr/>
As at 31 December 2010	3,250,000
	<hr/> <hr/>

Included within shares in group undertakings are the following:

- 100% of the issued share capital and voting rights of Red Sands Africa Investments Limited (“RSAIL”) at a cost of £1,500,000, a company incorporated and licensed on 20 November 2009 in Mauritius. RSAIL owns 35.4% of the issued share capital (1,430,160 shares) of Hollard Mozambique Companhia De Seguros S.A.R.L, a licensed insurer in Mozambique. The net assets of Red Sands Africa Investments Limited at 31 December 2010 were £1,505,373 and the profit for the year to 31 December 2010 was £345,373. A dividend of £340,000 was paid during the year and is shown under investment income in the non-technical account. The net assets of Hollard Mozambique Companhia De Seguros S.A.R.L at 30 June 2010 were £4,007,987 and the profit for the period to 30 June 2010 was £1,525,001.
- During the year, the Company invested £1,750,000 in 1,750 Class B £1 redeemable preference shares in Red Sands Life Assurance Company (Europe) Limited (RSLA) at a premium of £999 per share. The preference shares have no voting rights, no fixed redemption date and have no ascribed dividend rights. RSLA, a licensed life insurer in Gibraltar, is considered a group company resulting from common ownership.

12. Other financial investments

	2010	2009
	£	£
Shares and variable-yield securities and units in units trusts:		
- redeemable value	6,106,628	-
- cost	26,620	-
Derivative contracts	71,191	16,758
Debt securities and other fixed income securities	4,715,681	7,117,252
Participation in investment pools	29,161	313,492
Deposits with credit institutions	6,824,525	6,270,591
Other	1,618,050	1,541,935
	<hr/>	<hr/>
	19,391,856	15,260,028
	<hr/> <hr/>	<hr/> <hr/>

All investments, other than deposits with credit institutions and shares held at cost, have been designated as held at fair value through the profit and loss account. The cost of investments at 31 December 2010 was £18,979,505 (2009: £14,901,590).

“Other” financial investments relate to unsecured deep discounted bonds with trading partners of the Company, which earn interest at market rates and have maturity dates of up to three years from inception.

Deposits with credit institutions include £6,824,525 (2009: £6,014,440) of assets held separately as security for standby letters of credit.

NOTES TO THE FINANCIAL STATEMENTS

12. Other financial investments (contd)

Derivative contracts above relate to open foreign currency forward contracts. The nominal value of the open contracts as at 31 December 2010 was £2,555,500 (2009: £3,435,000) which are valued at a gain of £52,231 (2009: £16,758) at the year end. Included in derivative contracts above are cash margin balances of £18,960 (balance in 2009 was £142,924 and was included in cash at bank).

The above investments have maturity dates which range from 2 December 2011 to 31 December 2049.

13. Other debtors

Included in other debtors are subordinated loans of £514,594 which are due in more than one year.

14. Tangible Assets

	Leasehold Improvements £	Fixtures and Fittings £	IT Equipment £	Motor vehicles £	Total £
Cost:					
At 1 January 2010	62,355	29,833	47,606	29,757	169,551
Additions	1,619	744	21,215	2,800	26,378
Disposals	-	-	(4,058)	(19,112)	(23,170)
At 31 December 2010	<u>63,974</u>	<u>30,577</u>	<u>64,763</u>	<u>13,445</u>	<u>172,759</u>
Depreciation:					
At 1 January 2010	4,169	14,417	15,323	27,336	61,245
Charged in year	10,654	7,312	19,598	2,888	40,452
Eliminated on disposals	-	-	(4,058)	(19,112)	(23,170)
At 31 December 2010	<u>14,823</u>	<u>21,729</u>	<u>30,863</u>	<u>11,112</u>	<u>78,527</u>
Net book value					
At 31 December 2010	<u>49,151</u>	<u>8,848</u>	<u>33,900</u>	<u>2,333</u>	<u>94,232</u>
At 31 December 2009	<u>58,186</u>	<u>15,416</u>	<u>32,283</u>	<u>2,421</u>	<u>108,306</u>

NOTES TO THE FINANCIAL STATEMENTS

15. Called up share capital

	2010 £	2009 £
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
	<u>50,025,000</u>	<u>50,025,000</u>
	2010 £	2009 £
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
	<u>3,006,000</u>	<u>3,006,000</u>

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.

16. Movement in reserves and reconciliation of shareholders' funds

	Share capital £	Share premium account £	Profit and loss account £	Total £
At 1 January 2010	3,006,000	5,994,000	2,322,897	11,322,897
Profit for the year	-	-	3,286,817	3,286,817
Dividend paid	-	-	(1,250,000)	(1,250,000)
At 31 December 2010	<u>3,006,000</u>	<u>5,994,000</u>	<u>4,359,714</u>	<u>13,359,714</u>

NOTES TO THE FINANCIAL STATEMENTS

17. Reconciliation of operating profit to net cashflows

	2010 £	2009 £
Profit before taxation after interest	3,287,267	2,724,677
Depreciation and amortisation	46,445	22,789
Increase in reinsurers' share of technical provisions	(619,383)	(2,852)
Decrease / (increase) in debtors	169,372	(52,403)
Increase in prepayments and accrued income	(2,040,633)	(1,614,183)
Increase in insurance technical provisions	9,560,605	3,757,276
Increase in creditors	1,373,765	495,057
Increase in accruals	290,884	120,334
Net cash inflow from operating activities	12,068,322	5,450,695

18. Movement in opening and closing portfolio investments net of financing

	At 1 January 2010 £	Cash Flow £	Changes in market values £	At 31 December 2010 £
Investment property	514,270	-	-	514,270
Shares and variable yield				
securities and units in unit trusts	-	6,026,620	106,628	6,133,248
Derivative contracts	16,758	(23,974)	78,407	71,191
Debt and other fixed income				
securities	7,117,252	(2,601,792)	200,221	4,715,681
Participation in investment pools	313,492	(298,001)	13,670	29,161
Deposits with credit institutions	6,270,591	553,934	-	6,824,525
Other	1,541,935	76,115	-	1,618,050
Cash at bank and in hand	2,715,594	4,855,815	-	7,571,409
Total	18,489,892	8,588,717	398,926	27,477,535

NOTES TO THE FINANCIAL STATEMENTS

19. Related party transactions

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)/ due from/	
	£	£	£	£
Millfield Investments Limited ¹	(10,000)	(10,000)	-	-
Manzillo Insurance PCC Limited ²	37,445	23,940	-	23,940
Lombard Insurance Company Limited ¹	(582,286)	535,439	(410,423)	535,439
Red Sands Legal Expenses Insurance Company Limited ²	-	-	(98,892)	(98,892)
Haven Insurance Company Limited ²	175,000	-	63,766	1,638
Red Sands Life Assurance Company Limited ²	-	-	102,177	19,797
Red Sands Africa Investments Limited ²	(336,615)	-	(63,328)	-

¹ These entities are considered related parties since they have directors in common, who exercise influence over the financial and operating policies of the Company.

² These entities are considered related parties since they are under common ownership where Manzillo Holdings Limited is the ultimate shareholder and/or have directors in common.

All transactions with related parties are in relation to the ongoing operations of the Company.

20. Future rental commitments under operating leases

The Company has an annual commitment of £58,800 under an operating property lease which expires in more than 5 years.

21. Controlling Party

The Company is a wholly owned subsidiary of Manzillo Holdings Limited, a Company incorporated in the British Virgin Islands. 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