redsands life assurance

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

Company Registration No. 101001

RED SANDS LIFE ASSURANCE COMPANY (EUROPE) LIMITED

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DIRECTORS, OFFICERS AND OTHER INFORMATION

Directors:
Paul Savignon MBE
Shaun Cawdery
Emilio Gomez
John Henderson
Adamo Valy

Secretary:
Ania Kostyk (appointed on 2 May 2019)

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

Auditors:
EY Limited
Regal House
Queensway
Gibraltar

Appointed Actuary:
Philip Simpson,
Milliman LLP
11 Old Jewry
London
EC2R 8DU

DIRECTORS' REPORT

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

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).

During the year, the Company made an application to write General Business Insurance in Class 1 (Accident) and Class 2 (Sickness), and started writing these insurance products in November 2018.

Review of the business

The Company has experienced difficult trading conditions during 2018 largely as a result of increases in media costs in all jurisdictions in which the Company operates, which has increased acquisition costs.

4Life Direct, the Company's distribution and administration partner in Europe, remained focused on solidifying its's well-respected business across Poland, Hungary, the Czech Republic and Slovakia. During the year, the decision was made to cease underwiritng activities in Greece following the Company's launch there in September 2017 as a result of the difficult trading environment.

The Company's philosophy is to provide uncomplicated, easy to understand and affordable insurance products and services to the European market, and in particular to the segment of the market which has not previously has access to, or cannot afford, traditional insurance products.

Gross Written Premium in 2018 increased by 16% to £22m from £19m in 2017. The results for the year are as shown in the profit and loss account on pages 11 and 13.

The Company's commitment to its policyholders is reflected in its claims processes and payments. Continued improvements made to the Company's claims systems throughout the year has led to the team being able to process a claim within 24 hours across most of the Company's products.

During the course of 2018 the Company paid more than £8m worth of benefits to clients in Poland, Hungary, the Czech Republic, Slovakia and Greece (2017: £6m). The Company has continued to refine its Mortality assumptions based on greater experience on the Whole of Life product and full actuarial analysis continues to be performed on all products across all countries.

The Company continues to reinsure a significant 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. The Company looks forward to continuing to work with these groups in 2019 and beyond.

In contrast to last year, 2018 was a challenging year for investments although the appropriately diversified and robust portfolio maintained by the Company's investment committee has helped to mitigate the potential impact.

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

The overall result for 2018 was a profit of £617k (2017: £3,699k). The value of in force business (net of reinsurance) increased from £17.8m to £19.8m during the year.

The Company continues to utilise Milliman LLP as the Head of Actuarial Function, who assist the Company in ensuring a robust and reasonable approach to the calculation of the Long-Term Business Provisions ("LTBP"), while maintaining a suitable degree of prudence. Milliman LLP also assist the actuarial function in the assessment of the technical provisions for Solvency II. The Solvency II SCR coverage as at December 2018 was calculated to be 155% (2017: 147.8%).

The potential impact of Brexit remains challenging. The Company is pursuing plans to mitigate the potential disruption to policyholders and the operations of the Company.

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

Further, the Company undertook a conversion and share-for-share exchange in order to convert the previously issued 1,500 non-voting preference share to 1,500 ordinary shares in December 2018 in order to simplify the capital structure of the Company.

As always, the Company looks forward to working closely with its current distribution and reinsurance partners to mitigate the potential impacts of Brexit and to achieve its business goals for 2019 and beyond.

Directors

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

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

DIRECTORS' REPORT
continued

Principal risks and uncertainties

The principal risks and uncertainties arising from the Company's life insurance business are as follows: insurance risk in particular competitive risk, regulatory risk and financial risk primarily from the investments that the Company holds.

The Company is also exposed to financial instruments risks in particular, price risk, credit risk and liquidity risk. These risks are covered in substantial detail in Note 10 to the financial statements.

The Company uses forward foreign currency contracts to reduce exposure to the variability of foreign exchange rates by fixing the rate of any material payments in a foreign currency. The Company does not undertake any hedge accounting transactions.

Financial risk management objectives and policies

The risk management objectives and policies are driven by the need to protect the Company's regulatory capital position, to meet insurance obligations to policyholders as they fall due and to have the financial strength to grow the business.

Information on the use of the financial instruments by the Company and its management of financial risk is disclosed in Note 10 to the financial statements.

Long term business provision

The total held separately in the balance sheet as Long-Term Business Provision amounted to £5,187 at the year-end (2017: £nil). 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 (2017: £nil).

Going concern

As disclosed in note 2, the potential impacts of Brexit create some uncertainty as to whether the Company may continue to distribute insurance products in its core European markets after the date of Brexit. While the Company is pursuing plans to mitigate this impact, these require regulatory approval and therefore there can be no guarantees that these approvals will be received.

The Company has considerable financial resources together with long-term contracts with a number of customers and suppliers across different geographic areas. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully even in the event that it is unable to execute its Brexit plans in time for Brexit.

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

Statement of directors' responsibilities

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

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Gibraltar Companies Act 2014 and the Insurance Companies (Accounts Directive) Regulations 1997. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

Auditors

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

Emilio Gomez	Shaun Cawdery
Director	Director

26 June 2019

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Red Sands Life Assurance Company (Europe) Limited ('the Company'), which comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive income, statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of the Company's profit for the year then ended;
- have been properly prepared in accordance with Gibraltar Financial Reporting Standards; and
- have been properly prepared in accordance with the Companies Act 2014 and the Insurance Companies (Accounts Directive) Regulations 1997.

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

Basis for Opinion

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

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

continued

Key Audit Matters

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

Key audit matter	How our audit addressed the key audit matter	Key observations commented to the Audit Committee
Key audit matter – Valuation of insurance technical provisions As at 31 December 2018, the Company reported gross technical provisions of £269k, comprising of £5k long term business provision and £264k claims outstanding (refer to pages 17 to 18 Note 3.1 Judgments and key sources of estimation uncertainty, pages 18 to 22 Note 3.2 Significant accounting policies, page 23 Note 4 Claims incurred, net of reinsurance, pages 25 to 30 Note 10 Risk management policies, pages 33 to 34 Note 14 Long term business provision)		
At the balance sheet date, the Company makes an estimate of the insurance technical provisions. The estimation requires application of significant judgement in setting of key assumptions. In 2016 and older years, the Company has followed the principles set out in the Insurance Companies (Valuation of Assets and Liabilities) Regulations 1996 (LN. 1996/068) contained in the Government of Gibraltar's regulations in the valuation of the Long-Term Business Provision ("LTBP"). However, starting 2017, the Company has chosen to use assumptions that are more consistent with the calculation of the best estimate liability ("BEL") under Solvency II regulation. The approach for calculating the LTBP as at 31 December 2018 is consistent with the comparative year. Due to the use of significant judgement in the selection of assumptions and the high degree of estimation uncertainty associated with the outcome, this area has been assessed a significant risk area and an area where the risk of management override of control is higher.	Our audit procedures comprised of: • a walkthrough to confirm our understanding of the Company's reserving process and to understand and assess the design and implementation of the controls relevant to the identified risk; • a combination of test of controls and substantive procedures to validate the integrity of the data used in the valuation, which includes amounts of claims already reported to the Company but are still outstanding and claims already paid as at the balance sheet date; • involvement from EY actuarial professionals with audit experience to evaluate the appropriateness of the key assumptions and methodologies used in the actuarial valuation by reference to Company and industry data and expectations of future developments of key assumptions; • a reconciliation of the reserves recorded in the financial statements against the Company's valuation calculations; and • assessing whether reserving is in accordance with the Company's accounting policy and the applicable reporting framework.	We conclude that the methodologies and key assumptions used in the actuarial valuation of the technical provisions as at 31 December 2018 are reasonable. Accordingly, we conclude that the Company's estimate of the valuation of technical provisions as at 31 December 2018 is within a range we consider to be reasonable.

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

continued

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

continued

Report on Other Legal and Regulatory Requirements

Opinion on other matter prescribed by the Companies Act 2014

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

Matters on which we are required to report by exception

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

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

Other matters we are required to address

- We were appointed by the Company on 29 November 2013 to audit the financial statements for the year ending 31 December 2013 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is 6 years, covering the years ending 31 December 2013 to 31 December 2018.
- The non-audit services prohibited by the Financial Services (Auditors) Act were not provided to the Company and we remain independent of the Company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.
- Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud:

  The objectives of our audit:

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

Our approach was as follows:

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

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

continued

We also considered areas of significant judgement, and the impact these have on the control environment. Where this risk was considered to be higher, we performed audit procedures to address each identified fraud risk as highlighted in the key audit matters section above. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.

Dale Cruz

Statutory auditor for and on behalf of

EY LIMITED

Registered auditors

Chartered Accountants
Regal House
Queensway
Gibraltar

27 June 2019

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2018

PROFIT AND LOSS ACCOUNT

TECHNICAL ACCOUNT – LONG TERM BUSINESS	Notes	**2018** £	2017 £
Earned premiums, net of reinsurance			
Gross premiums written	5	**21,995,427**	19,038,208
Outward reinsurance premiums	5	**(9,245,463)**	(8,820,197)
		12,749,964	10,218,011
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	4	**(8,092,479)**	(6,079,158)
Reinsurers' share	4	**3,940,302**	3,120,795
		(4,152,177)	(2,958,363)
Change in the provision for claims			
Gross amount	4	**252,662**	(203,364)
Reinsurers' share	4	**(142,253)**	92,209
		110,409	(111,155)
		(4,041,768)	(3,069,518)
Long-term business provisions, net of reinsurance			
Change in long-term business provision			
Gross amount	14	**(5,187)**	3,534,766
Reinsurers' share	14	**678,233**	(26,256)
		673,046	3,508,510
Net operating expenses	6	**(6,275,364)**	(4,920,457)
Balance on the Long Term Business Technical Account		**3,105,878**	5,736,546

The notes on pages 17 to 34 form part of these financial statements.

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STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2018

PROFIT AND LOSS ACCOUNT

TECHNICAL ACCOUNT – GENERAL BUSINESS	Notes	2018 £	2017 £
Earned premiums, net of reinsurance			
Gross amount	5	**10,580**	-
Outward reinsurance premiums	5	**-**	-
		10,580	-
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	4	**-**	-
Reinsurers' share	4	**-**	-
		-	-
Change in the provision for claims			
Gross amount	4	**(5,445)**	-
Reinsurers' share	4	**-**	-
		(5,445)	-
		(5,445)	-
Net operating expenses	6	**(834)**	-
Balance on the Long Term Business Technical Account		**4,301**	-

The notes on pages 17 to 34 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2018

PROFIT AND LOSS ACCOUNT

NON-TECHNICAL ACCOUNT	Notes	2018	2017
		£	£
Balance on Technical Account:		**3,105,878**	5,736,546
Long-Term Business		**4,301**	-
General Business		**3,110,179**	5,736,546
Investment income			
Income from other investments		**122,271**	190,577
(Losses) / gains on the realisation of investments		**(77,229)**	152,120
Unrealised (losses) / gains on investments		**(142,295)**	23,660
Investment expenses and charges			
Investment management expenses		**10,504**	(32,634)
Other income	**7**	**41,100**	130,561
Other charges	**8**	**(2,363,190)**	(2,112,600)
Profit on ordinary activities before tax		**701,340**	4,088,230
Tax on profit on ordinary activities	9	**(84,058)**	(389,025)
Profit for the financial year		**617,282**	3,699,205
Other comprehensive income		**-**	-
Total comprehensive income for the financial year617,282		3,699,205	

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

The notes on pages 17 to 34 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION
for the year ended 31 December 2018

ASSETS	Notes	2018 £	2017 £
Intangible assets			
Development costs	11	**638,716**	431,900
Investments			
Financial investments	12	**6,615,805**	8,950,243
Reinsurers' share of technical provisions			
Long term business provision	14	**1,356,803**	678,570
Claims outstanding	4	**88,584**	230,837
		1,445,387	909,407
Debtors			
Debtors arising out of direct insurance operations		**599,320**	369,394
Debtors arising out of reinsurance operations		**1,148,453**	2,056,773
Other debtors		**2,787,902**	3,183,671
		4,535,675	5,609,838
Other assets			
Cash at bank and in hand		**3,981,464**	970,187
Prepayments and accrued income			
Other prepayments and accrued income		**361,236**	317,815
		361,236	317,815
		17,578,283	17,189,390

The notes on pages 17 to 34 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION
for the year ended 31 December 2018

LIABILITIES AND SHAREHOLDER'S EQUITY	Notes	2018 £	2017 £
Capital and reserves			
Called up share capital	13	**3,501,500**	3,501,500
Share premium account	13	**1,498,500**	1,498,500
Capital redemption reserve	13	**3,750**	3,750
Profit and loss account		**8,921,833**	8,304,551
Shareholders' funds		**13,925,583**	13,308,301
Technical provisions			
Long term business provision	14	**5,187**	-
Claims outstanding	4	**263,983**	511,200
		269,170	511,200
Creditors			
Creditors arising out of direct insurance operations		**52,665**	76,465
Creditors arising out of reinsurance operations		**3,010,747**	2,991,142
Amounts owed to credit institutions	12	**45,030**	179,743
Other creditors including taxation		**164,617**	80,560
		3,273,059	3,327,910
Accruals and deferred income		**110,471**	41,979
Total liabilities and shareholders' funds		**17,578,283**	17,189,390

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

Emilio Gomez
Director

Shaun Cawdery
Director

The notes on pages 17 to 34 form part of these financial statements.

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

	2018				
	Called up share capital	**Share premium account**	**Capital redemption reserve**	**Profit and loss account**	**Total**
	£	**£**	**£**	**£**	
At 1 January	**3,501,500**	**1,498,500**	**3,750**	**8,304,551**	**13,308,301**
Total comprehensive income for the year	**-**	**-**	**-**	**617,282**	**617,282**
At 31 December	**3,501,500**	**1,498,500**	**3,750**	**8,921,833**	**13,925,583**

	2017				
	Called up share capital	Share premium account	Capital redemption reserve	Profit and loss account	Total
	£	£	£	£	
At 1 January	3,501,500	1,498,500	3,750	4,605,346	9,609,096
Total comprehensive income for the year	-	-	-	3,699,205	3,699,205
At 31 December	3,501,500	1,498,500	3,750	8,304,551	13,308,301

The notes on pages 17 to 34 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

1. Company information

Red Sands Life Assurance Company (Europe) Limited is a limited liability company incorporated in Gibraltar. The registered office is Level 3, Ocean Village Business Centre, 23 Ocean Village Promenade, Gibraltar GX11 1AA. The financial statements cover those of the individual entity and are prepared as at and for the year ended 31 December 2018.

2. Basis of preparation

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

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

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

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

Going Concern

The Company distributes its insurance products in Eastern European countries under European Union ("EU") Freedom of Services Regulations and therefore there remains uncertainty over whether the Company will be able to continue to distribute insurance products following the United Kingdom and Gibraltar's withdrawal from the EU ("Brexit"). The Company continues to pursue plans to allow the Company to continue to distribute its insurance products after Brexit, but there is no certainty that regulatory approval will be granted. In the event that these plans cannot be completed by the date of Brexit, the Company remains committed to existing policyholders and the directors consider that the Company has sufficient capital to settle all existing liabilities, and is actively exploring alternative strategies to enable policyholders to maintain policy coverage and for liabilities to be settled as they fall due.

As a result, the financial statements have been presented on a going concern basis.

3. Accounting policies

3.1 Judgements and key sources of estimation uncertainty

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

Insurance contract technical provisions

- Life insurance contracts

  The liability for life insurance contracts is either based on current assumptions or on assumptions established at the inception of the contract, reflecting the best estimate at the time increased with a margin for risk and adverse deviation. All contracts are subject to a liability adequacy test, which reflect management's best current estimate of future cash flows.

  The main assumptions used relate to mortality, morbidity, longevity, investment returns, expenses, lapse and surrender rates and discount rates. The Company bases mortality and morbidity on standard industry mortality tables which reflect historical experiences, adjusted when appropriate to reflect the Company's unique risk exposure, product characteristics, target markets and own claims severity and frequency experiences. For those contracts that insure risk related to longevity, prudent allowance is made for expected future mortality improvements, as well as wide ranging changes to life style, these could result in significant changes to the expected future mortality exposure.

  Estimates are also made as to future investment income arising from the assets backing life insurance contracts. These estimates are based on current market returns, as well as expectations about future economic and financial developments.

  Assumptions on future expenses are based on current expense levels, adjusted for expected expense inflation, if appropriate. Lapse and surrender rates are based on the Company's historical experience of lapses and surrenders.

- General insurance contracts

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

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

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

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

Further details are given in Notes 4 and 5.

Taxation

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

Intangible assets

The Company establishes a reliable estimate of the useful life of intangible assets. This estimate is based on the expectation that the related operations will produce positive cash flows or the period over which the Company will expect to derive a positive net return on these costs.

3.2 Significant accounting policies

Intangible assets

Intangible assets are made up of development costs and are stated at cost less accumulated amortisation and impairment. The intangible asset is being amortised over a period of three years. The Directors consider that this period is appropriate.

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:

Derivative instruments

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

The fair value of the forward currency contracts is calculated by reference to current forward exchange contracts with maturity profiles. The Company does undertake any hedge accounting transactions.

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

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

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

Fair value of financial assets

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

(i) Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities. Quoted in an active market in this context means quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted price is usually the bid price.

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

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

See Note 12 for details of financial instruments classified by fair value hierarchy.

Cash and cash equivalents

Cash at bank and in hand on the balance sheet comprise cash at bank and in hand without time restriction.

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

Investment return

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

Unrealised and realised gains and losses on financial investments are recognised based on the appropriate classification of financial investments and are covered in detail under the accounting policy for financial investments.

Debtors and creditors

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

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

Foreign currencies

Functional and presentation currency

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

Transactions and balances

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

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

Offsetting of financial instruments

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

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Taxation and deferred tax

Current taxation

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

Deferred taxation

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

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.

Insurance contracts

Product classification

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

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

Premiums

- Life insurance contracts

  Gross written 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.

- General insurance contracts

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

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

Acquisition costs

- Life insurance contracts

  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.

- General insurance contracts

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

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

Claims incurred

- Life insurance contracts

  Gross benefits and long-term business claims on life insurance reflect the cost of all claims arising during the year, including any related internal and external

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claims handling costs that are directly related to the processing and settlement of claims. Changes in the gross valuation of insurance are also included. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due.

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

- General insurance contracts

  Claims include all claims occurring during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

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

Reinsurance assets

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.

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment loss is recorded in the profit and loss account.

Gains or losses on buying reinsurance are recognised in the profit and loss account immediately at the date of purchase and are not amortised.

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

Claims outstanding

- Life insurance contracts

  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.

- General insurance contracts

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

Insurance debtors

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

Long Term Business Provision

The Company has chosen to use assumptions that are more consistent with the calculation of the best estimate liability ("BEL") under Solvency II regulation, while still maintaining a suitable level of prudence.

In particular, the approach allows for policy lapses with a margin of prudence included in the lapse rates, and also allows for negative reserves at the policy level, with zeroisation applied at the level of an overall risk characteristic group ("RCG"), should the LTBP be negative for that RCG. RCG means a group of policies which exhibit similar risk characteristics be they demographic, economic or otherwise in nature. The Company has chosen the individual territories in which business is written (Poland, Hungary, Czech Republic, Slovakia and Greece) as appropriate RCGs.

The approach for calculating the LTBP as at 31 December 2018 is consistent with the comparative year and is consistent with FRS 103 on Insurance Contracts.

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.

Dividends

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the shareholders. Interim dividends are deducted from equity when they are paid.

Equity

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

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

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4. Claims incurred, net of reinsurance

	2018 Gross	**2018 Reinsurance**	**2018 Net**
	£	**£**	**£**
Claims paid	**8,092,479**	**(3,940,302)**	**4,152,177**
Outstanding claims carried forward	**263,983**	**(88,584)**	**175,399**
Outstanding claims brought forward	**(511,200)**	**230,837**	**(280,363)**
Change in the provision for claims	**(247,217)**	**142,253**	**(107,964)**
Claims incurred	**7,845,262**	**(3,798,049)**	**4,047,213**

	2017 Gross	2017 Reinsurance	2017 Net
	£	£	£
Claims paid	6,079,158	(3,120,795)	2,958,363
Outstanding claims carried forward	511,200	(230,837)	280,363
Outstanding claims brought forward	(307,836)	138,628	(169,208)
Change in the provision for claims	203,364	(92,209)	111,155
Claims incurred	6,282,522	(3,213,004)	3,069,518

Included in claims outstanding are claims arising on general business of £5,445 (2017: £nil), of which £10,974 (2017: £nil) arises from foreign exchange movements.

Included in claims incurred were foreign exchange differences arising on translation of claims outstanding and the related reinsurance share at the reporting year of £8,370 and £24,193 loss, respectively (2017: £30,149 and £5,351 loss, respectively).

5. Segmental information

(a) Premiums written	**2018**	2017
	£	£
Non - participating contracts: Individual periodic premiums	**21,995,427**	19,038,208
Non-life premiums written	**10,580**	-
	22,006,007	19,038,208

All premiums earned during the year relate to direct business in respect of continuing operations and have been concluded by the Company in Gibraltar.

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(b) Reinsurance balance

The reinsurance balance amounted to a debit in the long-term business technical account of £186,182 (2017: credit of £2,298,973)

	2018 Long-term business £	**2018 General business £**	2017 Long-term business £	2017 General business £
Outwards reinsurance premiums	**9,245,463**	**-**	8,820,197	-
Reinsurers' share of claims incurred	**(3,798,049)**	**-**	(3,213,004)	-
Change in reinsurers' share of long-term business provision	**(678,233)**	**-**	26,256	-
Reinsurance commission and profit participation	**(4,582,999)**	**-**	(7,932,422)	-
	186,182	**-**	(2,298,973)	-

6. Net operating expenses

	2018 Long-term business £	**2018 General business £**	2017 Long-term business £	2017 General business £
Direct acquisition costs - initial commissions	**8,355,948**	**391**	10,932,953	-
Administration expenses	**2,502,415**	**443**	1,919,926	-
Reinsurance commissions and profit participations	**(4,582,999)**	**-**	(7,932,422)	-
	6,275,364	**834**	4,920,457	-

7. Other income

	2018 £	2017 £
Gain from reinsurance recapture	**41,100**	130,651
	41,100	130,651

8. Other charges

	2018 £	2017 £
Legal and professional fees	**1,730,908**	1,640,108
Non-executive directors' fee	**48,970**	41,850
Audit fees	**51,000**	38,217
Amortisation	**310,689**	243,736
Other administrative expenses	**221,623**	148,689
	2,363,190	2,112,600

Included within other administrative expenses are forex exchange losses of £68,241 (2017: £22,041 foreign exchange losses) arising on translation of monetary assets and liabilities at the reporting date. Audit fees for the year include tax compliance fees of £nil (2017: £2,578).

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9. Taxation

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

	2018	2017
Current tax:	**£**	£
Gibraltar corporation tax on profit for the year	**84,058**	389,025
	84,058	389,025

The tax assessed for the period is higher than the standard rate of corporate tax in Gibraltar of 10% (2017: 10%). The differences are reconciled below:

Profit on ordinary activities before tax	**701,340**	4,088,230
Profit on ordinary activities multiplied by the standard rate of Corporation Tax of 10%	**70,134**	408,823
Effects of:		
Expenses not deductible for tax purposes	**20,902**	3,331
Income not taxable	**(12,227)**	(28,912)
Difference between depreciation and capital allowances	**-**	5,783
Other temporary differences	**5,249**	-
Tax on profit on ordinary activities	**84,058**	389,025

10. Risk management policies

(a) Governance framework

The Company's activities expose the business to a number of key risks which have the potential to affect its ability to achieve its business objectives. The 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.

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

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

(b) Capital risk management objectives, policies and approach

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

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 GFSC, 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 GFSC, and to maintain financial strength to support new business growth. In order to maintain the capital structure, the Company may adjust the amounts of dividends paid, return capital to shareholders or issue new shares.

The operations of the Company are also subject to regulatory requirements within the jurisdictions where it operates. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g. capital adequacy) to minimise the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as these arise.

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(c) Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the claim results. By the very nature of an insurance contract, risk is based on fortuity and is therefore unpredictable. The principal risks that the Company faces under its insurance contracts are that the business will be under-priced or under-reserved. The Company's insurance risks are introduced by a third party who has been vetted in advance and is subject to tight reporting requirements.

The main risks that the Company is exposed to are as follows:

- Mortality risk – risk of loss arising due to policyholder death experience being different than expected
- Morbidity risk – risk of loss arising due to policyholder health experience being different than expected
- Investment return risk – risk of loss arising from actual returns being different than expected
- Expense risk – risk of loss arising from expense experience being different than expected
- Policyholder decision risk – risk of loss arising due to policyholder experiences (lapses and surrenders) being different than expected

These risks do not vary significantly in relation to the location of the risk insured by the Company or the type of risk insured.

The tables below show the concentration of insurance liabilities by type of contract:

31 December 2018	**Gross**	**Reinsurance**	**Net**
	£	**£**	**£**
Whole life	**245,095**	**(1,445,387)**	**(1,200,292)**
Term assurance	**18,630**	**-**	**18,630**
Total life insurance liabilities	**263,725**	**(1,445,387)**	**(1,181,662)**
Total general insurance liabilities	**5,445**	**-**	**5,445**
Total life insurance liabilities	**269,170**	**(1,445,387)**	**(1,176,217)**

31 December 2017	Gross	Reinsurance	Net
	£	£	£
Whole life	420,219	(909,407)	(439,188)
Term assurance	40,981	-	40,981
Total life insurance liabilities	511,200	(909,407)	(398,207)
Total general insurance liabilities	-	-	-
Total life insurance liabilities	511,200	(909,407)	(398,207)

The general insurance liabilities above pertains to accident and health policies.

The geographical concentration of the outstanding claim liabilities is noted below. The disclosure is based on the countries where business is written. The analysis would not be materially different if based on the countries in which the counterparties are situated.

31 December 2018	**Gross**	**Reinsurance**	**Net**
	£	**£**	**£**
Poland	**164,259**	**(969,940)**	**(805,681)**
Hungary	**71,636**	**(127,378)**	**(55,742)**
Slovakia	**12,753**	**(281,689)**	**(268,936)**
Czech	**20,522**	**(66,380)**	**(45,858)**
Total insurance liabilities	**269,170**	**(1,445,387)**	**(1,176,217)**

NOTES TO THE FINANCIAL STATEMENTS
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31 December 2017	Gross	Reinsurance	Net
	£	£	£
Poland	369,064	(543,374)	(174,310)
Hungary	63,415	(163,230)	(99,815)
Slovakia	19,326	(167,194)	(147,868)
Czech	59,395	(35,609)	23,786
Total insurance liabilities	511,200	909,407	398,207

Key assumptions

Material judgement is required in determining the liabilities and in the choice of assumptions. Assumptions in use are based on past experience, current internal data, external market indices and benchmarks which reflect current observable market prices and other published information. Assumptions and prudent estimates are determined at the date of valuation and no credit is taken for possible beneficial effects of voluntary withdrawals. Assumptions are further exaluated on a continuous basis in order to ensure realistic and reasonable valuations.

The key assumptions to which the estimation of liabilities is particularly sensitive are as follows:

- Valuation interest rate

  The valuation interest rate is derived from the weighted average of the yields on the assets held at the valuation date and allocated to meet the mathematical reserves. These estimates are based on current market returns as well as expectations about future economic and financial developments.

  An increase in valuation interest rate would lead to reduction in expenditure and an increase in profits for the shareholders.

- Inflation

  Consistent with the valuation rate adopted, the Company considers an appropriate inflation rate to be applied to the expenses which will be incurred in the future. The inflation rate assumed in each jurisdiction represents the expectation for inflation to increase in line with the monetary policy in each jurisdiction. A prudent margin is applied for potential adverse deviation.

  An increase in rate will increase the expenditure and reduce profits for the shareholders.

- Mortality

  The underlying mortality risks are based on either population mortality or relevant reinsurer risk-premium rate, depending on the nature of the product.

  An increase in rates will lead to a larger number of claims (and claims could occur sooner than anticipated), which will increase the expenditure and reduce profits for the shareholders.

- Lapses and surrender rates (persistency)

  The Company's methodology makes an allowance for lapses with the rate being set equal to the Solvency II best estimate assumption with a margin of prudence. Similar to the valuation on interest rate risk, depending on the mix of business, an increase or decrease in the Solvency II best-estimate lapse assumption may be prudent.

  An increase in the lapse rate early in the life of the policy would tend to reduce profits for shareholders, but later increases are broadly neutral in effect.

- Expenses

  The administration and claims handling expenses which will be incurred in the future are based on the current arrangements with administrators in each jurisdiction.

  An increase in the level of expenses would result in an increase in expenditure thereby reducing profits for the shareholders.

The assumptions that have potential effect on financial statements of the Company are detailed in Note 14. As of 31 December 2018, the Company had £5,187 long term business provisions (2017: £nil) and does not expect the impact of the volatility on the assumptions to be material.

(d) Financial risk

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

(i) Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due.

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 debtors 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.

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.

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

The table below provides information regarding the credit risk exposure of the Company at 31 December 2018 by classifying assets except intangible assets, prepayments and accrued income, according to Standard & Poor's credit ratings of the counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as speculative grade.

31 December 2018	**AAA or AA**	**A or BBB**	**BB or lower**	**Unrated**	**Total**
	£	**£**	**£**	**£**	**£**
Shares and other variable yield securities and units in unit trusts	-	-	-	2,835,098	2,835,098
Debt securities and other fixed income securities	3,780,707	-	-	-	3,780,707
Reinsurance share of technical provision	1,445,387	-	-	-	1,445,387
Debtors arising out of direct insurance operations	-	-	-	599,320	599,320
Debtors arising out of reinsurance operations	1,148,453	-	-	-	1,148,453
Other debtors	-	-	-	2,787,902	2,787,902
Cash at bank and in hand	2,000,000	1,941,075	-	40,389	3,981,464
Total	**8,374,547**	**1,941,075**	**-**	**6,262,709**	**16,578,331**

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31 December 2017	AAA or AA £	A or BBB £	BB or lower £	Unrated £	Total £
Shares and other variable yield securities and units in unit trusts	-	-	-	3,229,578	3,229,578
Debt securities and other fixed income securities	4,841,076	-	180,675	698,914	5,720,665
Reinsurance share of technical provision	909,407	-	-	-	909,407
Debtors arising out of direct insurance operations	-	-	-	369,394	369,394
Debtors arising out of reinsurance operations	2,056,773	-	-	-	2,056,773
Other debtors	-	-	-	3,183,671	3,183,671
Cash at bank and in hand	970,187	-	-	-	970,187
Total	8,777,443	-	180,675	7,481,557	16,439,675

(ii) 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 financial 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.

(iii) Market risk

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

(iii) 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.

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

	PLN	**US Dollar**	**EUR**	**Others**	**Total**
31 December 2018	**£**	**£**	**£**	**£**	**£**
Financial investment	**-**	**604,726**	**-**	**-**	**604,726**
Debtors	**2,599,739**	**-**	**494,256**	**835,796**	**3,929,791**
Cash at bank and in hand	**-**	**-**	**318,010**	**338,741**	**656,751**
Financial assets	**2,559,739**	**604,726**	**812,266**	**1,174,537**	**5,191,268**
Creditors	**(1,875,134)**	**-**	**(502,013)**	**(955,100)**	**(3,332,247)**
Net currency exposure	**724,605**	**604,726**	**310,253**	**219,437**	**1,859,021**

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for the year ended 31 December 2018

31 December 2017	PLN £	US Dollar £	EUR £	Others £	Total £
Financial investment	-	-	-	-	-
Debtors	1,966,361	-	353,930	975,612	3,295,903
Cash at bank and in hand	75,012	-	42,102	276,438	393,552
Financial assets	2,041,373	-	396,032	1,252,050	3,689,455
Creditors	(1,725,695)	-	(480,610)	(944,415)	(3,150,720)
Net currency exposure	315,678	-	(84,578)	307,635	538,735

At 31 December 2018, if the exchange rate of foreign currencies had varied by 5% against Pound Sterling with all other variables held constant, the profit for the year and equity would have been lower or higher by £92,951 (2017: £34,760).

(iv) 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 cash flows 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 is no significant concentration of price risk and there are no floating interest rate investments thus no sensitivity analysis has been performed.

11. Intangible assets

	Development Costs
Cost	**£**
At 1 January 2018	1,884,595
Additions	517,505
At 31 December 2018	2,402,100
Amortisation	
At 1 January 2018	1,452,695
Additions	310,689
At 31 December 2018	1,763,384
Net book value:	
At 31 December 2018	**638,716**
At 31 December 2017	431,900

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

12. Financial investments

	2018 £	2017 £
Financial assets at fair value through profit or loss		
Shares and variable-yield securities and units in units trusts	2,835,098	3,229,578
Debt securities and fixed income securities	3,780,707	5,720,665
	6,615,805	8,950,243
Financial liabilities at fair value through profit or loss		
Derivative contracts	(45,030)	(179,743)

Debt securities and fixed income securities are designated on initial recognition at fair value through profit or loss. Debt securities and fixed income securities consist of securities with maturity dates which range from July 2018 to February 2025 and securities with no fixed maturity dates.

The cost of the financial investments measured at fair value through profit or loss is £6,395,284 (2017: £8,457,733).

The amount of change during the period and cumulatively in the fair value of financial instruments held at fair value through profit and loss (other than derivatives) attributable to changes in credit risk was £291,990 loss and £220,519 gain, respectively (2017: £186,582 gain and £492,510 gain, respectively).

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

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

Derivative contracts above relate to open foreign currency forward contracts classified as trading instruments. The table below shows the derivative financial instruments with their notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding as of 31 December 2018 and 31 December 2017 are not indicative of either market risk or credit risk.

		2018	2017
*Currency forward contracts notional amounts**			
Shares in Moonscape Holdings Limited ("MHL")			
Buy:			
Euro	EUR	-	110,071
Hungarian Florin	HUF	-	100,710,000
Sell:			
Euro	EUR	4,030,941	1,849,851
United States Dollar	USD	765,128	707,762
Czech Koruna	CZK	65,971,972	43,432,200
Hungarian Florin	HUF	-	180,642,500

The liability arising from the loss on derivative contracts amounting to £45,030 (2017: loss of £179,743) as at the year-end was classified as creditor under 'amounts owed to credit institutions' on the statement of financial position.

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

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018

31 December 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
	£	**£**	**£**	**£**
Financial assets				
Shares and other variable yield securities and units in unit trusts	**848,406**	**1,986,692**	**-**	**2,835,098**
Debt securities and other fixed income securities	**-**	**3,780,707**	**-**	**3,780,707**
	848,406	**5,767,399**	**-**	**6,615,805**
Financial liabilities				
Derivative contracts	**45,030**	**-**	**-**	**45,030**

31 December 2017	Level 1	Level 2	Level 3	Total
	£	£	£	£
Financial assets				
Shares and other variable yield securities and units in unit trusts	-	3,229,578	-	3,229,578
Debt securities and other fixed income securities	180,675	5,539,990	-	5,720,665
	180,675	8,769,568	-	8,950,243
Financial liabilities				
Derivative contracts	179,743	-	-	179,743

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

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

13. Called up share capital

	2018	2017
	£	£
Authorised:		
50,025,000 (2017: 50,000,000) Ordinary shares of £1 each	**50,025,000**	50,000,000
Nil (2017: 5,000) Class "A", redeemable preference shares of £1 each	**-**	5,000
Nil (2017: 5,000) Class B, redeemable preference shares of £1 each	**-**	5,000
Nil (2017: 5,000) Class C, redeemable preference shares of £1 each	**-**	5,000
Nil (2017: 5,000) Class D, redeemable preference shares of £1 each	**-**	5,000
Nil (2017: 5,000) Class E, redeemable preference shares of £1 each	**-**	5,000
	50,025,000	50,025,000

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018

	2018	2017
	£	£
Allotted, called up and fully paid:		
3,501,500 (2017: 3,500,000) Ordinary shares of £1 each	**3,501,500**	3,500,000
Nil (2017: 1,500) Class A, redeemable preference shares of £1 each	**-**	1,500
	3,501,500	3,501,500

The Class A and Class B redeemable shares carry a preferential right to dividends. No dividend was paid during the year. These shares are undated and confer no voting rights. They are redeemable at the discretion of the directors of the Company and have been classified as equity. During the year, the Company undertook a conversion and sharefor- share exchange in order to convert the previously issued 1,500 non-voting preference share to 1,500 ordinary shares in order to simplify the capital structure of the Company.

The capital redemption reserve in equity of £3,750 is the nominal value of Class B redeemable preference shares that was redemmed at £999 in 2015.

14. Long Term Business Provision

	2018	2017
	£	£
Non-linked provisions	**5,187**	-
Gross long term business provision	**5,187**	-

31 December 2018	**Gross**	**Reinsurance**	**Net**
	£	**£**	**£**
Long-term business provision brought forward	-	(678,570)	(678,570)
Foreign exchange loss/(gain)	77	8,406	8,483
Change in recaptured reinsurance during the year	-	20,717	20,717
Change in the provision during the year	5,110	(707,356)	(702,246)
Long-term business provision carried forward	**5,187**	**(1,356,803)**	**(1,351,616)**

31 December 2017	Gross	Reinsurance	Net
	£	£	£
Long-term business provision brought forward	3,534,766	(704,826)	2,829,940
Foreign exchange loss/(gain)	275,462	(52,707)	222,755
Change in recaptured reinsurance during the year	-	112,814	112,814
Change in the provision during the year	(3,810,228)	(33,851)	(3,844,079)
Long-term business provision carried forward	-	(678,570)	(678,570)

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018

The principal assumptions underlying the calculation of the long-term business provisions, as disclosed in the actuarial report as at 31 December 2018 are:

	Per annum		
Non-linked provision	**2018**	**2017**	**Other assumptions**
Valuation interest rate	+52 bp	+56 bp	The margin is a paralell shift to the Solvency II risk-free rate in each currency
Mortality rates	+20%	+20%	of Polish / Hungarian / Czech and Slovakian population mortality rates where the adjustments allow for duration in force and age loadings
Mortality incidence rates (Health products only)	+20%	N/A	Health business was only written from November 2018. No adjustment is applied to the recovery rate assumptions for the Hospital Cash business
Expenses:			
- Administration fees	+10%	+10%	
- Claims handling fees	+10%	+10%	
- Contribution to overhead expenses	+10%	+10%	
- Expense inflation	+10%	+10%	
Lapse rate	+20%	0%	Policy persistency

15. Related party transaction and balances

During the year, the Company entered into transactions with its related parties. The transactions entered into and balances outstanding as at 31 December 2018 and 31 December 2017 are as follows:

	Income/Expenses		Amounts (payable)/receivable	
	2018	2017	**2018**	2017
Entity controlled by a director	(24,485)	(20,600)	-	-
Entity under common ownership	60,000	60,000	(11,964)	(405)

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

Key management personnel

The remuneration of key management personnel are borne by a related party. This cost is covered within the £60,000 (2017: £60,000) expense above.

16. Controlling party

The Company is a wholly owned subsidiary of Red Sands Group Holdings Limited, a Company incorporated in Gibraltar. The Jaapt'Hooft Trust is the ultimate controlling party.

redsands
life assurance

redsands
insurance

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