ONE
Re Ltd

One Re Ltd

Annual Report

&

Accounts

2018

ONE
Re Ltd

Contents

ONE
Re Ltd

Directors and Officers

Executive Directors

Andrew Lewis	Chief Executive Officer
Andrew Bak	Chief Financial Officer
Nicholas Briggs	Chief Operating Officer

Non-Executive Directors

Ronald Gould

Registered Office

10 Philpot Lane, London EC3M 8AA

Registered Number

08179596

Auditor

Ernst & Young LLP, 25 Churchill Place, Canary Wharf, London E14 5EY

Strategic Report
For the year ended 31 December 2018

The directors present their strategic report on One Re Ltd ("the Company") for the year ended 31 December 2018.

Principal activity

The Company is incorporated under the laws of the United Kingdom as a private company limited by shares, with company number 08179596. Its principal place of business is 10 Philpot Lane, London EC3M 8AA in the United Kingdom.

The Company is controlled by 54 North Limited (incorporated in the Isle of Man), which owns 100% of the Company's shares and is also the ultimate parent of the Company. The Company's principal activity was that of a general non-life reinsurance company.

During 2018, the Company decided to stop accepting new business. All new and renewal business is now being channelled through two managing general agencies ("MGAs") established in the UK and South Africa, which are collectively known as One Risk Africa, which have the same ultimate beneficial shareholders as the Company.

The UK MGA, namely One Risk Africa Ltd, is based in London and is focused on African facultative and treaty reinsurance. It has a delegated authority agreed with Sirius International Insurance Corporation.

The South African MGA, namely One Risk Africa (Pty) Ltd, is based in Johannesburg and is focused on facultative property reinsurance for all African property risks and is backed by Sirius Syndicate 1945.

The Company's strategy is to safeguard the Company's assets whilst managing an orderly run-off, so that it can maximise the eventual return of capital back to the shareholders whilst ensuring that the requirements of all other stakeholders are satisfied. The Company has assessed that its future investment income will be sufficient enough to cover its ongoing run-off expenses.

The Company is working closely with the Prudential Regulation Authority to ensure an orderly run-off process is followed whilst the shareholders and executive management of the Company pursue the most appropriate exit strategy for all stakeholders.

Business review and future developments

Underwriting

In 2018, the Company's business was ceded from 36 African countries (2017: 34 countries), as summarised in the table on page 4.

The Company wrote gross premiums of $5.5 million in 2018 (2017: $6.4 million), the earning of which is staggered across the respective financial years. This represents a substantial reduction in the Company's income stream, which reflects the decision to stop accepting new business midway through 2018.

Country	2018 $'000	2017 $'000
Algeria	159	36
Angola	4	(199)
Benin	22	-
Botswana	5	80
Burkina Faso	(4)	141
Cameroon	84	63
Democratic Republic of the Congo	45	61
Ethiopia	140	-
Gabon	6	4
Guinea	1	17
Ivory Coast	29	4
Kenya	744	1,269
Lesotho	10	8
Liberia	55	(14)
Malawi	27	4
Mauritius	190	351
Morocco	6	-
Mozambique	658	620
Namibia	136	1,340
Niger	-	15
Nigeria	374	480
Rwanda	-	94
Senegal	-	57
Seychelles	77	102
Sierra Leone	(9)	37
South Africa	2,233	1,215
Sudan	48	144
Swaziland	47	25
Tanzania	52	49
Togo	(3)	14
Uganda	(39)	34
Zambia	66	122
Zimbabwe	313	193
Other African countries	21	4
Gross written premiums	**5,497**	**6,370**

Gross written premiums

Gross written premiums have decreased by $0.9 million (13.7%) from the previous year to $5.5 million for the 2018 calendar year. The largest increases were achieved in South Africa, Ethiopia and Algeria, whilst the most significant reductions were seen in Namibia, Kenya and Nigeria.

Investments

The table below shows the investment and other income generated from the Company's portfolio of investments, with the most significant contribution continuing to arise from the properties.

	2018 $'000	2017 $'000
Rental income from investment properties	1,079	867
Profit on disposal of investment property	2,674	-
Fair value gains on investment properties	245	2,720
Fair value gains on financial assets	142	239
Interest income	54	19
Net investment income	**4,194**	**3,845**
Other income	-	-
Investment and other income	**4,194**	**3,845**

Expenses

The table below shows the expenses incurred by the Company, which are made up of acquisition costs and operational expenses such as employee benefits, as well as travel expenses relating to regular trips to meet with cedants brokers and regulators across the African continent.

	2018 $'000	2017 $'000
Acquisition costs		
Brokerage and commissions	1,669	1,845
Reinsurance commissions	(795)	(765)
Change in deferred acquisition costs	357	(328)
Total expenses for the acquisition of insurance contracts	**1,231**	**752**
Administrative expenses		
Staff costs	2,215	2,411
Office costs	299	277
IT costs	142	159
Legal & Professional	565	333
Travel & Entertaining	135	287
Depreciation & Amortisation	53	63
Other costs	268	313
Total administrative expenses	**3,677**	**3,843**
Total expenses	**4,908**	**4,595**

Results and dividends

The results of the Company are shown on page 20. The loss after tax for the year ended 31 December 2018 was $2.9 million (2017: $2.4 million profit). No dividends were declared or paid by the Company during the year ended 31 December 2018 (2017: $nil).

Strategic Report
For the year ended 31 December 2018

Key performance indicators

The key performance indicators for the Company are considered to be premium growth and profitability. These indicators are set out in the table below:

	2018 $'000	2017 $'000
Gross written premiums (GWP)	5,497	6,370
GWP growth	(873)	3,847
GWP growth	(13.7%)	152.1%
Profit/(loss) before tax	(1,804)	1,384
Profitability (decrease)/increase	(3,188)	3,293
Profitability decrease)/increase	(230.3%)	172.5%

In 2018, the fact that the Company's two key performance indicators both show significant downward trends supports the decision taken by the Board to cease accepting new business and enter into an orderly run-off process.

In 2017, the profitability increases shown above arose from a combination of GWP growth, fair value gains on investment properties and net foreign exchange adjustments, offset by net claims incurred. There was one large loss in 2017 which related to Massmart – Game, this being a fire loss in Mozambique with a gross claim reported of $2.6 million, netting down after surplus reinsurance cover to $0.8 million. The remaining losses incurred during 2017 were attritional in nature.

Principal risks and uncertainties

The risk categories set out below are considered to be the principal risks for the Company. The Company issued and/or entered into contracts that transferred insurance risk or financial risk or both. This section summarises these risk categories and the way the Company manages them.

In response to the risks the Company faces, the Company has designed and implemented a risk framework to identify, assess and manage risk within a Board agreed risk appetite. Accordingly, the Company has implemented a range of internal controls to prevent, detect or mitigate risk.

The risk framework includes an event notification procedure. An event notification procedure is a clear process in place to identify and log any and all operational losses, this includes near misses. These are maintained in a central location and are analysed to determine trends and identify any potential control weaknesses. This data is also used to assess the potential operational risk facing the Company. This enables the Company to identify trends and, where possible, put in preventative controls to avoid similar events occurring in the future. This provides the Company with a proactive control environment. The process is overseen by the Risk, Compliance & Underwriting Committee and oversight is provided by the Audit Committee. The details below represent only an overview of the key risks and some of the controls to mitigate these risks.

Insurance risk

The risk of loss or of adverse change in the value of insurance liabilities, due to the provisioning assumptions being based on inadequate or limited pricing information. By the very nature of an insurance contract, this risk is random and therefore unpredictable. The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. Reserving is also considered under this risk category.

Credit risk
The risk of loss or of adverse change in the financial situation, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors to which undertakings are exposed in the form of counterparty default risk, or spread risk, or market risk concentrations.

The Company structured the levels of credit risk it accepted by placing limits on its exposure to a single counterparty, or groups of counterparties, and to geographical and industry segments. Such risks were subject to an annual or more frequent review. Limits on the level of credit risk by category and territory were approved quarterly by the Risk, Underwriting & Compliance Committee.

Market risk
The risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments. Where market risk arises it can negatively impact the Company's liquidity ratio. The Company has a liquidity management process in place to manage this risk.

This includes monitoring of day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met, maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow and monitoring the liquidity ratios of the balance sheet against internal and regulatory requirements.

Operational risk
The risk of loss arising from inadequate or inappropriate internal controls, people, systems or external events. The Company recognises that operational risk can arise from any of the above mentioned risk categories and as such does not look at operational risk in singularity. The Company continues to be exposed to resource constraints and acknowledges that there is key man risk; however, the Company believes it will continue to manage this risk appropriately during the duration of the run-off process.

Employees
The Company is an equal opportunities employer and bases all decisions on individual ability regardless of race, religion, gender, age or disability.

Approval
This strategic report was approved by the board on 28 February 2019 and signed on its behalf by:

Andrew Bak
Director

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Directors' Report
For the year ended 31 December 2018

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

Dividends
No dividends were declared or paid by the Company during the year ended 31 December 2018 (2017: $nil).

Directors
The directors set out in the table below have held office during the period to the date of this report, unless otherwise stated:

Director	Date of appointment	Date of resignation
Andrew Lewis	-	-
Andrew Bak	-	-
Chris Sinclair	-	6th December 2018
Ronald Gould	-	-
Nicholas Davenport	-	6th December 2018
Nicholas Briggs (subject to regulatory approval)	6th December 2018	

Post balance sheet events
No adjusting or non-adjusting events that require disclosure have occurred between the balance sheet date and the date when the financial statements were authorised for issue.

Directors' indemnity
Appropriate directors' and officers' liability insurance cover is in place in respect of all of the Company's directors.

Political donations and expenditure
No political donations were made or political expenditure incurred by the Company during the year ended 31 December 2018 (2017: $nil).

Financial instruments
Details of financial instruments are provided in note 18.2.

Going concern
The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and, therefore, have adopted the going concern basis for accounting in preparing the financial statements.

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Directors' Report
For the year ended 31 December 2018

Auditor and disclosure of information to auditor
The directors each confirm that:

- So far as they are aware, there is no relevant audit information of which the Company's auditor is unaware, and
- They have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Ernst & Young LLP has indicated its willingness to continue in office and a resolution that Ernst & Young LLP be re-appointed will be proposed at the next board meeting in 2019.

Approval
This report was approved by the board on 28 February 2019 and signed on its behalf by:

Andrew Bak
Director
10 Philpot Lane
London
EC3M 8AA

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Statement of Directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Company's financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union 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 adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the directors, whose names and functions are listed in the Directors' Report confirm that, to the best of their knowledge:

- the financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the Company; and
- the Directors' Report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

By order of the board

Andrew Bak
Director
28 February 2019

Independent auditor's report to the member of One Re Ltd

Opinion
We have audited the financial statements of One Re Ltd for the year ended 31 December 2018 which comprise the Income Statement, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 27, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, 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.

Conclusions relating to going concern
We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Independent Auditor's Report
For the year ended 31 December 2018

Overview of our audit approach

Key audit matters	• Valuation of investment properties • Revenue recognition • Valuation of Insurance liabilities
Materiality	• Overall materiality of $758k which represents 2% of net assets.

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.

Risk	Our response to the risk	Key observations communicated to the Board
Valuation of investment properties (2018: $5m, 2017: $25m) *Refer to the Accounting policies (page 29); and Note 12 of the Financial Statements (page 60)* *Valuation of investment property is highly subjective and based on inputs that are not readily available within the market. There is a significant element of judgement involved in the fair valuation of the two investment properties held by One Re.* *Due to the risk of misstatement of the valuation of investment property, and the quantum of the balance in respect of the One Re balance sheet we*	*We have obtained and reviewed the methodology and benchmarked the assumptions used within the third party valuation report produced by James Andrew International Limited over the investment property in conjunction with our in-house valuation team.* *We have performed our own valuation of the remaining investment property, establishing our own range of values.* *We have confirmed the ownership of the property by obtaining and inspecting the relevant ownership documents.*	*There are a number of inputs which drive the valuation of investment properties, including: market rent per square foot, rental yields and estimates of periods where properties remain unoccupied.* *We have a consistent view with each of these assumptions within the James Andrew International Limited valuation report and the property valuation lies within our ranges as at 31 December 2018.* *We are satisfied with the accounting treatment and disclosures in respect of the investment property in line*

consider the valuation of the investment properties to be a key audit matter. *The risk has decreased this year due to the sale of one of its investment properties in 2018.*	*We have reviewed the accounting entries and fair value disclosures made for the year end valuation in line with IFRS 13 and IAS 40.*	*with requirements in both IAS 40 and IFRS 13.*
Revenue Recognition (2018: Estimated Premium Income $2.8m, 2017: $2.9m) *Refer to Accounting policies (page 41); and Note 5 of the Financial Statements (page 54)* *Due to the timing of premium information transferred from primary insurers to One Re regarding the underlying risks written, there is a portion of One Re's income which is estimated at any given reporting date.* *The process for estimating these premiums incorporates management judgement.* *The risk has decreased this year because the company ceased to write new business from June 2018.*	*We evaluated the key controls over the premium estimation process.* *We have vouched a sample of contracts to underlying terms and conditions.* *We have reviewed a sample of premiums estimates using contract information and understood the judgements made by management.* *We have reviewed a sample of prior period premiums contracts in order to validate the historical accuracy of management's estimates, confirming that premiums, cash and debtor balances are appropriately accounted for.*	*Based on the results of our procedures performed we have concluded that the premium estimates are recorded are reasonable and in line with applicable accounting standards.*
Valuation of gross insurance liabilities (2018: $5.3m, 2017: $4.4m) *Refer to the Accounting policies (page 43); and Note 21 of the Financial Statements (page 67)* *The valuation of provisions for insurance liabilities. Involves*	*We have understood the reserving process, including the review and approval of the reserves, and the extraction of data from the appropriate sources.*	*We consider that management's reserve estimate in respect of setting the overall insurance liabilities lie within what we consider to be a reasonable range of estimates albeit the range of reasonable outcomes is*

Independent Auditor's Report
For the year ended 31 December 2018

management judgement in two distinct areas: *1) The value of any claims that have been incurred but not yet reported to the company (IBNR).* *2) Adjustments required to amounts reported to the company that may not reflect the most up to date information (Case reserves).* *Due to the relatively low volumes of business there is less diversification in the portfolio. Given the relatively immature nature of the book there is also less historical claims experience. Both of these factors lead to a wider range of potential outcomes.* *There is a risk that inappropriate reserve assumptions are used or inaccurate projections are made and therefore do not represent Management's best estimate of the ultimate cost to settle all claims. This could lead to reserves not falling within a reasonable range of possible estimates and to a misstatement in the financial statements.*	*We have agreed a sample of case reserves back to supporting information.* *Supported by our actuarial specialists, we evaluated management's methodology and assumptions.* *We have performed back testing of management's previous estimates against post year end developments.* *We have tested the completeness and accuracy of the underlying data used in the Company's actuarial calculations and reconciled amounts where applicable back to the general ledger.* *We have read the information disclosed in in respect of the insurance liabilities to assess whether it is appropriate under IFRS requirements.*	*relatively large given the risk factors identified.* *Following our review of historical reserve setting we note that using the selected methodology IBNR has historically been adequate.* *In addition, we consider that the disclosures made are satisfactory, and they provide information that assists in understanding the uncertainty inherent in the valuation of the company's insurance liabilities.*

In the prior year, our auditor's report included a key audit matter in relation to the recognition of a deferred tax asset. In the current year, we note that no deferred tax asset is held by the Company and therefore this is no longer considered to be a key audit matter.

Independent Auditor's Report
For the year ended 31 December 2018

An overview of the scope of our audit

Tailoring the scope
Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

Changes from the prior year
There have been no changes in our audit approach from the prior year.

Our application of materiality
We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality
The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Company to be $758k (2017: $770k), which is 2% (2017: 1.9%) of net assets. We believe that net assets provides us with a measure of materiality which is closely aligned to the key focus of the entity and its users. We consider its solvency, available capital and ability to pay claimants to be of primary importance.

During the course of our audit, we reassessed initial materiality and amended materiality to reflect the net asset position as at the Company's year-end.

Performance materiality
The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 50% (2017: 50%) of our planning materiality, namely $379k (2017: $385k). We have set performance materiality at this percentage due to the accumulation of unadjusted audit differences in the prior period.

Reporting threshold
An amount below which identified misstatements are considered as being clearly trivial.

We have reported to the directors all uncorrected audit differences in excess of $37k (2017: $39k), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

Independent Auditor's Report
For the year ended 31 December 2018

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information
The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Independent Auditor's Report
For the year ended 31 December 2018

Responsibilities of directors
As explained more fully in the directors' responsibilities statement set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors 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, the directors are 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.

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 (UK) 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.

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.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant included permissions and supervisory requirements of the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA').

- We understood how the Company is complying with those frameworks by: making enquiries of management, including those responsible for legal and compliance matters; reviewing correspondence between the Company and UK regulatory bodies; reviewing minutes of the Board and Executive Risk Committee; and gaining an understanding of the Company's approach to governance, demonstrated by the Board's approval of the Company's governance framework and the Board's review of the Company's risk management framework and internal control processes.

- For direct laws and regulations affecting the company's reporting, we considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.

- For both direct and other laws and regulations, our procedures included: making enquiries of those charged with governance and senior management for their awareness of any non-compliance of laws or regulations; and also making enquiries with regards to the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, inquiring about the company's methods of enforcing and monitoring compliance with such policies, inspecting significant correspondence with the FCA and PRA.

- 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; and considering areas of significant judgement, complex transactions, performance targets and external pressures and the impact these have on the control environment.

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved specifically focus on activity within the accounts affected by our identified fraud risks; and assessing the appropriateness of the manual entries within these accounts to provide reasonable assurance that the financial statements were free from fraud or error.

- The Company operates in the insurance industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- We were appointed by the company on 27 November 2014 to audit the financial statements for the year ending 31 December 2014 and subsequent financial periods.

- The period of total uninterrupted engagement including previous renewals and reappointments is 5 years, covering the years ending 31 December 2014 to 31 December 2018.

- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting the audit.

- We note that we have been approved to provide support to One Re to close the Gabon branch. The agreed fee is below $5,000, and this was approved by the Audit Committee in August 2018.

Independent Auditor's Report
For the year ended 31 December 2018

- The audit opinion is consistent with the additional report to the Board.

Use of our report
This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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.

Ernst & Young LLP

Ed Jervis (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
28 February 2019

Notes:

1. The maintenance and integrity of the One Re Ltd web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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Income Statement
For the year ended 31 December 2018

	Note	2018 $'000	2017 $'000
Gross written premiums		5,497	6,370
Premiums ceded to reinsurers		(3,906)	(3,062)
Net written premiums		1,591	3,308
Net change in unearned premiums provision		1,282	(827)
Net earned premiums		2,873	2,481
Investment and other income	6	4,194	3,845
Total income		**7,067**	**6,326**
Gross claims paid	7	(2,430)	(740)
Claims ceded to reinsurers	7	1,282	228
Gross change in technical provisions	7	(854)	(3,950)
Change in technical provisions ceded to reinsurers	7	(231)	2,002
Net insurance claims		**(2,233)**	**(2,460)**
Acquisition costs	8	(1,231)	(752)
Administrative expenses	8	(3,677)	(3,843)
Total expenses		**(4,908)**	**(4,595)**
Results of operating activities		**(74)**	**(729)**
Net foreign exchange adjustments		(1,730)	2,113
Profit/(loss) before tax		**(1,804)**	**1,384**
Income tax expense/credit	11	(1,057)	1,057
Profit/(loss) for the year		**(2,861)**	**2,441**

All of the Company's operations are continuing.

The notes on pages 25 to 72 are an integral part of the financial statements.

ONE

Re Ltd

Statement of Comprehensive Income
For the year ended 31 December 2018

	Note	2018 $'000	2017 $'000
Profit/(loss) for the year		(2,861)	2,441
Other comprehensive income:			
Currency translation differences		-	-
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year		**(2,861)**	**2,441**

Items disclosed in the statement above are disclosed net of tax. The income tax relating to each component of other comprehensive income is disclosed in Note 11.

The notes on pages 25 to 72 are an integral part of the financial statements.

ONE
Re Ltd

Statement of Financial Position
As at 31 December 2018

	Note	2018 $'000	2017 $'000
Assets			
Non-current assets			
Investment properties	12	5,012	25,338
Intangible assets	13	-	-
Property, plant and equipment	14	26	79
Investment in subsidiaries	27	-	17
		5,038	25,434
Current assets			
Deferred tax asset	23	-	1,057
Reinsurance assets	15	3,434	3,447
Deferred acquisition costs	16	152	509
Insurance receivables	17	5,605	4,843
Financial assets	18	11,570	10,872
Cash and cash equivalents	19	23,888	5,305
		44,649	26,033
Total assets		**49,687**	**51,467**
Equity and Liabilities			
Equity			
Ordinary shares	20	50,000	50,000
Retained earnings		(12,068)	(9,207)
Total equity		**37,932**	**40,793**
Liabilities			
Current liabilities			
Technical provisions	21	5,922	6,718
Insurance and other payables	22	5,833	3,956
Total liabilities		**11,755**	**10,674**
Total equity and liabilities		**49,687**	**51,467**

The notes on pages 25 to 72 are an integral part of the financial statements.

The financial statements on pages 20 to 72 were authorised for issue by the board of directors on 28 February 2019 and were signed on its behalf.

Andrew Lewis
Chief Executive Officer

Andrew Bak
Chief Financial Officer

ONE
Re Ltd

Statement of Changes in Equity
For the year ended 31 December 2018

	Note	Share capital $'000	Retained earnings $'000	Total equity $'000
Balance as at 1 January 2017		**50,000**	**(11,648)**	**38,352**
Total comprehensive income for the year				
Profit for the year		-	2,441	2,441
Other comprehensive income		-	-	-
Total comprehensive income for the year		**-**	**2,441**	**2,441**
Transactions with owners				
Proceeds from shares issued	20	-	-	-
Dividends		-	-	-
Total transactions with owners		**-**	**-**	**-**
Balance as at 31 December 2017		**50,000**	**(9,207)**	**40,793**
Balance as at 1 January 2018		**50,000**	**(9,207)**	**40,793**
Total comprehensive income for the year				
Loss for the year		-	(2,861)	(2,861)
Other comprehensive income		-	-	-
Total comprehensive income for the year		**-**	**(2,861)**	**(2,861)**
Transactions with owners				
Proceeds from shares issued	20	-	-	-
Dividends		-	-	-
Total transactions with owners		**-**	**-**	**-**
Balance as at 31 December 2018		**50,000**	**(12,068)**	**37,932**

The notes on pages 25 to 72 are an integral part of the financial statements.

ONE Re Ltd

Statement of Cash Flows
For the year ended 31 December 2018

	Note	2018 $'000	2017 $'000
Cash flows used in operating activities			
Cash generated from operations	24	(3,713)	(1,905)
Income tax paid		-	-
Net cash used in operating activities			**(1,905)**
Cash flows (used in)/from investing activities			
Subsequent expenditure on investment properties	12	(8)	(82)
Proceeds from sale of investment properties	14	22,304	-
Purchase of plant and equipment	14	-	(8)
Net cash (used in)/from investing activities		**22,296**	**(90)**
Cash flows from financing activities			
Proceeds from issuance of ordinary shares	20	-	-
Dividends paid to Company's shareholder		-	-
Net cash from financing activities		**-**	**-**
Net (decrease)/increase in cash and cash equivalents		18,583	(1,995)
Cash and cash equivalents at 1 January	19	5,305	7,300
Cash and cash equivalents at 31 December	19	**23,888**	**5,305**

The notes on pages 25 to 72 are an integral part of the financial statements.

1. General information

One Re Ltd ("the Company") was authorised by the Prudential Regulation Authority and the Financial Conduct Authority in 2014 to write reinsurance business in the United Kingdom. The Company has operations solely in the UK, having closed down its branch in Gabon during 2018, and employs 4 people.

The Company is a limited liability company incorporated and domiciled in the UK. The address of its registered office is: 10 Philpot Lane, London EC3M 8AA.

These financial statements have been authorised for issue by the Board of Directors on 28 February 2019.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below.

2.1. Basis of presentation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as defined by IAS 1. They have been prepared on an historical cost basis, except for investment properties and financial assets and financial liabilities (including derivative instruments) that have been measured at fair value through profit or loss (FVPL).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

All amounts in the notes are shown in thousands of US Dollars, rounded to the nearest thousand, unless otherwise stated.

2.1.1. Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Company

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial period beginning on or after 1 January 2018 that would be expected to have a material impact on the Company.

(b) New standards, amendments and interpretations issued but not effective for the financial period beginning 1 January 2018 and not early adopted

The following new standards, amendments to existing standards have been issued, are not yet effective and have not been adopted early by the Company:

i. IFRS 9, Financial Instruments (including amendments to IFRS 4, Insurance Contracts)

The Company applies the temporary exemption from IFRS 9 as permitted by the amendments to IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts* issued in September 2016. The temporary exemption permits the Company to continue applying IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2021.

The Company concluded that it qualified for the temporary exemption from IFRS 9 because its activities are entirely connected with insurance. As at 31 December 2015, the Company's gross liabilities arising from contracts within the scope of IFRS 4 represented 100% of the total carrying amount of all its liabilities. Since 31 December 2015, there has been no change in the activities of the Company that requires reassessment of the use of the temporary exemption.

The table below presents an analysis of the fair value of classes of financial assets as at the end of the reporting period, as well as the corresponding change in fair value during the reporting period. The financial assets are divided into two categories:

- Assets for which their contractual cash flows represent solely payments of principal and interest (SPPI), excluding any financial assets that are held for trading or that are managed and whose performance is evaluated on a fair value basis; and

- All financial assets other than those specified in SPPI above (i.e. those for which contractual cash flows do not represent SPPI, assets that are held for trading and assets that are managed and whose performance is evaluated on a fair value basis).

	SPPI financial assets		Other financial assets	
	Fair value	Fair value change	Fair value	Fair value change
Asset type	**$'000**	**$'000**	**$'000**	**$'000**
Cash and cash equivalents	23,888	18,583	-	-
Mutual Funds	-	-	10,791	184
Total	**23,888**	**18,583**	**10,791**	**184**

ii. IFRS 16, Leases

In January 2016, the IASB published IFRS 16 Leases which will replace IAS 17 Leases. IFRS 16 introduces a definition of a lease with a single lessee accounting model eliminating the classification of either operating or finance leases. Lessees will be required to account for all leases in a similar manner to the current finance lease accounting recognising lease assets and liabilities on the statement of financial position. Lessor accounting remains similar to current practice. The impact of the adoption of IFRS 16 has yet to be fully assessed by the Company. This standard applies to annual reporting periods beginning on or after 1 January 2019 and has not yet been endorsed by the EU.

iii. IFRS 17, Insurance Contracts

The effective date for IFRS 17 is 1 January 2021. Following the issuance of the full and final version of IFRS 17, the Company plans to make an assessment of the impact and implementation of IFRS 17 on its results, financial position and cash flows during 2019.

2.2. Consolidation

The Company is controlled by 54 North Limited (incorporated in the Isle of Man), which owns 100% of the Company's shares and is also the ultimate parent of the Company.

Section 401 of Chapter 4 of The Companies Act 2006 provides an exemption from preparing consolidated accounts. Consequently, the Company is included in the consolidated financial statements of 54 North Limited, which is the parent undertaking of the smallest and largest group to consolidate these financial statements.

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. An investor controls an investee if and only if the investor has all of the following elements:

- power over the investee, i.e. the investor has existing rights that give it the ability to direct the relevant activities (the activities that significantly affect the investee's returns);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of the investor's returns.

(b) Disposal of subsidiaries

When the Company ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset.

In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Company had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2.3. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, which is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive management committee that makes strategic decisions.

2.4. Foreign currency translation

(a) Functional and presentation currency

Items included in the Company's financial statements are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency').

The Company's functional currency is US Dollars, which represents the currency of the Company's share capital and also the currency in which all of the Company's underwriting transactions are denominated.

The financial statements are presented in thousands of US Dollars, which is the Company's presentation currency.

(b) 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 income statement.

The closing rate of exchange between US Dollars and Sterling at 31 December 2018 was 1.27 (2017: 1.35).

All foreign exchange gains and losses are presented in the income statement.

Translation differences related to changes in amortised cost are recognised in profit or loss; other changes in carrying amount are recognised in 'Other comprehensive income'.

Translation differences on financial assets and liabilities held at FVPL are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets are recognised in the income statement in line with the accounting principles of the underlying assets and liabilities.

2.5. Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation, except that land is not depreciated. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on all property, plant and equipment (except land) is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

- Buildings 50 years
- Furniture, fixtures and fittings 5 years
- Computer equipment 3 years

The assets' residual values and useful lives are reviewed at the end of each reporting period and adjusted if appropriate. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in the income statement in operating income.

2.6. Investment properties

Property held for long-term rental yields that is not occupied by the Company is classified as investment property. Where an investment property is partly owner-occupied, utilisation of less than 25% is regarded as immaterial when determining classification.

Investment property comprises freehold land and buildings. It is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Company uses alternative valuation methods such as discounted cash flow projections or recent prices in less active markets.

These valuations are reviewed annually by an independent valuation expert. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value. Changes in fair values are recorded in the income statement.

Property located on land that is held under an operating lease is classified as investment property as long as it is held for long-term rental yields and is not occupied by the Company. The initial cost of the property is the lower of the fair value of the property and the present value of the minimum lease payments. The property is carried at fair value after initial recognition.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference arising between the carrying amount and the fair value of this item at the date of transfer is recognised in other comprehensive income as a revaluation of property, plant and equipment.

However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the income statement. Upon the disposal of such investment property, any surplus previously recorded in equity is transferred to retained earnings; the transfer is not made through the income statement.

2.7. Intangible assets

(a) Computer software

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it;
- There is an ability to use or sell the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of directly attributable overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Computer software development costs recognised as assets are amortised over their useful lives, which does not exceed three years.

2.8. Financial assets

The Company classifies its financial assets into the following categories:

- FVPL;
- loans and receivables;
- held to maturity; and
- available for sale.

The classification is determined by management at initial recognition and depends on the purpose for which the investments were acquired.

2.8.1. Classification

(a) Financial assets at FVPL

This category has two sub-categories:

- financial assets held for trading; and
- those designated at FVPL at inception.

A financial asset is classified into the 'financial assets at FVPL' category at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short-term profit-taking or if so designated by management. Derivatives are also classified as held for trading unless they are designated as hedges.

Financial assets designated as at FVPL at inception are those that are:

- Held in funds to match insurance contracts liabilities that are linked to the changes in fair value of these assets. The designation of these assets to be at FVPL eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; and
- Managed and whose performance is evaluated on a fair value basis. Information about these financial assets is provided on a fair value basis to the Company's key management personnel. The Company's investment strategy is to invest in funds and to evaluate them with reference to their fair values. Assets that are part of these portfolios are designated upon initial recognition at FVPL.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Company intends to sell in the short term or that it has designated as at FVPL or available for sale. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

(c) Held to maturity financial assets

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity, other than:

- those that the Company, upon initial recognition, designates as at FVPL;
- those that the Company designates as available for sale; and
- those that meet the definition of loans and receivables.

Interest on held to maturity investments is included in the income statement and reported as 'Interest income'. In the case of an impairment, it is reported as a deduction from the carrying value of the investment and recognised in the income statement as 'Net gains/(losses) on investments'. Held to maturity investments are corporate bonds.

(d) Available for sale financial assets

Available for sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held to maturity investments or financial assets at FVPL.

2.8.2. Recognition and measurement

Regular purchases and sales of financial assets are recognised on trade-date, being the date on which the Company commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus, in the case of all financial assets not carried at FVPL, transaction costs that are directly attributable to their acquisition. Financial assets carried at FVPL are initially recognised at fair value and transaction costs are expensed in the income statement.

Financial assets are derecognised when the rights to receive cash flows from them have expired or where they have been transferred and the Company has also transferred substantially all risks and rewards of ownership.

Available for sale financial assets and financial assets at FVPL are subsequently carried at fair value. Loans and receivables and held to maturity financial assets are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of the 'financial assets at FVPL' category are included in the income statement in the period in which they arise. Dividend income from financial assets at FVPL is recognised in the income statement as part of other income when the Company's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are included in the income statement as net realised gains/(losses) on financial assets.

Interest on available for sale securities calculated using the effective interest method is recognised in the income statement. Dividends on available for sale equity instruments are recognised in the income statement when the Company's right to receive payments is established. Both are included in the investment income line.

See Note 2.9 for the Company's accounting policies relating to the impairment of financial assets.

2.9. Impairment of assets

(a) Financial assets carried at amortised cost

The Company assesses at each reporting period end whether there is objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Company about the following events:

- Significant financial difficulty of the issuer or debtor;
- A breach of contract, such as a default or delinquency in payments;
- It becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Company, including:
  - adverse changes in the payment status of issuers or debtors in the Company; or
  - national or local economic conditions that correlate with defaults on the assets in the Company.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred on loans and receivables or held to maturity investments carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have been incurred) discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a held to maturity investment or a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (that is, on the basis of the Company's grading process that considers asset type, industry, geographical location, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the issuer's ability to pay all amounts due under the contractual terms of the debt instrument being evaluated.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

(b) Impairment of other non-financial assets

Assets that have an indefinite useful life (for example, land) are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

2.10. Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (that is, the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (that is, without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

The Company designates certain derivatives as either: (a) hedges of the fair value of recognised assets or liabilities or of a firm commitment (fair value hedge); (b) hedges of highly probable forecast transactions (cash flow hedges); or (c) hedges of net investments in foreign operations (net investment hedge).

The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedging transactions.

The Company also documents its assessment, both at hedge inception and on an on-going basis, of whether the derivatives that are used in hedging transactions are expected to be and have been highly effective in offsetting changes in fair values or cash flows of hedged items.

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedge item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to any ineffective portion is recognised immediately in the income statement within 'net fair value gains on financial assets at FVPL'.

Amounts accumulated in equity are recycled to income in the periods in which the hedged item affects profit or loss (for example, when the hedged forecast transaction takes place). However, when the hedged forecast transaction results in the recognition of a non-financial asset or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. However, when a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(c) Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income; the gain or loss relating to the ineffective portion is recognised immediately in the income statement within 'net fair value gains on financial assets at FVPL'.

Gains and losses accumulated in equity are included in the income statement on disposal of the foreign operation.

2.11. Offsetting financial instruments

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

2.12. Cash and cash equivalents

In the statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. In the balance sheet, bank overdrafts are shown in current liabilities.

2.13. Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax.

Where any Related Party purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders. Where such shares are subsequently sold, reissued or otherwise disposed of, any consideration received is included in equity attributable to the Company's equity holders, net of any directly attributable incremental transaction costs and the related income tax effects.

2.14. Insurance and investment contracts - classification

The Company enters into and issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, the Company defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk. The Company does not issue investment contracts.

2.15. Insurance contracts

(a) Recognition and measurement

The Company issues insurance contracts that are classified as short-term insurance contracts, based on the duration of risk, such as casualty and property insurance contracts.

Casualty insurance contracts protect the Company's customers against the risk of causing harm to third parties as a result of their legitimate activities. The typical protection offered is designed for employers who become legally liable to pay compensation to injured employees (employers' liability) and for individual and business customers who become liable to pay compensation to a third party for bodily harm or property damage (public liability).

Casualty insurance is accepted on a claims made basis for employers' liability, products liability and general public liability; however, a short term tail is evidenced through the application of nil retroactive periods for claims made policies and a maximum 12 month discovery period for claims occurrence based policies. In both cases, gradually operating causes or claims reported outside of the claims notification period are excluded.

Property insurance contracts mainly compensate the Company's customers for damage suffered to their properties or for the value of property lost. Customers who undertake commercial activities on their premises could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business activities (business interruption cover).

For all these contracts, premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the balance sheet date is reported as the unearned premium liability. Premiums are shown before deduction of commission and are gross of any taxes or duties levied on premiums.

Claims and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the end of the reporting period even if they have not yet been reported to the Company.

The Company does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Company and statistical analyses for the claims incurred but not reported, and to estimate the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions).

(b) Deferred policy acquisition costs (DAC)

Commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are capitalised as DAC assets. All other costs are recognised as expenses when incurred. The DAC is subsequently amortised over the life of the contracts over the terms of the policies as premium is earned.

(c) Liability adequacy test

At each end of the reporting period, liability adequacy tests are performed to ensure the adequacy of the contract liabilities, net of related DAC assets. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used.

Any deficiency is immediately charged to profit or loss initially by writing off DAC and by subsequently establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision). Any DAC written off as a result of this test cannot subsequently be reinstated.

(d) Reinsurance contracts held

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts, are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Company under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

In certain cases, a reinsurance contract is entered into retrospectively to reinsure a notified claim under the Company's insurance contracts. Where the premium due to the reinsurer differs from the liability established by the Company for the related claim, the difference is amortised over the estimated remaining settlement period.

The Company assesses its reinsurance assets for impairment on a quarterly basis. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the asset to its recoverable amount and recognises that impairment loss in the income statement. The Company gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is calculated following the same method used for these financial assets. These processes are described in Note 2.9.

(e) Receivables and payables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders.

If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the income statement. The Company gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is calculated under the same method used for these financial assets. These processes are described in Note 2.9.

(f) Salvage and subrogation reimbursements

Some insurance contracts permit the Company to sell, or to share in the proceeds from a sale of, (usually damaged) property acquired in settling a claim (for example, salvage). The Company may also have the right to pursue third parties for payment, or to a share in the recovery, of some or all costs (for example, subrogation).

Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims and salvage property is recognised in other assets when the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the property.

Subrogation reimbursements are also considered as an allowance in the measurement of the insurance liability for claims and are recognised in other assets when the liability is settled. The allowance is the assessment of the amount that can be recovered from the action against the liable third party.

2.16. Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss, it is not accounted for.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

The tax effects of carry-forwards of unused losses or unused tax credits are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

2.17. Employee benefits

(a) Pension obligations

The Company operates a defined contribution plan, which is a pension plan under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

(c) Profit-sharing and bonus plans

The Company recognises a liability and an expense for bonuses and profit-sharing, based on a calculation that takes into consideration the profit attributable to the Company's shareholders. The Company recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.18. Provisions

(a) Restructuring costs and legal claims

Provisions for restructuring costs and legal claims are recognised when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

(b) Insurance-related assessments

The Company is subject to various insurance-related assessments. Related provisions are provided for where there is a present obligation (legal or constructive) as a result of a past event.

2.19. Revenue recognition

Revenue comprises the fair value for services, net of relevant taxes. Revenue is recognised as follows:

(a) Rendering of services

Revenue arising from management and other related services offered by the Company are recognised in the accounting period in which the services are rendered.

Fees consist primarily of administration fees arising from services rendered in conjunction with the issue and management of insurance contracts. In all cases, these services comprise an indeterminate number of acts over the life of the individual contracts. For practical purposes, the Company recognises these fees immediately on the inception of the contract.

(b) Dividend income

Dividend income for available for sale equities is recognised when the right to receive payment is established – this is the ex-dividend date for equity securities.

2.20. Interest income and expenses

Interest income and expenses for all interest-bearing financial instruments including financial instruments measured at FVPL, are recognised in the income statement using the effective interest rate method.

When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

2.21. Leases

Leases in which the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.22. Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

3. Critical accounting estimates and judgements

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. 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.

(a) The ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims. In particular, claims arising from policies written that are exposed to claims for losses caused by catastrophic events.

Estimation of the ultimate cost of losses resulting from catastrophic events is inherently difficult, due to the possible severity of catastrophe claims. Due to this uncertainty, it is harder to determine the future development of these claims with the same degree of reliability as with other types of claim.

It is likely that the final outcome will be different from the original provision amount established; however, the Company believes that the liability for such claims carried at each year-end will be adequate. The carrying value of gross insurance contract liabilities as at 31 December 2018 is $5.3 million (2017: $4.4 million).

(b) The estimation of premium income

Due to the timing of premium information transferred from primary insurers regarding the underlying risks written, there is a portion of the Company's income which is estimated at any given reporting date. The process for estimating these premiums uses data from the primary insurers and incorporates management judgement.

Management uses previous experience in the region, on a cedant-by-cedant and policy-by-policy basis, to estimate the premium income that is probable and expected to be collected on each contract entered into. Management revise these estimates throughout the year as more information becomes available and adjust the amount of revenue recognised accordingly.

(c) The valuation of investment properties

Details of the judgements supporting the valuation and recognition of the Company's investment properties are provided in note 12.

4. Management of insurance and financial risk

The Company issues and/or enters into contracts that transfer insurance risk or financial risk or both. This section summarises these risks and the way the Company manages them.

In response to the risks the Company faces, the Company has designed and implemented a risk framework to identify, assess and manage risk within a Board agreed risk appetite. Accordingly, the Company has implemented a range of internal controls to prevent, detect or mitigate risk.

The risk framework includes an event notification procedure. This enables the Company to identify trends and, where possible, put in preventative controls to avoid similar events occurring in the future. This provides the Company with a proactive control environment. The process is overseen by the Risk, Compliance & Underwriting Committee and oversight is provided by the Audit Committee.

The details below represent only an overview of the key risks and some of the controls to mitigate these risks.

4.1. Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio.

The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

4.1.1. Casualty insurance contracts

(a) Frequency and severity of claims

The frequency and severity of claims can be affected by several factors. The most significant are the increasing level of awards for damage suffered and the increase in the number of cases coming to court. Estimated inflation is also a significant factor due to the long period typically required to settle these cases.

The Company manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling.

The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and geography.

Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the Company has the right not to renew individual policies, it can impose deductibles and it has the right to reject the payment of a fraudulent claim. Insurance contracts also entitle the Company to pursue third parties for payment of some or all costs (for example, subrogation). Any contract in which the Company is committed to cover risks in excess of $25 million requires board approval.

The reinsurance arrangements include excess of loss coverage, on both a per risk and catastrophe basis. The effect of such reinsurance arrangements is that the Company should not suffer total net insurance losses of more than $0.5 million for single large loss risks and not more than $1 million for serial losses arising from any single catastrophe linked event. In addition to the overall Company reinsurance programme, individual lines of business are permitted to purchase additional reinsurance protection.

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(b) Sources of uncertainty in the estimation of future claim payments

Claims on casualty contracts are payable on a claims-occurrence basis with regards to general liability and a claims-made basis with regards to products and employers liability. Under the claims-occurrence basis, the Company is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term but up to a maximum of 12 months from the expiry of the contract. As a result, liability claims can be settled over a long period of time and a larger element of the claims provision relates to incurred but not reported claims (IBNR).

There are several variables that affect the amount and timing of cash flows from these contracts. These mainly relate to the inherent risks of the business activities carried out by individual contract holders and the risk management procedures they adopted. The compensation paid on these contracts is the monetary awards granted for bodily injury suffered by employees (for employer's liability covers) or members of the public (for public liability covers). Such awards are lump-sum payments that are calculated as the present value of the lost earnings and rehabilitation expenses that the injured party will incur as a result of the accident.

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures.

However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The liability for these contracts comprises a provision for IBNR, a provision for reported claims not yet paid and a provision for unexpired risks at the end of the reporting period.

The amount of casualty claims is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort. Casualty contracts can also be subject to the emergence of new types of latent claims, but no allowance is included for this at the end of the reporting period due to the short tail nature of the business and the exclusion of loss, damage or expense due to illness or gradually operating causes.

In calculating the estimated cost of unpaid claims (both reported and not), the Company's estimation techniques are a combination of loss-ratio-based estimates (where the loss ratio is defined as the ratio between the ultimate cost of insurance claims and insurance premiums earned in a particular financial year in relation to such claims) and an estimate based upon actual claims experience using predetermined formulae where greater weight is given to actual claims experience as time passes.

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 information about the claim event is available. IBNR claims may not be apparent to the insured until the subsequent years after the event that gave rise to the claims. For casualty contracts, the IBNR proportion of the total liability is high and will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these liabilities.

In estimating the liability for the cost of reported claims not yet paid, the Company considers any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods. Large claims are assessed on a case-by-case basis or projected separately in order to allow for the possible distortive effect of their development and incidence on the rest of the portfolio.

Where possible, the Company adopts multiple techniques to estimate the required level of provisions. This provides a greater understanding of the trends inherent in the experience being projected. The projections given by the various methodologies also assist in estimating the range of possible outcomes.

The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

Note 21 presents the development of the estimate of ultimate claim cost for claims notified in a given year. This gives an indication of the accuracy of the Company's estimation technique for claims payments.

(c) Process used to decide on assumptions

The risks associated with these insurance contracts are complex and subject to a number of variables that complicate quantitative sensitivity analysis. For all casualty risks, the Company uses several statistical methods to incorporate the various assumptions made in order to estimate the ultimate cost of claims.

4.1.2. Property insurance contracts

(a) Frequency and severity of claims

For property insurance contracts, climatic changes give rise to more frequent and severe extreme weather events (for example, river flooding, earthquakes and typhoons) and their consequences (for example, subsidence claims). For certain contracts, the Company has also limited the number of claims that can be paid in any policy year or introduced a maximum amount payable for claims in any policy year.

The Company has the right to re-price the risk on renewal. It also has the ability to impose deductibles and reject fraudulent claims. These contracts are underwritten by reference to the commercial replacement value of the properties and contents insured and claims payment limits are always included to cap the amount payable on occurrence of the insured event.

The cost of rebuilding properties, the replacement or indemnity for contents and the time taken to restart operations for business interruption are the key factors that influence the level of claims under these policies. The greatest likelihood of significant losses on these contracts arises from catastrophe perils such as storm, flood or earthquake. The Company has reinsurance cover to limit losses to $0.5 million per single occurrence and $1 million for serial losses arising from any one catastrophe linked event.

Property insurance contracts are subdivided into three risk groups: fire, engineering and business interruption / loss of profits. The insurance risk arising from these contracts is not concentrated in any of the territories in which the Company operates and there is a balance between commercial properties and engineering contracts in the overall portfolio of insured buildings and risks.

(b) Sources of uncertainty in the estimation of future claim payments

Property claims are analysed separately for catastrophe and non-catastrophe claims. The development of large losses/catastrophes is also analysed separately. Non-catastrophe claims can be estimated with greater reliability and the Company's estimation processes reflect all the factors that influence the amount and timing of cash flows from these contracts.

The shorter settlement period for these claims allows the Company to achieve a higher degree of certainty about the estimated cost of claims. However, the longer time needed to assess the emergence of catastrophe claims makes the estimation process more uncertain for these claims.

(c) Process used to decide on assumptions

For non-catastrophe related property risks, the Company uses similar statistical methods used for casualty risks that incorporate the various assumptions made in order to estimate the ultimate cost of claims. As noted in the paragraph above, the shorter settlement period of non-catastrophe related property claims reduces the estimation uncertainty of these liabilities.

Similar to the approach for the assumptions underlying the casualty insurance liabilities, the choice of selected results for each accident year of each class of business depends on an assessment of the technique that has been most appropriate to observed historical developments. In certain instances, this has meant that different techniques or combination of techniques have been selected for individual accident years within the same class of business.

For catastrophe property risks, the Company selects an average cost per claim method using statistical and extrapolation techniques applied to the experience observed, assuming that settlement periods remained unchanged.

Through this analysis, the Company determines the need for an IBNR or an unexpired risk liability to be held at each reporting date.

Short-duration insurance property contracts are not exposed to financial risks.

4.2. Financial risk

The Company is exposed to a range of financial risks through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular, the key financial risk is that, in the long-term, its investment proceeds are not sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are interest rate risk, equity price risk, foreign currency risk and credit risk.

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the Company primarily faces due to the nature of its investments and liabilities are interest rate risk and credit risk.

The Company manages these positions within an ALM framework that has been developed to achieve long-term investment returns in excess of its obligations under insurance contracts. The principal technique of the Company's ALM is to match assets to the liabilities arising from insurance contracts by reference to the type of benefits payable to contract holders.

The Company's ALM is integrated with the management of the financial risks associated with the Company's other classes of financial assets and liabilities not directly associated with insurance liabilities. The notes below explain how financial risks are managed using the categories utilised in the Company's ALM framework. To reflect the Company's risk management approach, the required disclosures for these risks are given in Notes 4.2.1 to 4.2.4 below.

4.2.1. Insurance contracts

For short-term insurance contracts, the Company funds the insurance liabilities with a portfolio of debt securities exposed to market risk. During the current year, the Company has increased the portion of financial assets invested in debt securities by $0.2 million (2017: $0.3 million increase).

Short-term insurance liabilities are not directly sensitive to the level of market interest rates, as they are undiscounted and contractually non-interest bearing. However, the Company matches the cash flows of assets and liabilities in this portfolio by estimating their mean duration.

The mean duration of liabilities is calculated using historical claims data to determine the expected settlement pattern for claims arising from insurance contracts in force at the end of the reporting period (both incurred claims and future claims arising from the unexpired risks at the end of the reporting period). The sensitivity analyses below are based on a change in one assumption while holding all other assumptions constant. In practice this is unlikely to occur, and changes in some of the assumptions may be correlated – for example, change in interest rate and change in market values.

(a) Sensitivity analysis – interest-rate risk

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. For financial instruments and insurance contracts described in this note, the sensitivity is solely associated with the former, as the carrying amounts of the latter are not directly affected by changes in market risks.

The Company's management monitors the sensitivity of reported interest rate movements on a quarterly basis by assessing the expected changes in the different portfolios due to a parallel movement of plus 100 basis points in all yield curves of financial assets and financial liabilities. These particular exposures illustrate the Company's overall exposure to interest rate sensitivities included in the Company's ALM framework and its impact in the Company's profit or loss.

An increase/(decrease) of 100 basis points in interest yields would result in a (loss)/gain for the year of $0.2 million in 2018 (2017: $0.2 million).

(b) Sensitivity analysis – currency risk

The Company underwrites short-term reinsurance portfolios through its operations in the UK. The Company's short-term insurance portfolio invests in assets denominated in the same currencies as their insurance liabilities, which eliminates the foreign currency exchange rate risk for these operations. Foreign exchange risk arises from recognised assets and liabilities held in the UK that are denominated in currencies other than US dollars.

The Company's exposure to foreign currency risk within the financial assets supporting the Company's short-term insurance liabilities arise primarily from cash balances and investment properties that are denominated or payable in UK pounds.

4.2.2. Financial assets and liabilities

Financial assets and liabilities are summarised below:

	2018 $'000	2017 $'000
Financial assets at FVPL (Note 18)	10,791	10,607
Loans and receivables (Note 18)	779	265
Cash and cash equivalents (Note 19)	23,888	5,305
Total assets	**35,458**	**16,177**
Insurance and other payables (Note 22)	5,833	3,956
Total liabilities	**5,833**	**3,956**

The maturity profile for the financial assets and liabilities shown above, following the remaining contractual maturities, are all less than one year.

The sensitivity analyses below are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated – for example, change in foreign currency exchange rates.

(a) Sensitivity analysis – currency risk

The Company is subject to foreign exchange risk as a result of the translation of the other financial assets and liabilities that have a source currency different from the presentation currency of the Company.

If the UK pound weakened by 5% against the US dollar, with all other variables held constant, the profit/(loss) before tax for the period would have been $1.4 million higher (2017: $1.3 million higher).

If the UK pound strengthened by 5% against the US dollar, with all other variables held constant, the profit/(loss) before tax for the period would have been $1.4 million lower (2017: $1.3 million lower).

4.2.3. Credit risk

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

- Reinsurers' share of insurance liabilities;
- Amounts due from reinsurers in respect of claims already paid;
- Amounts due from insurance contract holders;
- Amounts due from insurance intermediaries;
- Amounts held as cash at bank;
- Amounts due from loans and receivables; and
- Amounts due from debt securities.

The Company structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparties, and to geographical and industry segments. Such risks are subject to an annual or more frequent review. Limits on the level of credit risk by category and territory are approved quarterly by the Risk, Underwriting & Compliance Committee.

Retrocession reinsurance is used to manage insurance risk. This does not, however, discharge the Company's liability as reinsurer. If a retrocession reinsurer fails to pay a claim for any reason, the Company remains liable for the payment to the contract/policy holder. The creditworthiness of retrocession reinsurers is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract.

The Reinsurance Security Committee (a sub-committee of the Risk, Underwriting & Compliance Committee), which directs the Company reinsurance placement policy that is communicated to all global operations, assesses the creditworthiness of all retrocession reinsurers and intermediaries by reviewing credit grades provided by rating agencies and other publicly available financial information. The Committee also receives details of recent payment history and the status of any on-going negotiations between the Company and these third parties.

The Company maintains records of the payment history for significant contract holders with whom it conducts regular business. The exposure to individual counterparties is also managed by other mechanisms, such as the right of offset where counterparties are both debtors and creditors of the Company. Management information reported to the Company includes details of provisions for impairment on loans and receivables and subsequent write-offs.

Exposures to individual policyholders and groups of policyholders are collected within the on-going monitoring of the controls associated with regulatory solvency. Where there exists significant exposure to individual policyholders, or homogenous groups of policyholders, a financial analysis equivalent to that conducted for reinsurers is carried out by the Company.

The financial analysis of policyholders and reinsurers produces an assessment categorised by a Standard & Poor's (S&P) rating (or equivalent when not available from S&P).

Maximum exposure to credit risk before collateral held or other credit enhancements:

	2018 $'000	2017 $'000
Fair value through income – Mutual Funds (Note 18)	10,791	10,607
Reinsurance assets (Note 15)	3,241	2,881
Insurance receivables (Note 17)	5,605	4,843
Loans and receivables (Note 18)	779	265
Cash and cash equivalents (Note 19)	23,888	5,305
Total assets bearing credit risk	**44,304**	**23,901**

The above table represents a worse case scenario of credit risk exposure to the Company without taking account of any collateral held or other credit enhancements attached. Within insurance receivables there is $0.3 million not yet due (2017: $1.3 million) and the balance of $5.0 million is beyond due but not impaired (2017: $3.5 million). Management review aged insurance receivables on an "over/under 120 days" basis. At the balance sheet date $4.5 million is aged at over 120 days (2017: $1.4 million). All other balances in the above table are neither past due nor impaired.

2018	Investment Grade $'000	Not Rated $'000	Below Investment Grade $'000	Total $'000
Fair value through income – Mutual Funds	10,791	-	-	10,791
Reinsurance assets	3,241	-	-	3,241
Insurance receivables	-	5,605	-	5,605
Loans and receivables	-	779	-	779
Cash and cash equivalents	22,132	-	1,756	23,888
Total assets bearing credit risk	**36,164**	**6,384**	**1,756**	**44,304**

The $1.8 million of "below investment grade cash and cash equivalents" shown in the tables above and below is held in Gabon to meet the regulatory requirements of the branch office set up in 2017, which was subsequently closed down in 2018.

2017	Investment Grade $'000	Not Rated $'000	Below Investment Grade $'000	Total $'000
Fair value through income – Mutual Funds	10,607	-	-	10,607
Reinsurance assets	2,881	-	-	2,881
Insurance receivables	-	4,843	-	4,843
Loans and receivables	-	265	-	265
Cash and cash equivalents	3,518	-	1,787	5,305
Total assets bearing credit risk	**17,006**	**5,108**	**1,787**	**23,901**

The geographical breakdown of assets, revenue and expenditure on property, plant, equipment and intangible assets is detailed in Note 5.

The allocation of revenue, assets and liabilities by segment is based on the country in which the Company's branch or subsidiary is located.

4.2.4. Market risk

Market risk is the risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments.

Where market risk arises it can negatively impact the liquidity ratio of the Company causing it to be unable to meet its obligations.

In extreme circumstances, lack of liquidity could result in reductions to balance sheet assets or, potentially, an inability to fulfil policyholder commitments.

The risk that the Company will be unable to do so is inherent in all insurance operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, merger and acquisition activity, systemic shocks and natural disasters.

The Company has a liquidity management process in place to manage this risk. This includes the monitoring of day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met, maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow and monitoring the liquidity ratios of the balance sheet against internal and regulatory requirements.

Liquidity risk is also a significant consideration when the Company evaluates its overall ALM profile. Monitoring and reporting take the form of cash flow measurement and projections for the next month, as this is a key period for liquidity management.

The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

The table below presents the cash flows payable by the Company for managing liquidity risk by remaining contractual maturities at the date of the balance sheet. The amounts disclosed in the table are the contractual undiscounted cash flows.

Payments due by period as of 31 December 2018	0-1 years $'000	Total $'000
Technical provisions (Note 21)	5,922	5,922
Insurance payables (Note 22)	1,568	1,568
Amounts payable to reinsurers (Note 22)	4,001	4,001
Trade payables and accrued expenses (Note 22)	264	264
Total contractual obligations	**11,755**	**11,755**

Payments due by period as of 31 December 2017	0-1 years $'000	Total $'000
Technical provisions (Note 21)	6,718	6,718
Insurance payables (Note 22)	1,438	1,438
Amounts payable to reinsurers (Note 22)	1,774	1,774
Trade payables and accrued expenses (Note 22)	744	744
Total contractual obligations	**10,674**	**10,674**

4.2.5. Capital management

The Company's objectives when managing capital are:

- To comply with the insurance capital requirements that the regulators of the insurance markets where the Company operates require;
- In regards to our Solvency II requirements, we aim to maintain a solvency ratio against our Solvency Capital Requirements of 125%; and
- To safeguard the Company's assets whilst managing an orderly run-off, so that it can maximise the eventual return of capital back to the shareholders whilst ensuring that the requirements of other stakeholders are satisfied.

The defined Company capital of $50 million is entirely comprised of equity shares.

5. Segment information

Management has determined the operating segments based on the reports reviewed by the executive management committee that are used to make strategic decisions. All operating segments used by management meet the definition of a reportable segment under IFRS 8.

The Company is organised on a pan-African basis into four transactional classes, further analysed into 11 classes of business. These segments distribute their products through various forms of brokers, agencies and direct marketing programmes. Management identifies its reportable operating segments by product line consistent with the reports used by the Executive Management committee. These segments are as follows:

Primary segments: Transactional classes

- Facultative Non-Proportional (FN)
- Facultative Proportional (FP)
- Treaty Non-Proportional (TN)
- Treaty Proportional (TP)

Secondary segments: Classes of business

- Fire
- Engineering
- Marine
- Aviation
- Transport (Good in Transit)
- Liability
- Motor (Comprehensive Own Damage)
- Motor (Third Party & Passenger Legal Liability)
- Accident & Health
- Workmens Compensation
- Miscellaneous

Transactions between segments are carried out at arm's length. The revenue from external parties reported to the executive management committee is measured in a manner consistent with that in the income statement.

No inter-segment transactions occurred during the year ended 31 December 2018 (2017: $nil).

The amounts provided to the executive management committee with respect to total assets and total liabilities are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

Profit and loss items that do not directly relate to a specific underwriting segment are included in the corporate segment.

Segment income statement for the year ended 31 December 2018	FN $'000	FP $'000	TN $'000	TP $'000	Corporate $'000	Total $'000
Gross written premiums	365	1,748	555	2,829	-	5,497
Premiums ceded to reinsurers	(83)	(1,218)	8	(1,154)	(1,459)	(3,906)
Net written premiums	282	530	563	1,675	(1,459)	1,591
Net change in unearned premiums	225	204	28	825	-	1,282
Net earned premiums	507	734	591	2,500	(1,459)	2,873
Investment and other income	-	-	-	-	4,194	4,194
Total income	**507**	**734**	**591**	**2,500**	**2,735**	**7,067**
Gross claims paid	-	(1,231)	(242)	(957)	-	(2,430)
Claims ceded to reinsurers	-	860	-	422	-	1,282
Gross change in technical provisions	(798)	884	41	(981)	-	(854)
Change in technical provisions ceded to reinsurers	8	(780)	(2)	543	-	(231)
Net insurance claims	**(790)**	**(267)**	**(203)**	**(973)**	**-**	**(2,233)**
Acquisition costs	(101)	(83)	(58)	(989)	-	(1,231)
Administrative expenses	-	-	-	-	(3,677)	(3,677)
Total expenses	**(101)**	**(83)**	**(58)**	**(989)**	**(3,677)**	**(4,908)**
Results of operating activities	**(384)**	**384**	**330**	**538**	**(942)**	**(74)**
Net foreign exchange adjustments	-	-	-	-	(1,730)	(1,730)
Profit/(loss) before tax	**(384)**	**384**	**330**	**538**	**(2,672)**	**(1,804)**

Segment income statement for the year ended 31 December 2017	FN $'000	FP $'000	TN $'000	TP $'000	Corporate $'000	Total $'000
Gross written premiums	497	2,369	587	2,917	-	6,370
Premiums ceded to reinsurers	(122)	(1,325)	(18)	(354)	(1,243)	(3,062)
Net written premiums	375	1,044	569	2,563	(1,243)	3,308
Net change in unearned premiums	(232)	(38)	(28)	(529)	-	(827)
Net earned premiums	143	1,006	541	2,034	(1,243)	2,481
Investment and other income	-	-	-	-	3,845	3,845
Total income	**143**	**1,006**	**541**	**2,034**	**2,602**	**6,326**
Gross claims paid	-	(419)	(5)	(316)	-	(740)
Claims ceded to reinsurers	-	173	-	55	-	228
Gross change in technical provisions	(79)	(2,181)	(328)	(1,362)	-	(3,950)
Change in technical provisions ceded to reinsurers	12	1,483	2	505	-	2,002
Net insurance claims	**(67)**	**(944)**	**(331)**	**(1,118)**	**-**	**(2,460)**
Acquisition costs	(35)	78	(54)	(741)	-	(752)
Administrative expenses	-	-	-	-	(3,843)	(3,843)
Total expenses	**(35)**	**78**	**(54)**	**(741)**	**(3,843)**	**(4,595)**
Results of operating activities	**41**	**140**	**156**	**175**	**(1,241)**	**(729)**
Net foreign exchange adjustments	-	-	-	-	2,113	2,113
Profit/(loss) before tax	**41**	**140**	**156**	**175**	**872**	**1,384**

Notes to the financial statements
For the year ended 31 December 2018

Segment statement of financial position at 31 December 2018	FN $'000	FP $'000	TN $'000	TP $'000	Corporate $'000	Total $'000
Reinsurance assets	89	1,626	3	1,702	14	3,434
Insurance receivables	64	1,427	198	3,916	-	5,605
Financial assets – Mutual Funds	-	-	-	-	10,791	10,791
Other assets	1	11	-	141	29,704	29,857
Total assets	**154**	**3,064**	**201**	**5,759**	**40,509**	**49,687**
Technical provisions	863	1,577	339	3,143	-	5,922
Insurance and other payables	220	2,199	417	2,733	264	5,833
Total liabilities	**1,083**	**3,776**	**756**	**5,876**	**264**	**11,755**

Segment statement of financial position at 31 December 2017	FN $'000	FP $'000	TN $'000	TP $'000	Corporate $'000	Total $'000
Reinsurance assets	102	2,571	7	767	-	3,447
Insurance receivables	458	1,384	117	2,884	-	4,843
Financial assets – Mutual Funds	-	-	-	-	10,607	10,607
Other assets	55	38	3	413	32,061	32,570
Total assets	**615**	**3,993**	**127**	**4,064**	**42,668**	**51,467**
Technical provisions	368	2,944	407	2,999	-	6,718
Insurance and other payables	241	1,560	31	1,380	744	3,956
Total liabilities	**609**	**4,504**	**438**	**4,379**	**744**	**10,674**

Assets and liabilities that do not directly relate to a specific underwriting segment are included in the corporate segment.

Geographic information Year-end 31 December 2018	Africa $'000	UK $'000	Total $'000
Total revenue from external customers	2,873	4,194	7,067
Non-current assets	-	5,038	5,038

Year-end 31 December 2017	Africa $'000	UK $'000	Total $'000
Total revenue from external customers	2,481	3,845	6,326
Non-current assets	-	25,434	25,434

The revenue information above is based on the locations of the customers (i.e. for premiums, where the insurance contracts are issued). Management considers its external customers to be the individual policyholders; as such, the Company is not reliant on any individual customer.

Non-current assets for this purpose consist of investment properties, intangible assets, property, plant and equipment, loans and receivables and the investment in subsidiaries.

6. Investment and other income

	2018 $'000	2017 $'000
Rental income from investment properties	1,079	867
Profit on disposal of investment property	2,674	-
Fair value gains on investment properties	245	2,720
Fair value gains on financial assets at FVPL	184	268
Investment management expenses	(29)	(29)
Loss on disposal of investment in subsidiary	(13)	-
Interest income	54	19
Net investment income	**4,194**	**3,845**
Other income	-	-
Investment and other income	**4,194**	**3,845**

7. Net insurance claims

	2018 $'000	2017 $'000
Gross claims paid	(2,430)	(740)
Claims ceded to reinsurers	1,282	228
Gross change in technical provisions:		
Claims reported	(1,012)	(3,540)
Claims incurred but not reported (IBNR)	158	(410)
Total gross change in technical provisions	(854)	(3,950)
Change in technical provisions ceded to reinsurers:		
Change in outstanding claims provision	(253)	1,895
Change in IBNR provision	22	107
Total change in technical provisions ceded to reinsurers	(231)	2,002
Net insurance claims	**(2,233)**	**(2,460)**

There was one large loss in 2017 which related to Massmart – Game, this being a fire loss in Mozambique with a gross claim reported of $2.6 million, netting down after surplus reinsurance cover to $0.8 million. The remaining losses incurred during 2017 were attritional in nature.

The largest claim movements during 2018 related to Mutual Risk Group with an increase of $0.8 million following CAT claims and a Listeriosis outbreak in 2018. In addition, two proportional treaties written for a South African cedent also deteriorated by $0.8 million during the year. This was offset by a reduction in the Massmart – Game claim of $0.2 million.

8. Operating expenses

(a) Expenses for the acquisition of insurance contracts

	2018 $'000	2017 $'000
Brokerage and commissions	1,669	1,845
Reinsurance commissions	(795)	(765)
Change in deferred acquisition costs	357	(328)
Total expenses for the acquisition of insurance contracts	**1,231**	**752**

(b) Administrative expenses

	2018 $'000	2017 $'000
Amortisation of intangible assets (Note 13)	-	-
Depreciation of property, plant and equipment (Note 14)	53	63
Property related expenses	286	263
Employee benefits expense (Note 9)	2,180	2,300
Auditor remuneration	62	118
Other operating expenses	1,096	1,099
Total administrative expenses	**3,677**	**3,843**

9. Employee benefits expense

	2018 $'000	2017 $'000
Wages and salaries	1,812	1,921
Social security costs	219	228
Defined contribution pension costs	149	151
Total	**2,180**	**2,300**
Average number of employees	13	15

10. Auditor remuneration

Services provided by the Company's auditor and its associates

During the year, the Company obtained the following services from the Company's auditor and its associates:

Fees payable to the Company's auditor and its associates for:	2018 $'000	2017 $'000
- the audit of the Company's financial statements	50	60
- audit related assurance services	12	42
- other non-audit services	-	16
- tax advisory services	-	-
Total	**62**	**118**

11. Income tax

	2018 $'000	2017 $'000
Current tax:		
Current tax on profits/(losses) for the year	-	-
Total current tax	-	-
Deferred tax (Note 23):		
Losses and temporary differences recognised in the period previously not recognised in deferred tax	1,057	(1,057)
Total deferred tax	**1,057**	**(1,057)**
Income tax expense/(credit)	**1,057**	**(1,057)**

The UK corporation tax rate was reduced from 20% to 19% on 1 April 2017. As a result, the weighted average applicable tax rate for the year ended 31 December 2018 was 19% (2017: 19.25%).

The Finance Bill 2016, which was enacted on 15 September 2016, legislated to reduce the main rate of corporation tax for the financial year 2020 to 17%. Where applicable, this rate has been used in the calculation of deferred tax.

The tax on the Company's loss before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to losses of the Company as follows:

	2018 $'000	2017 $'000
(Loss)/profit before income tax	**(1,804)**	**1,384**
Tax calculated at effective tax rate of 19% (2017: 19.25%)	(343)	266
Tax effects of:		
Expenses not deductible for tax purposes	3	7
Losses and temporary differences recognised in the period previously not recognised in deferred tax	1,057	(1,057)
Losses and temporary differences utilised in the period previously not recognised in deferred tax	340	(273)
Tax expense/(credit)	**1,057**	**(1,057)**

12. Investment properties

The Company's investment property is measured at fair value. The Company holds a single class of investment property being office buildings in the United Kingdom.

Segment	**Office [1] $'000**	**Office [2] $'000**	**Total $'000**
Fair value hierarchy	**Level 3**	**Level 3**	
Fair value at 1 January 2017	**16,038**	**4,536**	**20,574**
Additions:			
Subsequent expenditure	73	9	82
Net gain from fair value adjustments	2,630	90	2,720
Currency translation difference	1,529	433	1,962
Fair value at 31 December 2017	**20,270**	**5,068**	**25,338**
Fair value hierarchy	**Level 3**	**Level 3**	
Fair value at 1 January 2018	**20,270**	**5,068**	**25,338**
Additions:			
- Subsequent expenditure	-	8	8
Net gain from fair value adjustments	-	245	245
Disposal	(20,270)	-	(20,270)
Currency translation difference	-	(309)	(309)
Fair value at 31 December 2018	**-**	**5,012**	**5,012**

Office [1] was situated at 10 Philpot Lane, London EC3M 8AA.

Office [2] is situated at 112 Houndsditch, London EC3A 7BD.

Rental income (including service charges) of $1,079k (2017: $867k) relating to the leases of the buildings is included in the income statement within "Investments and other income". Direct operating expenses generating rental income (included within administrative expenses) arising in respect of such properties during the year were $286k (2017: $231k).

Where the Company uses only part of a property it owns, utilisation of less than 25% is regarded as immaterial, which means that the whole property is stated at market value as an investment property.

James Andrew International, Chartered Surveyors (the "Property Valuer") completed a valuation of the Company's investment property in December 2018. The valuation was prepared in accordance with the requirements of the Professional Standards issued by the Royal Institution of Chartered Surveyors, which is deemed to equate to fair value. The Property Valuer, in valuing the property, is acting independently and external to it. Fair value is determined by reference to market based evidence, which is the amount for which each asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction as at the valuation date.

The significant unobservable inputs used in the fair value measurements categorised within Level 3 of the fair value hierarchy are summarised below:

Significant unobservable inputs	**Office [1]**	**Office [2]**	**Office [2]**
Fair value hierarchy	Level 3 **2017**	Level 3 **2018**	Level 3 **2017**
Total Property Area (NIA) in square feet	13,865	5,415	5,415
Capital value per square foot	$1,462	$926	$936
Purchasers costs	6.43%	6.22%	6.22%

The sale of the remaining property is considered to be achievable within a three to six month timescale.

An increase/(decrease) of 1% in the capital value per square foot would result in an upward/(downward) adjustment of $50k (2017: $51k) in the fair value of Office [2].

There are no borrowings secured on the Company's investment properties.

13. Intangible assets

	Software $'000	Total $'000
Year ended 31 December 2017 and 2018		
Opening net book amount	-	-
Amortisation charge	-	-
Closing net book amount	**-**	**-**
At 31 December 2017 and 2018		
Cost	18	18
Accumulated amortisation	(18)	(18)
Net book amount	**-**	**-**

Amortisation of $nil (2017: $nil) has been charged in administrative expenses.

14. Property, plant and equipment

	Fixtures and fittings $'000	Computer equipment $'000	Total $'000
Year ended 31 December 2017			
Opening net book amount	39	95	134
Additions	1	7	8
Depreciation charge (Note 8)	(9)	(54)	(63)
Closing net book amount	**31**	**48**	**79**
At 31 December 2017			
Cost or valuation	47	220	267
Accumulated depreciation	(16)	(172)	(188)
Net book amount	**31**	**48**	**79**
Year ended 31 December 2018			
Opening net book amount	31	48	79
Depreciation charge (Note 8)	(10)	(43)	(53)
Closing net book amount	**21**	**5**	**26**
At 31 December 2018			
Cost or valuation	47	220	267
Accumulated depreciation	(26)	(215)	(241)
Net book amount	**21**	**5**	**26**

Depreciation expense of $53k (2017: $63k) has been charged in administrative expenses.

15. Reinsurance assets

	2018 $'000	2017 $'000
Reinsurers' share of insurance liabilities		
Unearned premiums	193	566
Outstanding claims	1,916	2,148
Total reinsurers' share of insurance liabilities	2,109	2,714
Other reinsurance receivables	1,325	733
Total assets arising from reinsurance contracts	**3,434**	**3,447**
Current	3,434	3,447
Non-current	-	-

The carrying amounts of reinsurance assets approximate their fair values.

Amounts due from reinsurers in respect of claims already paid by the Company on the contracts that are reinsured are included in insurance receivables (Note 17).

As of 31 December 2018, no reinsurance assets were either past due, impaired or provided for (2017: $nil). The Company does not hold any collateral as security against potential default by reinsurance counterparties.

16. Deferred acquisition costs

	2018 $'000	2017 $'000
Brokerage	29	126
Commissions	184	553
Reinsurance commissions	(61)	(170)
Total deferred acquisition costs	152	509
Current	152	509
Non-current	-	-

The carrying amounts of deferred acquisition costs approximate their fair values.

17. Insurance receivables

	2018 $'000	2017 $'000
Insurance receivables:		
Due from policyholders	545	1,231
Due from agents, brokers and intermediaries	4,391	3,344
Due from reinsurers	669	268
Total insurance receivables	5,605	4,843
Current	5,605	4,843
Non-current	-	-

The carrying amounts of insurance receivables approximate their fair values.

As of 31 December 2018, no insurance receivables were either impaired or provided for (2017: $nil). The Company does not hold any collateral as security against potential default by insurance counterparties.

There is no concentration of credit risk with respect to insurance receivables, as the Company has a large number of internationally dispersed debtors.

18. Financial assets

The Company's financial assets are summarised by the following measurement categories:

	2018 $'000	2017 $'000
Financial assets at FVPL	10,791	10,607
Loans and receivables	779	265
Total financial assets	**11,570**	**10,872**

18.1. Financial assets at FVPL

	2018 $'000	2017 $'000
Fair value hierarchy	Level 1	Level 1
Mutual Funds	10,791	10,607
Total financial assets at FVPL	10,791	**10,607**
Current	10,791	10,607
Non-current	-	-

All financial assets classified at FVPL are designated as such upon initial recognition. The movement in the Company's financial assets at FVPL is summarised in the table below:

	Mutual Funds $'000	Total $'000
Year ended 31 December 2017		
Opening balance	10,339	10,339
Additions	-	-
Fair value net gains	268	268
At 31 December 2017	**10,607**	**10,607**
Year ended 31 December 2018		
Opening balance	10,607	10,607
Additions	-	-
Fair value net gains	184	184
At 31 December 2018	**10,791**	**10,791**

18.2. Determination of fair value and fair values hierarchy

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

- Level 1: quoted (unadjusted) prices in active markets for identical instruments;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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. The Company determines financial instruments classified as Level 1 to include its mutual fund holdings.

Financial instruments measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions are assets and liabilities 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 Group's own models whereby the majority of assumptions are market observable.

Non market observable inputs means that fair values are determined, in whole or in part, using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument, nor are they based on available market data. The Company does not hold any Level 3 financial instruments.

The Company determines whether transfers have occurred between levels of the fair value hierarchy by re-assessing the categorisation at the end of each reporting period based on the lowest level input that is significant to the fair value measurement as a whole.

18.3. Loans and receivables

	2018 $'000	2017 $'000
Other loans and receivables:		
Prepayments	11	9
Receivables from related parties (Note 26)	682	159
Other	86	97
Total loans and receivables including insurance receivables	**779**	**265**
Current	779	265
Non-current	-	-

The carrying amounts of loans and receivables approximate their fair values.

As of 31 December 2018, no loans and receivables were either past due, impaired or provided for (2017: $nil). The Company does not hold any collateral as security against potential default by reinsurance counterparties.

19. Cash and cash equivalents

	2018 $'000	2017 $'000
Cash at bank and in hand	23,888	5,305
Short-term bank deposits	-	-
Total cash and cash equivalents	**23,888**	**5,305**

Cash and bank overdrafts include the following for the purposes of the cash flow statement:

	$'000	$'000
Cash and cash equivalents	23,888	5,305
Bank overdrafts	-	-
Total	**23,888**	**5,305**

20. Share capital

	Number of shares (000s)	Total $'000
Ordinary shares of $1 each		
At 1 January 2017	50,000	50,000
Shares issued	-	-
At 31 December 2017	**50,000**	**50,000**
Shares issued	-	-
At 31 December 2018	**50,000**	**50,000**

Ordinary shares
The total authorised number of ordinary shares is 50 million, with a par value of $1 per share. There is one class of ordinary shares. All ordinary shares issued are fully paid and carry equal voting rights.

21. Technical provisions

	2018 Gross $'000	2018 RI $'000	2018 Net $'000	2017 Gross $'000	2017 RI $'000	2017 Net $'000
Claims reported	4,695	(1,692)	3,003	3,677	(1,945)	1,732
Claims incurred but not reported (IBNR)	599	(224)	375	757	(203)	554
Outstanding claims provision	5,294	(1,916)	3,378	4,434	(2,148)	2,286
Unearned premiums provision	628	(193)	435	2,284	(566)	1,718
Total technical provisions	**5,922**	**(2,109)**	**3,813**	**6,718**	**(2,714)**	**4,004**
Current	5,922	(2,109)	3,813	6,718	(2,714)	4,004
Non-current	-	-	-	-	-	-

The gross claims reported and the liability for claims incurred but not reported are net of expected recoveries from salvage and subrogation. The amounts for salvage and subrogation at 31 December 2018 are $nil (2017: $nil).

21.1. Claims development table

The principal assumption underlying the Company's insurance contract liability estimates is that its future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each underwriting year.

The following tables show the estimates of cumulative incurred claims, including both claims notified and IBNR for each successive underwriting year at each reporting date, together with cumulative payments to date.

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As required by IFRS, in setting claims provisions the Company gives consideration to the probability and magnitude of future experience being more adverse than assumed and exercises a degree of caution in setting reserves where there is considerable uncertainty. In general, the uncertainty associated with the ultimate claims experience in an underwriting year is greatest when the underwriting year is at an early stage of development and the margin necessary to provide the necessary confidence in the provisions adequacy is relatively at its highest.

As claims develop, and the ultimate cost of claims becomes more certain, the relative level of margin maintained should decrease. However, due to the uncertainty inherited in the estimation process, the actual overall claim provision may not always be in surplus. In 2018, there has been a 34% net deficiency of $1.7m (2017: 32% net surplus of $0.2m).

Gross outstanding claims provision for 2018: **Underwriting Year**	**2015** **$000**	**2016** **$000**	**2017** **$000**	**2018** **$000**	**Total** **$000**
At end of underwriting year	559	403	4,759	634	
One year later	366	376	7,432		
Two years later	318	377			
Three years later	300				
Current estimate of cumulative claims incurred	300	377	7,432	634	8,743
At end of underwriting year	(4)	(57)	(509)	(37)	(607)
One year later	(218)	(167)	(2,333)		(2,718)
Two years later	(64)	(59)			(123)
Three years later	(1)				(1)
Cumulative payments to date	(287)	(283)	(2,842)	(37)	(3,449)
Total gross outstanding claims provision	13	94	4,590	597	5,294
Current estimate of surplus/(deficiency)	259	26	(2,673)		(2,388)
% Surplus/(deficiency) of initial gross reserve	86%	7%	(36%)		(29%)

Net outstanding claims provision for 2018: **Underwriting Year**	**2015** **$000**	**2016** **$000**	**2017** **$000**	**2018** **$000**	**Total** **$000**
At end of underwriting year	448	311	2,464	367	
One year later	274	296	4,412		
Two years later	278	254			
Three years later	244				
Current estimate of cumulative claims incurred	244	254	4,412	367	5,277
At end of underwriting year	(4)	(45)	(304)	(24)	(377)
One year later	(218)	(145)	(1,090)		(1,453)
Two years later	(36)	(32)			(68)
Three years later	(1)				(1)
Cumulative payments to date	(259)	(222)	(1,394)	(24)	(1,899)
Total net outstanding claims provision	(15)	32	3,018	343	3,378
Current estimate of surplus/(deficiency)	204	57	(1,948)		(1,687)
% Surplus/(deficiency) of initial net reserve	84%	22%	(44%)		(34%)

22. Insurance and other payables

	2018 $'000	2017 $'000
Insurance payables	1,568	1,438
Amounts payable to reinsurers	4,001	1,774
Trade payables and accrued expenses	264	744
Total	**5,833**	**3,956**

The carrying amounts of insurance and other payables approximate their fair values. All insurance and other payables are current liabilities.

23. Deferred income tax

Deferred income tax assets are only recognised to the extent that the realisation of the related tax benefit through future taxable profits is probable. As such, following the Company's loss before tax of $1.8m for the year ended 31 December 2018 the net deferred tax asset of $1.1m in relation to trading losses and other temporary differences recognised in 2017 has been reversed in full. A deferred tax asset in respect of tax losses and other temporary differences of $14.2m (2017: $6.2m) was not recognised as there was insufficient certainty at that time as to the availability of future taxable profits arising.

	2018 $'000	2017 $'000
Tax losses carried forward	-	857
Fixed asset temporary differences	-	200
Other temporary differences	-	-
Total	**-**	**1,057**

Deferred tax has been calculated using an effective rate of 17%, which has been enacted to apply in the UK from 1 April 2020.

24. Cash generated from operations

	2018 $'000	2017 $'000
(Loss)/profit before tax	(1,804)	1,384
Adjustments for:		
Depreciation of plant and equipment (Note 14)	53	63
Loss on disposal of investment in subsidiary	13	-
Profit on disposal of investment property	(2,674)	-
Fair value adjustment on investment properties	(245)	(2,720)
Currency translation difference on investment properties (Note 12)	953	(1,962)
Fair value gains on financial assets (Note 18)	(184)	(268)
Changes in working capital:		
Reinsurance assets (Note 15)	13	(2,715)
Deferred acquisition costs (Note 16)	357	(328)
Insurance receivables (Note 17)	(762)	(2,158)
Loans and receivables (Note 18)	(514)	(36)
Technical provisions (Note 21)	(796)	5,031
Insurance and other payables (Note 22)	1,877	1,804
Cash generated from operations	**(3,713)**	**(1,905)**

25. Contingencies

The Company has contingent liabilities in respect of matters arising in the ordinary course of business. It is not anticipated that any material liabilities will arise from the contingent liabilities.

The Company is subject to litigation in the normal course of its business. The Company does not believe that such litigation will have a material effect on its profit or loss and financial condition. However, the recent trend of increasing jury awards and settlements makes it more difficult to assess the ultimate outcome of such litigation.

26. Related-party transactions

The Company is controlled by 54 North Limited (incorporated in the Isle of Man), which owns 100% of the Company's shares and is also the ultimate parent of the Company.

The following transactions were carried out with related parties.

(a) Sales of goods and services

	2018 $'000	2017 $'000
Sales of services:		
ICE Insurance Services Limited (rent and service charges)	-	21
Total	**-**	**21**

Sales of services are negotiated with related parties at cost, with no margin.

(b) Purchases of goods and services

	2018 $'000	2017 $'000
Purchase of services:		
Ignite Software Limited (underwriting system)	41	44
Agility Analysis and Accounting Ltd (systems review)	-	6
Total	**41**	**50**

Services are bought from related parties on normal commercial terms and conditions.

(c) Key management compensation

Key management includes directors (executive and non-executive) and members of the Executive Committee, including the Company Secretary. The compensation paid or payable to key management for their services is shown below:

	2018 $'000	2017 $'000
Salaries and other short-term employee benefits	1,117	1,020
Post-employment benefits	112	102
Non-executive directors' fees	161	182
Total	**1,390**	**1,304**

During the year, the highest paid key management personnel received remuneration of $205k (2017: $199k) and the Company made pension contributions of $21k (2017: $20k) in respect of the highest paid key management personnel.

(d) Year-end balances

	2018 $'000	2017 $'000
Receivables from related parties (Note 18):		
- 54 North Limited	186	159
- One Risk Africa Ltd	164	-
- One Risk Africa (Pty) Ltd	81	-
- Culverlands Estates Limited	251	-
	682	159
Payables to related parties		
- Ignite Software Limited	4	(3)
Total	**686**	**156**

During 2018, the Company decided to stop accepting new business. All new and renewal business is now being channelled through two managing general agencies ("MGAs") established in the UK and South Africa, which are collectively known as One Risk Africa, which have the same ultimate beneficial shareholders as the Company.

The UK MGA, namely One Risk Africa Ltd, is based in London and is focused on African facultative and treaty reinsurance. It has a delegated authority agreed with Sirius International Insurance Corporation.

The South African MGA, namely One Risk Africa (Pty) Ltd, is based in Johannesburg and is focused on facultative property reinsurance for all African property risks and is backed by Sirius Syndicate 1945.

The receivable balance due from Culverlands Estates Limited (which has the same ultimate beneficial shareholder as the Company) relates to an investment property and is supported by an interest-bearing loan facility with the Company; further funds were drawndown in line with the terms of the loan facility post the balance sheet date.

The receivables from and payables to all other related parties arise mainly from the settlement of various expenses during the year. They are unsecured in nature and bear no interest.

27. Investment in Subsidiary Undertakings

The Company's only subsidiary was One Properties Limited which is incorporated in the United Kingdom. As at 31 December 2017, the Company held 100% of the shares and 100% of the voting rights of One Properties Limited, which has the same registered office as the Company.

One Properties Limited's principal activity was that of an investment property company; however, following a property transfer to the Company, it is not currently investing in any properties. The investment was held at original cost. During 2018, the Company transferred the ownership of One Properties Limited to 54 North Limited at par value.