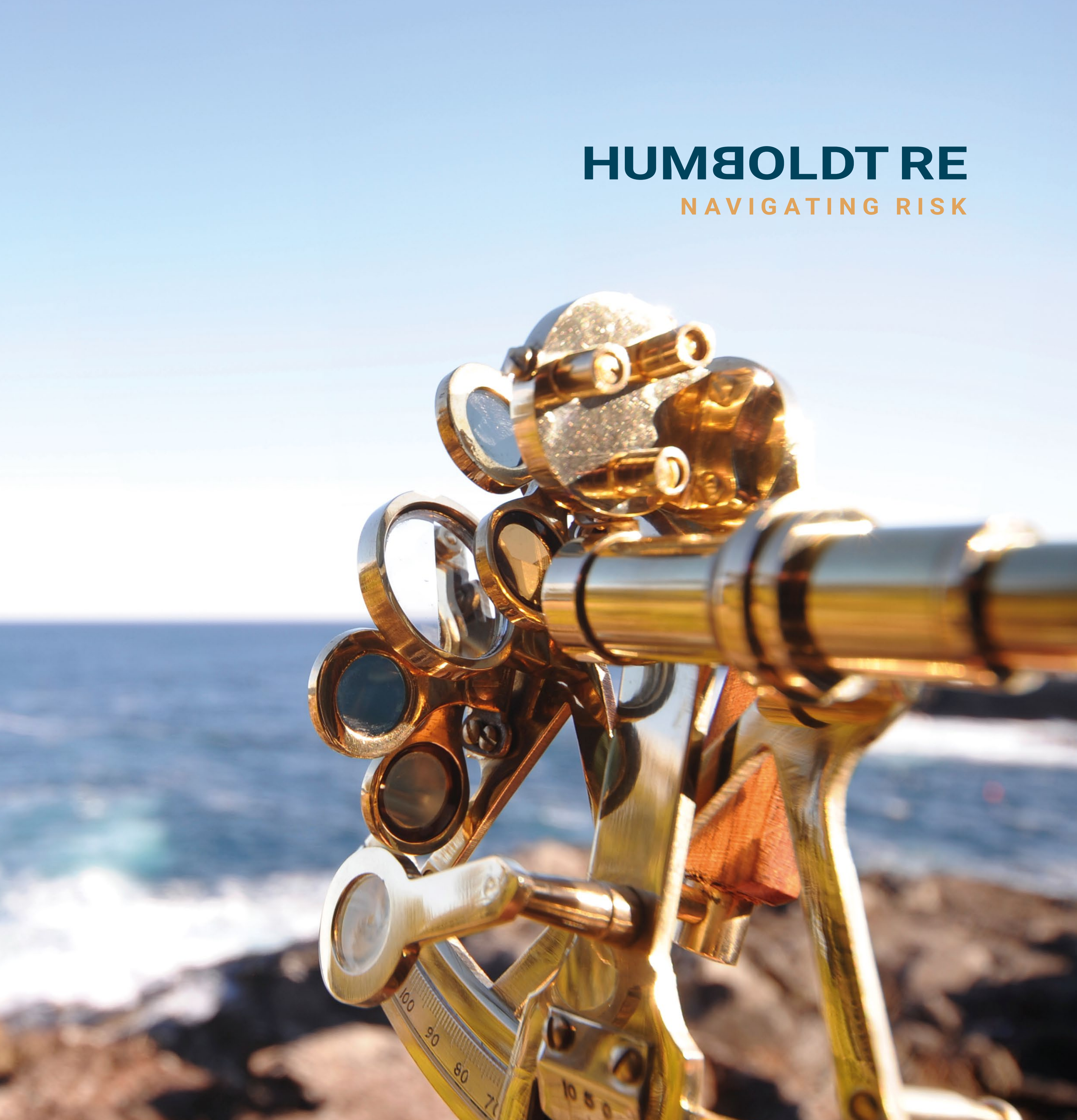
HUMBOLDT RE

NAVIGATING RISK



Annual report and abridged audited consolidated **financial statements**

FOR THE YEAR ENDED 31 DECEMBER 2019

CONTENTS

COMPANY INFORMATION

DIRECTORS

Christopher Anderson

Jeremy Arden

Hannes Glaus (resigned 11 March 2019)

Hans-Joachim Guenther (appointed 11 March 2019)

Niklaus Hilti

Paul Sykes

GENERAL REPRESENTATIVE

Paul Sykes
P.O. Box 33
Dorey Court
Admiral Park
St. Peter Port
Guernsey
GY1 4AT

COMPANY SECRETARY

Aon Insurance Managers (Guernsey) Limited
P.O. Box 33
Dorey Court
Admiral Park
St. Peter Port
Guernsey
GY1 4AT

INDEPENDENT AUDITOR

KPMG Channel Islands Limited
Glategny Court
Glategny Esplanade
St. Peter Port
Guernsey
GY1 1WR

REGISTERED OFFICE

P.O. Box 33
Dorey Court
Admiral Park
St. Peter Port
Guernsey
GY1 4AT

REGISTERED NUMBER

60597

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

The directors present their annual report and the audited consolidated financial statements of Humboldt Re Limited (the "Company") and its subsidiaries (together, the "Group") for the year ended 31 December 2019.

INCORPORATION

The Company was incorporated in Guernsey on 2 July 2015. The Company operates in accordance with the provisions of the Companies (Guernsey) Law, 2008 and the Insurance Business (Bailiwick of Guernsey) Law, 2002, as amended.

PRINCIPAL ACTIVITY

The Company's principal activity is the provision of property and natural catastrophe reinsurance business. The Company's principal focus is short-tail, geographically diversified property and specialty lines. The Company writes a combination of proportional and non-proportional reinsurance contracts.

The Company was licenced under Section 7 of the Insurance Business (Bailiwick of Guernsey) Law, 2002, as amended to carry on general insurance business, excluding domestic business, on 15 October 2015. The Company's A.M. Best Financial Strength Rating of A- (Excellent) was affirmed on 13 December 2019.

CORPORATE GOVERNANCE FRAMEWORK

The Board discharges its responsibilities through meetings held regularly commensurate with the size of the Company's operations. The Board also oversees the activities of management and its committees, which comprise:

- Enterprise Risk Management Committee
- Underwriting Committee
- Claims and Reserving Committee
- Remuneration Committee

Each committee operates within defined terms of reference which outline its role and responsibilities. Each committee is chaired by a director and meet at least three times per year, except the Remuneration Committee which meets at least annually.

RESULTS

The results for the year are set out in the consolidated statement of comprehensive income on page 8.

DIVIDENDS

No dividends were proposed or paid during the year ended 31 December 2019 (2018: USD nil).

DIRECTORS

The directors of the Company who served during the year and to the date of this report are set out on page 2.

COMPANY SECRETARY

Aon Insurance Managers (Guernsey) Limited has served as company secretary during the year and to the date of this report.

GOING CONCERN

The consolidated financial statements have been prepared on a going concern basis. The directors believe this basis is appropriate as the Company has net assets significantly in excess of its regulatory solvency requirement and is not dependent on any external finance. After making enquiries, the directors have a reasonable expectation that the Company has adequate financial resources to meet its obligations and continue in operational existence for the foreseeable future.

DIRECTORS' REPORT CONTINUED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the directors' report and the consolidated financial statements in accordance with applicable law and regulations. The Companies (Guernsey) Law, 2008 requires the directors to prepare financial statements for each financial year which give a true and fair view, are in accordance with generally accepted accounting principles and which comply with any relevant enactment for the time being in force. Under that law, the directors have elected to prepare the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or cease operations, or have no realistic alternative but to do so.

The directors confirm that they have complied with the above requirements in preparing the consolidated financial statements.

The directors are responsible for keeping proper accounting records which are sufficient to show and explain its transactions and are such as to disclose with reasonable accuracy, at any time, the financial position of the Company and enable them to ensure that the financial statements are prepared properly and in accordance with the Companies (Guernsey) Law, 2008 and the Insurance Business (Bailiwick of Guernsey) Law, 2002, as amended. They are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website, and for the preparation and dissemination of financial statements. Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

DISCLOSURE OF INFORMATION TO AUDITOR

In accordance with Section 249 of the Companies (Guernsey) Law, 2008, the directors who held office at the date of approval of this directors' report confirm that:

- so far as each director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- each director has taken all the steps he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

INDEPENDENT AUDITOR

The independent auditor previously appointed by the Company, KPMG Channel Islands Limited, have indicated their willingness to continue in office.

Approved by the Board and signed on its behalf on 10 March 2020 by:

Registered office
P.O. Box 33
Dorey Court
Admiral Park
St. Peter Port
Guernsey
GY1 4AT

Christopher Anderson
DIRECTOR

INDEPENDENT AUDITOR'S REPORT ON THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS OF HUMBOLDT RE LIMITED

OPINION

The summary consolidated financial statements (the "summary financial statements"), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and related notes, are derived from the audited consolidated financial statements of Humboldt Re Limited for the year ended 31 December 2019.

In our opinion, the accompanying summary financial statements are consistent, in all material respects, with (or a fair summary of) the audited consolidated financial statements, in accordance with the provisions of The Insurance Business (Public Disclosure of Information) Rules, 2018, in a manner authorised by the Guernsey Financial Services Commission.

SUMMARY FINANCIAL STATEMENTS

The summary financial statements do not contain all the disclosures required by International Financial Reporting Standards as adopted by the European Union. Reading the summary financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited consolidated financial statements and the auditor's report thereon. The summary financial statements and the audited consolidated financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the audited consolidated financial statements.

THE AUDITED FINANCIAL STATEMENTS AND OUR REPORT THEREON

We expressed an unmodified audit opinion on the audited consolidated financial statements in our report dated 13 March 2020.

DIRECTORS' RESPONSIBILITY FOR THE SUMMARY FINANCIAL STATEMENTS

The directors are responsible for the preparation of the summary financial statements in accordance with applicable law and regulations as described in the Directors' Report.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on whether the summary financial statements are consistent, in all material respects, with (or are a fair summary of) the audited consolidated financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), Engagements to Report on Summary Financial Statements.

KPMG Channel Islands Limited
Chartered Accountants
Guernsey

Date: 16 March 2020

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Note	2019 USD	2018 USD
ASSETS			
Cash and cash equivalents	10	82,336,683	48,143,943
Financial assets held for trading	10	356,245,144	422,623,802
Insurance receivables	11	220,662,862	247,504,204
Investment in associate		13	13
Claims recoverable from reinsurers	16	266,503,513	188,563,113
Other receivables and prepayments	12	2,679,257	2,881,045
Deferred insurance and reinsurance assets	13	15,007,748	17,164,651
Collateral assets	14	181,248,032	114,342,851
TOTAL ASSETS		**1,124,683,252**	**1,041,223,622**
EQUITY AND RESERVES			
Share capital	15	513,083,500	513,083,500
Retained earnings		(135,133,497)	(60,275,824)
TOTAL EQUITY AND RESERVES		**377,950,003**	**452,807,676**
LIABILITIES			
Claims liabilities	16	579,651,975	426,771,770
Insurance and reinsurance payables	17	55,506,421	49,581,442
Financial liabilities at fair value through profit or loss	10	–	103,963
Other payables and accruals		6,736,961	2,276,631
Deferred insurance and reinsurance liabilities	18	104,837,892	109,682,140
TOTAL LIABILITIES		**746,733,249**	**588,415,946**
TOTAL EQUITY, RESERVES AND LIABILITIES		**1,124,683,252**	**1,041,223,622**

Approved by the Board and signed on its behalf on 10 March 2020 by:

Christopher Anderson
DIRECTOR

The accompanying notes on pages 10 to 34 form an integral part of these consolidated financial statements..

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 USD	2018 USD
INSURANCE PREMIUM REVENUE			
Gross written premium		331,015,630	260,208,383
Outwards reinsurance premium		(97,377,487)	(59,803,770)
NET WRITTEN PREMIUM		**233,638,143**	**200,404,613**
Movement in unearned premium		4,841,559	(22,484,191)
Movement in unexpensed outwards reinsurance premium		(2,514,787)	4,157,484
NET EARNED PREMIUM		**235,964,915**	**182,077,906**
Acquisition costs		(39,391,681)	(25,726,871)
Net other insurance income and expenses		(3,159,785)	(869,712)
NET INSURANCE PREMIUM REVENUE		**193,413,449**	**155,481,323**
INSURANCE CLAIMS EXPENSES			
Insurance claims expenses		(416,063,751)	(314,961,209)
Insurance claims expenses recoverable from reinsurers		133,155,604	133,213,852
NET INSURANCE CLAIMS EXPENSES		**(282,908,147)**	**(181,747,357)**
LOSS ATTRIBUTABLE TO UNDERWRITING ACTIVITIES		**(89,494,698)**	**(26,266,034)**
INVESTMENT INCOME			
Net gains/(losses) from financial instruments at fair value through profit or loss	10	10,336,458	(4,176,655)
Bond interest income received		10,197,513	10,633,116
Net other investment income and expenses	19	2,611,331	839,288
NET INVESTMENT INCOME/(EXPENSES)		**23,145,302**	**7,295,749**
OTHER OPERATING EXPENSES			
Administration expenses	20	(9,516,601)	(8,316,712)
Foreign exchange gains/(losses)		1,008,324	(4,274,429)
NET OPERATING EXPENSES		**(8,508,277)**	**(12,591,141)**
LOSS BEFORE TAX		**(74,857,673)**	**(31,561,426)**
Tax		–	–
LOSS FOR THE YEAR, REPRESENTING TOTAL COMPREHENSIVE INCOME		**(74,857,673)**	**(31,561,426)**

The accompanying notes on pages 10 to 34 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital USD	Retained earnings USD	Total equity USD
Balance at 1 January 2018	513,083,500	(28,714,398)	484,369,102
Total comprehensive income for the year	–	(31,561,426)	(31,561,426)
BALANCE AT 31 DECEMBER 2018	**513,083,500**	**(60,275,824)**	**452,807,676**
Total comprehensive income for the year	–	(74,857,673)	(74,857,673)
BALANCE AT 31 DECEMBER 2019	**513,083,500**	**(135,133,497)**	**377,950,003**

The accompanying notes on pages 10 to 34 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 USD	2018 USD
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	(74,857,673)	(31,561,426)
Adjustments:		
Net (gains)/losses from financial instruments at fair value through profit or loss	(10,336,458)	4,176,655
Bond interest income received	(10,197,513)	(10,633,116)
Net other investment income and expenses	(2,611,331)	(839,288)
Effects of changes in FX rates on cash and cash equivalents	234,886	(1,005,354)
MOVEMENT IN OPERATING ASSETS AND LIABILITIES		
Decrease/(increase) in insurance receivables	26,841,343	(113,273,357)
Increase in claims recoverable from reinsurers	(77,940,400)	(115,907,902)
Decrease in other receivables and prepayments	201,787	3,897,496
Decrease/(increase) in deferred insurance and reinsurance assets	2,156,903	(4,926,218)
Increase in collateral assets	(66,905,181)	(3,782,606)
Increase in claims liabilities	152,880,205	206,387,038
Increase/(decrease) in insurance and reinsurance payables	5,924,979	(575,032)
Increase in other payables and accruals	4,460,330	589,619
(Decrease)/increase in deferred insurance and reinsurance liabilities	(4,844,248)	22,450,187
NET CASH OUTFLOWS FROM OPERATING ACTIVITIES	**(54,992,371)**	**(43,997,950)**
Purchase of financial assets at fair value through profit or loss	(234,431,645)	(267,833,575)
Disposal of financial assets at fair value through profit or loss	311,146,761	254,431,430
Bond interest income received	10,197,513	10,633,116
Net settlements of derivative financial instruments	(103,963)	86,590
Net other investment income and expenses	2,611,331	839,275
NET CASH INFLOWS/(OUTFLOWS) FROM INVESTING ACTIVITIES	**89,419,997**	**(1,843,164)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**34,427,626**	**(46,846,468)**
Effects of changes in FX rates on cash and cash equivalents	(234,886)	1,005,354
Cash and cash equivalents at beginning of the year	48,143,943	93,985,057
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**82,336,683**	**48,143,943**

The accompanying notes on pages 10 to 34 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 CORPORATE INFORMATION

Humboldt Re Limited (the "Company") is a limited company incorporated and domiciled in Guernsey. The registered office of the Company is P.O. Box 33, Dorey Court Admiral Park, St. Peter Port, Guernsey, GY1 4AT.

The Company's principal activity is the provision of property and natural catastrophe reinsurance business. The Company is licensed under Section 7 of the Insurance Business (Bailiwick of Guernsey) Law, 2002, as amended, to carry on general insurance business.

The Company is wholly owned by Ducan-P-Fund.

2 GROUP INFORMATION

Redacted.

3 BASIS OF PREPARATION

These abridged consolidated financial statements are derived from the audited consolidated financial statements of the Company for the year ended 31 December 2019 and are consistent, in all material respects, with (or are a fair summary of) the audited consolidated financial statements, in accordance with the provisions of The Insurance Business (Public Disclosure of Information) Rules, 2018. The consolidated financial statements from which these abridged financial statements are derived give a true and fair view and have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS"). The consolidated financial statements are prepared on a going concern basis and are in compliance with the Companies (Guernsey) Law, 2008 and the Insurance Business (Bailiwick of Guernsey) Law, 2002, as amended.

The consolidated financial statements have been prepared under the historical cost convention except financial instruments at fair value through profit or loss, which are measured at their fair value.

The accounting policies adopted in preparing these consolidated financial statements are consistent with those followed in the preparation of the Company's consolidated financial statements for the year ended 31 December 2018 unless otherwise stated.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and requires the directors to exercise their judgement in the application of the Company's accounting policies. Although estimates are based on management's best knowledge of current events and actions, actual results could ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the consolidated financial statements are described in note 6.

The consolidated financial statements are presented in United States Dollars (USD), which has been the Company's functional currency from 1 January 2018. The Company's functional currency was previously Swiss Francs (CHF).

The consolidated financial statements were authorised for issue by the directors on 10 March 2020.

4 ADOPTION OF NEW OR REVISED STANDARDS

4.1 NEW AND AMENDED STANDARDS AND INTERPRETATIONS EFFECTIVE ON OR AFTER 1 JANUARY 2019

The new and amended standards and interpretations effective on or after 1 January 2019 that were applicable to the Company are described below.

(a) IFRS 16 *Leases*

In January 2016, the IASB issued IFRS 16, a new standard to improve the financial reporting of leases. The standard has an effective date of 1 January 2019. IFRS 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17 *Leases*.

Following management's assessment of the impact of IFRS 16, one lease has been identified for which the Company is the lessee. Management has determined that this lease is a short-term lease. Accordingly, the Company has elected not to recognise a right-of-use asset and lease liability and instead expenses the lease payments on a straight-line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

(b) IFRIC 23 *Uncertainty over income tax treatments*

In June 2017, the IASB issued IFRIC 23, a new interpretation which clarifies the accounting treatment for income taxes where uncertainty exists. The standard has an effective date of 1 January 2019.

As the Company does not consider its tax position to be a major source of uncertainty, no changes have been made to the way in which the Company accounts for taxation.

4.2 NEW AND AMENDED STANDARDS AND INTERPRETATIONS NOT YET EFFECTIVE

The new and amended standards and interpretations in issue but not yet effective that are applicable to the Company and have not yet been adopted by the Company are described below.

(a) IFRS 17 *Insurance contracts*

In May 2017, the IASB issued IFRS 17, which is effective for annual periods beginning on or after 1 January 2021[1]. The new insurance contracts standard covers the recognition, measurement, presentation and disclosure of insurance contracts and, once effective, will replace IFRS 4 that was issued in 2005.

In contrast to the requirements in IFRS 4, which are largely based on grandfathering local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is a general model, supplemented by a simplified approach (the premium allocation approach) for short duration contracts.

Management is currently assessing the impact of the new standard on the consolidated financial statements and expects to adopt the new standard with effect from its final mandatory effective date.

(b) Amendments to IAS 1 *Presentation of financial statements* and IAS 8 *Accounting policies, changes in accounting estimates and errors* – Definition of material

In October 2018, the IASB issued amendments to IAS 1 and IAS 8 to align the definition of 'material' across the standards and clarify certain aspects of the definition. The amendments are effective for annual periods beginning on or after 1 January 2020 and are not expected to have a material impact on adoption.

(c) The conceptual framework for financial reporting

The IASB issued a revised conceptual framework for financial reporting in March 2018. The conceptual framework is not a standard and does not override any requirements of a standard, but does provide preparers with a framework to develop consistent accounting policies if there is no applicable standard in place. The revised conceptual framework is effective for annual periods beginning on or after 1 January 2020 and is not expected to have a material impact on adoption.

5 SIGNIFICANT ACCOUNTING POLICIES

5.1 CONSOLIDATION

The consolidated financial statements consolidate the results of the Company and its subsidiaries, including the segregated account cell controlled by the Company. Subsidiaries are entities over which the Group has control. The Group is deemed to control an entity if it has exposure to variable returns from its involvement with the entity and has the ability to use its power to affect those returns from its involvement with the entity. The financial statements of all subsidiaries are prepared for the same reporting year as the Company. Subsidiaries are consolidated from the date that Group obtains control and cease to be consolidated from the date Group loses control. All inter-company balances, profits and transactions are eliminated.

5.2 FUNCTIONAL AND PRESENTATION CURRENCY

The Company transacts business and recognises assets and liabilities in a number of different currencies and the determination of the Company's functional currency therefore requires critical accounting judgment.

From 1 January 2018 the Company redenominated its share capital from CHF to USD. In light of this change and the increasing prevalence of USD as the currency in which transactions and balances were denominated, the directors determined that the Company's functional currency had changed from CHF to USD from that date.

[1]Subject to EU endorsement. In addition, on 14 November 2018 the IASB tentatively decided to amend the effective date of IFRS 17 to reporting periods beginning on or after 1 January 2022.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

5.3 FOREIGN CURRENCY TRANSACTIONS

Foreign currency transactions are translated into the functional currency using the rate of exchange prevailing at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange prevailing at the reporting date.

Non-monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange prevailing at the date at which the asset or liability first arose.

Any resulting exchange differences are recognised within foreign exchange gains or losses in the consolidated statement of comprehensive income.

5.4 INSURANCE CONTRACTS – CLASSIFICATION

Insurance contracts are defined as those containing significant insurance risk if, and only if, an insured event could cause the Company to make significant additional payments in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire.

Risk transfer contracts that do not meet the definition of insurance contracts are classified as financial instruments.

5.5 GROSS WRITTEN AND EARNED PREMIUM

Written premiums are first recognised in the period in which the contract incepts or the period in which the contract is bound, if later.

The Company writes both proportional and non-proportional reinsurance contracts. For non-proportional contracts, gross written premium is recorded based on the deposit or flat premium (net of taxes) as defined in the contract. Subsequent adjustments to the premium are recognised in the period in which they are determined.

For proportional contracts, written premium is recognised based on estimates of ultimate premiums provided by the reinsured, adjusted by the Company where considered appropriate. Initial estimates of written premium are recognised in the period in which the contract incepts, or in the period in which the contract is bound, if later. Subsequent adjustments, based on reports of actual premium by the reinsured, or revisions in estimates, are recognised in the period in which they are determined.

The proportion of gross written premium attributable to periods after the reporting date is deferred as unearned premium. The change in this reserve is recognised in income in future periods in order that premium is recognised over the period of risk coverage. The unearned premium reserve includes, where necessary, a reserve for unexpired risks where, at the reporting date, the estimated costs of future claims and related deferred acquisition costs are expected to exceed the unearned premium reserve.

Premium is earned proportionally over the policy contract period, except where the period of risk differs significantly from the contract period. In these circumstances, premium is earned over the period of risk in proportion to the amount of reinsurance protection provided.

Where contract terms require the reinstatement of coverage after a reinsured's loss, the estimated reinstatement premiums are recorded as written premiums.

5.6 OUTWARDS REINSURANCE PREMIUM

Outwards reinsurance premiums are recognised in the period in which the contract incepts or the period in which the contract is bound, if later.

The Company purchases both proportional and non-proportional reinsurance contracts. For non-proportional contracts, outwards reinsurance premium is recorded based on the deposit or flat premium as defined in the contract or, where greater, the Company's estimate of the adjusted premium under the contract. Subsequent adjustments to the premium are recognised in the period in which they are determined.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

5.6 OUTWARDS REINSURANCE PREMIUM CONTINUED

For proportional contracts, outwards reinsurance premium is recognised based on the proportion of the underlying contract being ceded. Initial estimates of written premium are recognised in the period in which the contract incepts, or in the period in which the contract is bound, if later. Subsequent adjustments, based on changes to the premium of the underlying reinsurance contract(s) written, are recognised in the period in which they are determined.

The proportion of outwards reinsurance premium attributable to periods after the reporting date is deferred as unearned outwards reinsurance premium. The change in this asset is recognised as an expense in future periods in order that premium is recognised over the period of risk protection.

Outwards reinsurance premium is earned proportionally over the policy contract period, except where the period of risk differs significantly from the contract period. In these circumstances, premium is amortised over the period of risk in proportion to the amount of reinsurance protection received.

Where contract terms require the reinstatement of coverage after a loss, the estimated outwards reinstatement premiums are recorded as outwards reinsurance premiums.

5.7 ACQUISITION COSTS AND DEFERRED ACQUISITION COSTS

Acquisition costs represent commissions, brokerage and other variable costs that relate directly to the successful sale of new contracts and the renewal of existing contracts. Acquisition costs are deferred and amortised in the period(s) over which the related premiums are earned. Deferred acquisition costs are reviewed at the reporting date and impaired where they are no longer considered to be recoverable out of future margins from the related revenues.

5.8 OUTWARDS REINSURANCE EXPENSES AND DEFERRED OUTWARDS REINSURANCE EXPENSES

Outwards reinsurance expenses represent commissions, brokerage and other variable costs that relate directly to the purchase of outwards reinsurance contracts. Outwards reinsurance expenses are deferred and amortised in the period(s) over which the related premiums are expensed.

5.9 OTHER INSURANCE INCOME AND EXPENSES

Commissions receivable on proportional outwards reinsurance contracts are deferred and earned using the same principles as for acquisition costs on inwards business.

Contingent profit commissions on outwards reinsurance contracts are accrued when it is highly probable that the income will be realised.

5.10 INSURANCE CLAIMS EXPENSES AND CLAIMS LIABILITIES

Insurance claims expenses comprise claims and loss adjustment expenses incurred in the period based on the estimated compensation owed to reinsureds on the reinsurance contracts written by the Company, whether or not reported to the Company by the reporting date.

Claims paid are defined as those claims transactions settled up to the reporting date.

Claims liabilities represent the total estimated claims and loss adjustment expenses incurred on the reinsurance contracts written by the Company that have not been settled as at the reporting date and comprise the following:

- Claims payable represent liabilities to pay claims where claims on the underlying insurance contract(s) written by the reinsured have been settled in excess of the reinsurance contract's attachment point.
- Specific loss reserves are made for known or anticipated liabilities under reinsurance contracts written that have been notified to the Company.
- Incurred but not reported (IBNR) reserves are established to provide for claims expenses on insured events that have occurred but for which loss notifications have not been received by the Company prior and up to the reporting date. These liabilities are determined by the Company based on recognised actuarial methods and assumptions. These methods and assumptions are regularly reviewed through the use of catastrophe models, own loss experience, historical industry loss experience, underwriting and originator experience, estimates of pricing adequacy trends and the directors' and management's professional judgement.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

5.10 INSURANCE CLAIMS EXPENSES AND CLAIMS LIABILITIES CONTINUED

Certain contracts written by the Company require the Company to fund cedants' estimates of their claims recoverable from the Company in full, regardless of whether the cedant has settled their own underlying claims liabilities, by way of cash call advances. The Company may also choose to provide such cash call advances on an ex-gratia basis. Where cash call advances made are in excess of claims paid or claims payable, they are recorded as cash call advances made to cedants as an offsetting item against claims liabilities in the statement of financial position.

Where the amount of cash call advances paid exceeds the Company's own estimated claims liabilities, the excess amounts paid are classified within insurance receivables as claims deposits made to cedants.

Changes in estimates of insurance claims liabilities are recognised in the consolidated statement of comprehensive income in the period in which the estimate changes.

5.11 INSURANCE CLAIMS EXPENSES RECOVERABLE FROM REINSURERS AND CLAIMS RECOVERABLE FROM REINSURERS

Insurance claims expenses recoverable from reinsurers comprise recoverable claims and loss adjustment expenses recoverable in the period based on the estimated compensation due from reinsurers on the outwards reinsurance contracts purchased by the Company, whether or not reported by the Company to the reinsurer by the reporting date.

Claims recoverable from reinsurers represent the total estimated recoverable claims and loss adjustment expenses recoverable on the outwards reinsurance contracts purchased by the Company that have not been settled as at the reporting date, and comprise the following:

- Reinsurance receivables represent amounts due to the Company where claims on the underlying reinsurance contract written by the Company have been settled or settlement has been requested, and payment has been or may be requested from the outwards reinsurer.
- Reinsurers' share of specific loss reserves represents known or anticipated recoveries under outwards reinsurance contracts purchased that correspond to specific loss reserves on inwards reinsurance contracts.
- Reinsurers' share of incurred but not reported reserves represents the estimate of claims recoverable from reinsurers corresponding to the IBNR reserves on inwards reinsurance contracts.

Where outwards reinsurance contracts permit, cash may be called from reinsurers in settlement of claims and claims expenses recoverable in advance of the settlement of claims and claims expense liabilities on the underlying inwards contracts. Where such cash call advances received from reinsurers are in excess of reinsurance receivables settled or due they are recorded as cash call advances received from reinsurers as an offsetting item against claims recoverable from reinsurers in the statement of financial position, in anticipation of future receivable amounts coming due.

Where the current estimated value of claims and claims expenses recoverable from reinsurers on a contract is less than the value of cash call advances received, any such excess is classified within insurance and reinsurance payables as cash call returns due to reinsurers until settled with the reinsurer.

Changes in estimates of claims recoverable from reinsurers are recognised in the consolidated statement of comprehensive income in the period in which the estimate changes.

5.12 INSURANCE RECEIVABLES

Insurance receivables comprise amounts due from agents, brokers and insurance contract holders in respect of the premiums written by the Company, and are recognised commensurate with the recognition of premiums written.

5.13 INSURANCE AND REINSURANCE PAYABLES

Insurance and reinsurance payables comprise amounts due to agents, brokers and reinsurance providers in respect of the outwards reinsurance purchased by the Company as well as reinsurance commissions due to agents, brokers and insurance contract holders. Such amounts are recognised commensurate with the recognition of premiums written and ceded.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

5.14 FINANCIAL ASSETS

(a) Classification

Management determines the appropriate classification of financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss

The Company classifies its investments in bonds and money market funds as held for trading as they are acquired principally for the purpose of sale or repurchase in the near term and on initial recognition are part of a portfolio of identifiable financial instruments that are managed together for the purpose of short-term profit taking.

The Company enters into derivative financial instruments for the purpose of foreign exchange hedging. Such derivatives are classified as held for trading in accordance with IAS 39.

The Company may also be party to other risk transfer contracts that do not meet the criteria within IFRS 4 for the transfer of significant insurance risk. Where this is the case, such contracts are accounted for as derivative financial instruments classified as held for trading.

The Company provides capital as security, known as Funds at Lloyd's, to support the Lloyd's underwriting business of the Arcus 1856 syndicate. These assets are classified as financial assets designated at fair value through profit or loss at inception because they are both managed and their performance evaluated on a fair value basis. The Company presents Funds at Lloyd's within collateral assets in the statement of financial position to most accurately reflect the nature of the assets recognised.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as 'trading' assets and have not been designated at fair value through profit or loss or as available-for-sale. The Company classifies cash and cash equivalents, other receivables and collateral assets (except Funds at Lloyd's) as loans and receivables. Cash and cash equivalents comprise cash at bank and in hand, deposits held with banks and other short-term highly liquid investments with original maturities of three months or less.

(b) Recognition, derecognition and measurement

(i) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on the settlement date, which is the date that the agreement to purchase or sell the asset is settled by delivery of the assets or liabilities that are the subject of the agreement.

Derivative financial instruments are recognised on the date on which the Company becomes a party to the contract.

Financial assets are derecognised when the right to receive cash flows from the assets have expired or the Company has transferred substantially all the risks and rewards of ownership. Gains or losses arising on derecognition of financial assets are recognised as a component of investment income in profit or loss.

(ii) Initial measurement

Financial assets are initially recognised at fair value. Transaction costs on financial assets at fair value through profit or loss are expensed as incurred in the statement of comprehensive income. The initial carrying amounts of instruments classified as loans and receivables are adjusted for transaction costs and included in the calculation of the effective interest method.

(iii) Subsequent measurement

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the financial assets at fair value thought profit or loss are presented as net gains or losses from financial assets at fair value through profit or loss in the statement of comprehensive income.

Loans and receivables are subsequently measured at amortised cost using the effective interest method. Gains or losses arising from changes in amortised cost are presented as a component of interest income in the statement of comprehensive income. Loans and receivables are subject to annual reviews for impairment. If there is any objective evidence that the asset is impaired, the Company reduces the carrying amount accordingly and recognises the impairment loss in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

(c) Impairment of financial assets measured at amortised cost

The Company assesses at the end of each reporting period as to whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired, and impairment losses are determined, if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after initial recognition (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.

5.15 FINANCIAL LIABILITIES

(a) Classification

Management determines the appropriate classification of financial liabilities at initial recognition.

(i) Financial liabilities at fair value through profit or loss

Derivative financial instruments classified as held for trading, as discussed in note 5.14(a)i. above, are classified as financial liabilities at fair value through profit or loss where the value such instruments represents a liability at the end of the reporting period.

(ii) Other financial liabilities

Other payables and accruals are classified as other financial liabilities as they are neither held for trading nor designated at fair value through profit or loss.

(b) Recognition, derecognition and measurement

(i) Recognition and derecognition

Derivative financial instruments are recognised on the date on which the Company becomes a party to the contract.

Other payables and accruals are recognised when the Company becomes a party to the contract.

Financial liabilities are derecognised when the Company's contractual obligation is discharged, cancelled, or expires. Gains or losses arising on derecognition of financial assets are recognised as a component of investment income in profit or loss.

(ii) Initial measurement

Financial liabilities are initially recognised at fair value. Transaction costs on financial liabilities at fair value through profit or loss are expensed as incurred in the statement of comprehensive income. The initial carrying amounts of instruments classified as other financial liabilities are adjusted for transaction costs and included in the calculation of the effective interest method.

(iii) Subsequent measurement

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the financial liabilities at fair value thought profit or loss are presented as net gains or losses from financial liabilities at fair value through profit or loss in the statement of comprehensive income.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Gains or losses arising from changes in amortised cost are presented as a component of interest expense in the statement of comprehensive income.

5.16 FAIR VALUE ESTIMATION

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investments in bonds are generally quoted or dealt on a recognised stock exchange or other trading facility or in an active market. Fair valuations are made by the Company based on valuations received from the Company's investment manager. If such information is not provided, or is insufficiently timely, management uses appropriate valuation techniques to estimate the value of investments. In determining the fair value of such investments, management takes into consideration relevant factors which may include the impact of suspension, redemptions, liquidation proceedings and other significant factors. The estimates may differ from actual realisable values.

The Company's policy is to recognise transfers between levels of the fair value hierarchy at the end of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

5.17 TAXATION

The Company is taxable in Guernsey at the standard company rate of zero percent (2018: zero percent) as per the Income Tax (Zero 10) (Guernsey) Law, 2007.

5.18 SHARE CAPITAL

Issued ordinary shares are classified as equity instruments.

5.19 NET OTHER INVESTMENT INCOME AND EXPENSES

Net other investment income and expenses comprise investment management fees and other income and expenses associated with the management of the Company's investment portfolio and other investment-related assets.

5.20 ADMINISTRATION EXPENSES

Administration expenses are recognised on an accruals basis.

5.21 DEFERRAL OF IFRS 9 FINANCIAL INSTRUMENTS

In accordance with amendments issued to IFRS 4 in September 2016, the Company has elected to defer the application of IFRS 9 *Financial instruments* which became effective on 1 January 2018. The Company expects to do so until application of the new insurance contracts standard, IFRS 17 *Insurance contracts*. During the deferral period, the Company will apply the existing financial instruments standard, IAS 39 *Financial instruments: recognition and measurement* which IFRS 9 replaces.

The Company considers that its activities are predominantly connected with insurance and that it therefore qualifies for the optional temporary exemption from applying IFRS 9.

In order to assess that the Company's activities are predominantly connected with insurance, the Company is required to demonstrate that the percentage of the total carrying amount of its liabilities connected with insurance are, at a minimum, greater than 80 percent of its total liabilities. This assessment is required to be made at the annual reporting date immediately preceding 1 April 2016, which is 31 December 2015 in the Company's case. At this date, the Company did not qualify for the exemption on the basis that it was recently incorporated and had not incurred any liabilities connected with insurance. However, a reassessment is permitted in circumstances where a change in an entity's activities is determined by management, is significant to the entity's operations and is demonstrable to external parties. The Company considers that the demonstrable underwriting activities undertaken since 1 January 2016 is evidence of a change in activities as anticipated by the standard and therefore that the Company qualifies for this temporary exemption.

Amendments to IFRS 4 require the Company to disclose the fair value at the end of the reporting period and the amount of change in fair value during the reporting period of all financial assets held by the company which meet the definition for held for trading under IFRS 9. This has been disclosed by the Company in Note 10(c).

6 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The key assumptions concerning the future and key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

6.1 GROSS WRITTEN PREMIUM ESTIMATION – PROPORTIONAL CONTRACTS

The calculation of estimated premium income on proportional contracts is inherently subjective as the amount of premium written is dependent on estimates of ultimate premiums provided by the reinsured, which are reviewed and adjusted by the Company's underwriters as necessary before being recognised. These estimates are reviewed on a quarterly basis by the Company and on receipt of bordereaux statements and adjusted where necessary.

6.2 VALUATION OF CLAIMS INCURRED BUT NOT REPORTED

Liabilities for claims incurred but not reported require a significant amount of judgement as, by their nature, they are based on information that has not been reported to the Company. As such, these reserves are based on the best information available at a given time that may consequently change as a result of changes in assumptions or information. Such changes may result in either increases or decreases to the reserves recognised at the reporting date, as disclosed in note 16(b). Further disclosures in respect of the sensitivity to insurance risk are provided in note 7.5(b).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

6.3 VALUATION OF FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The valuation of financial assets at fair value through profit or loss is subject to estimation uncertainty depending on the nature of the investments. The fair value recognised may not represent actual realisable value for such investments. Further disclosures in respect of financial assets at fair value through profit or loss are provided in note 8.

7 RISK MANAGEMENT

7.1 RISK MANAGEMENT FRAMEWORK

The Company discharges its risk management responsibilities through the Board and its committees. The Enterprise Risk Management Committee maintains the Company's Enterprise Risk Management policy and framework and is responsible for oversight of each of the Company's committees, maintaining the Company's risk register and monitoring emerging risks.

The Company's risk monitoring practices encompass both quantitative and qualitative views of risk across all major risk categories. This includes regular reporting on the Company's exposures to credit risk, liquidity risk, market risk and insurance risk, among others. A more detailed description of the major risk categories to which the Company is exposed is provided below.

7.2 CREDIT RISK

Credit risk is the risk that one party to a financial arrangement will fail to discharge an obligation and cause the other party to incur a financial loss. The Company is primarily exposed to credit risk through the financial instruments it holds and assets related to its insurance activities, including insurance receivables and claims recoverable from reinsurers. The Company seeks to proactively mitigate this risk by undertaking transactions with reputable counterparties with credit ratings in accordance with the Company's guidelines. Thereafter, the Company actively monitors the financial strength ratings of its counterparties (including financial investments counterparties and cedants) and assessing the recoverability of insurance receivables and claims recoverable from reinsurers.

The Company considers that the carrying amount of financial assets best represents the maximum exposure to credit risk.

(a) Financial assets

The investment guidelines agreed between the Company and the Company's investment manager allow investments in bonds with long-term credit ratings of AAA to BBB- (Standard & Poor's) or Aaa to Baa3 (Moody's) or AAA to BBB- (Fitch). In the event of a downgrade, the investment manager is required to inform the Company as soon as practicable. Downgraded securities below BBB- that have a credit rating of BB+, BB or BB- may be kept in the portfolio if the investment manager deems it to be in the Company's interest, although such bonds may not exceed 3% of the total portfolio market value. The maximum allocation permitted to bonds with a long-term credit rating of BBB is 30% of the total portfolio market value. An average minimum credit rating of A- (S&P) or equivalent is to be maintained.

An analysis of financial assets by credit rating is provided below:

Financial assets credit rating analysis As at 31 December 2019	Fair value through profit or loss USD	Loans and receivables USD	Total USD
AAA range	30,007,742	97,433,272	127,441,014
AA range	79,119,247	33,032,109	112,151,356
A range	187,260,312	93,482,152	280,742,464
BBB range	100,989,481	674,309	101,663,790
BB range	378,715	3,772	382,487
TOTAL FINANCIAL ASSETS	**397,755,497**	**224,625,614**	**622,381,111**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

(a) Financial assets continued

Financial assets credit rating analysis As at 31 December 2018	Fair value through profit or loss USD	Loans and receivables USD	Total USD
AAA range	24,969,175	21,675	24,990,850
AA range	111,560,037	52,749,680	164,309,717
A range	185,632,696	71,171,779	256,804,475
BBB range	139,309,949	1,000,953	140,310,902
BB range	1,425,730	14,574	1,440,304
TOTAL FINANCIAL ASSETS	**462,897,587**	**124,958,661**	**587,856,248**

(b) Insurance receivables and claims recoverable from reinsurers

The credit quality of insurance receivables and claims recoverable from reinsurers is assessed through at least quarterly reviews of cedant and reinsurer credit ratings. These cedant and reinsurer credit ratings range from A++ to Not Rated (A.M. Best) and from AA- to Not Rated (Standard & Poor's). Where the credit rating of outwards reinsurers does not meet the minimum criteria prescribed by the Company's underwriting guidelines, the protection is collateralised by a combination of cash advances, letters of credit and reinsurance trusts which, in turn, have minimum credit rating requirements.

An analysis of insurance receivables that are past due but not impaired is provided below. None of these receivables have a recent history of default and the Company considers the amounts recoverable in full. No other financial assets are past due but not impaired. There are also no receivables that are past due and impaired.

Aged insurance receivables analysis As at 31 December	2019 USD	2018 USD
0 to 30 days	632,397	1,306,191
31 to 60 days	–	–
61 to 90 days	665,258	–
More than 90 days	133,616	66,971
TOTAL AGED INSURANCE RECEIVABLES	**1,431,271**	**1,373,162**

7.3 LIQUIDITY RISK

Liquidity risk is the risk that the Company will be unable to meet its obligations as they fall due. The most significant liquidity risk of the Company is the availability of cash resources in respect of actual or potential claims arising from a major insured event, including the risk associated with a reinsurer failing to meet its obligations to settle claims or cash call advances on the Company's outwards reinsurance contracts.

In respect of claims liabilities, the Company manages its liquidity risk by ensuring that there is sufficient cash in the operating and expense accounts that are readily available to fulfil claims payments as they fall due. For potential future claims liabilities, the Company manages its liquidity risk by holding a minimum amount of sufficiently liquid financial instruments to cover potential losses arising from a defined major catastrophe scenario. Reference may also be made to the gross occurrence exceedance probability ("OEP") curves in note 7.5(c) below in respect of major peril regions to which the Company is exposed.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

7.3 LIQUIDITY RISK CONTINUED

A maturity analysis of financial and insurance liabilities that shows the remaining contractual maturities is provided below. Claims liabilities other than claims payable have not been included in the analysis as they have no stated contractual maturity.

Maturity analysis of financial and insurance liabilities As at 31 December 2019	One to three months USD	Three to 12 months USD	Total USD
Claims payable	43,487,682	–	43,487,682
Other payables and accruals	6,736,961	–	6,736,961
Insurance and reinsurance payables	55,506,421	–	55,506,421
Derivative financial instruments	–	–	–
TOTAL FINANCIAL AND INSURANCE LIABILITIES	**105,731,064**	**–**	**105,731,064**

Maturity analysis of financial and insurance liabilities As at 31 December 2018	One to three months USD	Three to 12 months USD	Total USD
Claims payable	32,127,177	–	32,127,177
Other payables and accruals	2,276,631	–	2,276,631
Insurance and reinsurance payables	49,581,442	–	49,581,442
Derivative financial instruments	103,963	–	103,963
TOTAL FINANCIAL AND INSURANCE LIABILITIES	**84,089,213**	**–**	**84,089,213**

7.4 MARKET RISK

Market risk is the risk that the fair value or future cash flows of a financial instrument or insurance contract will fluctuate because of changes in market factors. Market risk comprises three types of risk: foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk).

(a) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument or insurance contract will fluctuate because of changes in foreign exchange rates.

Where the Company holds assets in its managed investment portfolio denominated in currencies other than the functional currency, the Company enters into derivative contracts such as foreign exchange forwards in order to maintain a hedging range of between 98% to 102%.

The Company also manages currency risk by generally only maintaining sufficient balances in each currency account to settle outwards payments due in foreign currencies. In situations where claims liabilities denominated in a currency other than the Company's functional currency are significant, the Company may mitigate the associated currency risk by holding additional cash and cash equivalents in that foreign currency for the purpose of asset and liability matching.

An analysis of the gains or losses that would result in profit or loss from the impact on financial instruments and insurance contract balances (excluding non-monetary items) of an improvement or deterioration of 10% in each currency to which the Company has significant exposure is provided below. The directors believe that 10% improvement or deterioration in foreign exchange rates represents a reasonable possible change and provides year-on-year comparability.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

(a) Currency risk continued

Currency sensitivity analysis As at 31 December 2019	10% improvement USD	10% deterioration USD
AUD	(4,164,307)	4,164,307
CHF	106,369	(106,369)
EUR	(2,029,126)	2,029,126
GBP	(428,589)	428,589
JPY	(5,969,370)	5,969,370

Currency sensitivity analysis As at 31 December 2018	10% improvement USD	10% deterioration USD
AUD	(815,833)	815,833
CHF	94,419	(94,419)
EUR	(1,504,217)	1,504,217
GBP	150,463	(150,463)
JPY	(4,669,054)	4,669,054

An analysis of financial instruments and insurance contract balances (excluding non-monetary items) as at 31 December 2019 by each currency to which the Company has significant exposure is provided below.

Currency balance sheet As at 31 December 2019	AUD	CHF	EUR	GBP	JPY	Other including USD	Total
ASSETS							
•	•	•	•	•	•	•	•
•	•	•	•	•	•	•	•
•	•	•	•	•	•	•	•
•	•	•	•	•	•	•	•
•	•	•	•	•	•	•	•
•	•	•	•	•	•	•	•
•	•	•	•	•	•	•	•
•	•	•	•	•	•	•	•
LIABILITIES							
•	•	•	•	•	•	•	•
•	•	•	•	•	•	•	•
•	•	•	•	•	•	•	•
•	•	•	•	•	•	•	•
•	•	•	•	•	•	•	•
NET MONETARY ASSETS/(LIABILITIES)	**(41,643,073)**	**1,063,686**	**(20,291,257)**	**(4,285,893)**	**(59,693,703)**	**592,502,382**	**467,652,143**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

(a) Currency risk continued

Currency balance sheet As at 31 December 2018	AUD	CHF	EUR	GBP	JPY	Other including USD	Total
ASSETS							
•	•	•	•	•	•	•	•
•	•	•	•	•	•	•	•
•	•	•	•	•	•	•	•
•	•	•	•	•	•	•	•
•	•	•	•	•	•	•	•
•	•	•	•	•	•	•	•
•	•	•	•	•	•	•	•
•	•	•	•	•	•	•	•
LIABILITIES							
•	•	•	•	•	•	•	•
•	•	•	•	•	•	•	•
•	•	•	•	•	•	•	•
•	•	•	•	•	•	•	•
•	•	•	•	•	•	•	•
NET MONETARY ASSETS/(LIABILITIES)	**(8,158,333)**	**944,186**	**(15,042,167)**	**1,504,628**	**(46,690,538)**	**612,631,996**	**545,189,772**

(b) Interest rate risk

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its cash and cash equivalents. Investment performance is regularly monitored against benchmarks based on market returns and interest rates.

If the applicable interest rate on the Company's cash and cash equivalents had been 50 basis points higher or lower throughout the period, the profit of the Company would have decreased or increased by USD 10,165 (2018: decrease or increase of USD 17,238). The sensitivity in the interest rate above is based on the maximum estimated potential interest rate change in the next period.

(c) Price risk

The Company is exposed to price risk because of investments classified as financial assets at fair value through profit or loss. Such investments are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market.

The Company's investment policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification planning and setting limits on investments in each sector and market.

A 10% increase/decrease in the market value of the Company's financial assets at fair value through profit or loss would result in a USD 39,775,549 increase/decrease in the fair value of the Company's financial assets at fair value through profit or loss (2018: USD 46,289,759 increase/decrease), with a corresponding gain/loss recognised in investment income in profit or loss. The directors believe that 10% improvement or deterioration in market value represents a reasonable possible change and provides year-on-year comparability.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

7.5 INSURANCE RISK

(a) Insurance risk management

The risk under any one insurance contract is the possibility that the insured event occurs, with further risks resulting from the uncertainty of the amount and timing of the resulting claim.

The Company benefits from an underwriting process that uses a combination of experience, knowledge, exposure information and past claims data to evaluate the likely cost of claims and therefore the premium that should be sufficient (across the portfolio of contracts) to produce an acceptable profit. However, due to the nature of insurance risk there is no guarantee that the premium charged will be sufficient, and a loss may arise from insufficient premium being calculated or may result from an unexpected or unprecedented high level of claims.

The underwriting guidelines of the Company clearly define both the lines of business which the Company is authorised to underwrite and specific limits to which the Company can be exposed in relation to each particular line of business. For the purposes of these limits, all relevant risk parameters are aggregated and consolidated on the basis of modelled probable maximum loss.

The Company is also exposed to catastrophe losses which may impact many risks in single or multiple events. Outwards reinsurance is purchased to limit the impact of loss frequency and severity from such events in accordance with the Company's risk appetite.

Where insured events have occurred, the Company faces a risk that the ultimate claims payments exceed the carrying amount of the insurance liabilities at the reporting date. This could occur because the frequency or severity of claims is greater than estimated.

The Company operates a formal actuarial reserving policy that defines in detail the approach taken in determining the reserves held by the Company at each reporting date. The Company records specific loss reserves on each contract at least equal to the estimates reported by cedants and may establish additional specific loss reserves if the cedants' reported estimates are believed by the Company to be inadequate.

The Company records actuarially-determined reserves for claims incurred but not reported based on best estimates of the Company's ultimate loss and loss adjustment expenses at each reporting date. An actuarial valuation was performed by qualified actuaries to estimate the claims liabilities of the Company as at 31 December 2019 in accordance with the Insurance Business (Bailiwick of Guernsey) Law, 2002, as amended.

(b) Sensitivity to insurance risk

As disclosed in note 16(b), the most significant assumption in the determination of claims liabilities is the losses assumed for each contract. Changes to estimated loss ratios arising from actuarially-determined information or cedant loss reporting over the lifetime of each contract will result in gains or losses recognised in profit or loss.

Material uncertainty exists in respect of the amount and timing of settlement of claims. Such uncertainty arises due to the timing differences between the occurrence of an insured event, its notification to the primary insurer and subsequently to the Company, and the final settlement of the claim. The amount of a claim is also uncertain until the final settlement is agreed and paid.

(c) Concentrations of insurance risk

Policies written by the Company cover worldwide risks with no concentration at a particular location. An analysis of the Company's most material exposures to insured events by type of insured event and geography is provided below. The table shows gross occurrence exceedance probability (OEP) (i.e. the probability that the associated loss level will be exceeded by any event in any given year) for a 100 year return period.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

(c) Concentrations of insurance risk continued

Concentration analysis by type of insured event and geography As at 31 December 2019	Peril	1/100 gross OEP USD
Australia	Earthquake	•
	Windstorm	•
Europe	Earthquake	•
	Windstorm	•
Japan	Earthquake	•
	Windstorm	•
USA	Earthquake	•
	Windstorm	•

Concentration analysis by type of insured event and geography As at 31 December 2018	Peril	1/100 gross OEP USD
Australia	Earthquake	•
	Windstorm	•
Europe	Earthquake	•
	Windstorm	•
Japan	Earthquake	•
	Windstorm	•
USA	Earthquake	•
	Windstorm	•

(d) Claims development

An analysis of current estimates of claims compared to previous estimates is provided overleaf. The analysis is presented on an underwriting year basis and excludes changes in claims liabilities and claims recoverable from reinsurers arising from fluctuations in foreign exchange rates. As such, the disclosures do not reconcile to the Company's consolidated statement of financial position.

The Company chooses to present claims development based on estimates of incurred losses on each contract, which do not include losses not yet incurred. There is therefore a reasonable expectation that the estimate of incurred claims at the end of each underwriting year may subsequently increase one year later where the risk coverage of policies written continues into the next financial year and claims continue to be incurred.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

(d) Claims development continued

Claims development by underwriting year – gross basis	2015 USD	2016 USD	2017 USD	2018 USD	2019 USD
Estimate of incurred claims at end of underwriting year	•	•	•	•	•
One year later	•	•	•	•	•
Two years later	•	•	•	•	•
Three years later	•	•	•	•	•
Four years later	•	•	•	•	•
Cumulative payments	•	•	•	•	•
ESTIMATED BALANCE	•	•	•	•	•

Claims development by underwriting year – net basis	2015 USD	2016 USD	2017 USD	2018 USD	2019 USD
Estimate of incurred claims at end of underwriting year	•	•	•	•	•
One year later	•	•	•	•	•
Two years later	•	•	•	•	•
Three years later	•	•	•	•	•
Four years later	•	•	•	•	•
Cumulative payments	•	•	•	•	•
ESTIMATED BALANCE	•	•	•	•	•

8 FAIR VALUE OF FINANCIAL INSTRUMENTS

8.1 FAIR VALUE MEASUREMENTS

The fair value of financial instruments at fair value through profit or loss is based on the market value provided by the investment manager.

8.2 FAIR VALUE HIERARCHY

(a) Classification

The Company measures the fair value of financial instruments using a fair value hierarchy that reflects the significance of the input used in making the measurements. The fair value hierarchy has the following levels:

- **Level 1** – quoted prices (unadjusted) in active markets for identical assets or liabilities.
- **Level 2** – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- **Level 3** – unobservable inputs for the asset or liability.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy is determined based on the lowest level input that is significant to the fair value measurement in its entirety. In making the assessment, the Company considers factors specific to the asset or liability.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

(b) Fair value hierarchy table

An analysis of the Company's financial instruments at fair value through profit or loss by fair value hierarchy level is provided below.

Fair value hierarchy As at 31 December 2019	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
•	•	•	•	•
•	•	•	•	•
TOTAL FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	**50,895,921**	**346,859,575**	**–**	**397,755,496**
•	•	•	•	•
TOTAL FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	**–**	**–**	**–**	**–**

Fair value hierarchy As at 31 December 2018	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
•	•	•	•	•
•	•	•	•	•
TOTAL FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	**28,893,340**	**434,004,247**	**–**	**462,897,587**
•	•	•	•	•
TOTAL FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	**–**	**103,963**	**–**	**103,963**

(c) Financial instruments not measured at fair value

The Company's loan and receivables and other financial liabilities that are described in notes 11, 12 and 16 are carried at amounts that approximate to their fair value and are categorised as Level 2 in the fair value hierarchy.

Cash and cash equivalents of USD 82,336,683 (2018: USD 48,143,943) are carried at amounts that approximate to their fair value and are categorised as Level 1 in the fair value hierarchy.

9 CAPITAL MANAGEMENT

The Company's objective when managing capital is to support its business in addition to adhering to regulatory requirements. The Company complies with the Insurance Business (Bailiwick of Guernsey) Law, 2002, as amended. The capital management policies adopted by the Company are operated to ensure the Company's ability to continue as a going concern and in order to target returns for the shareholder and benefits for stakeholders. The Board meets quarterly to agree the Company's immediate and long-term capital requirements, including review of the Company's forecasts, cash projections and insurance risk exposures.

The directors also review the Company's capital structure on a regular basis to ensure adequate funds are available to meet its obligations and comply with the solvency margin requirements required by the Insurance Business (Bailiwick of Guernsey) Law, 2002, as amended. In accordance with the Insurance Business (Solvency) Rules, 2015, the Company is required at all times to maintain regulatory capital resources greater than or equal to its Minimum Capital Requirement and its Prescribed Capital Requirement. At 31 December 2019, the Minimum Capital Requirement was USD 49,464,003 (2018: USD 38,094,247) and the Prescribed Capital Requirement was 119,839,960 (2018: USD 100,399,606).

The Company complied with the externally imposed capital requirements to which it was subject during the years ended 31 December 2019 and 31 December 2018.

The total amount of capital of the Company at 31 December 2019 was USD 377,950,003 (2018: USD 452,807,676), being net assets attributable to the holder of ordinary shares.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

10 FINANCIAL INSTRUMENTS

(a) Composition of financial assets

Financial assets As at 31 December 2019	Held for trading USD	Designated at fair value through profit or loss at inception USD	Loans and receivables USD	Total USD
•	•	•	•	•
•	•	•	•	•
•	•	•	•	•
•	•	•	•	•
•	•	•	•	•
TOTAL FINANCIAL ASSETS	**356,245,144**	**41,510,352**	**224,625,615**	**622,381,111**

Financial assets As at 31 December 2018	Held for trading USD	Designated at fair value through profit or loss at inception USD	Loans and receivables USD	Total USD
•	•	•	•	•
•	•	•	•	•
•	•	•	•	•
•	•	•	•	•
•	•	•	•	•
TOTAL FINANCIAL ASSETS	**422,623,802**	**40,273,785**	**124,958,661**	**587,856,248**

Financial assets at fair value through profit or loss of USD 356,245,144 (2018: USD 422,623,802) are classified as current assets as the Company expects to recover the amounts no more than 12 months after the reporting period. The balance of USD 41,510,352 (2018: USD 40,273,785) are classified as non-current assets as the Company expects to recover the amounts more than 12 months after the reporting period.

(b) Composition of financial liabilities

Financial liabilities As at 31 December 2019	Designated at fair value through profit or loss at inception USD	Other financial liabilities USD	Total USD
Derivative financial instruments	–	–	–
Other payables	–	6,736,961	6,736,961
TOTAL FINANCIAL LIABILITIES	**–**	**6,736,961**	**6,736,961**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

(b) Composition of financial liabilities continued

Financial liabilities As at 31 December 2018	Designated at fair value through profit or loss at inception USD	Other financial liabilities USD	Total USD
Derivative financial instruments	103,963	–	103,963
Other payables	–	2,276,631	2,276,631
TOTAL FINANCIAL LIABILITIES	**103,963**	**2,276,631**	**2,380,594**

Financial liabilities designated at fair value through profit and loss at inception and other financial liabilities are expected to be settled no more than 12 months after the reporting period.

(c) Reconciliation of opening and closing financial instruments

Reconciliation of opening and closing financial assets As at 31 December	2019 USD	2018 USD
Opening balance at 1 January	587,856,248	624,656,834
Investment portfolio purchases	234,431,645	267,833,575
Investment portfolio sales	(311,146,761)	(254,431,430)
Gains/(losses) on financial assets at fair value through profit or loss	10,336,458	(4,176,655)
Settlement of derivative financial instruments	–	–
Net increase/(decrease) in cash and cash equivalents	34,192,740	(45,841,114)
Net decrease in other receivables	(194,400)	(3,967,568)
Net increase in collateral assets	66,905,181	3,782,606
CLOSING BALANCE AT 31 DECEMBER	**622,381,111**	**587,856,248**

Reconciliation of opening and closing financial liabilities As at 31 December	2019 USD	2018 USD
Opening balance at 1 January	2,380,594	1,704,386
Settlements	(2,380,594)	(1,704,386)
Liabilities incurred	6,736,961	2,380,594
CLOSING BALANCE AT 31 DECEMBER	**6,736,961**	**2,380,594**

11 INSURANCE RECEIVABLES

Insurance receivables of USD 220,662,862 (2018: USD 247,504,204) are classified as current assets expected to be recovered no more than twelve months after the reporting period, with the balance of USD nil (2018: USD nil) classified as non-current assets.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

12 OTHER RECEIVABLES AND PREPAYMENTS

Other receivables and prepayments As at 31 December	2019 USD	2018 USD
Interest income receivable	2,551,252	2,745,652
TOTAL RECEIVABLES	**2,551,252**	**2,745,652**
Prepayments	128,005	135,393
TOTAL OTHER RECEIVABLES AND PREPAYMENTS	**2,679,257**	**2,881,045**

Other receivables and prepayments are classified as current assets as the Company expects to recover the amounts no more than twelve months after the reporting period.

13 DEFERRED INSURANCE AND REINSURANCE ASSETS

(a) Composition of deferred insurance and reinsurance assets

Deferred insurance and reinsurance assets As at 31 December	2019 USD	2018 USD
Deferred acquisition costs	8,714,304	9,626,492
Deferred other underwriting expenses	1,422,069	151,997
Unexpensed outwards reinsurance premium	4,871,375	7,386,162
TOTAL DEFERRED INSURANCE AND REINSURANCE ASSETS	**15,007,748**	**17,164,651**

Deferred insurance and reinsurance assets of USD 13,692,097 (2018: USD 15,251,321) are classified as current assets expected to be recovered no more than twelve months after the reporting period, with the balance of USD 1,315,651 (2018: USD 1,913,330) classified as non-current assets as the Company expects to recover the amounts more than 12 months after the reporting period.

(b) Reconciliation of changes in deferred insurance and reinsurance assets

Reconciliation of changes in deferred insurance and reinsurance assets As at 31 December 2019	Deferred acquisition costs USD	Deferred other underwriting expenses USD	Deferred outwards reinsurance expenses USD	Unexpensed outwards reinsurance premium USD
Opening balance at 1 January 2019	9,626,492	151,997	–	7,386,162
Deferred during the period	38,479,493	4,845,665	–	87,956,247
Amortised during the period	(39,391,681)	(3,575,593)	–	(90,471,034)
CLOSING BALANCE AT 31 DECEMBER 2019	**8,714,304**	**1,422,069**	**–**	**4,871,375**

Reconciliation of changes in deferred insurance and reinsurance assets As at 31 December 2018	Deferred acquisition costs USD	Deferred other underwriting expenses USD	Deferred outwards reinsurance expenses USD	Unexpensed outwards reinsurance premium USD
Opening balance at 1 January 2018	7,883,416	444,014	682,325	3,228,678
Deferred during the period	27,469,947	(69,043)	–	54,816,320
Amortised during the period	(25,726,871)	(222,974)	(682,325)	(50,658,836)
CLOSING BALANCE AT 31 DECEMBER 2018	**9,626,492**	**151,997**	**–**	**7,386,162**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

14 COLLATERAL ASSETS

Collateral assets As at 31 December	2019 USD	2018 USD
•	•	•
•	•	•
•	•	•
•	•	•
TOTAL COLLATERAL ASSETS	**181,248,032**	**114,342,851**

Funds at Lloyd's are deposited to support the underwriting activities of the Company's participation in the Arcus 1856 syndicate.

Letters of credit comprise cash-backed commitments to cedants to support future loss payments.

Reinsurance trusts comprise premiums receivable by the Company for which access is restricted in trust until the passage of time and claims experience, as defined by the contract, allows release of the funds to the Company.

Other collateral assets comprise payments made to support outwards reinsurance contracts entered into by the Company.

Collateral assets of USD 23,088,225 (2018: USD 3,836,038) are classified as current assets expected to be recovered no more than twelve months after the reporting period, with the balance of USD 158,159,807 (2018: USD 110,506,813) classified as non-current assets as the Company expects to recover the amounts more than 12 months after the reporting period.

15 SHARE CAPITAL

Share capital As at 31 December	2019 USD	2018 USD
Authorised, issued and fully paid shares at USD 1.026167 par value – 5,000 ordinary shares	5,131	5,131
Share premium	513,078,369	513,078,369
TOTAL SHARE CAPITAL	**513,083,500**	**513,083,500**

The issued and fully paid shares are held by Ducan-P-Fund. Share premium of CHF 99,999 was paid on purchase of the shares which was subsequently converted to USD 102,615.6738 per following the redenomination of the share capital on 1 January 2018.

16 CLAIMS LIABILITIES AND CLAIMS RECOVERABLE FROM REINSURERS

(a) Composition of claims liabilities and claims recoverable from reinsurers

Claims liabilities and claims recoverable from reinsurers As at 31 December	2019 USD	2018 USD
CLAIMS LIABILITIES		
Claims payable	43,487,682	32,127,177
Specific loss reserves	122,967,966	159,192,878
Incurred but not reported reserves	426,952,908	246,004,290
Unallocated loss adjustment expenses	497,692	475,752
Cash call advances paid to cedants	(14,254,273)	(11,028,327)
TOTAL CLAIMS LIABILITIES	**579,651,975**	**426,771,770**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

(a) Composition of claims liabilities and claims recoverable from reinsurers continued

Claims liabilities and claims recoverable from reinsurers As at 31 December	2019 USD	2018 USD
CLAIMS RECOVERABLE FROM REINSURERS		
Reinsurance receivables	43,070,926	9,553,278
Reinsurers' share of specific loss reserves	60,676,164	2,376,974
Reinsurers' share of incurred but not reported reserves	162,833,930	217,696,925
Cash call advances received from reinsurers	(77,507)	(41,064,064)
TOTAL CLAIMS RECOVERABLE FROM REINSURERS	**266,503,513**	**188,563,113**
NET CLAIMS LIABILITIES		
Net claims payable	416,756	22,573,899
Net specific loss reserves	62,291,802	156,815,904
Net incurred but not reported reserves	264,118,978	28,307,365
Net unallocated loss adjustment expenses	497,692	475,752
Net cash call advances paid and received	(14,176,766)	30,035,737
TOTAL NET CLAIMS LIABILITIES	**313,148,462**	**238,208,657**

Claims liabilities and claims recoverable from reinsurers are classified as current liabilities and current assets respectively as the Company expects to settle and recover the amounts no more than 12 months after the reporting period.

(b) Process for determining assumptions used in measurement of claims liabilities

The most significant component of the total claims liabilities disclosed above is incurred but not reported (IBNR) reserves. As described in note 7.5(a) above, the Company operates a formal actuarial reserving policy that defines in detail the approach taken in determining the reserves held by the Company at each reporting date.

Initial IBNR reserves are accrued on a contract-by-contract basis using a priori loss ratios that typically use the initial pricing ratio for each contract. Such initial pricing loss ratios may be based on a variety of methodologies including catastrophe model outputs and exceedance probability curves, burning cost analyses and other actuarial on-levelling and development methods. The Company does not accrue *a priori* IBNR reserves on contracts classified as catastrophe excess of loss contracts in accordance with the Company's actuarial reserving policy, as such contracts are typically binary in nature.

Updates to initial *a priori* reserves are made on a quarterly basis based on the most recent loss information available. The quarterly analysis performed uses various generally accepted actuarial methods including loss development methods, expected emergence methods and expected loss ratio methods. Where applicable, for example where a cedant's loss history is limited or volatile, the Company utilises industry loss development patterns, trends and other key assumptions to supplement the historical loss information provided by the cedant.

When a catastrophic loss occurs, the Company identifies potentially impacted contracts based on each contract's terms, discussions with the underwriter responsible for the contract, and any submission data provided by the cedant prior to policy inception. The Company then develops an estimate of initial ultimate loss for each potentially impacted contract using information that may include: outputs from catastrophe models; market share data; publicly available information; and subjective assessment of a contract's loss potential. Such initial ultimate loss estimates are held as IBNR reserves until loss reporting is received from the cedant.

(c) Effect of changes in assumptions

Changes in the estimated losses on the contracts written by the Company result in gains or losses recognised in profit or loss. The estimated claims liabilities in respect of claims incurred in previous reporting periods may change in the current period as the estimated ultimate costs of settling those claims becomes more certain over time. The effect of movements on claims incurred in previous periods in the current year is disclosed in note 16(d) below. Claims development tables comparing the estimates of ultimate claims at the end of each underwriting year to current estimates are provided in note 7.5(d).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

(d) Reconciliation of changes in net claims liabilities

Reconciliation of changes in net claims liabilities As at 31 December 2019	Claims liabilities USD	Claims recoverable from reinsurers USD	Net claims liabilities USD
Opening balance at 1 January 2019	426,771,770	(188,563,113)	238,208,657
Claims incurred and recoverable during the period:			
Current underwriting year	264,974,487	(107,310,800)	157,663,687
Previous underwriting years (including movement on claims incurred and recoverable in previous periods)	151,089,264	(25,844,804)	125,244,460
Cash call advances paid and received	(3,241,667)	(57,792,132)	(61,033,799)
Claims paid and recovered	(261,662,868)	112,925,071	(148,737,797)
Foreign exchange differences	1,720,989	82,265	1,803,254
CLOSING BALANCE AT 31 DECEMBER 2019	**579,651,975**	**(266,503,513)**	**313,148,462**

Reconciliation of changes in net claims liabilities As at 31 December 2018	Claims liabilities USD	Claims recoverable from reinsurers USD	Net claims liabilities USD
Opening balance at 1 January 2018	220,384,732	(72,655,211)	147,729,521
Claims incurred and recoverable during the period:			
Current underwriting year	208,223,781	(121,055,372)	87,168,409
Previous underwriting years (including movement on claims incurred and recoverable in previous periods)	106,840,842	(12,158,480)	94,682,362
Cash call advances paid and received	4,219,641	(7,729,294)	(3,509,653)
Claims paid and recovered	(109,311,648)	23,930,885	(85,380,763)
Foreign exchange differences	(3,585,578)	1,104,359	(2,481,219)
CLOSING BALANCE AT 31 DECEMBER 2018	**426,771,770**	**(188,563,113)**	**238,208,657**

17 INSURANCE AND REINSURANCE PAYABLES

Insurance and reinsurance payables As at 31 December	2019 USD	2018 USD
Reinsurance premiums payable	34,900,811	19,268,192
Other underwriting expenses payable	20,605,610	19,076,251
Cash call returns due to reinsurers	–	11,236,999
TOTAL INSURANCE AND REINSURANCE PAYABLES	**55,506,421**	**49,581,442**

Insurance and reinsurance payables are classified as current liabilities as the Company expects to settle the amounts no more than twelve months after the reporting period.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

18 DEFERRED INSURANCE AND REINSURANCE LIABILITIES

(a) Composition of deferred insurance and reinsurance liabilities

Deferred insurance and reinsurance liabilities As at 31 December	2019 USD	2018 USD
Unearned premium reserve	104,837,653	109,679,214
Unearned commission income	239	2,926
TOTAL DEFERRED INSURANCE AND REINSURANCE LIABILITIES	**104,837,892**	**109,682,140**

Deferred insurance and reinsurance liabilities of USD 80,886,168 (2018: USD 91,582,312) are classified as current liabilities as the Company expects to settle the amounts no more than twelve months after the reporting period, with the balance of USD 23,951,724 (2018: USD 18,099,828) classified as non-current liabilities.

(b) Reconciliation of changes in deferred insurance and reinsurance assets

Reconciliation of changes in deferred insurance and reinsurance liabilities As at 31 December 2019	Unearned premium reserve USD	Unearned commission income USD
Opening balance at 1 January 2019	109,679,214	2,926
Deferred during the period	331,015,628	413,121
Amortised during the period	(335,857,189)	(415,808)
CLOSING BALANCE AT 31 DECEMBER 2019	**104,837,653**	**239**

Reconciliation of changes in deferred insurance and reinsurance liabilities As at 31 December 2018	Unearned premium reserve USD	Unearned commission income USD
Opening balance at 1 January 2018	87,195,020	36,931
Deferred during the period	260,208,388	1,580
Amortised during the period	(237,724,194)	(35,585)
CLOSING BALANCE AT 31 DECEMBER 2018	**109,679,214**	**2,926**

19 NET OTHER INVESTMENT INCOME AND EXPENSES

Net other investment income and expenses As at 31 December	2019 USD	2018 USD
Loan interest income	–	31,830
Net bank interest income	818,114	310,837
Investment management fees	(292,354)	(321,977)
Other investment income and expenses	2,085,571	818,598
TOTAL NET OTHER INVESTMENT INCOME AND EXPENSES	**2,611,331**	**839,288**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

20 ADMINISTRATION EXPENSES

Administration expenses As at 31 December	2019 USD	2018 USD
Management fees	•	•
Directors' and personnel costs	•	•
Regulatory and licensing fees	•	•
Legal and professional fees	•	•
Audit fees	•	•
Travel and subsistence	•	•
Bank charges	•	•
Other administration expenses	•	•
TOTAL ADMINISTRATION EXPENSES	**9,516,601**	**8,316,712**

21 RELATED PARTY TRANSACTIONS

(a) Key management personnel
Redacted.

(b) Administration services
Expenses incurred by directors and employees of Aon Insurance Managers (Guernsey) Limited in the course of providing administration services to the Company, for example travel expenses, are also recharged to the Company.

(c) Fund manager and origination services
Mr Hilti is the CEO and CIO (Chief Investment Officer) of Credit Suisse Insurance Linked Strategies Ltd ("the fund manager"). The fund manager provides investment management services to Ducan-P-Fund, the immediate parent company.

(d) Parent company and ultimate controlling party
Redacted.

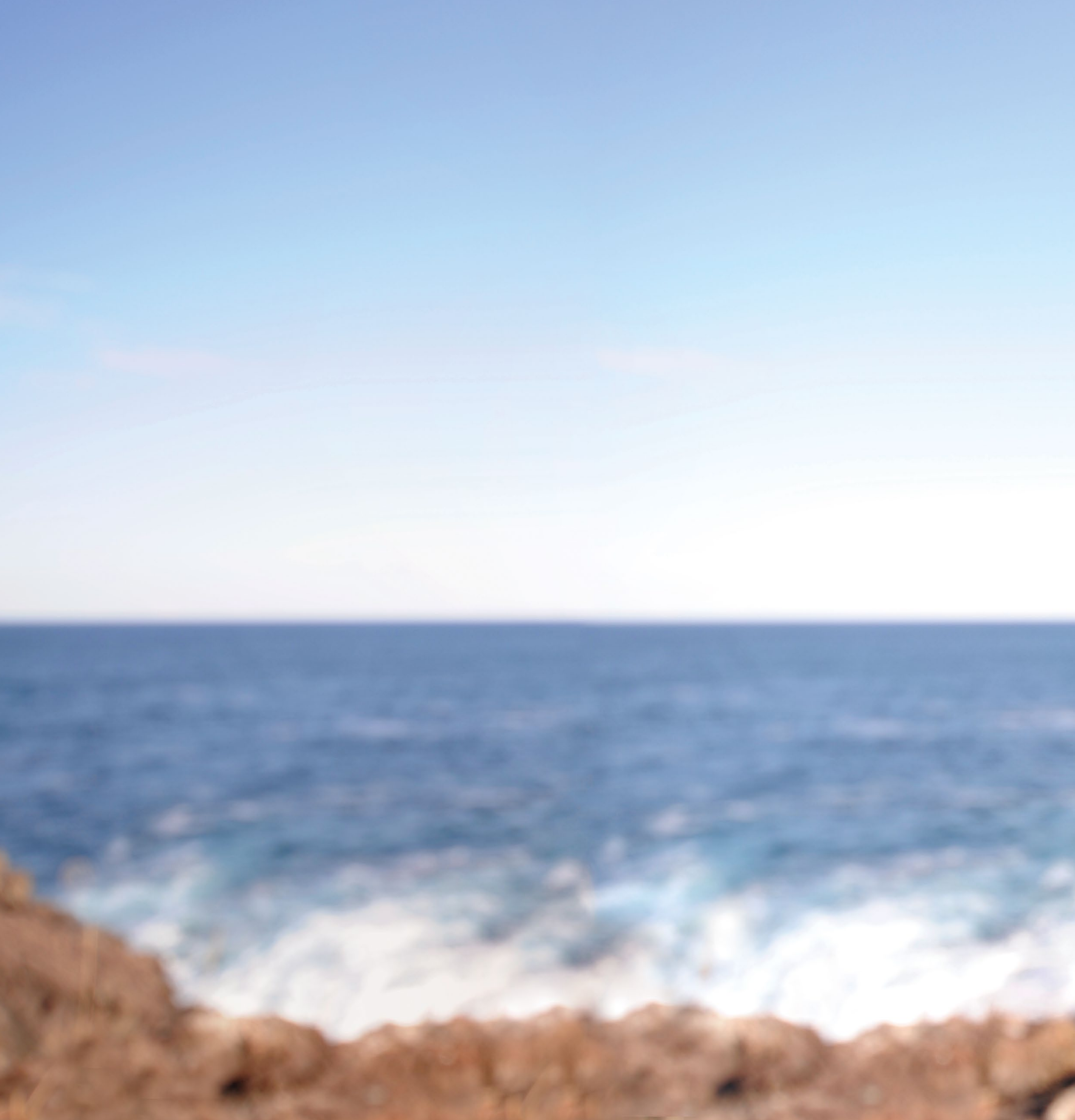
(e) Arcus 1856 syndicate
Redacted.

(f) Legal services
Mr Anderson acts as a partner of Carey Olsen (Guernsey) LLP which provides legal services to the Company.

(g) Administration expenses
Expenses incurred by directors and employees of Aon Insurance Managers (Guernsey) Limited in the course of providing administration services to the Company, for example travel expenses, are recharged to the Company. Expenses incurred by Mr Anderson and Mr Glaus in the course of their directorship of the Company, for example travel expenses, are recharged to the Company by their respective employers.

(h) Redacted

22 EVENTS AFTER THE REPORTING PERIOD
There were no events after the reporting period up to the date the financial statements were authorised for issue that would require adjustment of or disclosure in this set of consolidated financial statements.



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