SOMERSET
REINSURANCE

Financial Statements

for the year ended December 31, 2018

Content

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of
Somerset Reinsurance Ltd.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Somerset Reinsurance Ltd. (the "Company"), which comprise the statements of financial position as at December 31, 2018, the statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2018 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Bermuda 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.

Other Matter

The financial statements of the Company as at and for the year ended December 31, 2017 were audited by another auditor who expressed an unmodified opinion on those statements on March 28, 2018.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

KPMG

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
March 29, 2019

Statement of profit and loss

For the years ended December 31, 2018 and 2017

In USD thousands	Notes	31.12.2018 $	31.12.2017 $
Revenue			
Premiums earned	6	174	56
Other insurance income	6	1,796	1,955
Investment income	6	4,748	3,167
Other income	6	4,128	-
Net gains/losses on available for sale financial instruments	6	-419	67
Net gains/losses on investments at fair value through profit or loss	6	34,029	31,676
Interest income	6	-4,469	20,447
Gain from discontinued operations	17	216	-
Total revenue		**40,203**	**57,368**
Expenses			
Benefits and claims under insurance contracts	10	13,429	11,350
Acquisition costs	6	-296	1,059
Other insurance expenses	6	495	586
Employee-related expenses	6	11,316	14,016
Foreign exchange gains/losses	6	128	71
Other expenses	6	9,073	7,400
Total expenses		**34,145**	**34,482**
Profit before income tax		**6,058**	**22,886**
Income tax expense	13	795	401
Net profit		**5,263**	**22,485**
Net profit attributable to equity holders of Somerset Reinsurance Ltd.		5,263	22,485
Net profit		**5,263**	**22,485**

See accompanying notes to the financial statements.

Statement of comprehensive income

For the years ended December 31, 2018 and 2017

In USD thousands	Notes	31.12.2018 $	31.12.2017 $
Net profit		**5,263**	**22,485**
Other comprehensive income			
Unrealized appreciation of fixed income securities - AFS, net of reclassification adjustments	15	-4,113	2,127
Shadow accounting on items that may be reclassified to profit or loss	15	393	198
Remeasurements on defined benefit liability	11, 15	158	-42
Income tax on items that will not be reclassified to profit or loss	15	49	-49
Net other comprehensive (loss)/ income		**-3,512**	**2,234**
Total net comprehensive income		**1,751**	**24,719**
Total net comprehensive income attributable to equity holders of Somerset Reinsurance Ltd.		1,751	24,719
Total net comprehensive income		**1,751**	**24,719**

See accompanying notes to the financial statements.

Statement of financial position

As at December 31, 2018 and 2017

In USD thousands	Notes	31.12.2018 $	31.12.2017 $
Assets			
Cash and cash equivalents		12,856	3,199
Restricted cash and cash equivalents		8,914	1,738
Fixed income securities – AFS at fair value (amortized cost: 2018 - $164,286 and 2017 - $105,305)	18	161,749	106,881
Investments in unconsolidated affiliate entities – FVPL	20	390,393	393,255
Reinsurance receivables	2.20	-	86
Funds withheld	7	974,602	259,413
Deferred acquisition costs	10	44,820	8,140
Policy loans		5,382	5,755
Investments pending settlement		1,500	2,569
Accrued income and prepayments	7	2,034	1,171
Rental deposits		51	59
Other receivables		4,201	40
Property and equipment	8	90	83
Intangible assets	9	1,039	1,259
Total assets		**1,607,631**	**783,648**
Liabilities and equity			
Liabilities			
Goods, materials and services payables		14	25
Other payables	7	147	965
Other liabilities	7	593	703
Deferred income and accrued expenses	7	13,055	8,089
Reinsurance payables	2.20	3,105	2,811
Provisions	14	495	467
Investments pending settlement		2,000	-
Deferred revenue liability		1,945	1,384
Liabilities for life and health policy benefits	10	21,721	21,520
Liabilities for future policy benefits	10	1,149,548	334,556
Employee benefit liabilities	11	-	277
Total liabilities		**1,192,623**	**370,797**
Equity			
Common shares – par value of $1 (issued and fully paid-up: 2018 and 2017 – 44,335,558) Authorized: 2018 and 2016 – 100,000,000	15	44,336	44,336
Share premium		362,624	362,624
Warrants	15	1,997	1,997
Other capital reserves	12	480	172
Accumulated other comprehensive income	15	-1,801	1,711
Retained earnings		7,372	2,011
Total shareholders' equity		**415,008**	**412,851**
Total liabilities and equity		**1,607,631**	**783,648**

See accompanying notes to the financial statements.

Statement of cash flows

For the years ended December 31, 2018 and 2017

In USD thousands	**Notes**	**31.12.2018 $**	**31.12.2017 $**
Cash flows from operating activities			
Net profit		5,263	22,485
Adjustment to reconcile net profit to net cashflows from operating activities			
Adjustment for defined benefit plans	11	-133	-67
Adjustment for option issuance	12	308	169
Adjustment for depreciation and amortization	8, 9	377	54
Net realized gains/losses on disposal of investments	6	-21,818	1,099
Net unrealized gains/losses on investments	6	-11,792	-32,842
Amortization of investments	6	1,141	1,005
Change in:			
Restricted cash and cash equivalents		-7,176	-598
Reinsurance receivables		86	-86
Funds withheld		-715,189	-258,413
Deferred acquisition costs, net of shadow accounting		-52,486	-6,076
Policy loans		373	158
Rental deposits		8	-1
Other receivables		-4,075	89
Accrued income and prepayments		-863	-344
Liabilities for life and health policy benefits		201	-1,139
Liabilities for future policy benefits		831,870	286,692
Deferred revenue liability, net of shadow accounting		-41	54
Reinsurance payables		294	2,548
Goods, materials and services payables		-11	-70
Other payables		-818	642
Other liabilities		-110	-13,907
Provisions		28	345
Deferred income and accrued expenses		4,966	4,238
Total net cash flows from operating activities		**30,403**	**6,035**
Cash flows from investing activities			
Maturities and sales of fixed income securities - AFS		34,969	28,563
Purchases of fixed income securities - AFS		-95,512	-64,739
Redemptions of investments in unconsolidated affiliate entities - FVPL		-189,454	7,500
Purchases of investments in unconsolidated affiliate entities - FVPL		209,854	-63,750
Purchase of derivative contracts – FVPL		-	-5,466
Sales of derivative contracts - FVPL		-	3,039
Purchase of property and equipment		-42	-88
Purchase of intangible assets		-121	-1,308
Investments pending settlement		3,069	-2,569
Total net cash flows used in investing activities		**-37,237**	**-98,818**

Statement of cash flows

For the years ended December 31, 2018 and 2017

In USD thousands	**Notes**	**31.12.2018 $**	**31.12.2017 $**
Cash flows from financing activities			
Capital raise, net of offering costs		-	37,757
Borrowings from unconsolidated affiliate entity		16,491	33,114
Total net cash flows from financing activities		**16,491**	**70,871**
Total change in cash and cash equivalents		**9,657**	**-21,912**
Cash and cash equivalents as at beginning of year		3,199	25,111
Total change in cash and cash equivalents		9,657	-21,912
Cash and cash equivalents as at end of year		**12,856**	**3,199**
Components of cash and cash equivalents			
Cash at banks and in hand		8,821	1,451
Cash equivalents		4,035	1,748
Total cash and cash equivalents as at end of year		**12,856**	**3,199**

The Company paid income taxes for the Swiss Branch in the amount of (rounded to thousands) USD $240 during the year (2017: USD $46) and Irish tax in the amount of (rounded to thousands) USD $428 during the year (2017: USD $5). The Company has received and paid interest during the year in the amount of (rounded to thousands) of USD $6,306 and USD $1,709 respectively (2017: USD $6,367 and USD $NIL respectively).

See accompanying notes to the financial statements.

Statement of changes in equity

For the years ended December 31, 2018 and 2017

In USD thousands	Notes	Common Shares $	Share premium $	Other capital reserves $	Warrants $	Accumulated other comprehensive income (loss) $	Retained earnings $	Total shareholders' equity $
Balance as at December 31, 2017		**44,336**	**362,624**	**172**	**1,997**	**1,711**	**2,011**	**412,851**
Adjustment for liquidated entity		-	-	-	-	-	98	**98**
Adjusted balance as at December 31, 2017		-	-	-	-	-	-	**412,949**
Option issuance	12	-		308	-	-	-	**308**
Total net comprehensive income		-	-	-	-	-3,512	5,263	**1,751**
Dividends issued		-	-	-	-	-	-	**-**
Balance as at December 31, 2018		**44,336**	**362,624**	**480**	**1,997**	**-1,801**	**7,372**	**415,008**

In USD thousands	Notes	Common Shares $	Share premium $	Other capital reserves $	Warrants $	Accumulated other comprehensive income (loss) $	Retained earnings $	Total shareholders' equity $
Balance as at December 31, 2016		**40,521**	**328,643**	**3**	**1,987**	**-523**	**-20,474**	**350,157**
Option issuance	12	-	-	169	-	-	-	**169**
Share issuance	15	3,815	34,325	-	10	-	-	**38,150**
Offering costs, net of tax	15	-	-344	-	-	-	-	**-344**
Total net comprehensive income		-	-	-	-	2,234	22,485	**24,719**
Dividends issued		-	-	-	-	-	-	**-**
Balance as at December 31, 2017		**44,336**	**362,624**	**172**	**1,997**	**1,711**	**2,011**	**412,851**

See accompanying notes to the financial statements.

Notes to the Financial Statements

1. Company information

Somerset Reinsurance Ltd. (the Company) is a private limited company registered in Bermuda and was incorporated on September 18, 2014. The Company received its Class E reinsurance license on December 12, 2014 from the Bermuda Monetary Authority (BMA). The address of the registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

The purpose of the Company is to conduct life and annuity reinsurance business and to perform services related thereto.

On March 28, 2019, the Board of Directors approved the financial statements and authorised them for issue.

1.1. Basis for preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The financial statements comprise the years ended December 31, 2018 and 2017.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. This involves a higher degree of judgement or complexity in areas where assumptions and estimates are significant to the financial statements. These estimates and judgements are disclosed in note 3.

The financial statements have been prepared on a historical cost basis, except for the following assets and liabilities which are stated at their fair value: fixed income securities – AFS, investments in unconsolidated affiliate entities – FVPL and derivatives embedded within funds withheld. All values are rounded to the nearest thousand (USD thousands), except when otherwise indicated.

Where IFRS is silent, as it is in respect of the measurement of insurance products, the IFRS framework allows reference to another comprehensive body of accounting principles. In such instances, the Company determines appropriate measurement bases, to provide the most useful information to users of the financial statements, using their judgment and with reference to U.S. GAAP.

The presentation of certain prior year comparative balance were re-presented to match the current year presentation.

2. Significant accounting policies

The following are the significant accounting policies applied by the Company in preparing its financial statements:

2.1. Foreign currencies

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

Foreign currency transactions

Transactions in foreign currencies are initially recorded by the Company at their respective functional currency spot rate at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rate of exchange ruling at the reporting date. Foreign exchange differences arising on monetary items are recognized in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Notes to the Financial Statements

2.2. Revenue recognition

Classification

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Contracts that do not transfer significant insurance risk are accounted for as investment contracts. Insurance risk is transferred when a reinsurer agrees to compensate an insurer if a specified uncertain future event adversely affects the insurer.

Gross premiums

Gross recurring premiums on life contracts are recognized as revenue when payable by the ceding company. For single premium business, revenue is recognized on the date on which the reinsurance contract is effective.

Premiums ceded

Premiums ceded on life contracts are recognized as an expense on the date of when premiums are payable to the reinsurer. Premiums include any adjustment arising in the accounting period in respect of reinsurance contracts entered into in prior accounting periods.

Fees and commissions income

Insurance and investment contract policyholders are charged for policy administration services, investment management services, surrenders and other contract fees. These fees are recognized as revenue over the period in which the related services are performed. If the fees are for services provided in future periods, then they are deferred and recognized over those future periods.

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Company elected to adopt IFRS 15 effective January 1, 2017. Given insurance contracts are scoped out of IFRS 15, the Company assessed the main impact of the new standard on the accounting for income from administrative services. The Company noted no change from the implemented accounting treatment was necessary.

2.3. Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Company is taxed.

Under current Bermuda law, the Company is not required to pay any taxes in Bermuda on either income or capital gains. The Company has received an assurance from the Minister of Finance of Bermuda under The Exempted Undertakings Tax Protection Act, 1966 of Bermuda that in the event of any such taxes being imposed the Company will be exempted from taxation until the year 2035.

Currently, the Company is a tax-resident in Ireland and subject to Irish taxes. The Company has received a Certificate of Tax Residency for each year since 2014.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are recognized for all taxable temporary differences.

Notes to the Financial Statements

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Where the Company has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority, the corresponding asset and liabilities are presented on a net basis.

2.4. Capital and indirect taxes

Capital and indirect taxes are included in other expenses.

2.5. Financial instruments – Financial Assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition. All financial assets are recognized initially at fair value plus transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset. The amortization of premiums and discounts is computed using the effective interest method and is recognized in profit or loss as an adjustment of yield. Interest Income is recognized on an accruals basis.

The Company has currently classified its financial instruments as financial assets at fair value through profit or loss, loans and receivables and available for sale. Cash and cash equivalents are measured at their corresponding notional amount.

IFRS 17, insurance contracts, which reorganizes the recognition and measurement of insurance contracts, was published in May 2017. These new rules will not be mandatory until 2022. Due to the close interlinking of underwriting liabilities and investments of insurance companies, it is essential to have an aligned measurement of these line items in the balances sheet in order to prevent balance sheet distortions. For this reason, the insurance industry has been pressing for a postponement of the mandatory first application of IFRS 9 for the industry until application can be aligned with the insurance standard. The IASB took account of these concerns, and published an amendment standard to IRFS 4, Insurance Contracts in September 2016.

This gives the possibility of postponing the first-time application of IFRS 9 until 2022 but requires evidence on the basis of the financial statements as at 31 December 2015 that most of the company's activity is in Insurance. Insurance Business is considered "predominant" if at the time of measurement more than 90% of total liabilities were related to insurance business. Besides liabilities that fall within the scope of IFRS 4, these also include liabilities from investment contracts measured at fair value and other liabilities resulting from insurance business. The Company's liabilities related to insurance business accounted for a share of around 91% of total liabilities at 31 December 2015. In the meantime, there have been no changes to the Company's business activities that would necessitate a reassessment.

Notes to the Financial Statements

The Company has applied the temporary deferral for the application of IFRS 9 effective January 1, 2018.

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

The Company evaluates its financial assets at fair value through profit and loss (held for trading) to determine whether the intent to sell them in the near term is still appropriate. As a part of this evaluation, the Company also considers which required criteria, as discussed above, were met. When the Company is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Company may elect to reclassify these financial assets in rare circumstances. The reclassification to loans and receivables, available-for-sale or held to maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

Available-for-sale financial assets

Available-for-sale financial investments include equity and debt securities. Equity investments classified as available-for-sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial assets are subsequently measured at fair value, with unrealized gains or losses recognized in other comprehensive income (equity).

Where the insurer holds more than one investment in the same security they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding available-for-sale investments is reported as investment income using the effective interest rate ("EIR"). Dividends earned whilst holding available-for-sale investments are recognized in the income statement as 'Investment income' when the right of the payment has been established. When the asset is derecognized, the cumulative gain or loss is recognized in net gains/losses on available for sale financial investments, or if determined to be impaired, the cumulative loss is recognized in the statement of profit and loss in finance costs and removed from the available-for-sale reserve.

The Company evaluates its available-for-sale financial assets to determine whether the ability and intention to sell them in the near term would still be appropriate. In the case where the Company is unable to trade these financial assets due to inactive markets and management's intention significantly changes to do so in the foreseeable future, the Company may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial asset meets the definition of loans and receivables and management has the intention and ability to hold these assets for the foreseeable future or until maturity. The reclassification to held-to-maturity is permitted only when the entity has the ability and intention to hold the financial asset until maturity.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit and loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments. The Company currently has no investments in loans. All receivables are recognized at fair value at initial recognition. Subsequent to initial recognition, they are measured at amortized cost using the effective interest rate method.

Impairment

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired 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 (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors are experiencing significant financial difficulties, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or another financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Derecognition

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset have expired or substantially all risks and rewards of ownership have been transferred or the risks and rewards have neither been transferred nor retained, but control of the asset has been transferred.

2.6. Derivatives

The Company may choose to enter into forward contracts, futures, forward rate agreements, currency and interest rate swaps, options and other derivative financial instruments for hedging risk exposures or for trading purposes. The notional amounts or contract volumes of derivatives, which are used to express the volume of instruments outstanding and to provide a basis for comparison with other financial instruments, do not, except for certain foreign exchange contracts, represent the amounts that are effectively exchanged by the parties and, therefore, do not measure the Company's exposure to credit risk. The amounts exchanged are calculated on the basis of the notional amounts or contract volumes and other terms of the derivatives that relate to interest or exchange rates, securities prices and the volatility of these rates and prices.

All derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value as assets when favorable to the Company and as liabilities when unfavorable. Gains and losses arising on remeasurement to fair value are recognized immediately in profit or loss.

Derivatives embedded in other financial instruments or in insurance contracts which are not closely related to the host contract are separated and measured at fair value in the Statement of financial position. Changes in the fair value are included in interest income in profit or loss.

2.7. Financial Instrument - Financial Liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings (carried at amortized cost using the effective interest method), or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, carried at amortized cost (this includes directly attributable transaction costs).

Subsequent measurement

The Company has recognized the following financial liabilities in the current statement of financial position:

- Goods, materials and services payables
- Other payables
- Other liabilities
- Reinsurance payables

All of the above-mentioned financial instruments are measured at their corresponding notional amounts. Goods, materials and services payables, other liabilities, other payables and reinsurance payables are short-term payables with no stated interest rate at invoice amounts and the effect of discounting them is considered immaterial.

Notes to the Financial Statements

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in profit and loss.

2.8. Offsetting of financial instruments

Financial assets and financial liabilities are offset with the net amount reported in the statement of financial position only if there is a current enforceable legal right to offset the recognized amounts and an intent to settle on a net basis, or to realize the assets and settle the liabilities simultaneously. The Company presents the reinsurance receivable and payable balances under reinsurance contracts and investment in unconsolidated affiliate entity – FVPL on a net basis.

2.9. Fair value hierarchy of financial instruments

For reporting purposes, a fair value hierarchy is established that categorizes the inputs to valuation techniques used to measure fair value into level 1, 2 or 3. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1 inputs) and the lowest priority to unobservable inputs (level 3 inputs).

The fair value of assets or liabilities included in level 1 is based on unadjusted quoted prices in active markets for identical assets or liabilities. The fair value of assets or liabilities that are not traded in an active market is determined using valuation techniques. If all significant inputs to these valuation techniques are observable (directly and indirectly) in the market, the assets or liabilities are included in level 2.

If one or more significant inputs to these valuation techniques are not observable in the market, the assets or liabilities are included in level 3. Such inputs may include information that is derived through extrapolation which is not substantiated by observable market data or that reflects our own assumptions about what market participants would use in pricing the asset or liability.

An analysis of fair values of financial instruments is provided in note 18.

2.10. Cash and cash equivalents

Cash and cash equivalents in the statement of financial position are comprised of cash on hand, cash at banks, cash in transit and short-term deposits with an original maturity of three months or less. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

Restricted cash and cash equivalents consist of cash and cash equivalents held in trust as part of the reinsurance agreement to secure all statutory reserves and liabilities of the ceding party. Restricted cash and cash equivalents are reported as a separate line item on the statement of financial position. Changes in the restricted cash and cash equivalents balance are reported in operating activities within the statement of cash flows.

2.11. Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to a provision is presented in profit and loss net of any reimbursement.

The amounts recognized as a provision represent the best estimate of the expenditure required to settle the obligations.

Notes to the Financial Statements

2.12. Employee benefit liabilities

The Company's pension schemes are classified as defined contribution plans under IFRS.

2.13. Insurance contract liabilities

Life insurance contract liabilities

Life insurance liabilities are recognized when reinsurance contracts are entered into and premiums are charged. These liabilities are measured by using the net premium method. The liability is determined as the sum of the discounted value of the expected future benefits, claims handling and policy administration expenses, policyholder options and guarantees and investment income from assets backing such liabilities, which are directly related to the contract, less the discounted value of the expected premiums that would be required to meet the future cash outflows based on the valuation assumptions used. The liability is either based on current assumptions or calculated using the assumptions established at the time the reinsurance contract was issued, in which case, a margin for risk and adverse deviation is generally included. A separate reserve for longevity may be established and included in the measurement of the liability.

Furthermore, the liability for life insurance contracts comprises the provision for unearned premiums and premium deficiency, as well as for claims outstanding, which includes an estimate of the incurred claims that have not yet been reported to the Company. Adjustments to the liabilities at each reporting date are recorded in the statement of profit and loss in 'Benefits and claims under insurance contracts'. Profits originated from margins for adverse deviations on run-off contracts are recognized in the statement of profit and loss over the life of the contract, whereas losses are fully recognized in the statement of profit and loss during the first year of run-off. The liability is derecognized when the contract expires, is discharged or is cancelled.

At each reporting date, an assessment is made of whether the recognized life insurance liabilities are adequate, net of related DAC, by using an existing liability adequacy test in accordance with IFRS. The liability value is adjusted to the extent that it is insufficient to meet expected future benefits and expenses. In performing the adequacy test, current best estimates of future contractual cash flows are used. Discounted cash flows are the primary valuation method used. To the extent that the test involves discounting of cash flows, the interest rate applied may be based on management's prudent expectation of current market interest rates. Any inadequacy is recorded in the income statement, initially by impairing DAC and, subsequently, by establishing an additional insurance liability for the remaining loss. In subsequent periods, the liability for a block of business that has failed the adequacy test is based on the assumptions that are established at the time of the loss recognition. The assumptions do not include a margin for adverse deviation. Impairment losses resulting from liability adequacy testing can be reversed in future years if the impairment no longer exists, as allowed under IFRS.

Future policy benefit liabilities

Future policy benefit liabilities are recognized when contracts are entered into and premiums are charged. These liabilities are initially recognized at fair value, this being the transaction price excluding any transaction costs directly attributable to the issue of the contract.

Deposits and withdrawals are recorded directly as an adjustment to the liability in the statement of financial position and are not recognized as gross premium in the consolidated statement of profit and loss. Expenses and cost of insurance charges are recorded both as an adjustment to the liability in the statement of financial position and as "Other insurance income" in the statement of profit and loss.

The liability is derecognized when the contract expires, is discharged or is cancelled. For a contract that can be cancelled by the policyholder, the fair value of the contract cannot be less than the surrender value.

Benefits, claims and expenses recognition

Gross benefits and claims for life insurance contracts include the cost of all claims arising during the year, including internal and external claims handling costs that are directly related to the processing and settlement of claims. Changes in the gross valuation of insurance are also included. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due.

2.14. Deferred acquisition costs (DAC) and deferred revenue liabilities

Those direct and indirect costs incurred during the financial period arising from the assumption of reinsurance contracts are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognized as an expense when incurred.

Subsequent to initial recognition, DAC for life and annuity reinsurance are amortized over the expected life of the contracts as a constant percentage of expected premiums or as a constant percentage of gross margins in accordance with U.S. GAAP. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization pattern and are treated as a change in an accounting estimate.

When DAC is amortized in proportion to gross profits or gross margins on the acquired contracts, realized gains/losses are taken into account as well as gains/losses recognized in other comprehensive income (unrealized gains/losses). If these gains/losses were to be realized, the gross profits or gross margins used to amortize DAC would be affected. Therefore, an adjustment relating to these unrealized gains/losses is recognized in other comprehensive income and is also reflected in the amount of DAC in the statement of financial position (“shadow accounting”).

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognized in the statement of profit and loss. DAC are also considered in the liability adequacy test for each reporting period.

DAC are derecognized when the related contracts are either settled or disposed of.

2.15. Accrued income and prepaid expenses

Accrued income and prepaid expenses include revenues relating to the current financial period, but which are receivable in a subsequent financial period and expenditures incurred during the financial period but relating to a subsequent financial period.

2.16. Deferred income and accrued expenses

Deferred income and accrued expenses consists of charges relating to the current financial period but which are payable in a subsequent financial period and income received but related to a subsequent financial period.

2.17. Option-based compensation plan

The Company operates equity-settled, option-based compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognized in the statement of profit and loss with a corresponding increase in equity over the vesting period. As the fair value of the services received cannot reliably be measured, the value is measured by reference to the fair value of the option instruments granted.

2.18. Offering or incorporation costs

Offering costs incurred in connection with common and preference share offerings, including investment banking fees, are deducted from the proceeds of the offerings. Incorporation costs not related to the raising of capital are expensed as incurred and are included in general and administrative expenses.

2.19. Warrants

The Company has accounted for certain warrant contracts issued to certain shareholders in conjunction with the share offerings of the Company at fair value through equity.

Notes to the Financial Statements

2.20. Reinsurance receivables and payables

Reinsurance receivables and payables are recognized when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest rate method.

For financial reporting purposes, IFRS permits a reporting entity to offset financial assets and liabilities if the financial assets and liabilities are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions. The Company has the right to set off the assets/liabilities in line with its reinsurance agreement. The table below presents the fair value of the reinsurance assets and liabilities by major class on a gross and net basis for reinsurance receivables and payables presented in the statements of financial position as at December 31, 2018 and December 31, 2017:

There are no net reinsurance receivables as at December 31, 2018.

In USD thousands	Gross Amounts of Recognized Assets on the Statement of Financial Position	Gross Amounts Offset on the Statements of Financial Position	Net Amounts Recognized on the Statement of Financial Position
	31.12.2018	**31.12.2018**	**31.12.2018**
Offsetting of reinsurance assets			
Premium receivable	739	(739)	-
Interest receivable	36	(36)	-
Other receivables	56	(56)	-
Total reinsurance assets	**831**	**(831)**	**-**
Offsetting of reinsurance liabilities			
Reinsurance premiums payable	49	(49)	-
Benefits and claims under insurance contracts payable	3,662	(557)	3,105
Other payables	225	(225)	-
Total reinsurance liabilities	**3,936**	**(831)**	**3,105**
Net reinsurance payables	**3,105**	**-**	**3,105**

Notes to the Financial Statements

In USD thousands	Gross Amounts of Recognized Assets on the Statement of Financial Position	Gross Amounts Offset on the Statements of Financial Position	Net Amounts Recognized on the Statement of Financial Position
	31.12.2017	**31.12.2017**	**31.12.2017**
Offsetting of reinsurance assets			
Premium receivable	150	(64)	86
Total reinsurance assets	**150**	**(64)**	**86**
Offsetting of reinsurance liabilities			
Benefits and claims under insurance contracts payable	(21)	21	-
Other payables	(43)	43	-
Total reinsurance liabilities	**(64)**	**64**	**-**
Net reinsurance receivable	**86**	**-**	**86**

In USD thousands	Gross Amounts of Recognized Assets on the Statement of Financial Position	Gross Amounts Offset on the Statements of Financial Position	Net Amounts Recognized on the Statement of Financial Position
	31.12.2017	**31.12.2017**	**31.12.2017**
Offsetting of reinsurance assets			
Premium receivable	595	(595)	-
Interest receivable	35	(35)	-
Other receivables	49	(49)	-
Total reinsurance assets	**679**	**(679)**	**-**
Offsetting of reinsurance liabilities			
Reinsurance premiums payable	69	(69)	-
Benefits and claims under insurance contracts payable	3,364	(553)	2,811
Other payables	57	(57)	-
Total reinsurance liabilities	**3,490**	**(679)**	**2,811**
Net reinsurance payables	**2,811**	**-**	**2,811**

2.21. Policy loans

Policy loans are carried at outstanding balance, including principal and accrued interest. Policy loans are secured by the underlying cash surrender value of the corresponding contracts.

2.22. Funds withheld

Funds withheld represents a receivable for amounts contractually withheld by ceding companies in accordance with reinsurance agreements in which we act as reinsurer. The receivable represents assets that are held in custodial accounts that are legally segregated from the third party ceding companies' general accounts and are managed by the Company.

The assets are typically fixed income asset types consistent with those held in trust for coinsurance reinsurance arrangements. In the event of a ceding company's insolvency, the Company would need to assert a claim on the assets supporting the reserve liabilities. However, the Company has the ability to offset amounts owed to the ceding company. Interest generally accrues on these assets based upon the investment earnings on the underlying investments. The Company is subject to the investment performance and has all economic rights and obligations on the funds withheld assets in a fashion similar to invested assets held directly by the Company. Assets greater than or equal to statutory reserves are withheld. Assets received are recognized at fair market value on the date of transfer with the fair market value adjustment amortized to the statement of profit and loss over the life of the assets. The underlying agreements contain embedded derivatives as discussed in derivatives.

2.23. Property and equipment

Property and equipment are carried at cost less accumulated depreciation. Depreciation is principally calculated using the straight-line method to allocate their cost to their residual values over the asset's estimated useful life as follows:
furniture and fixtures eight years; office equipment eight years; computer equipment three years and leasehold improvements three years. The asset's residual value and useful life is reviewed, and adjusted if appropriate, at each statement of financial position date.

Subsequent costs are included in the asset's carrying amount or are recognized 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 repair and maintenance costs are charged to the statement of profit and loss during the financial period in which they are incurred. Realized gains and losses on disposals are determined by comparing proceeds with the carrying amount and are included in profit or loss. Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

2.24. Intangible assets

Intangible assets consist of acquired computer software licenses and related development costs, as well as right-of-use assets relating to lease contracts.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized on a straight-line basis for the expected useful life of five years.

Development costs that are directly associated with these identifiable software products controlled by the Company and that will generate future economic benefits are capitalized. Computer software development costs recognized as assets are amortized using the straight-line method over their useful lives (five years).

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. The Company elected to early adopt IFRS 16, which is permitted under the standard. At inception, the right-of-use asset relating to the lease contract is recognized at the lower of the present value of the minimum lease payments or fair value and is depreciated over its estimated useful life. The corresponding lease obligations are recorded as Other liabilities in the statement of financial position.

3. Significant accounting estimates and judgments

The preparation of the Company's financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures in the notes. The Company's internal processes are geared to determining amounts as accurately as possible, taking into account all the relevant information. The basis for determining amounts is management's best knowledge regarding the items concerned at the reporting date. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The key assumptions concerning the future and other 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 years, are described below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

Fair value of financial assets determined using valuation techniques

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of discounted cash flow models and/or mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgement is required to establish fair values. The judgments include considerations of liquidity risk, credit risk, and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities.

Valuation of life insurance contract liabilities

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

Certain acquisition costs related to the sale of new policies are recorded as DAC and are amortized to the statement of profit and loss over time. If the assumptions relating to future profitability of these policies are not realized, the amortization of these costs could be accelerated, and this may also require additional impairment write-offs to the statement of profit and loss.

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

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

Assumptions on future expense are based on current expense levels, adjusted for expected expense inflation, if appropriate.

Lapse and surrender rates are based on the historical experience of lapses and surrenders.

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded.

Deferred tax assets (including unused tax losses and unused tax credits) are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits.

4. Standards and interpretations issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure, which replaces IFRS 4 Insurance Contracts.

In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies for measurement purposes, IFRS 17 provides a comprehensive model (the general model) for insurance contracts, supplemented by the variable fee approach for contracts with direct participation features that are substantially investment-related service contracts, and the premium allocation approach mainly for short-duration contracts which typically applies to certain non-life insurance contracts.

The main features of the new accounting model for insurance contracts are, as follows:

- The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows);
- A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts. The CSM represents the unearned profitability of the insurance contracts and is recognized in profit or loss over the service period (i.e., coverage period);
- Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognized in profit or loss over the remaining contractual service period;
- The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice;
- The recognition of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of services provided during the period;
- Amounts that the policyholder will always receive, regardless of whether an insured event happens (non-distinct investment components) are not presented in profit and loss, but are recognized directly on the Statement of financial position;
- Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense;
- Extensive disclosures to provide information on the recognized amounts from insurance contracts and the nature and extent of risks arising from these contracts.

Retrospective application is required. However, if full retrospective application for a group of insurance contracts is impracticable, then the entity is required to choose either a modified retrospective approach or a fair value approach.

IFRS 17 has been deferred an additional year and is effective for annual reporting periods beginning on or after 1 January 2022, with comparative figures required. Early application is permitted, on or before the date it first applies.

The Company plans to adopt the new standard on the required effective date. The Company expects that the new standard will result in an important change to the accounting policies for insurance contract liabilities of the Company and is likely to have a significant impact on profit and total equity together with presentation and disclosure.

IFRIC Interpretation 23 Uncertainty over Income Tax treatment

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax basis, unused tax losses, unused tax credits and tax rates;
- How the entity considers changes in facts and circumstances.

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after January 1, 2019, but certain transition reliefs are available. The Company is still assessing the impact this will have, but it is expected to be minimal.

Amendments to IFRS 9: Prepayments Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortized cost or at fair value through comprehensive income, provided that the contractual cash flows are “solely payments of principal and interest on the principal amount outstanding” (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation of the early termination of the contract.

Amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. The Company has deferred the implementation of IFRS 9 in accordance with the temporary deferral under IFRS 4 and will apply any and all amendments to IFRS 9 at the same time as the full implementation of IFRS 9.

Annual Improvements 2015-2017 Cycle (issued in December 2017) - IAS 12 Income Tax

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with earlier application permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognized on or after the beginning of the earliest comparative period. The Company in still assessing this but it is not expected to have a significant impact.

The following new or amended standards are not expected to have a significant impact on the Company's financial statements.

- Amendments to IFRS 10 and IAS 28: Sale or contribution of assets between an investor and its associate or joint venture.
- Amendments to IAS 19: Plan amendment, curtailment or settlement.
- Amendments to IAS 28: Long-term interests in associates and joint ventures.
- Annual improvements 2015-2017 Cycle (issued in December 2017) – IFRS 3 Business Combinations
- Annual improvements 2015-2017 Cycle (issued in December 2017) – IFRS 11 Joint Arrangements
- Annual improvements 2015-2017 Cycle (issued in December 2017) – IAS 23 Borrowing Costs

5. Risk management, policies and procedures

The Company's core business is to reinsure existing blocks of life insurance and annuity policies. The reinsurance of life insurance and annuity policies represents a mid-term to long-term promise to the ceding companies. To fulfill its future payment obligations to the ceding companies, the Company must be financially sound over an extended period of time. The ability to remain financially sound and strong depends on a number of risk factors. The Company's identified risk can be categorized into financial, insurance and operational risks. All of these risk categories can impact the financial stability of the Company.

Risks must be identified, assessed, managed and monitored. Roles, responsibilities and accountabilities for decision making are structured, so the Company manages, and controls risks in four layers, with supervision of these activities by the Board of Directors, thereby achieving effective governance risk management and assurance. These layers are as follows:

1. The first line of defense resides with the functional leaders (i.e. Chief Investment Officer (CIO), the Chief Underwriting Officer (CUO) and the Chief Financial Officer (CFO));
2. The second line of defense resides with the Risk Leader (RL) and the Risk and Asset/Liability Management (RALM) Committee for the Executive Management oversight function; and
3. The third line of defense resides with the Company's internal audit function.

Within Executive Management, risk appetite and key risk management decisions reside with the RALM Committee. Members of the RALM include the Chief Executive Officer (CEO), Chief Investment Officer (CIO), Chief Underwriting Officer (CUO)/Chief Actuary (CA), Chief Financial Officer (CFO) and the Risk Leader (RL) – position currently fulfilled by the CFO.

Quarterly, the RALM committee meets to assess risk levels with all risk owners and identify and assess key controls and related control owners, as well as defining the proper key risk levels for all areas.

The supervisory responsibility relating to oversight of risk management by the Executive Management is a Board of Directors oversight function, which includes the activities of the Investment, Risk and Capital Committee (RCC) and Audit Committee (AC). The Audit Committee is assisted in its supervisory responsibilities by the Company's internal audit function and the Company's compliance function.

The Risk Leader (RL), oversees and assures effective monitoring and control of all identified risks in the business. Among the RL responsibilities are the development, maintenance and proper utilization of the Company's risk management framework. Additionally, a major responsibility of the RL is to supervise all limits / tolerances, report any breaches, and follow up with the respective stakeholders on remedial actions.

Notes to the Financial Statements

5.1. Financial risk management objectives and policies

The Company is exposed to financial risk through its financial assets, financial liabilities and other liabilities. In particular, the key financial risk is that the financial assets are not sufficient to fund the obligations arising from financial, insurance and other liabilities.

5.2. Credit Risk

The Company is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The carrying amount of the cash and cash equivalents, restricted cash and cash equivalents, fixed income securities, investments in unconsolidated affiliate entities, reinsurance receivables, funds withheld, investments pending settlement, other receivables and rental deposits represent the Company's maximum exposure to credit risk.

In USD thousands	31.12.2018	31.12.2017
Cash and cash equivalents	12,856	3,199
Restricted cash and cash equivalents	8,914	1,738
Fixed income securities - AFS	161,749	106,881
Investments in unconsolidated affiliate entities - FVPL	390,393	393,255
Reinsurance receivables	-	86
Funds withheld	974,602	259,413
Investments pending settlement	1,500	2,569
Other receivables	4,201	40
Rental deposits	51	59
Total maximum exposure to credit risk	**1,554,266**	**767,240**

The Company does not have any past due or impaired assets (2017: $NIL).

The credit rating of the counterparties as at December 31, 2018 were as follows:

In USD thousands	AAA	AA	A	BBB	Below BBB	Not rated	Total
Cash and cash equivalents	-	-	12,856	-	-	-	12,856
Restricted cash and cash equivalents	-	-	8,914	-	-	-	8,914
Fixed income securities - AFS	5,595	31,281	48,312	51,756	-	24,805	161,749
Investments in unconsolidated affiliate entities - FVPL	-	-	-	-	-	390,393	390,393
Funds withheld	10,553	71,172	371,631	428,993	7,466	84,787	974,602
Investments pending settlement	-	-	-	-	-	1,500	1,500
Other receivables	-	-	-	-	-	4,201	4,201
Rental deposits	-	-	-	-	-	51	51
Total exposure to credit risks	**16,148**	**102,453**	**441,713**	**480,749**	**7,466**	**505,737**	**1,554,266**

The credit rating of the counterparties as at December 31, 2017 were as follows:

In USD thousands	AAA	AA	A	BBB	Below BBB	Not rated	Total
Cash and cash equivalents	-	-	3,199	-	-	-	3,199
Restricted cash and cash equivalents	-	-	1,738	-	-	-	1,738
Fixed income securities - AFS	2,055	36,562	27,377	21,825	-	19,062	106,881
Investments in unconsolidated affiliate entities - FVPL	-	-	-	-	-	393,255	393,255
Reinsurance receivable	-	86	-	-	-	-	86
Funds withheld	10,356	43,919	77,024	95,083	-	33,031	259,413
Investments pending settlement	-	-	-	-		2,569	2,569
Other receivables	-	-	-	-	-	40	40
Rental deposits	-	-	-	-	-	59	59
Total exposure to credit risks	**12,411**	**80,567**	**109,338**	**116,908**	**-**	**448,016**	**767,240**

The above-mentioned credit rating is based on the Standard & Poor's short-term local currency rating of the counterparty.

5.3. Concentration risk

Concentration of risk arises from financial instruments that have similar characteristics and are affected similarly by changes in economic or other conditions. The Company has its cash and restricted cash deposited at two banks whose short-term local currency ratings are A-1 and A-2 respectively according to Standard & Poor's. The Company's fixed income securities and investments in unconsolidated affiliate entities are all held by a single custodian whose short-term local currency rating is A-1 according to Standard & Poor's. The Company's maximum permitted single holding of a fixed income investment in any one institution cannot exceed the limits based on similar characteristics (such as sector, issuer and credit rating) set in the investment guidelines.

5.4. Currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's current exposure to the risk of changes in foreign exchange relates primarily to the Company's operating expenses as some of them are denominated in Euros and Swiss Francs and the Company's functional currency is USD.

Any changes caused by foreign currency on financial instruments would be recorded in the Company's profit and loss and therefore also in the retained earnings (which includes the profit/loss of the current reporting period). The amount of impact due to changes caused by foreign currency is minimal because financial instruments denominated in foreign currency are immaterial to the financial statements.

5.5. Liquidity risk

Liquidity risk is the risk that not enough cash resources may be available to pay obligations when due. The Company is currently exposed to liquidity risk on its obligations to its creditors. The Company's exposure to liquidity risk is based on the earliest time the Company could be contractually required to repay any outstanding amounts, were as follows:

Notes to the Financial Statements

Exposure to liquidity risk as at December 31, 2018:

In USD thousands	Carrying amount	Cash flows					
		Up to 1 month	1–3 months	3–12 months	1–5 years	5–10 years	More than 10 years
Financial liabilities							
Liabilities for life and health policy benefits	21,721	87	174	847	4,214	4,496	11,903
Liabilities for future policy benefits	1,149,548	37,116	13,245	56,882	287,020	276,726	478,559
Reinsurance payables	3,105	3,105	-	-	-	-	-
Investments pending settlement	2,000	2,000	-	-	-	-	-
Goods, materials and services payables	14	14	-	-	-	-	-
Other payables	147	147	-	-	-	-	-
Other liabilities	593	-	-	-	593	-	-
Total financial liabilities	**1,177,128**	**42,469**	**13,419**	**57,729**	**291,827**	**281,222**	**490,462**

In USD thousands	Carrying amount	Cash flows					
		Up to 1 month	1–3 months	3–12 months	1–5 years	5–10 years	More than 10 years
Financial assets							
Cash and cash equivalents	12,856	12,856	-	-	-	-	-
Restricted cash and cash equivalents	8,914	8,914	-	-	-	-	-
Fixed income securities - AFS	161,749	-	-	396	7,471	30,177	123,705
Investments in unconsolidated affiliate entities - FVPL	390,393	-	390,393	-	-	-	-
Policy loans	5,382	22	43	210	1,044	1,114	2,949
Investments pending settlement	1,500	1,500	-	-	-	-	-
Funds withheld	974,602	22,710	-	1,000	3,472	98,960	848,460
Other receivables	4,201	73	-	4,128	-	-	-
Rental deposits	51	-	-	51	-	-	-
Total financial assets	**1,559,648**	**46,075**	**390,436**	**5,785**	**11,987**	**130,251**	**975,114**
Net gap (surplus)	**(382,520)**						

Notes to the Financial Statements

Exposure to liquidity risk as at December 31, 2017:

In USD thousands	Carrying amount	Cash flows					
		Up to 1 month	1–3 months	3–12 months	1–5 years	5–10 years	More than 10 years
Financial liabilities							
Liabilities for life and health policy benefits	21,520	86	172	839	4,175	4,455	11,793
Liabilities for future policy benefits	334,556	713	1,498	6,910	43,285	58,143	224,007
Reinsurance payables	2,811	2,811	-	-	-	-	-
Goods, materials and services payables	25	25	-	-	-	-	-
Other payables	965	965	-	-	-	-	-
Other liabilities	703	-	-	-	703	-	-
Total financial liabilities	**360,580**	**4,600**	**1,670**	**7,749**	**48,163**	**62,598**	**235,800**

In USD thousands	Carrying amount	Cash flows					
		Up to 1 month	1–3 months	3–12 months	1–5 years	5–10 years	More than 10 years
Financial assets							
Cash and cash equivalents	3,199	3,199	-	-	-	-	-
Restricted cash and cash equivalents	1,738	1,738	-	-	-	-	-
Fixed income securities - AFS	106,881	-	-	1,298	12,491	40,667	52,425
Investments in unconsolidated affiliate entities - FVPL	393,255	-	393,255	-	-	-	-
Reinsurance receivables	86	86	-	-	-	-	-
Policy loans	5,755	23	46	224	1,116	1,191	3,155
Investments pending settlement	2,569	2,569					
Funds withheld	259,413	9,799	-	1,000	999	5,987	241,628
Other receivables	40	40	-	-	-	-	-
Rental deposits	59	-	-	59	-	-	-
Total financial assets	**772,995**	**17,454**	**393,301**	**2,581**	**14,606**	**47,845**	**297,208**
Net gap (surplus)	**(412,415)**						

The Company's liquidity risk management approach consists of 1) monitoring the duration of the assets and liabilities and realigning the investment portfolios as needed; 2) monitoring collateral requirements on a monthly basis against available cash and, 3) maintaining a significant portion of liquid assets in our investment portfolios.

5.6. Market risk

The sensitivity analysis shows the effect of capital market events on the value of financial instruments and the corresponding impact on profit or loss and equity.

Market risk – Interest rates

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Floating rate instruments expose the Company to cash flow interest risk, whereas fixed interest rate instruments expose the Company to fair value interest risk.

Notes to the Financial Statements

The Company's interest risk policy requires it to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments within the Company's fixed income investment portfolio. Interest on floating rate instruments is re–priced at intervals of less than one year. Interest on fixed interest rate instruments are priced at inception of the financial instrument and is fixed until maturity.

Market risk – Net asset value (NAV)

The following table demonstrates the sensitivity to a reasonably possible change in the NAV of the Investments in unconsolidated affiliate entities, with all other variables held constant, on the Company's profit before tax and the Company's equity due to changes in the NAV.

				31.12.2018
In USD thousands	**Change in NAV**	**Impact on pre-tax profit and loss**	**Impact on Equity**	**Total Change in market value**
	NAV 5% higher	22,389	22,389	22,389
	NAV 5% lower	–22,389	–22,389	–22,389
	NAV 10% higher	44,778	44,778	44,778
	NAV 10% lower	–44,778	–44,778	–44,778

				31.12.2017
In USD thousands	**Change in NAV**	**Impact on pre-tax profit and loss**	**Impact on Equity**	**Total Change in market value**
	NAV 5% higher	21,707	21,707	21,707
	NAV 5% lower	–21,707	–21,707	–21,707
	NAV 10% higher	43,415	43,415	43,415
	NAV 10% lower	–43,415	–43,415	–43,415

Market risk – Fair value prices

The following table demonstrates the sensitivity to a reasonably possible change in the prices of the fixed income investment portfolio, with all other variables held constant, on the Company's profit before tax and the Company's equity due to changes in the prices.

				31.12.2018
In USD thousands	**Change in Price**	**Impact on pre-tax profit and loss**	**Impact on Equity**	**Total Change in market value**
	Price 5% higher	8,087	8,087	8,087
	Price 5% lower	–8,087	–8,087	–8,087
	Price 10% higher	16,175	16,175	16,175
	Price 10% lower	–16,175	–16,175	–16,175

				31.12.2017
In USD thousands	**Change in Price**	**Impact on pre-tax profit and loss**	**Impact on Equity**	**Total Change in market value**
	Price 5% higher	5,344	5,344	5,344
	Price 5% lower	–5,344	–5,344	–5,344
	Price 10% higher	10,688	10,688	10,688
	Price 10% lower	–10,688	–10,688	–10,688

5.7. Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount and timing of the resulting claim. 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 estimate 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 across the board by a change in any subset of the portfolio. The Company has developed its reinsurance 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 increase insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

Frequency and severity of claims

For contracts where death is the insured risk, the most significant factors that could increase the overall frequency of claims are epidemics or wide spread changes in lifestyles such as eating, smoking and exercise habits, resulting in earlier or more claims than expected. For contracts where survival is the insured risk, the most significant factor is continued improvement in medical science and social conditions that would increase longevity.

At present, these risks do not vary significantly in relation to the location of the risk reinsured by the Company. However, undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

The Company manages risks through its underwriting strategy. The underwriting strategy is intended to ensure that the risks underwritten are well diversified in terms of type of risk and the level of insured benefits.

Sensitivities

The following analysis is performed for reasonably possible movements in lapse and mortality assumptions respectively, with all other assumptions held constant for the subsequent year, showing the impact on liabilities and profit before tax to expected outcomes.

			31.12.2018
In USD thousands	**Change in Lapse rate**	**Increase/(decrease) on Liabilities**	**Increase/(decrease) on pre-tax profit & loss**
Insurance Contracts	Rate 25% higher	–21,359	54
	Rate 25% lower	21,883	–83

			31.12.2018
In USD thousands	**Change in Mortality rate**	**Increase/(decrease) on Liabilities**	**Increase/(decrease) on pre-tax profit & loss**
Insurance Contracts	Rate 10% higher	–3,003	–119
	Rate 10% lower	3,024	121

Notes to the Financial Statements

In USD thousands	Change in Lapse rate	Increase/(decrease) on Liabilities	31.12.2017 Increase/(decrease) on pre-tax profit & loss
Insurance Contracts	Rate 25% higher	–2,827	–84
	Rate 25% lower	2,843	83

In USD thousands	Change in Mortality rate	Increase/(decrease) on Liabilities	31.12.2017 Increase/(decrease) on pre-tax profit & loss
Insurance Contracts	Rate 10% higher	–700	–78
	Rate 10% lower	703	79

6. Details of certain items in the statements of profit and loss

Premiums

In USD thousands	31.12.2018	31.12.2017
Premiums assumed on traditional life policies	811	841
Reimbursement to ceding company for premiums ceded	-637	-785
Total premiums	**174**	**56**

Other insurance income

In USD thousands	31.12.2018	31.12.2017
Policy fee income	1,362	1,522
Surrender charges	38	32
Interest income on policy loans	396	401
Total other insurance income	**1,796**	**1,955**

Investment income

In USD thousands	31.12.2018	31.12.2017
Interest income on cash at banks	55	40
Interest income on fixed income securities - AFS	5,836	4,172
Net amortization expenses on fixed income securities – AFS	-1,143	-1,005
Total investment income	**4,748**	**3,207**

Other income

In USD thousands	31.12.2018	31.12.2017
Withholding tax receivable	4,128	-
Total other income	**4,128**	**-**

Net gains on investments at fair value through profit or loss

In USD thousands	31.12.2018	31.12.2017
Gross realized gains on redemptions of investments in unconsolidated affiliate entities – FVPL	22,237	1,260
Gross realized losses on sale of derivative securities – FVPL	-	-2,426
Net realized gains/losses on investments – FVPL	22,237	-1,166
Unrealized gains on investments in unconsolidated affiliate entities – FVPL	11,792	32,842
Total net gains/losses on investments at fair value through profit or loss	**34,029**	**31,676**

Notes to the Financial Statements

Interest income

In USD thousands	31.12.2018	31.12.2017
Interest income on funds withheld	10,483	12,733
Net change in embedded derivative	-14,952	7,674
Total interest income	**-4,469**	**20,407**

Acquisition costs

In USD thousands	31.12.2018	31.12.2017
Commissions received from ceding company	-177	-221
Commissions paid to ceding company	180	196
Change in deferred acquisition costs	-299	1,084
Total acquisition costs	**-296**	**1,059**

Other insurance expenses

In USD thousands	31.12.2018	31.12.2017
Premium taxes and maintenance expenses	444	537
Policyholder dividends	51	49
Total other insurance expenses	**495**	**586**

Employee-related expenses

In USD thousands	31.12.2018	31.12.2017
Wages and salaries	11,021	13,218
Social security	90	472
Defined benefit plans	-134	-67
Other employee benefits	339	393
Total employee-related expenses	**11,316**	**14,016**

Foreign exchange gains/losses

In USD thousands	31.12.2018	31.12.2017
Gross unrealized and realized FX gains	7	-43
Gross unrealized and realized FX losses	121	114
Total foreign exchange gains/losses	**128**	**71**

Notes to the Financial Statements

Other expenses

In USD thousands	31.12.2018	31.12.2017
Tax advice expenses	182	145
Legal advice expenses	477	334
IT expenses	1,573	1,327
Travel costs	454	586
Rent expenses	132	332
General accounting expenses	461	365
Insurance accounting and administration expenses	408	251
Investment accounting and administration expenses	199	195
Capital tax expenses	-	3
Audit fees	324	323
Supervisory fees	64	62
Asset management and custodian fees	521	447
Depreciation and amortization	377	54
Other expenses	3,901	2,976
Total other expenses	**9,073**	**7,400**

7. Details of certain items in the statements of financial position

Funds withheld

In USD thousands	31.12.2018	31.12.2017
Funds withheld	981,880	251,739
Fair value of credit derivative embedded in reinsurance contracts	-7,278	7,674
Total funds withheld	**974,602**	**259,413**

Accrued income and prepayments

In USD thousands	31.12.2018	31.12.2017
Prepaid capital raising transaction costs	48	28
Deferred costs	208	18
Other prepayments	398	306
Accrued interest	1,380	819
Total accrued income and prepayments	**2,034**	**1,171**

Deferred income and accrued expenses

In USD thousands	31.12.2018	31.12.2017
Payroll related accrued expenses	4,796	6,846
Accrued expenses for goods, materials and services	8,259	1,243
Total deferred income and accrued expenses	**13,055**	**8,089**

Other payables

In USD thousands	31.12.2018	31.12.2017
Payroll related payables	-	-178
Tax related payables	65	-783
Personnel expenses payable	82	-4
Total other payables	**147**	**-965**

Notes to the Financial Statements

Other liabilities

In USD thousands	31.12.2018	31.12.2017
Lease liabilities	593	703
Total other liabilities	**593**	**703**

8. Property and equipment

In USD thousands	Computer and office equipment	Furniture and fittings	Leasehold improvements	Total
Balance as at December 31, 2016	**-**	**-**	**-**	**-**
Additions	28	12	48	**88**
Depreciation	-2	-	-3	**-5**
Balance as at December 31, 2017	**26**	**12**	**45**	**83**
Additions	2	37	4	43
Depreciation	-10	-2	-24	-36
Balance as at December 31, 2018	**18**	**47**	**25**	**90**

The property and equipment additions are related to various items required for the Bermuda operating location and are accounted for in accordance with accounting policies for the asset class. None of the additions are expected to have a residual value.

9. Intangible assets

In USD thousands	Computer software	Right-of-use assets	Total
Balance as at December 31, 2016	**-**	**-**	**-**
Additions	598	710	**1,308**
Amortization	**-**	-49	**-49**
Balance as at December 31, 2017	**598**	**661**	**1,259**
Additions	-	121	**121**
Amortization	-120	-221	**-341**
Balance as at December 31, 2018	**478**	**561**	**1,039**

The computer software additions relate to the capitalization of software development costs. The software was developed for use by the Company for reinsurance policy administration. The completion date for the project was during December 2017. The intangible asset became ready for use at January 1, 2018. The right-of-use assets relate to the lease of the reinsurance administration software license and the lease of the operating location. The software license lease was entered into on August 1, 2017 for a period of five years and the right of use asset will be amortized straight-line over this period. The Bermuda operating location lease was entered into on November 1, 2017 for a period of three years and the right-of-use asset was be amortized straight-line over this period. An extension to the Bermuda operating location lease was entered into on May 1, 2018 for a period of 2.5 years and the right-of-use asset will be amortized straight-line over this period. The effect of discounting was not considered material.

Notes to the Financial Statements

10. Insurance reserves and related capitalized costs

Liabilities for life and health policy benefits

The provision for life policy benefits is calculated using expected future policy lapse rates, mortality, morbidity, investment yield and policy maintenance expense assumptions and any other relevant contingency.

The provisions for adverse deviation recognize uncertainty in establishing these best estimates and allow for possible deterioration in experience. As the best estimate assumption is realized, the provisions for adverse deviation will be released in future income to the extent that they are no longer required to cover adverse experience. The assumptions used in determining the provision for life policy benefits are reviewed regularly, compared to emerging experience and updated when appropriate. The assumptions that are most sensitive to change are investment yields, expenses, policy lapse rates, mortality and morbidity.

Analysis of liabilities for life and health policy benefits and liabilities for future policy benefits:

In USD thousands	31.12.2018	31.12.2017
Provision for traditional life policy benefits	21,255	20,863
Provision for adverse deviation for traditional life policy benefits	276	304
Provision for adverse deviation for future policy benefits for non-traditional life insurance	190	353
Total liabilities for life and health policy benefits	**21,721**	**21,520**

In USD thousands	31.12.2018	31.12.2017
Provision for future policy benefits for non-traditional life insurance	20,939	21,788
Provision for future policy benefits for annuities	1,128,613	312,768
Total liabilities for future policy benefits	**1,149,548**	**334,556**

Analysis of change in liabilities for life and health policy benefits and future policy benefits:

In USD thousands	2018	2017
Balance, beginning of year	356,076	70,523
Expected changes in traditional life policy liabilities	391	–1,168
Expected changes in future policy benefit liabilities	–8,474	–3,515
Purchase of acquired traditional life policy benefits	-	-
Purchase of acquired future policy benefits	823,467	290,207
Changes in assumptions and refinement of estimates for traditional life policy benefits	–29	–41
Changes in assumptions and refinement of estimates for future policy benefits for non-traditional life insurance	–163	70
Balance, end of year	**1,171,269**	**356,076**

Analysis of benefits and claims under insurance contracts:

In USD thousands	2018	2017
Net claims and surrenders paid for traditional life policy benefits	1,359	1,722
Net claims paid for future policy benefits for non-traditional life insurance	806	268
Interest expenses (crediting rate)	11,063	10,499
Changes in reserves	201	–1,139
Total benefits and claims under insurance contracts	**13,429**	**11,350**

Notes to the Financial Statements

Analysis of change in deferred acquisition costs:

In USD thousands	2018	2017
Balance, beginning of year	8,140	2,197
Net shadow accounting adjustments	995	–79
Costs capitalized under reinsurance contracts written	35,351	7,106
Changes in deferred acquisition costs	334	–1,084
Balance, end of year	**44,820**	**8,140**

11. Employee benefits

Pension plans for employees in Switzerland

In 2017, the Company held a defined benefit plan for Swiss employees in accordance with Swiss Law. With the closure of the Swiss Branch and the termination of all remaining employees in Switzerland, the defined benefit obligation is transferred from the Company to the Swiss governing body and will continue to move with the employee. Therefore, there were no curtailments or settlements during the reporting periods. The Company's Swiss pension plans are now closed.

Pension Plans for U.S. Tax Paying Employees

The Company has set-up defined contribution pension plans for U.S. taxpaying employees, Bermudian employees and Non-U.S./ Non-Bermudian employees. The expense recognized for these obligations in the reporting period in accordance with IAS 19 was $339 (2017: $186), of which $269 (2017: $166) was due to obligations to members of staff in key positions.

12. Option compensation plan

In 2015, an option-based payment program was established by the Board of Directors. The Company has reserved 11,738,000 common shares for issuances to directors and employees (the "Employee Pool") pursuant to the Employee Stock Option Plan ("ESOP") adopted by the Board of Directors. The criteria which have to be fulfilled by a beneficiary to be granted options under the plan shall be set by the Board of Directors in its sole discretion. Any option grant to members of the Board of Directors must be approved by the entire Board of Directors.

On September 17, 2018, the company provided to certain of its employees, options for 50,000 shares as compensation under the Somerset Reinsurance Ltd. Employee Stock Option Plan. On April 23, 2018, the Company provided to certain of its employees, options for 1,700,000 shares as compensation under the Somerset Reinsurance Ltd. Employee Stock Option Plan. On February 14, 2017, the Company provided to certain of its employees, options for 850,000 shares as compensation under the Somerset Reinsurance Ltd. Employee Stock Option Plan. On October 1, 2016, the Company provided to certain of its employees, options for 6,597,369 shares as compensation under the Somerset Reinsurance Ltd. Employee Stock Option Plan in the following groups with different strike prices and vesting conditions attached.

	Group 1A	Group 1B	Group 2A	Group 2B	Group 3A	Group 3B	Group 4A	Group 4B
Options Granted	4,099,421	1,299,000	1,366,474	533,000	1,306,474	443,000	150,000	-
Options Forfeited	-808,421	-	-269,474	-	-269,474	-	-50,000	-
Exercise Price	USD $10.00		USD $16.11		USD $20.11		USD $10.00	
Vesting Period	20% on each anniversary of the Granting Date for five consecutive years.	20% on each anniversary of the Granting Date for five consecutive years.	100% on the third anniversary of the Granting Date.	100% on the third anniversary of the Granting Date.	100% on the third anniversary of the Granting Date.	100% on the third anniversary of the Granting Date.	20% on each anniversary of the Granting Date for five consecutive years.	20% on each anniversary of the Granting Date for five consecutive years.

Notes to the Financial Statements

Each option entitles the beneficiary to acquire one common share of the Company against payment of the exercise price. Once they have vested, the options are exercisable up to the tenth anniversary of the granting date. The method of settlement of the option is by equity issuance and the Company has no legal or constructive obligation to repurchase or settle the options in cash. No options have been exercised during the year (2017: NIL). There are no options exercisable at the statement of financial position date (2017: NIL).

The total expense recognized relating to share payments in the statement of comprehensive income for the year ended December 31, 2018 is $622 (2017: $169). The fair value of the 2018 issued options granted was $2,341 and were determined using the Enhanced American Model, a binominal model. The significant inputs into the model are as follows:

In USD	Group 1A & 1B Group 4A & 4B Year 1	Group 1A & 1B Group 4A & 4B Year 2	Group 1A & 1B Group 4A & 4B Year 3	Group 1A & 1B Group 4A & 4B Year 4	Group 1A & 1B Group 4A & 4B Year 5	Group 2A & 2B	Group 3A & 3B
Share Price	$10.00	$10.00	$10.00	$10.00	$10.00	$10.00	$10.00
Expected Volatility	14.25%	14.02%	14.36%	16.17%	16.05%	14.36%	14.36%
Risk-Free Interest Rate	2.89%	2.90%	2.91%	2.91%	2.92%	2.91%	2.91%
Expected Dividend Yield	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Expected Life	5.50	6.00	6.50	7.00	7.50	6.50	6.50
Post-Vesting Exit Rate	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

The fair value of the 2017 issued options granted was $505 and were determined using the Enhanced American Model, a binominal model. The significant inputs into the model are as follows:

In USD	Group 1A & 1B Group 4A Year 1	Group 1A & 1B Group 4A Year 2	Group 1A & 1B Group 4A Year 3	Group 1A & 1B Group 4A Year 4	Group 1A & 1B Group 4A Year 5	Group 2A & 2B	Group 3A & 3B
Share Price	$8.77	$8.77	$8.77	$8.77	$8.77	$8.77	$8.77
Expected Volatility	16.52%	16.34%	16.85%	16.57%	17.38%	16.85%	16.85%
Risk-Free Interest Rate	1.18%	1.21%	1.24%	1.27%	1.30%	1.24%	1.24%
Expected Dividend Yield	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Expected Life	5.50	6.00	6.50	7.00	7.50	6.50	6.50
Post-Vesting Exit Rate	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

The volatility measured was estimated with consideration to the historical volatility of the daily return data over a historical period equal to the estimate of expected life of the options and annualized by 252 business days of the Dow Jones U.S. Reinsurance Index.

13. Income taxes

The Company recognized Irish income taxes in the Statements of profit and loss on its Bermuda profits for the reporting period.

In USD thousands	31.12.2018	31.12.2018	31.12.2018	31.12.2017	31.12.2017	31.12.2017
	Bermuda	Switzerland	Total	Bermuda	Switzerland	Total
Current income tax expense	941	-3	938	173	220	393
Deferred income tax expense	-143	-	-143	8	-	8
Total income tax expense	**798**	**-3**	**795**	**181**	**220**	**401**

The actual income tax expense differs from the expected amount as follows:

In USD thousands	31.12.2018	31.12.2017
Profit before income tax	**6,058**	**22,886**
Tax rate	12.50%	12.50%
Income tax calculated using the tax rate	757	2,861
Increase/reduction in taxes resulting from		
adjustments for permanent and temporary differences, inc. relief for Branch losses	-102	-8
recognition of unused tax-loss carryforwards and other deferred taxes	143	-2,672
foreign income tax on branch income	-3	220
Income tax expense	**795**	**401**

14. Provisions

In USD thousands	Total
Balance as at December 31, 2016	**122**
Additional provisions made	396
Payments	-51
Balance as at December 31, 2017	**467**
Additional provisions made	696
Payments	-668
Balance as at December 31, 2018	**495**

The provisions relate to provisions for taxes. The provisions are not discounted as the effect of discounting is considered immaterial.

15. Equity

Share capital

The Company was founded on September 18, 2014, with a share capital of $10,000. The founding share capital consists of 10,000 common shares with a nominal value of $1.00 per share and they are fully paid-up. The Company increased its share capital on November 24, 2014 by issuing 2,222,222 additional fully paid-up common shares to Weisshorn Re AG. On December 31, 2014, the Company issued 3,355,543 preferred shares with a nominal value of $1.00 each and they are fully paid-up.

Notes to the Financial Statements

The shareholders of Weisshorn Re AG exchanged their shareholdings (including warrants) for common shares and warrants of Weisshorn Re Ltd. with the effective date of February 20, 2015. These share exchanges were solely made between these shareholders and the Company. As a result, the Company increased its share capital by issuing 4,515,991 common shares and 1,232,108 warrants (with a nominal value of $1.00 per share) in exchange for the 3,600,000 common shares and 982,200 warrants of Weisshorn Re AG it received. All shares carry one vote. As a result of the share exchange, Weisshorn Re AG is 100% owned by Weisshorn Re Ltd. and the 2,222,222 common shares held by Weisshorn Re AG are eliminated on consolidation (refer to Note 2.2). Weisshorn Re AG was incorporated as a private corporation on July 23, 2013 in Zurich, Switzerland, with a share capital of CHF 600,000. The founding share capital consists of 600,000 registered shares with a nominal value of CHF 1.00 per share and they are being paid-up in the amount of CHF 0.20 each. Weisshorn Re AG did increase its share capital by CHF 3,000,000 on March 19, 2014 by issuing 3,000,000 fully-paid registered shares with a par value of CHF 1.00 and issuance price of CHF 10.00 each. In connection with the common share issues on March 19, 2014, Weisshorn Re AG issued 982,200 warrants to the common share investors.

The Company increased its share capital on October 19, 2016 by issuing 32,639,024 common shares as part of the Company's on-going private placement equity capital raising activities. The common shares are issued with a nominal value of $1.00 per share and they are fully paid-up. In connection with the common share issuance, the Company issued 5,229,022 warrants to the common share investors. The fair value of $0.38 per warrant was recorded to share premium. In connection with the share issuance, the preference shareholders exchanged their shareholdings (including warrants) for 3,355,543 common shares and 747,546 warrants with the effective date of October 19, 2016.

The Company increased its share capital on February 17, 2017 by issuing 1,550,000 common shares as part of the Company's on-going private placement equity capital raising activities. The common shares are issued with a nominal value of $1.00 per share and they are fully paid-up. In connection with the common share issuance, the Company issued 16,900 warrants to the common share investors. The fair value of $0.38 per warrant was recorded to share premium. The Company increased its share capital on May 26, 2017 by issuing 2,265,000 common shares as part of the Company's on-going private placement equity capital raising activities. The common shares are issued with a nominal value of $1.00 per share and they are fully paid-up. In connection with the common share issuance, the Company issued 10,400 warrants to common share investors. The fair value of $0.38 per warrant was recorded to share premium.

Share premium

Share premium comprises additional paid-in capital in excess of the par value. Related to the Company's on-going private placement equity capital raising activities, $NIL (2017: $393) of costs incurred were offset against share premium received during the year. The Company recognized a deferred tax asset directly in equity of $NIL (2017: $49) for the offering costs deducted from equity.

Number of shares issued

The following table shows the development of the Company's shares issued during the reporting period:

	Common shares
Balance as at December 31, 2016	**40,520,558**
Shares issued	3,815,000
Balance as at December 31, 2017	**44,335,558**
Balance as at December 31, 2018	**44,335,558**

Notes to the Financial Statements

Accumulated other comprehensive income

Accumulated other comprehensive income comprises items of income and expense that are recognized directly in equity rather than in profit or loss, as required or permitted by certain IFRSs. Items presented in other comprehensive income are grouped on the basis of whether they will be reclassified subsequently to profit or loss when specific conditions are met, and those that will not be reclassified. Items in other comprehensive income that may be reclassified subsequently to profit or loss when specific conditions are met comprise unrealized gains/losses on available for sale financial instruments and presented relevant shadow adjustments. Items that will not be reclassified to profit or loss comprise remeasurements of the net defined benefit liability relating to employee benefit plans and presented relevant income taxes.

The following table provides information relating to amounts recognized in accumulated other comprehensive income:

In USD thousands	Remeasurements net defined benefit liability	Income tax on items recognised directly in equity	Unrealized gains/losses on available for sale financial instruments	Total
Net balance as at December 31, 2017	-158	-49	1,918	**1,711**
Net other comprehensive income	158	49	-3,719	**-3,512**
Net balance as at December 31, 2018	**-**	**-**	**-1,801**	**-1,801**
Net other comprehensive income is composed of the following:				
Gains/losses arising during the reporting period	158	49	-4,531	**-4,324**
Reclassification adjustment for net realized gains/losses included in profit and loss	-	-	419	**419**
Effects of				
shadow adjustments	-	-	393	**393**
Net other comprehensive income	**158**	**49**	**-3,719**	**-3,512**

In USD thousands	Remeasurements net defined benefit liability	Income tax on items recognised directly in equity	Unrealized gains/losses on available for sale financial instruments	Total
Net balance as at December 31, 2016	-116	-	-407	**-523**
Net other comprehensive income	-42	-49	2,325	**2,234**
Net balance as at December 31, 2017	**-158**	**-49**	**1,918**	**1,711**
Net other comprehensive income is composed of the following:				
Gains/losses arising during the reporting period	-42	-49	2,060	**1,969**
Reclassification adjustment for net realized gains/losses included in profit and loss	-	-	67	**67**
Effects of				
shadow adjustments	-	-	198	**198**
Net other comprehensive income	**-42**	**-49**	**2,325**	**2,234**

Notes to the Financial Statements

Retained earnings

Retained earnings comprise accumulated retained earnings of the Company, which have not been distributed to the shareholders. The distribution of profit is subject to restrictions in the jurisdiction where the Company is located. Dividends payable are not accrued until they have been ratified at the shareholders' meeting. Comparative closing retained earnings has been adjusted to represent the unconsolidated retained earnings of the Company, which has removed the retained earnings of the liquidated entity.

	Retained earnings
Balance as at December 31, 2017 (Audited)	2,011
Adjustment for liquidated entity	98
Adjusted balance as at December 31, 2017	**2,109**

16. Capital management

The Company's objectives when managing capital are to comply with the regulatory capital requirements, to define and manage economic capital and to fulfill the Company's target on rating agency capital requirements. The Company also actively manages the composition and quality of the capital to continuously optimize its capital structure. The Company is supervised by the Bermuda Monetary Authority (BMA), the regulatory body in Bermuda, which recently obtained Solvency II equivalence. Under BMA regulations, the Company is licensed as a Class E insurer and the Company has to meet and maintain the relevant solvency margin and an enhanced capital requirement in accordance with the provisions of the Insurance Act, 1978 of Bermuda. As of December 31, 2018, the amount of statutory capital and surplus exceeds the minimum solvency margin requirement.

The statutory capital and surplus and minimum solvency margin of the Company is shown below:

In USD thousands	**31.12.2018**	**31.12.2017**
Total Shareholder's equity	415,008	412,851
Less: non-admitted assets		
Prepayments	-654	-352
Fixed assets	-90	-83
Intangible assets	-1,039	-1,259
Investment in subsidiary	-	-
Statutory capital and surplus	413,225	411,157
Minimum solvency margin	8,000	8,000

The Economic Balance Sheet ("EBS") is the prescribed form of capital and solvency return in Bermuda, which was revised under new legislation enacted in 2015. The EBS includes a standardized model used to measure the risk associated with the Company's assets, liabilities and premiums, and a formula to take account of long-term risk exposure. The BMA requires all insurers to maintain their statutory capital and surplus at a target level which is 120 percent of the amount calculated in accordance with the EBS. As at December 31, 2018, the statutory capital and surplus of the Company exceeded this regulatory requirement.

Notes to the Financial Statements

The Bermuda Insurance Act 1978 and Related Regulations limits the maximum amount of annual dividends and distributions that may be paid by the Company. Before reducing by 15 percent or more of its statutory capital, as set out in the prior year's financial statements, the Company shall request the approval of the BMA. In addition, the Bermuda Companies Act 1981 limits the Company's ability to pay dividends and distributions to shareholders if there are reasonable grounds for believing that the Company would be unable to pay its liabilities as they become due, or if the realizable value of its assets would be less than the aggregate of its liabilities, issued share capital and contributed surplus accounts. The Company meets all requirements of the Act and there are no additional restrictions on the distribution of retained earnings.

17. Related party transactions

The Company's employee benefits are disclosed in note 11.

The Company's founding investor is a member of the Board of Directors of the Company. The Company's founding investor has received $60 (2017: $66) during the year and is payable $NIL at the statement of financial position date for services provided (2017: $NIL). The Company's founding investor is the managing member of the entity managing the Company's investment in the unconsolidated affiliate entity. The Company has reimbursed the entity managing the Company's investment in the unconsolidated affiliate entity for expenses incurred of $362 during the year (2017: $61) and an additional amount of $10 is payable as at the statement of financial position date (2017: $85). The Company through its investment in the unconsolidated affiliate entity, paid to the investment manager, management fees of $6,890 for the year (2017: $6,161). The Company through its investment in the unconsolidated affiliate entity, paid to the investment manager, performance fees of $12,501 for the year (2017: $8,525).

The Company has paid to another investor $60 (2017: $52) during the year and is payable $15 at the statement of financial position date for services provided (2017: $15). The Company has also paid expenses during the year of $65 (2017: $36).

The Company's transactions with the unconsolidated affiliate entities are disclosed in note 20.

Key management compensation

Key management consists of the members of the Board of Directors of the Company and the members of the Senior Management Team of the Company. These individuals have the authority and responsibility for planning, directing and controlling the activities of the Company.

In USD thousands	31.12.2018	31.12.2017
Short-term employee benefits	5,623	6,865
Directors fees	702	583
Post-employment benefits (defined benefit plans)	-	26
Total key management compensation	**6,325**	**7,474**

The post-employment benefits (defined benefit plans) comprises the current service costs to those individuals.

Consolidation principles

The Company will consolidate an entity when it has control over the entity, i.e. it is exposed, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. All intercompany balances, transactions and unrealized gains and losses on such transactions will be eliminated.

Notes to the Financial Statements

In 2018, the Company closed and liquidated it's two consolidated entities, Weisshorn Re AG (a Swiss subsidiary company) and Somerset Reinsurance Ltd., Pembroke (Bermuda), Zurich Branch. Weisshorn Re AG has been closed and removed from the Swiss Commercial Register during the year ended December 31, 2018. Somerset Reinsurance Ltd., Pembroke (Bermuda), Zurich Branch was closed effective February 28, 2018, however as at December 31, 2018, it has not been confirmed that the entity was removed from the Swiss Commercial Register. The gain from discontinued operations relates to the intercompany debt forgiven on the disposal of the Swiss subsidiary company.

Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

The Company classifies its unconsolidated interests in structured entities at fair value through profit and loss. These interests are in two affiliated entities and are disclosed in note 20 accordingly.

18. Fair value measurement

The Company's fixed income securities – AFS at fair value are held in trust to provide security for reserve credit on reinsurance assumed. The Company's holdings in the unconsolidated affiliate entities are valued utilising net asset values (NAV) provided by the administrator of the entities. The Company's founding investor serves as the managing member of the investment manager of the entities. The entities holds an investment portfolio with an investment strategy following three investment styles (equity market neutral, fundamental long/short and cross assets) and various investment strategies implemented. The Company holds embedded derivatives which are required to be separated from their host contracts and reported as derivatives. Host contracts include reinsurance agreements structured on a funds withheld basis. Included in interest income is the credit portion of the return of the funds withheld embedded derivatives.

In USD thousands	Quoted prices (Level 1)	Valuation technique - observable inputs (Level 2)	Valuation technique - unobservable inputs (Level 3)	Total
	31.12.2018	**31.12.2018**	**31.12.2018**	**31.12.2018**
Financial assets				
Non US Government & Supranationals	-	6,568	-	6,568
Corporate Bond Securities	-	102,731	-	102,731
Municipal Securities	-	8,556	-	8,556
US Agency Mortgage Backed Securities	-	16,136	-	16,136
Commercial Mortgage Backed Securities	-	15,023	-	15,023
Asset Backed Securities	-	12,735	-	12,735
Fixed income total	**-**	**161,749**	**-**	**161,749**
Investments in unconsolidated affiliate entities - FVPL	-	390,393	-	390,393
Derivative embedded in funds withheld	-	–7,278	-	–7,278
Total financial assets	**-**	**544,864**	**-**	**544,864**

Notes to the Financial Statements

In USD thousands	Quoted prices (Level 1)	Valuation technique - observable inputs (Level 2)	Valuation technique - unobservable inputs (Level 3)	Total
	31.12.2017	**31.12.2017**	**31.12.2017**	**31.12.2017**
Financial assets				
Non US Government & Supranationals	-	3,231	-	3,231
Corporate Bond Securities	-	53,433	-	53,433
Municipal Securities	-	5,090	-	5,090
US Agency Mortgage Backed Securities	-	21,069	-	21,069
Commercial Mortgage Backed Securities	-	6,623	-	6,623
Asset Backed Securities	-	17,435	-	17,435
Fixed income total	**-**	**106,881**	**-**	**106,881**
Investments in unconsolidated affiliate entities - FVPL	-	393,255	-	393,255
Derivative embedded in funds withheld	-	7,674	-	7,674
Total financial assets	**-**	**507,810**	**-**	**507,810**

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. The Company has not transferred any assets or liabilities between level 1 and level 2.
The Company did not have any financial instruments classified as level 3 as at December 31, 2018 (2017: USD $NIL).

The Company considers prices for actively traded securities to be derived based on quoted prices in an active market for identical assets, which are level 1 inputs in the fair value hierarchy. The majority of securities are valued using prices supplied by pricing services. The Company considers prices for other securities that may not be as actively traded which are priced via pricing services, or with reference to interest rates and yield curves, to be derived based on inputs that are observable for the asset, either directly or indirectly, which are level 2 inputs in the fair value hierarchy.

The following sections outline the valuation techniques and significant inputs used in the fair value measurement of financial instruments categorized within level 2 of the fair value hierarchy.

Governments and supranational consist of bonds issued by non-U.S. governments and agencies along with supranational organizations. The significant inputs include the spread above the risk-free yield curve, reported trades and broker/dealer quotes. These are considered to be observable market inputs and, therefore, the fair values of these securities are classified within level 2.

Notes to the Financial Statements

Corporate securities consist primarily of investment-grade debt of a wide variety of corporate issuers and industries. The fair values of these securities are determined using the spread above the risk-free yield curve, reported trades, broker/dealer quotes, benchmark yields, and industry and market indicators. These are considered observable market inputs and, therefore, the fair value of these securities are classified within level 2.

Residential and commercial mortgage-backed securities include both agency and non-agency originated securities. Agency originated securities include securities issued by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and other U.S. government agencies. The significant inputs used to determine the fair value of these securities includes the spread above the risk-free yield curve, reported trades, benchmark yields, broker/dealer quotes, prepayment speeds, and default rates. These are considered observable market inputs and, therefore the fair value of these securities are classified within level 2.

Investments in unconsolidated affiliate entities classified as level 2 assets comprise fund of funds that are based on net asset values (NAV) substantiated by observable market data such as recent transactions or valuation techniques that reflect the market participant's assumptions. The level 2 classification is chosen because those funds maintain an irregular basis of price and are evaluated with some time lag.

Derivatives embedded within funds withheld classified as level 2 assets are valued using models for credit derivatives. These models require inputs such as market prices, yield curves and option adjusted credit spreads. These inputs do not require significant management judgement and accordingly have been classified as level 2.

As a result of the application of the temporary deferral of IFRS 9, the Company would have been required to classify its financial assets as assets with solely payments of principal and interest ("SPPI") and other financial assets. The disclosures have been prepared below to demonstrate the expected impact of applying IFRS 9 to the Company's current financial assets.

SPPI at FV

In USD thousands	Fair Value	Change in FV	
	31.12.2018	**31.12.2018**	
		Income	**OCI**
SPPI - Fixed income - AFS at fair value	117,855		-2,997
Other - Fixed income - AFS at fair value	43,894		-1,116
Other -Investments in unconsolidated affiliate entities – FVPL	390,393	11,792	
Other - Funds withheld	974,602	-4,481	
Total	**1,526,744**	**7,311**	**-4,113**

Exposure to Credit Risk of SPPI Financial Assets

31 December 2018							
In USD thousands	**AAA**	**AA**	**A**	**BBB**	**Below BBB**	**Not rated**	**Total**
SPPI - Fixed income - AFS at fair value	2,175	11,625	48,312	51,756	-	3,987	117,855
Total exposure to credit risks	**2,175**	**11,625**	**48,312**	**51,756**	**-**	**3,987**	**117,855**

Notes to the Financial Statements

19. Fair value of financial instruments carried at notional amounts

Set out below is a comparison by class of the carrying amounts and fair values of the Company's financial instruments that are carried in the financial statements at their notional amounts.

In USD thousands	Carrying amount 31.12.2018	Fair value 31.12.2018
Financial assets		
Cash and cash equivalents	12,856	12,856
Restricted cash and cash equivalents	8,914	8,914
Reinsurance receivables	-	-
Funds withheld	981,880	971,458
Policy loans	5,382	5,382
Investments pending settlement	1,500	1,500
Other receivables	4,201	4,201
Rental deposits	51	51
Total	**1,014,784**	**1,004,362**

In USD thousands	Carrying amount 31.12.2018	Fair value 31.12.2018
Financial liabilities		
Liabilities for life and health policy benefits	21,721	21,721
Liabilities for future policy benefits	1,149,548	1,149,548
Reinsurance payables	3,105	3,105
Investments pending settlement	2,000	2,000
Goods, materials and services payables	14	14
Other payables	147	147
Other liabilities	593	593
Total	**1,177,128**	**1,177,128**

Notes to the Financial Statements

In USD thousands	Carrying amount 31.12.2017	Fair value 31.12.2017
Financial assets		
Cash and cash equivalents	3,199	3,199
Restricted cash and cash equivalents	1,738	1,738
Reinsurance receivables	86	86
Funds withheld	251,739	266,889
Policy loans	5,755	5,755
Investments pending settlement	2,569	2,569
Other Receivables	40	40
Rental deposits	59	59
Total	**265,185**	**280,335**

In USD thousands	Carrying amount 31.12.2017	Fair value 31.12.2017
Financial liabilities		
Liabilities for life and health policy benefits	21,520	21,520
Liabilities for future policy benefits	334,556	334,556
Reinsurance payables	2,811	2,811
Goods, materials and services payables	25	25
Other payables	965	965
Other liabilities	703	703
Total	**360,580**	**360,580**

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- The Company's cash and cash equivalents consist entirely of cash at banks and are recognized at their notional amount.
- All receivables and payables approximate their fair values and are recognized at their notional amounts as they are short-term instruments and the effect of discounting them is considered immaterial.

20. Interests in unconsolidated affiliate entities

The Company invests a part of its assets that back policy reserves, the required risk-based capital as well as its free surplus in two structured entities. The structured entities are two investment funds. The first was incorporated under the laws of the Cayman Islands and is registered and regulated as a mutual fund. The second was incorporated in the U.S. in February 2018. The Company is the sole investor in the structured entities. The Company has currently invested its free surplus less a reasonable liquidity buffer in the structured entity. The Company's founding investor is also the managing member for the entity who manages the multi-strategy funds. The Company is required to maintain a minimum investment amount in the structured entities that is subject to various conditions and performance requirements. The Company can partially redeem and/or liquidate its investment in the structured entities on a quarterly basis upon 45 days' prior written notice. The Directors of the structured entity have the authority to suspend redemption requests.

Notes to the Financial Statements

The Company does not control the structured entities as it has no power (i.e. the Company is not involved in the investment decision process or has any decision rights) over the activities that significantly drives the structured entities' economic performance as they are all carried out solely by the entity managing the Company's investment and therefore the Company does not consolidate the structured entities. Instead, the "net approach" (net asset value accounting) is applied.

The carrying amount of the Company's investment in the unconsolidated structured entities approximates the fair value that is disclosed in the statement of the financial position. The structured entities do not have any recourse rights to the Company and the Company's maximum exposure to loss is the carrying amount of the structured entities that is disclosed in the statement of financial position.

The Company has two loan facility agreements with the unconsolidated affiliate entities as the "Lender" with a maximum borrowing amount of $1,500,000, but limited to $113,240 during the year. The agreements have a maturity date of five years from the date of the agreement, upon which all outstanding balances will be due and payable. The agreements include the right to offset the loan against the investment in the unconsolidated affiliate entities. The Company has only drawn down on one of the loan facilities to December 31, 2018.

In USD thousands	Gross Amounts of Recognized Assets on the Statement of Financial Position	Gross Amounts Offset on the Statements of Financial Position	Net Amounts Recognized on the Statement of Financial Position
	31.12.2018	**31.12.2018**	**31.12.2018**
Offsetting of assets			
Investment in unconsolidated affiliate entity - FVPL	447,775	(57,382)	390,393
Total assets	**447,775**	**(57,382)**	**390,393**
Offsetting of liabilities			
Loan from unconsolidated affiliate entity	(57,382)	57,382	-
Total liabilities	**(57,382)**	**57,382**	**-**
Net investment in unconsolidated affiliate entities - FVPL	**390,393**	**-**	**390,393**

In USD thousands	Gross Amounts of Recognized Assets on the Statement of Financial Position	Gross Amounts Offset on the Statements of Financial Position	Net Amounts Recognized on the Statement of Financial Position
	31.12.2017	**31.12.2017**	**31.12.2017**
Offsetting of assets			
Investment in unconsolidated affiliate entity - FVPL	434,146	(40,891)	393,255
Total assets	**434,146**	**(40,891)**	**393,255**
Offsetting of liabilities			
Loan from unconsolidated affiliate entity	(40,891)	40,891	-
Total liabilities	**(40,891)**	**40,891**	**-**
Net investment in unconsolidated affiliate entities - FVPL	**393,255**	**-**	**393,255**

Notes to the Financial Statements

The amounts borrowed against the utilized loan facility are set out in the table below. The interest rate on amounts borrowed is LIBOR + 0.5% and interest is due to the Lender at the end of each 90-day period. The interest expense paid to Lender for the year ended December 31, 2018 $1,708,694 (2017: $NIL) and owing to the Lender at December 31, 2018 is USD $181,879 (2017: $692,216).

In USD thousands			Total
Balance, December 31, 2016			**7,700**
Borrowings			32,500
Balance, December 31, 2017			**40,200**
Borrowings			17,000
Balance, December 31, 2018			**57,200**

21. Contingent liabilities and other financial commitments

At December 31, 2018 established a letter of credit facility valued at $12,200 (2017: $13,900) with the counterparty of a reinsurance agreement as the beneficiary.

Other than the above, the Company is not aware of any guarantees or commitments that have not been adequately provided for as at the consolidated statement of financial position date.

22. Events after the reporting period

Somerset Reinsurance Ltd., Pembroke (Bermuda) Zurich Branch operations were closed effective February 28, 2018. All relevant liquidation papers have been filed with the relevant authorities during 2018. As at December 31, 2018 official removal from the Swiss Commerical Register was outstanding. This was effective 13 February 2019.

Other than the previous disclosure, up to the date of the issuance of these financial statements, the Company is not aware of any material events that were not recorded or disclosed in these financial statements.