TransRe London Limited

Report and financial statements

31 December 2019

Registered number 8506758

Contents

Board of directors and auditors

Directors
Paul Bonny (appointed 26 April 2013)
Geoff Peach (resigned 31 August 2019)
David Radford (appointed 26 April 2013)
Michael Sapnar (appointed 16 December 2013)
Gary Schwartz (appointed 16 December 2013)
Mark Stephen (appointed 16 December 2013)
Mark Winlow (appointed 16 December 2013)
Stewart Laderman (appointed 27 February 2018)
Louise Rose (appointed 1 September 2019)

Registered office
Corn Exchange
55 Mark Lane
London
United Kingdom
EC3R 7NE

Company registration number
8506758

Registered auditors
Ernst & Young LLP
25 Churchill Place
London
United Kingdom
E14 5EY

Strategic report

TransRe London Limited (the Company) offers pro-rata and excess-of-loss reinsurance on both a treaty and a facultative basis for most major lines of business including:

- Accident & Health (personal accident);
- Aviation;
- Financial risks (trade credit and guarantee);
- Marine (including energy);
- Property (including catastrophe);
- Specialty casualty;
- Technical lines (engineering);
- Traditional casualty (motor);
- Non-traditional*; and
- Professional liability.

*This class primarily relates to the inward whole account quota share arrangement with TReIMCo Limited, a Lloyd's corporate member and fellow group company. Refer to Note 26 Related parties for further details.

The strategy of the Company has been designed to be consistent with its parent, Transatlantic Reinsurance Company's (TRC) goals and risk tolerances. The Company also writes direct business in certain classes.

The Company is rated A+ (superior) by AM Best Europe, with a long term issuer credit rating of aa-. The Company also has an S&P rating of A+.

The Company has no employees. Under a management agreement, TransRe London Services Limited (TRLS), acts as the employing company for all Company staff.

The ultimate parent undertaking and controlling party is Alleghany Corporation, a company incorporated in the United States of America.

Our Stakeholders

The directors understand that the long-term success of the Company is dependent on effective engagement with its key stakeholders. They recognise the role that each stakeholder group plays and their responsibilities towards them. The table on the following page identifies the Company's key stakeholders and sets out how the Board engages with them.

Stakeholder Group	Engagement with our stakeholders
Sole Shareholder	TRC is the sole shareholder in the Company and engagement is essential for the long-term success of the Company. This is important as it increases transparency and accountability to our shareholder. We engage with our shareholder through: • members of the TRC Board sit on the Company's Board and members of the Company's Board routinely attend TRC Board meetings; • the Company holds an annual strategy day for its Board members, which feeds into the TRC business planning process; and • the Company provides regular updates to TRC on the performance of the business. Routine topics of discussion include: • performance of the Company; • investment strategy for the Company; • corporate governance and enterprise risk management; • employee compensation and benefits; • succession plans; and • strategic direction of the Company. During 2019, the directors and senior management specifically discussed a number of topics with TRC, including: • the appointment of Louise Rose as CEO of the Company; • a proposal that the Company should start to pay a regular dividend to TRC; and • changes to the composition of the investment portfolio. Details of the principal decisions regarding the proposed payment of dividends and the changes to the composition of the investment portfolio can be found in the Principal Decisions on page 5.
Government and Regulators, including the UK Prudential Regulatory Authority (PRA) & Financial Conduct Authority (FCA)	The Company must maintain its regulatory approval from the PRA and FCA to continue to operate. The Company is also subject to other regulatory regimes, including the UK Information Commissioner's Office (ICO) in respect of data privacy. The executive management and directors have regular meetings and correspondence with the PRA and FCA. The Board receives management information (MI) on the engagement with the Company's regulators and an update on regulatory consultations and policy documents at its routine meetings. These matters are discussed as appropriate and taken into account in decision making. The Company regularly engages with regulatory consultations, either directly or through trade associations. In 2019 the Company appointed Louise Rose as CEO. In addition to the formal application for approval, meetings with the PRA together with other directors and members of senior management were arranged both before and after her appointment.
Our People	Our people are known for their responsiveness, professionalism, and dedication to customer service, guided by TransRe's vision – to be the first-choice risk-transfer provider for insurers worldwide. High standards of performance are set and maintained through our annual employee review process and through compliance to the Alleghany Code of Conduct and Senior Management and Certification Regime (SMCR) Conduct Rules, for which we have recently provided training for all employees. The Board does not use any of the engagement methods suggested by the UK Corporate Governance Code. The directors are comfortable with the level of employee engagement, career advancement initiatives and the performance management process. The Company's Head of HR is a member of the Executive Committee and attends Board and Risk & Audit Committee meetings.

	The structure of the Company is relatively flat with a collaborative open-door culture. There is an active employee forum (WiRe), which arranges regular lunch and learn sessions and social activities attended by people of all levels of seniority. The Company has a broad and varied learning and development strategy including apprenticeships, a Talent Development Programme, LinkedIn Learning, networking opportunities in the London Market and opportunities to build global connections through international assignments and transfers. Feedback from our people is obtained via WiRe, exit interviews, new starter lunches and ad hoc employee surveys. Town Hall meetings take place regularly to update on business performance and provide an opportunity for staff to ask questions. Employee benefits are reviewed annually by the Compensation Committee to ensure total compensation remains competitive with the market. The Board continues to discuss and develop opportunities to engage and retain employees and to maintain its reputation as an employer of choice. The Company has high levels of employee stability across all levels and functions.
Our Customers (Brokers, Cedants & Retrocessionaires)	Our business is built on the principles of capacity, reliability, expertise and creativity to deliver the risk transfer solutions our customers need to support their business. We build relationships based on the fundamental promise that we will be there when they need us and that we have the ability and willingness to pay their claims. Relationships with brokers and clients are closely tracked by management. Management hold regular Broker 'stewardship' meetings and maintain a Customer Development Program with dedicated customer teams encompassing different lines of business. Broker and client performance is regularly monitored and information is included in the MI presented to the Board. Routine topics of discussion with brokers and clients include: • understanding the clients' strategic objectives; • account performance and rating and claims trends; • offering the full spectrum of property and casualty reinsurance products; • evaluation of new and emerging risks and reinsurance solutions; and • discussion of market and competitor trends. The Company's engagement with customers is routinely discussed in the commercial report at the Board and through Board attendance at the strategy meeting. In addition, the Company regularly attends at major conferences such as Baden-Baden, Monte Carlo and Nordic Days. In recent years, a number of initiatives have been introduced as a consequence of discussions at Board and strategy meetings, including: • the development of a small/medium sized broker initiative following strategy meeting discussions; and • the development of new product teams to respond to client needs – for example Cyber, Agriculture and InsureTech.

Principal decisions

We define principal decisions as both those that are material to the Company, but also those that are significant to any of our key stakeholder groups. Further details relating to our key stakeholder groups have been set out in the table on the preceding page.

In making the following principal decisions, the directors considered the outcomes from stakeholder engagement as well as the need to maintain high standards of business conduct and the need to act fairly.

Principal decision 1: New CEO appointment

During the year Louise Rose was appointed CEO of the Company, following Geoff Peach's retirement. For further details please refer to page 3.

Principal decision 2: Dividend

For the first time since the Company commenced trading on 1 January 2014, and following a review of the Company's distributable reserves as at 31 December 2019, the Board recommended to the Company's sole shareholder the payment of a total dividend of $10m in respect of the year.

In setting the level of the dividend to be paid, the directors took into account a number of key commercial considerations including the expectations of the Company's sole shareholder, regulatory requirements and the expectations of the PRA, the Company's business strategy, as well as an amount that could be reasonably sustained annually over the longer term.

In approving the dividend, the Board was satisfied it would not cause current and projected Eligible Own Funds (EOF) under Solvency II requirements to fall below the Company's capital risk appetite and regulatory requirements.

Principal decision 3: Investment Allocations

In November 2019, the directors took the decision to reposition the Company's EUR & GBP fixed income portfolios in order to align them more with TRC's investment strategy for these currencies. This has led to the creation of more favourable average yields for both portfolios and at the same time the crystallization of a number of existing net gains.

For the Company's Euro portfolio, approximately EUR 30m was rotated from German government bonds in to Euro-denominated corporate credit. At the same time, and as part of the wider TRC initiative, the long position in Euros was reduced through the sale of certain EUR assets and replaced through the purchase of USD fixed income.

The GBP portfolio was also repositioned in order to increase the proportion of corporate credit relative to UK government gilts.

Prior to the restructure, the GBP and EUR portfolios represented approximately 15% of the Company's overall portfolio's net asset value. The remaining 85% was represented by the Company's USD portfolio. Due to the USD portfolio's much larger size relative to the combined GBP & EUR portfolios, the yield uptick was relatively small.

The decision followed extensive discussions with the Company's sole shareholder TRC, asset manager BlackRock and the PRA. The directors concluded that this repositioning was appropriate and would not compromise on the existing level of liquidity within the Company's investment portfolio nor require an increase to existing holdings in risk assets.

Financial position and performance

The financial position of the Company at 31 December 2019 is shown in the statement of financial position on page 23, with the trading results shown in the statement of profit or loss and other comprehensive income on page 22 and the statement of cash flows on page 25.

Net earned insurance premium revenue has increased to $226.6m in 2019 in comparison to $215.7m in 2018. Underwriting performance in 2019 improved slightly, with a loss ratio of 64.8%, in comparison to 68.4% in 2018. Net investment income also increased to $18.4m in 2019 (2018: $16.5m) and pre-tax profit improved to $24.1m (2018: profit $10.3m).

The Company made an after-tax net profit of $29.8m for the year (2018: profit $8.9m). The Company experienced three new large losses during the year, namely Typhoon Hagibis, the Lion Air 737 Max crash and the Ethiopian Airlines crash (including the subsequent fleet grounding). The impact of these events on the Company were less than those experienced during 2018 (California wildfires, Asian typhoons and US hurricanes) and significantly less than hurricanes Harvey, Irma & Maria, which dominated 2017.

Principal risks and uncertainties

The directors consider the principal risks and uncertainties facing the Company are as follows:

- Reinsurance risk (including underwriting, retrocession and reserving);
- Liquidity risk;
- Credit risk;
- Market risk;
- Operational risk; and
- Group risk.

A description of these risks together with control practices, is set out in Note 3 to the financial statements. The Company's approach to managing capital under the Solvency II regime is also set out in Note 4.

The Company's critical accounting estimates and judgements relate to reinsurance contract premium, insurance liabilities and reinsurance recoveries. Refer to Note 2.

Key performance indicators

The directors consider that the Company's core financial key performance indicators (KPIs) are as follows:

	2019	2018
Gross written premium	$649.6m	$600.5m
Net earned premium	$226.6m	$215.7m
Loss ratio (a)	64.8%	68.4%
Acquisition cost ratio (b)	18.1%	16.6%
Overhead ratio (c)	15.0%	16.0%
Combined ratio (a+b+c)	97.9%	101.0%
Net investment income*	$18.4m	$16.5m
Net investment income yield (d)	2.6%	1.9%
Profit before tax	$24.1m	$10.3m
Total equity	$574.9m	$520.6m

(a) Net insurance claims/Net earned premium
(b) Net acquisition expense/Net earned premium
(c) Overhead expenses/Net written premium
(d) Net investment return/ Average financial investment
* Gross of net realised gains or losses.

The directors believe the above KPIs reflect the performance of the business during 2019. Whilst the Company experienced a number of new large losses during the year, the risk management framework provided sufficient loss protection. The reduction in the Company's loss ratio during 2019 was driven primarily by the lower impact of new large losses compared to those arising during 2018 following the California wildfires, Asian typhoons and US hurricanes.

The Company's overhead ratio is calculated as the proportion of general overhead expenses, excluding all underwriting acquisition costs and commissions, to Net Written Premiums (NWP). Before the intra-group quota share with TRC, the Company's overhead ratio was 5.9% (2018: 6.4%) and its acquisition ratio 27.7% (2018: 27.9%). Net of the quota share the overhead and acquisition ratios were 15.0% and 18.2% respectively (2018: overhead ratio 16.0% and acquisition ratio 16.6%). The Company's overhead ratio increases after the quota share with TRC as NWP is ceded whilst there is no corresponding recovery made to overheads. However, under the quota share arrangement an over-rider commission is paid to the Company which reduces its acquisition cost ratio.

The Company made an after-tax net profit for the year of $29.8m (2018: profit $8.9m) with other comprehensive income of $24.5m (2018: expense $7.3m). Whilst other comprehensive income represents a significant increase compared to 2018, it was primarily due to unrealized gains on available-for-sale investments within the Company's investment portfolio. Total Comprehensive Income for 2019 was $54.3m (2018: $1.6m) increasing total equity to $574.9m up from $520.6m at the start of the year.

In addition to the above KPIs set out in the table, the directors consider a number of other financial risk and regulatory metrics in assessing the ongoing performance of the Company. These are:

- Budget analysis and performance against budget. This consists of actual year to date gross written premiums by class of business versus the budget and year to date operating expenses compared to budget.

- Prudential/solvency capital requirements and the level of surplus. Under the PRA Solvency II rules, the Company periodically calculates its Solvency Capital Requirement (SCR), in accordance with its risk profile over the current and three year business planning period. This estimate of capital adequacy includes a buffer that enables the Company to absorb the majority of unforeseen losses, without breaching its stated capital appetite. The Company's projected own funds are regularly monitored against its SCR to ensure the level of these does not fall below it.

- Reserving analysis by line of business, key accounts and major named catastrophe (CAT) events. The analysis sets out any changes to the incurred losses for the period, changes to the Incurred But Not Reported (IBNR) amounts and projected ultimate loss ratios.

- Quarterly underwriting tolerance and aggregations monitoring as well as risk appetite and tolerance reporting.

- Quarterly monitoring and reporting of the effective operation of the Company's 60% whole account quota share agreement with TRC to ensure funds are both received and settled within the TRC trust account. The trust account is funded by TRC and assets held in trust as collateral are monitored to ensure they are maintained in accordance with an overall surplus requirement.

- In relation to external reinsurance, all outwards proportional and excess of loss external retrocession recoveries are reported to the Counterparty and Retrocession Risk Committee.

- In addition to net investment income and net investment income yield, the Company's investment portfolio performance and quality is monitored through a number of other key metrics including average credit quality, duration, market yield, book yield and performance relative to the benchmark agreed with the investment managers. The Company investment managers are overseen by the Company's Investment Committee.

- Following the election in December 2019, the directors continue to monitor the potential impact of Brexit which is regularly discussed. Refer to future outlook on Page 11.

The directors were comfortable with the performance of the Company's other financial, risk and regulatory metrics noted above.

By order of the board on 10 March 2020.

D.C. Radford.

David Radford
Director

Directors' report

Registered Number: 8506758

Principal activities of the Company

The principal activity of the Company is to offer pro-rata and excess-of-loss reinsurance on both a treaty and a facultative basis. The Company was incorporated on 26 April 2013 and was authorised by the Prudential Regulation Authority (PRA) on 17 December 2013 (PRA number 600544). The Company commenced underwriting with effect from 1 January 2014.

The Company is capitalised with $500m from its parent, Transatlantic Reinsurance Company (TRC). TRC also provides:

- a capital support guarantee agreement under which TRC agrees that it shall cause the Company to have at all times regulatory capital in an amount no less than 120% of its Solvency II Solvency Capital Requirement (SCR); and
- a 60% whole account quota share agreement between the Company (as reinsured) and TRC (as reinsurer).

Going concern

The Company's financial statements are prepared on a going concern basis. The Company's business activities, together with the factors likely to affect its future development, its financial position, risk management objectives and exposure to risk are described in the Strategic Report and Notes 3 and 4 of the financial statements.

The Company underwrites business across different geographic areas and classes. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully, as discussed within the Future outlook section below.

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Results and dividend

The Company made a profit after tax of $29.8m in 2019 (2018: profit of $8.9m). The directors recommend the payment of a dividend of $10m (2018: Nil) for the year ended 31 December 2019. No dividends were paid in 2019. Further details in relation to the dividend are set out in Note 30.

Financial instruments

The business of the Company includes the use of financial instruments. Details of the Company's risk management objectives, policies and exposures to risk relating to financial instruments are set out in Note 3 in the financial statements.

Events since the statement of financial position date

There were no non-adjusting or adjusting events after the statement of financial position date except in relation to the dividend as noted above. Further details in relation to the dividend and the Company's dividend policy are set out in Note 30.

Future outlook

High level strategies are determined by the directors of the Company. The directors consider that the Company's principal activities will continue unchanged for the foreseeable future.

Following the UK's departure from the European Union on 31 January 2020, there remain a number of socio-political uncertainties, particularly from a regulatory perspective. The principal risks of Brexit to the Company are the ability to access EU reinsurance markets in the future and the devaluation of Sterling. The non-UK European risks in the current portfolio do not represent a material portion of the Company's portfolio and the currency risk associated with Brexit is managed by the capitalisation of the Company being held in USD and matching the insurance liabilities with assets in the same currency. However, wider market concerns over the acceptability of UK registered paper continue.

However, given the recent departure of the UK and the many unknowns, Brexit continues to be an area of considerable management focus as the direction becomes clearer. Events, including the impact on the Company, are assessed on a frequent basis by the Company's directors and formally discussed at the Company's Brexit Committee to ensure the Company is well positioned to execute its business plan and that its strategy remains appropriate and robust.

At present the directors do not believe Brexit poses a significant threat to prevent the Company's agreed strategy and business plan from being executed successfully and for the continuation of the business on a going concern basis for the near to medium term.

Directors of the Company

The current directors are shown on page 1.

Directors' interests

There are no directors' interests in the Company (2018: None).

Independent NEDs

The Board is of the opinion that Stewart Laderman, Mark Stephen and Mark Winlow remain independent in line with the definition set out in the UK Corporate Governance Code 2018.

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the Company's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

Directors' responsibilities in respect of internal controls

The directors have the responsibility for ensuring that an adequate system of internal controls is established and maintained.

Re-appointment of auditors

As the Company does not intend to hold an Annual General Meeting, Ernst & Young LLP will be deemed to have been reappointed under section 487(2) of the Companies Act 2006.

By order of the board on 10 March 2020

D.C. Radford

David Radford
Director

Directors' responsibilities statement

The directors are responsible for preparing the Strategic report, Directors' report and the financial statements in accordance with applicable UK law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report to the members of TransRe London Limited

Opinion

We have audited the financial statements of TransRe London Limited for the year ended 31 December 2019 which comprise the Statement of profit or loss and other comprehensive income, the Statement of financial position, the Statement of changes in equity, the Statement of cash flows and the related notes 1 to 30, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs require us to report to you where:

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

Overview of our audit approach

Key audit matters	• Valuation of gross incurred but not reported (IBNR) claim reserves (including recoveries on shared group reinsurance programmes) • Revenue recognition in respect of estimated premium income (EPI) and premium writing/earning patterns
Materiality	• Materiality is $11.0m (2018: $10.4m), which represents 1.9% (2018: 2.0%) of equity

Key audit matters

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

Risk:

Valuation of gross incurred but not reported (IBNR) claim reserves ($484.0m, 2018: $456.4m) (including IBNR recoveries on shared group reinsurance programmes $32.8m, 2018: $35.8m)

Refer to the Strategic Report (page 2); Accounting policies (page 28); and Notes 2, 13 and 22 of the Financial Statements.

The valuation of the gross IBNR claim reserves requires management to exercise a significant amount of judgement.

Inappropriate assumptions and reserve projections may result in the reserves reported in the Financial Statements not falling within a reasonable range of estimates, meaning that they are materially misstated.

Our response to the risk:

To obtain sufficient audit evidence to conclude on the appropriateness of the gross IBNR claim reserves and the related reinsurance recoveries we:

- understood, assessed and tested the design and operating effectiveness of the key controls in the Company's reserving process;
- evaluated management's reserving methodology, supported by our actuarial specialists, as well as challenged the assumptions, including ultimate loss ratios, and sensitivities used in the calculation of the gross IBNR claim reserves. Our actuarial specialists then performed an independent re-projection of the Company's gross IBNR claim reserves to calculate a reasonable range of estimates which we then compared to management's

best estimate. We then validated adjustments between management's reserving exercise and the amounts recorded in the Company's statement of financial position;

- understood management's approach to reserving for the 2019 catastrophe losses, as well as benchmarked the development of the Company's booked estimates to market peers;

- understood management's approach in respect of reinsurance recoveries. This included verifying the accuracy and recoverability for sample of reinsurance recoveries recorded at year-end; and

- validated the integrity of the data used in the actuarial exercise by agreeing a sample of the incurred data back to source systems.

Key observations communicated to the Audit Committee:

We concluded, based on our audit work performed, that the judgements applied by management in calculating the gross IBNR claim reserves and corresponding reinsurance recoveries are reasonable based on the information available at the date of this report. The Company's booked gross IBNR reserves and corresponding reinsurance recoveries lie within what we consider to be a reasonable range of estimates.

Risk:

Revenue recognition in respect of estimated premium income and premium writing/earning patterns (Written premium - $649.6m, 2018: $600.5m. Earned premium - $614.0m, 2018: $591.7m, Estimated premium receivable balance - $251.8m, 2018: $197.4m).

Refer to the Strategic Report (page 2); Accounting policies (page 27); and Note 2 of the Financial Statements.

We identified two key audit matters in respect of the Company's revenue recognition.

The first relates to Estimated Premium Income (EPI). This arises where the ultimate premium recognised for inwards reinsurance agreements is estimated. This occurs for contracts where pricing is based on variables which are not known with certainty at the point of binding the contract. These estimates are judgemental and therefore could result in a material misstatement.

The second relates to the writing and earning patterns applied to the EPI to derive the accounting result in the financial statements. The writing patterns are applied to the EPIs as the underlying risks which the Company is reinsuring will attach during the course of the contract and are therefore not fully written on contract inception. The earning patterns are applied in order to reflect the risk profile of the underlying contracts of insurance covered by the reinsurance agreement.

The application of these patterns is judgemental and they are often non-linear in nature. There is a risk that the writing and earning patterns are inaccurate and/or applied incorrectly to EPI amounts, resulting in a material misstatement of premium revenue.

Our response to the risk:

To obtain sufficient audit evidence to conclude on the appropriateness of the premium estimates booked and the writing and earning patterns we have:

- understood, assessed and tested the design and operating effectiveness of the key controls in the Company's premium recognition process;
- tested a sample of policies to validate that management's EPI is appropriate and reflects all available information known as at the Statement of financial position date;
- analysed the development of EPI recorded in prior periods to identify if there is any indication of management bias; and
- reviewed the writing and earning patterns applied to a sample of contracts to ensure that they are appropriate and consistent with the risk profile of the underlying policies of insurance.

Key observations communicated to the Audit Committee:

We concluded, based on our audit work performed, that the EPI recorded by management is appropriate and that the writing and earning patterns applied are appropriate and consistent with the underlying risk profile of the policies. We also concluded that premium revenue is recorded appropriately.

An overview of the scope of our audit

Tailoring the scope

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

TransRe London Limited is a subsidiary of Transatlantic Reinsurance Company (TRC) which is based in the United States. TRC operates centralised investment and IT functions benefiting TRC and its subsidiaries.

In establishing the overall approach to the audit of the Company, we determined the type of work that needed to be performed in the UK by us, as the Company engagement team, or in the US by the TRC auditors, Ernst & Young LLP US (EY US), operating under our instruction. Where the work was performed by the TRC auditors, we determined the level of involvement we needed to have in the audit work to be able to conclude whether sufficient appropriate audit evidence had been obtained. We had regular interaction with the EY US team.

The Audit Engagement Partner and senior members of the Company engagement team reviewed the audit approach and findings of the EY US team on investments and IT in detail. This, together with additional procedures performed at a Company level, as described above, gave us the assurance we needed for our opinion on the Company's financial statements.

Changes from the prior year

There have been no changes in the scope of our audit from the prior year.

Our application of materiality

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

Materiality

We determined materiality for the Company to be $11.0 million (2018: $10.4 million), which is 1.9% (2018: 2.0%) of equity. We believe that equity provides us with the most appropriate basis for calculating materiality as this is the metric upon which the users of the financial statements focus.

During the course of our audit, we reassessed initial materiality and have not made any changes from that determined at the planning stage.

Performance materiality

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 50% (2018: 50%) of our materiality, namely $5.5m (2018: $5.2m). We have set performance materiality at this percentage primarily due to the level of unadjusted audit differences noted in prior periods.

Reporting threshold

We agreed with the Risk and Audit Committee that we would report to them all uncorrected audit differences in excess of $0.5m (2018: $0.5m), which is set at 5% of materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

Other information

The other information on pages 2 to 12 comprises the information included in the Report and financial statements other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or Directors' report.

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

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

Responsibilities of directors

As explained more fully in the Directors' responsibilities statement on page 13, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

The objectives of our audit:

- in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management; and

- in respect to irregularities, considered to be non-compliance with laws and regulations, are to obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements ('direct laws and regulations'), and perform other audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements. We are not responsible for preventing non-compliance with laws and regulations and our audit procedures cannot be expected to detect non-compliance with all laws and regulations.

Our approach was as follows:

- we obtained a general understanding of the legal and regulatory frameworks that are applicable to the company and determined that the direct laws and regulations related to elements of company law and tax legislation, and the financial reporting framework. Our considerations of other laws and regulations that may have a material effect on the financial statements included permissions and supervisory requirements of the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA');

- we obtained a general understanding of how the Company complies with these legal and regulatory frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters. We also reviewed correspondence between the Company and UK regulatory bodies; reviewed minutes of the Board and Risk and Audit Committee; and gained an understanding of the Company's approach to governance, demonstrated by the Board's approval of the Company's governance framework and the Board's review of the Company's risk management framework ('RMF') and internal control processes;

- for direct laws and regulations, we considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items;

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

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

- we assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur, by considering the controls that the Company has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud. We also considered areas of significant judgement and the impact these have on the control environment. Where this risk was considered to be higher, we performed audit procedures to address each identified fraud risk specifically around the valuation of IBNR claim reserves and Revenue recognition in respect of estimated premium income and premium writing/earning patterns. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditors/audit-assurance/auditor-s-responsibilities-for-the-audit-of-the-fi/description-of-the-auditor%E2%80%99s-responsibilities-for. This description forms part of our auditor's report.

Other matters we are required to address

- We were appointed by the Company on 26 March 2014 to audit the financial statements for the period ending 31 December 2013 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is 7 years, covering the years ending 31 December 2013 to 2019.

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

- The audit opinion is consistent with our additional reporting to the Risk and Audit Committee.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst + Young LLP

Robert Bruce (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
10 March 2020

Statement of profit or loss and other comprehensive income
for the year 31 December 2019

	Notes	2019 $'000	2018 $'000
Income			
Insurance premium revenue		613,999	591,676
Insurance premium ceded to reinsurers		(387,379)	(375,985)
Net earned insurance premium revenue	7	**226,620**	**215,691**
Net investment income	8	18,391	16,460
Net realised gains/(losses) on financial assets	8	3,468	(1,387)
Net investment return	8	**21,859**	**15,073**
Foreign exchange losses	6	(402)	(2,172)
Total income		**248,077**	**228,592**
Expenses			
Insurance claims		379,496	386,660
Insurance claims recovered from reinsurers		(232,688)	(239,216)
Net insurance claims	8	**146,808**	**147,444**
Net operating expenses	15	77,212	70,824
Total expenses		**224,020**	**218,268**
Profit before tax		**24,057**	**10,324**
Income tax	10	5,726	(1,431)
Profit for the year		**29,783**	**8,893**
Other comprehensive income Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Net unrealised gains/(losses) on available-for-sale investments	20	30,285	(8,827)
Tax on other comprehensive (expense)/income	10	(5,775)	1,501
Other comprehensive income/(expense) for the year		**24,510**	**(7,326)**
Total comprehensive income for the year		**54,293**	**1,567**

Notes 1 to 30 form an integral part of these financial statements.

Statement of financial position
as at 31 December 2019

	Notes	2019	2018
		$'000	$'000
Assets			
Financial investments	12	775,709	753,120
Reinsurance assets	13	709,195	673,117
Deferred acquisition costs	16	69,181	56,146
Deferred tax assets	23	7,845	4,345
Current tax assets	23	5,823	-
Other receivables, including insurance receivables	17	361,567	305,743
Cash and cash equivalents	18	93,571	57,731
Total assets		**2,022,891**	**1,850,202**
Equity			
Share capital	19	500,000	500,000
Other reserves	20	12,928	(11,582)
Retained earnings	21	62,006	32,223
Total equity		**574,934**	**520,641**
Liabilities			
Insurance liabilities	22	1,144,653	1,082,941
Current tax liabilities	23	-	192
Other payables, including insurance payables	24	303,304	246,428
Total liabilities		**1,447,957**	**1,329,561**
Total equity and liabilities		**2,022,891**	**1,850,202**

Notes 1 to 30 form an integral part of these financial statements.

The financial statements on pages 22 to 25 were approved by the Board of Directors on 10 March 2020 and signed on its behalf by:

David Radford
Director
10 March 2020

Statement of changes in equity
as at 31 December 2019

	Share capital $'000	Other reserves $'000	Retained earnings $'000	Total $'000
At 1 January 2019	500,000	(11,582)	32,223	520,641
Profit for the year	-	-	29,783	29,783
Other comprehensive income	-	24,510	-	24,510
Total comprehensive income for the year	-	24,510	29,783	54,293
At 31 December 2019	**500,000**	**12,928**	**62,006**	**574,934**

	Share capital $'000	Other reserves $'000	Retained earnings $'000	Total $'000
At 1 January 2018	500,000	(4,256)	23,330	519,074
Profit for the year	-	-	8,893	8,893
Other comprehensive expense	-	(7,326)	-	(7,326)
Total comprehensive (expense)/income for the year	-	(7,326)	8,893	1,567
At 31 December 2018	**500,000**	**(11,582)**	**32,223**	**520,641**

Statement of cash flows
for the year ended 31 December 2019

	Notes	2019	2018
		$'000	$'000
Cash flows from operating activities			
Profit before tax		24,057	10,324
Adjustments for non-cash items:			
Foreign currency exchange losses	6	402	2,172
Net investment return	8	(21,859)	(15,073)
Movement of operating assets and liabilities			
Decrease/(increase) in reinsurance assets	12	(36,078)	(54,653)
Decrease/(increase) in deferred acquisition costs	15	(13,035)	(1,996)
Increase/(decrease) in insurance liabilities	21	61,712	87,548
Decrease/(increase) in other receivables, including insurance receivables	16	(56,236)	(10,905)
Increase/(decrease) in other payables, including insurance payables	23	56,465	15,016
Net sales/(purchases) of financial investments	11	9,185	(88,745)
Interest received		20,208	18,177
Income tax paid		(9,168)	-
Net cash generated from operating activities		**35,654**	**(38,135)**
Net increase/(decrease) in cash and cash equivalents		**35,654**	(38,135)
Cash and cash equivalents at 1 January		57,731	97,332
Effect of exchange rate changes on cash and cash equivalents		186	(1,466)
Cash and cash equivalents at 31 December	17	**93,571**	**57,731**

The Company includes cash flows from the purchase and disposal of financial investments in its operating cash flows as these transactions are generated by the cash flows associated with the origination and settlement of insurance contract assets and liabilities or capital requirements to support underwriting.

Notes to the financial statements

1. Accounting policies

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

Basis of preparation

The Company is incorporated in the United Kingdom and registered in England and Wales. The Company is limited by shares. The registered office is Corn Exchange, 55 Mark Lane, London, United Kingdom, EC3R 7NE. The financial statements are presented in US dollars, which is also the Company's functional currency. The financial statements are rounded to the nearest thousand ($'000).

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the European Union (EU). The financial statements also comply with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost basis except that certain assets and liabilities are measured at revalued amounts or fair values, as described in the accounting policies below.

1.a) Foreign currencies

Foreign currency transactions and balances

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in non-US dollar currencies, are recognised in the statement of profit or loss.

Monetary assets and liabilities held in non-US dollar currencies at year end have been retranslated at the prevailing rate at the reporting date. The foreign exchange gains and losses resulting from the settlement of such transactions are generally recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Exchange components of gains or loss on non-monetary items are recognised along with the corresponding gains or losses in other comprehensive income or profit or loss, where applicable.

Translation to Functional Currency

The operating results and financial position of each non-US dollar ledger are translated into US dollars as follows:

- Monetary assets and liabilities for each Statement of financial position presented are translated at the exchange rate at the date of each Statement of financial position;
- Non-monetary assets are measured at historic rate;
- Income and expenses for each Statement of profit or loss and comprehensive income are translated at the average exchange rates for each period; and
- All resulting exchange differences are recognised in profit or loss.

1.b) Insurance contracts

The company has complied with the requirements of IFRS 4 Insurance Contracts. The Company does not discount its insurance liabilities.

Product classification

A contract is recognised as an insurance contract if it involves the assumption by the Company of significant insurance risk. Insurance risk is transferred to the Company where it agrees to compensate a policyholder if a specified uncertain event, other than those caused by changes in a financial variable, such as interest and foreign exchange rates, adversely affects the policyholder. Once a contract has been classified as an insurance contract, it remains an insurance contract until derecognised, even if the insurance risk becomes insignificant during this period.

Any contract that does not involve the transfer of significant insurance risk is accounted for as an investment contract. Transactions under investment contracts are not recognised through the Statement of profit or loss and other comprehensive income, with the exception of any fee income and related claims handling costs associated with these contracts, but are included within other receivables or payables as appropriate.

1.c) Premiums

Written premiums, gross of commissions payable to intermediaries, comprises the estimated written premiums on contracts entered into in a financial year, regardless of whether such amounts may relate in whole or in part to a later financial year, exclusive of duties levied on premiums. In respect of the quota share arrangements the assessment of premiums is in respect of the underlying premiums entered into by the statement of financial position date under such contracts. Premiums written include adjustments to premiums written in prior accounting periods and estimates for "pipeline" premiums (premiums written but not reported to the Company by the Statement of financial position date). Premiums are earned in the Statement of profit or loss over the term of the related reinsurance agreement, in line with the risk profile of the underlying contracts of insurance. Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related inwards insurance business to which they relate. The provision for unearned premiums comprise the amount representing that part of the gross premiums written which is estimated to be earned in the following or subsequent financial years, this is computed separately for each insurance contract based on the profile of insurance risk.

1.d) Acquisition Costs

Acquisition costs comprise of commissions and direct variable costs connected with the acquisition or renewal of reinsurance and insurance contracts.

1.e) Deferred acquisition costs (DAC)

The proportion of acquisition costs incurred that corresponds to the proportion of gross premiums written which are unearned at the reporting date are classified as deferred acquisition costs (DAC) in the Statement of financial position. Related reinsurance commissions deferred are not netted against DAC but presented under Statement of financial position liabilities (accruals and deferred income). Deferred acquisition and deferred reinsurance commission costs are amortised proportionally on a contract-by-contract basis in line with the earning of premiums on the policy.

An impairment review of DAC 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 recognised in the Net operating expenses in the Statement of profit or loss. DAC is also considered in the liability adequacy test for each reporting period. Refer to accounting policy on liability adequacy test (Note 1.i).

1.f) Contingent commission

Contingent commissions consist of sliding scale commission assets and liabilities whereby the contract states that a sliding scale commission is payable or receivable dependent upon the loss ratio of the contract, with the aim of meeting the agreed combined ratio. Assets and liabilities are established to record the difference between commissions received or paid and expected commissions due or payable upon expiry of the contract, based upon the loss ratio at the accounting measurement date. Contingent commissions are included within acquisition costs in net operating expenses. Refer to Note 15.

1.g) Claims incurred

Claims incurred comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses, together with any other adjustments to claims from previous years. Where applicable, deductions are made for salvage and other recoveries.

Claims provisions and related reinsurance recoveries

The Company writes a variety of insurance policies whose major risk factors materially impact the variability of the Company's claim reserves. The Company's portfolio has exposure to long tail casualty lines of reinsurance business, including some high excess layers of coverage in long-tail classes such as Professional Indemnity and Directors and Officers. At the primary insurance level there are significant risk factors which contribute to the variability and unpredictability of loss trends and loss emergence patterns. As a reinsurer, the Company faces additional risk factors that are created by its dependence upon the claims reserving and reporting practices of its cedants, which vary greatly by size, specialisation, degree of sophistication, and country of operation, and are subject to change without notice. It is also inherently more difficult for reinsurers to quantify the unpaid liabilities under long-tail coverages because it takes longer for credible loss experience to emerge as compared to primary companies. Similarly, the loss experience under non-proportional coverages can take relatively longer to emerge. Given the composition of the Company's portfolio, which includes exposure to high excess liability layers and casualty lines of business, the loss cost trends are especially difficult to assess. In addition, a reinsurer's loss experience may be subject to shocks from a relatively small number of large events, which can impact several layers of coverage across different lines of business and across different cedants. The variability in the loss cost trends, the difficulty inherent in estimating loss development patterns and tail factors for low frequency/high severity classes, and the correlation across reinsurance coverages and cedants all contribute to the risk of adverse deviation in the Company's loss reserves.

The Company continually assesses the reserve adequacy of IBNR in light of factors such as the current levels of reserves for reported claims and expectations with respect to reporting lags, catastrophe events, historical data, legal developments, and economic conditions, including the effects of inflation. Standard actuarial methodologies, such as the paid loss development method, the reported loss development method and the Bornhuetter-Ferguson method, are employed to estimate ultimate losses. Each method incorporates the inherent lag from the time claims occur to when they are reported to an insurer and to when the insurer reports the claims to their reinsurers. Certain actuarial methodologies may be more appropriate than others in instances where this lag may not be consistent from period to period. Consequently, additional actuarial judgment is employed in the selection of methodologies to best incorporate that potential impact. Information gathered through underwriting and claims audits is also considered. The Company does not discount its insurance liabilities.

The estimation of the Company's loss reserves is made more difficult and subjective in view of changing legal and economic environments that impact the development of claims. Such factors, both internal and external, which contribute to the variability and unpredictability of loss costs, include trends relating to jury awards, social trends, medical inflation, worldwide economic conditions, tort reforms, court interpretations of coverages, the regulatory environment, underlying policy pricing, terms and conditions and claims handling, among others. Consequently quantitative techniques frequently have to be supplemented by subjective considerations and managerial judgment. In addition, trends that have affected development of liabilities in the past may not necessarily occur or affect liability development to the same degree in the future. Due to the inherent uncertainties in the process of establishing these liabilities the actual ultimate loss from a claim is likely to differ, perhaps materially, from the liability initially recorded.

1.h) Reinsurance recoveries

Insurance liabilities are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross claims provisions, having due regard to collectability. Reinsurance recoveries in respect of estimated claims incurred but not reported are assumed to be consistent with the historical pattern of such recoveries, adjusted to reflect changes in the nature and extent of the Company's reinsurance programme over time. An assessment is also made of the recoverability of reinsurance recoveries having regard to market data on the financial strength of each of the reinsurance companies.

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

1.i) Liability adequacy test

At the date of each statement of financial position, a liability adequacy test is performed to ensure the adequacy of insurance liabilities, net of related deferred acquisition costs, by employing the current estimates of future cash flows under its insurance contracts. If as a result of these tests, the carrying amount of the Company's insurance liabilities is found to be inadequate in comparison to the value of these future cash flows, the deficiency is charged to the statement of profit or loss for the period by establishing an unexpired risk provision. The tests are performed at a whole account level at the statement of financial position date to ensure the estimated costs of future claims and related deferred acquisition costs do not exceed the unearned premium provision. At present the Company does not have any unexpired risk provision in the accounts (2018: Nil).

1.j) Financial Liabilities

All financial liabilities are recognised initially at fair value less directly attributable costs.

The Company's financial liabilities include insurance payables, direct insurance and reinsurance creditor, other creditors and accruals. After initial measurement, financial liabilities are subsequently measured at amortised cost.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. 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 as an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the carrying amount is recognised in the Statement of profit or loss and Other comprehensive income (OCI).

1.k) Financial assets

A financial asset is initially recognised on the date the Company becomes committed to purchase the asset at its fair value plus directly related acquisition costs, except for those assets classified as fair value through profit or loss where acquisition costs are recognised immediately in the statement of profit or loss. A financial asset is derecognised when the Company's rights to receive cash flows from the asset have expired or where the risks and rewards of ownership have been substantially transferred by the Company.

On initial recognition, the Company classifies its financial assets into one of the following categories: financial assets at fair value through profit or loss, loans and receivables or available-for-sale financial assets. For financial instruments classified in categories that require them to be measured at their fair value at the reporting date, fair value is determined with reference to the quoted market bid prices, or by using an appropriate valuation model. All financial investments are classified as available for sale.

(i) Available-for-sale (AFS)

Non-derivative financial assets that are not classified as designated at fair value through profit or loss or loans and receivables are classified as available-for-sale (AFS). Financial assets can be designated as AFS on initial recognition. They are subsequently measured at fair value, with changes in fair value (after adjusting for interest accruals, dividends receivable and foreign exchange gains and losses on monetary items) reported in a separate component of shareholders' equity until disposal, when the cumulative gain or loss is recognised in the statement of profit or loss.

Where appropriate, interest receivable on AFS assets is recognised in profit or loss, using the effective interest method, and dividends receivable are recognised in profit or loss when a right to receive payment is established.

Foreign exchange gains and losses arising on AFS debt instruments is recognised in profit or loss. AFS debt instruments are treated as if they were carried at amortised cost in the foreign currency. Accordingly, foreign exchange differences resulting from changes in amortised cost are recognised in profit or loss and other changes in carrying amount are initially recognised in other comprehensive income.

Foreign exchange gains and losses arising on AFS equity instruments form part of the change in the fair value of the instrument, which is recognised in other comprehensive income.

ii) Net investment return

Net investment income recognised in the Statement of profit or loss includes net investment income (comprising of interest, dividends and the amortisation of any discount or premium on available-for-sale debt securities for the period), realised gains and losses, net of interest payable, investment expenses and impairment losses on financial assets.

Interest income is recognised as accrued based on the effective interest method. Dividend income is recognised as the Company's right to those dividends becomes unconditional.

Acquisition costs related to the purchase of bonds are capitalised and expensed over duration of the investment.

(iii) Recognition and derecognition of financial assets and financial liabilities

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the contract. A financial asset is derecognised when either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition under a combination of risks and rewards and control tests. A financial liability is derecognised when it is extinguished which is when the obligation in the contract is discharged, cancelled or expired.

(iv) Offsetting of financial instruments

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

(v) Fair value of investments

The fair value of a financial instrument is the amount that would be received to sell an asset or settle a liability in an orderly transaction between willing, able and knowledgeable market participants at the measurement date.

The degree of judgement used in measuring the fair value of financial instruments generally correlates with the level of pricing observability. Financial instruments with quoted prices in active markets generally have more pricing observability and less judgement is used in measuring fair value. Conversely, financial instruments traded in other-than-active markets or that do not have quoted prices have less observability and are measured at fair value using valuation models or other pricing techniques that require more judgement. An active market is one in which transactions for the assets being valued occur with sufficient frequency and volume to provide pricing information on an ongoing basis. An other-than-active market is one in which there are few transactions, the prices are not current, price quotations vary substantially either over time or among market makers, or in which little information is released publicly for the asset being valued. Pricing observability is affected by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction and general market conditions.

The Company's management is responsible for the determination of the fair value of the financial assets and the supporting methodologies and assumptions. With respect to financial investments, the Company employs independent third-party valuation service providers to gather, analyse and interpret market information and derive fair values based upon relevant methodologies and assumptions for individual instruments. When the Company's valuation service providers are unable to obtain sufficient market-observable information on which to estimate the fair value for a particular security, fair value is determined either by requesting from brokers who are knowledgeable about these securities to provide a quote, which is generally non-binding, or by employing widely accepted internal valuation models.

The Company maximises the use of observable inputs and minimises the use of unobservable inputs when measuring fair value. Whenever available, the Company obtains quoted prices in active markets for identical assets at the date of the Statement of financial position to measure at fair value fixed maturity securities in its AFS portfolios. Market price data are generally obtained from exchange or dealer markets.

Fair values for fixed maturity securities based on observable market prices for identical or similar instruments implicitly include the incorporation of counterparty credit risk. Fair values for fixed maturity securities based on internal models incorporate counterparty credit risk by using discount rates that take into consideration cash issuance spreads for similar instruments or other observable information.

Assets recorded at fair value in the Statement of financial position are measured and classified in a hierarchy for disclosure purposes. This hierarchy consists of three levels based on the observability of inputs available in the marketplace and is used to classify the fair values as discussed below:

- Level 1: Fair value measurements that are quoted prices in active markets that the Company has the ability to access for identical assets. Market price data is generally obtained from exchange or dealer markets.

- Level 2: Fair value measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset, either directly or indirectly. Level 2 inputs include quoted prices for similar assets in active markets and inputs other than quoted prices that are observable for the asset, such as interest rates and yield curves that are observable at commonly quoted intervals.

- Level 3: Fair value measurements based on valuation techniques that use significant inputs that are unobservable. These measurements may be made under circumstances in which there is little, if any, market activity for the asset.

The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgement. In making the assessment, the Company considers factors specific to the asset. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

For assets and liabilities that are measured at fair value in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Unobservable inputs, significant to the measurement and valuation of mortgage-backed and asset-backed securities, are generally used in the income approach, and include assumptions about prepayment speed and collateral performance, including default, delinquency and loss severity rates. Significant changes to any one of these inputs, or a combination of inputs, could significantly change the fair value measurement for these securities.

(vi) Impairment

Each quarter the Company evaluates its investments portfolio for impairment. The determination that a security has incurred an impairment in value requires the judgement of the Company's management and consideration of the fundamental condition of the issuer, its near-term prospects and all relevant facts and circumstances. Significant factors considered include:

- the severity of the decline in fair value;
- the length of time the fair value is below cost;
- the issuer's financial condition, including profitability and cash flows;
- the issuer's credit status;
- the issuer's specific and general competitive environment;
- published reports;
- the general economic environment;
- the regulatory and legislative environment; and
- various other factors that may arise or provide evidence.

If it is determined that impairment exists, the Company recognises the impairment as follows:

- AFS: For AFS financial assets, the company assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. In the case of debt instruments classified as AFS, the impairment is assessed based on the same criteria as financial assets carried at amortised cost. When there is evidence of impairment an impairment loss is recognised in profit or loss.

  AFS debt securities in an unrealised loss position are evaluated for impairment if they meet any of the following criteria: (i) they are trading at a fair value which represents a discount of at least 20 percent to amortised cost for an extended period of time (nine consecutive months or longer); (ii) there has been a negative credit or news event with respect to the issuer that could indicate the existence of impairment; or (iii) the Company intends to sell the security and it is more likely than not that the Company will not recover its value calculated on an amortised cost basis.

  The impairment loss is the difference between the purchase value of the asset, less any impairment loses previously recognised in the Statement of profit or loss, and its fair value at the measurement date. This amount represents the cumulative loss recorded in other comprehensive income that is reclassified to the Statement of profit or loss.

  Impairment losses on AFS debt instruments are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. For example if, in a subsequent period, the fair value of an AFS debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the Statement of profit or loss, the impairment loss is reversed through the Statement of profit or loss.

Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised in OCI.

- Financial assets carried at amortised cost: The impairment loss is the difference between the amortised cost of the loan or receivables and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount through the use of an allowance account.

1.l) Provisions

Provisions are recognised 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. A provision is measured at the best estimate of the expenditure that the Company would require in order to settle its obligation at the end of the reporting period or transfer it to a third party at this point.

1.m) Cash and cash equivalents

The Company has applied the indirect method for preparing the Statement of cash flows. This statement shows the movement in cash and cash equivalents for the period.

Cash and cash equivalents comprises cash in hand and on demand deposits with banks, together with short-term highly liquid investments that are readily convertible into known amounts of cash and that are not subject to a significant risk of a change in value. Such investments are classified as cash equivalents where they have maturity dates of three months or less from the date of acquisition. Cash held in accounts with investment fund managers or custodians are treated as cash equivalents.

For the purposes of preparing the Statement of cash flows, cash and cash equivalents are stated net of outstanding bank overdrafts as these are considered an integral part of the Company's cash management.

1.n) Insurance and reinsurance receivables

Insurance and reinsurance receivables are recognised when they become due to the Company (typically when the insurance contract is written) and are measured on initial recognition at the fair value of the consideration receivable. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the Net operating expenses. Insurance and reinsurance receivables include estimates for pipeline premiums.

1.o) Insurance and reinsurance payables

Insurance and reinsurance payables are recognised when they are due to be paid (typically as the expenses under the insurance contract is incurred) and measured on initial recognition at value of the expense payable.

1.p) Tax

Current income tax liabilities represent the sum of the tax currently payable. The tax payable is calculated based on taxable profit for the period using tax rates and tax laws enacted or substantively enacted at the year-end reporting date, together with any adjustments to tax payable in respect of prior periods. Taxable profit for the period can differ from that reported in the Statement of profit or loss and other comprehensive income due to non-taxable income and certain items which are not tax deductible, or which are deferred to subsequent periods. Tax provisions on the net change in unrealised gains/losses on investments classified as AFS are recognised in other comprehensive income or loss.

Deferred tax is recognised on all temporary differences between the assets and liabilities in the Statement of financial position and their tax base. Deferred tax assets or liabilities are accounted for using the balance sheet liability method. Deferred tax assets are recognised to the extent that realising the related tax benefit through future taxable profits is probable and are reassessed each year for recognition.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, and when the deferred income taxes relate to the same fiscal authority.

1.q) Dividends

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

1.r) Accounting developments

The International Accounting Standards Board (IASB) has issued the following new or amended standards and interpretations which apply from the dates shown. The Company has decided not to early adopt any of these standards, interpretations or amendments where this is permitted.

- **IFRS 9 Financial Instruments (2018):** In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

  The Company plans to defer application of IFRS 9 until the effective date of the new insurance contracts standard (IFRS 17) of 1 January 2021, applying the temporary exemption from applying IFRS 9 as introduced by the amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts.

  The Company concluded that it qualified for the temporary exemption from IFRS 9 because its activities are predominantly connected with insurance. As at 31 December 2015, the Company's gross liabilities arising from contracts within the scope of IFRS 4 represented 97% of the total carrying amount of all its liabilities.

Since 31 December 2015, there has been no change in the activities of the Company that requires reassessment of the use of the temporary exemption.

As the Company is applying the temporary exemption to IFRS 9, the Company has set out the following table below to disclose the fair value at the end of the reporting period and the amount of change in the fair value during that period. The table sets out two groups of financial assets defined as Solely Payments of Principal and Interest (SPPI) and all other financial assets.

2019	**SPPI financial assets**		**Other financial assets**	
Financial Assets	**Fair Value**	**Fair value change**	**Fair Value**	**Fair value change**
	$'000	**$'000**	**$'000**	**$'000**
Cash and Cash Equivalents	93,571	-	-	-
Debt Securities	738,793	23,756	-	-
Short term receivables	361,567	-	-	-
Equity Securities	-	-	36,916	6,528
Total Assets	**1,193,931**	**23,756**	**36,916**	**6,528**

			Credit Rating			
Asset Type	**Total**	**AAA**	**AA/A**	**BBB**	**BB/B**	**Unrated**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Cash and Cash Equivalents	93,571	-	63,815	29,756	-	-
Debt Securities	738,793	33,422	581,250	123,089	1,032	-
Short term receivables	361,567	1,731	243,500	49,613	-	66,723
Equity Securities	36,916	-	-	-	-	36,916
Total Assets	**1,230,847**	**35,153**	**888,565**	**202,458**	**1,032**	**103,639**

2018	**SPPI financial assets**		**Other financial assets**	
Financial Assets	**Fair Value**	**Fair value change**	**Fair Value**	**Fair value change**
	$'000	**$'000**	**$'000**	**$'000**
Cash and Cash Equivalents	57,731	-	-	-
Debt Securities	722,734	(7,227)	-	-
Short term receivables	305,743	-	-	-
Equity Securities	-	-	30,387	(1,601)
Total Assets	**1,086,208**	**(7,227)**	**30,387**	**(1,601)**

			Credit Rating			
Asset Type	**Total**	**AAA**	**AA/A**	**BBB**	**BB/B**	**Unrated**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Cash and Cash Equivalents	57,731	-	21,555	36,176	-	-
Debt Securities	722,734	103,089	503,100	116,545	-	-
Short term receivables	305,743	-	126,747	-	-	178,996
Equity Securities	30,387	-	-	-	-	30,387
Total Assets	**1,116,595**	**103,089**	**651,402**	**152,721**	**-**	**209,383**

All assets are considered to be low risk under IFRS 9.

In order to comply with the disclosures required for comparability with entities that are applying IFRS 9, the table above sets out the change in fair value of the Company's financial assets. Assets are presented in two groups as follows:

- financial assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principle amount outstanding, excluding any financial assets that meet the definition of held for trading under IFRS 9 or that are managed and whose performance is evaluated on a fair value basis; and

- all other financial assets.

- **IFRS 17 Insurance Contracts (2021):** In May 2017, the IASB issued the final standard on insurance contracts IFRS 17- *Insurance Contracts* (IFRS 17). IFRS 17 will be effective for annual reporting periods beginning on or after 1 January 2021. Once effective, IFRS 17 replaces IFRS 4 Insurance Contracts that was issued in 2005. The overall objective of IFRS 17 is to provide a more useful and consistent accounting model for insurance contracts among entities issuing insurance contracts globally. IFRS 17 applies to all types of insurance contracts (e.g. life, non-life, direct insurance & re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

  The IFRS 17 model combines a current balance sheet measurement of insurance contract liabilities with the recognition of profit over the period that services are provided. Entities will have an option to present the effect of changes in discount rates either in profit and loss or in other comprehensive income. The standard includes specific guidance on measurement and presentation for insurance contracts with participation features.

  In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the General (building block) Model, supplemented by:

  - a specific adaptation for contracts with direct participation features (the Variable Fee Approach); and
  - a simplified approach (Premium Allocation Approach) mainly for short-duration contracts.

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

- a 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, representing the unearned profitability of the insurance contract to be recognised 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 recognised in profit or loss over the remaining contract service period;

- the effect of changes in discount rates will be reported in either profit or loss or other comprehensive income (OCI), determined by an accounting policy choice;
- a presentation 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 the Statement of profit and loss, but are recognised directly in the Statement of financial position;
- insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense; and
- extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts.

IFRS 17 will have a wide and significant impact on the Company's existing accounting and will result in significant changes to the primary statements presentation and disclosures. Traditional measures, such as written premium, will disappear and be replaced by a single measure of revenue. Complex actuarial cash-flow models will be required, meaning the actuarial, finance and IT specialists, as well as underwriting and reinsurance, will all need to work together in collaboration. During 2019, the Company continued to enhance its IFRS 17 data warehouse (DWH) feeding from the Company's internal data system and continued testing it. The Company also built a prototype IFRS 17 calculation engine with inputs to it fed from the DWH. Also during the year, actuarially calculated outputs from the calculation engine were mapped to an accounting sub-ledger enabling the required statutory IFRS 17 disclosures to be subsequently populated. Testing in relation to the flow of data through the accounting sub-ledger and disclosures remains ongoing with further work needed to design and embed an effective series of core accounting and data controls. A systems gap analysis is currently ongoing to determine whether to outsource all or some of the Company's IFRS 17 solution to a third party vendor.

The Company's portfolio of reinsurance contracts is made up of a large number of Risk Attaching During (RAD) quota share arrangements where the coverage period is more than one year. Using the prototype IFRS 17 calculation engine, the Company is currently performing a financial impact assessment and carrying out eligibility testing to determine the extent to which the Premium Allocation Approach (PAA) can be adopted for some or all of these contracts.

The new standard will have a significant impact on the Company's recognition of revenue and profitability. The approach to discounting through the Contractual Service Margin (CSM) along with the valuation of ceded reinsurance being subject to significantly different accounting rules will completely transform the make-up of the Company's Statement of financial position and Statement of profit and loss. The Company aims to adopt a fully retrospective approach upon transition.

The following accounting standards have come into effect but have no significant impact on the Company:

- IFRS 16 Leases;
- IFRIC 23 Uncertainty over Income Tax Treatments;
- amendments to IFRS 3 Business Combinations;

- amendments to IFRS 11 Joint Arrangements;
- amendments to IAS 12 Income Taxes; and
- amendments to IAS 23 Borrowing Costs.

2. Critical accounting estimates and judgements

The Company exercises judgement in selecting each of the Company's accounting policies. Company law and IFRS require management to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent when preparing the financial statements. These judgements and estimates are based on management's knowledge of current facts and circumstances and prediction of future events and actions. Actual results may differ from those estimates, possibly significantly. To the extent actual experience differs from the assumptions used, the Company's financial position, results of operations and cash flows could be materially affected.

The directors consider the accounting estimates and assumptions discussed below to be its critical accounting estimates, and accordingly provide an explanation.

2.a) Insurance contract premium

Gross written premium is recognised on reinsurance contracts incepting during the financial year and includes an estimate of the premium written under each contract. Revenue recognised on policies ceded to the Company through reinsurance contracts, is deemed to be written at the inception of underlying policies and therefore this estimate is particularly judgemental. Adjustments to estimates from previous years are included in the reported premium.

The Company relies upon estimates as a means of establishing accurate Estimated Premium Income (EPI). Accurate EPI is needed in order to establish the correct written and earned premiums for accounting purposes through its revenue recognition process.

The EPI is inherently subjective and attained through a combination of underwriters' best estimates at a policy level and actuarial techniques at a portfolio level, based on observable historical trends. These estimates are reviewed on a quarterly basis by underwriters and independently assessed by the actuarial and finance teams. The accuracy of EPI best estimates is dependent upon the quality, reliability and timeliness of all underwriting data and supporting documentation. Tests are performed as part of each pre-quarter close in order to identify instances where EPIs appear materially out of line with expectations given the emergence of booked EPI for the year to date.

Gross written premium for the financial year is based on an EPI of $646.2m for the 2019 underwriting year (2018: $623.0m). The EPI is based upon the best estimate of underwriter expectations for all underlying contracts as at 31 December 2019.

Gross written premium recognised during 2019 was $649.6m (2018: $600.5m). The accrued amount within this balance is $39.7m (2018: $23.0m) and the reported amount is $609.9m (2018: $577.5m). The estimated premium receivable balance is $251.8m (2018: $197.4m). The unearned premium balance as at 31 December 2019 is $272.9m (2018:$237.3m).

2.b) Insurance liabilities

A liability is established for unpaid losses and loss adjustment expenses when insured events occur. The liability is based on the expected ultimate cost of settling the claims. The reserve for losses and loss adjustment expenses includes:

- case reserves for reported but unpaid claims as at the statement of financial position date;
- incurred but not reported (IBNR) reserves for claims where the insured event has occurred but has not been reported to the Company as at the statement of financial position date; and
- loss adjustment expense reserves for the expected handling costs of settling the claims.

Further disclosures are included in:

• Insurance liabilities	Note 22
• Sensitivity disclosure	Note 3d
• Accounting policies	Note 1
• Claims development	Note 25

2.c) Reinsurance recoveries

The Company's estimate of reinsurance recoveries is based on the relevant reinsurance programme in place for the calendar year in which the related losses have been incurred. Amounts recoverable from reinsurers are estimated in a manner consistent with the premium estimates claim reserves associated with the reinsured policy. Refer to Note 3a(ii), Note 13 and Note 22 for further details.

2.d) Financial Investment fair value measurements

The Company's financial investment are classified as AFS and measured at fair value (FV) through Other comprehensive income (OCI). The application of this accounting policy requires the use of judgement and certain assumptions in determining the fair value reported as the carrying value of these assets. The level of judgement used generally correlates with the level of pricing observability. Financial instruments with quoted prices in active markets generally have more pricing observability and less judgement is used in measuring fair value. Conversely, financial instruments traded in other-than-active markets or that do not have quoted prices have less observability and are measured at fair value using valuation models or other pricing techniques. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Refer to Note 3d and 5.

3. Risk management and control practices

Risk Management is not intended to identify and manage all potential risks to the Company. Rather, the approach adopted seeks to engender a culture of no significant surprises and to ensure adequate tools are available to manage the most important risks to the Company and improve decision-making.

There are many definitions of Enterprise Risk Management (ERM); the Company has adopted the following definition:

"A systematic framework for TransRe's staff, business leaders, executive management, and the Board to identify, assess, quantify, mitigate, and manage the Company's risks. ERM also provides a common language to communicate about risk. ERM helps TransRe maximise its long-term value and achieve its strategic corporate objectives."

This definition is consistent with the definition in TransRe's group-wide ERM framework and is applicable to all branches and subsidiaries within the Transatlantic Holdings Inc. group.

The Company's risk management framework is ultimately overseen by the Company's Board, which has delegated ongoing oversight to the Company's Risk & Audit Committee. Additional oversight and input is provided by TransRe's Global Risk Management (GRM) function. The framework consists of activities which are coordinated into a coherent overall approach to risk management that includes risk identification & assessment, monitoring and management.

Mirroring the practices adopted in the wider TransRe group, the Company operates a "three lines of defence" risk framework based on the following model:

- **First line of defence:** Risk owners within the business units and function areas have responsibility for identifying, managing, mitigating and reporting on each risk for which they have responsibility;
- **Second line of defence:** Risk management activities are facilitated and coordinated by the Company's Risk Function, which has responsibility for designing and embedding the risk management framework across the business and for overseeing adherence with risk management processes; and
- **Third line of defence:** Independent assurance regarding the effectiveness of risk management is provided to the Company through its outsourced Internal Audit function, which tests and verifies that the framework is operating effectively.

The Company's Risk & Audit Committee has responsibility for providing oversight and challenge to the Company's approach to risk management and providing recommendations to the Company's Board. Risk management techniques and processes are reviewed and updated on an on-going basis ensuring that risks are identified and assessed by management, including reviews of individual risk policies, to ensure these remain fit for purpose. The main components of the Company's approach to ERM, under the three lines of defence model, are as follows:

- risk management culture;
- business risk strategies;
- governance and oversight;
- people and reward;
- risk management framework, including policies, risk identification, monitoring and reporting;
- business processes and procedures; and
- capital management and the ORSA and
  Independent validation and verification by Internal Audit.

(a) Reinsurance risk

Inward Reinsurance risk is defined as "the risk relating to underwriting and claims management that arises from the inherent uncertainties as to the occurrence, amount and timing of liabilities in respect of reinsurance contracts underwritten by the Company". The key components within Reinsurance risk are considered to be:

a. Underwriting (including pricing) risk;
b. Retrocession risk;
c. Claims Management risk; and
d. Reserving and Provisioning risk.

i. Underwriting (including pricing) risk

These are the risks associated with the underwriting of reinsurance business. These include all areas associated with underwriting, including:

- underwriting outside of appetite;
- excess exposures in certain classes and/or territories;
- underwriting below the technical price or without adequate risk transfer;
- excessive aggregation/catastrophe risks in a single region/location;
- lapse risk; and
- uncertainty arising from cedants purchasing lower levels of reinsurance.

The Company utilises a number of risk mitigation techniques and approaches to manage the risks associated with its underwriting risk profile.

The Company maintains a clear underwriting philosophy that is supported by risk appetites set at the aggregate level, as well as individual class and per risk, procedures and controls in relation to pricing, rigorous risk selection criteria and the ability to underwrite a diverse range of risks across multiple classes and geographies. Catastrophe risk is one of the main risks that the Company faces and failure to adequately manage and monitor excessive exposures and aggregations could have a disastrous impact on the viability and ongoing operation of the Company. The Company's main risk concentration relates to natural catastrophe exposure in Northern Europe (including the UK).

Key controls that aid in mitigating this risk include (but are not limited to):

- risk appetites and aggregate tolerances;
- underwriting delegated authorities and procedures;
- annual budgeting process and quarterly underwriting performance reviews and profitability studies;
- performing, on an ongoing basis, a range of extreme events and stress tests;
- quarterly reserve reviews in addition to a comprehensive annual reserve study;
- pricing adequacy reviews and rate monitoring;
- emerging risk underwriting reviews; and
- TransRe wide Product Committees for different classes of business.

Underwriting risk profile

The core reinsurance portfolio of property and casualty covers provides protection to cedants based globally over a diverse range of classes. The protection provided covers a wide variety of largely uncorrelated risk events and offers some protection against the underwriting cycle as the risk profile of different classes are at different points in the underwriting cycle at any given time. The Company underwrites a well-diversified portfolio across multiple regions and classes.

Geographical concentration of gross written premium by cedant

	2019 $'000	2018 $'000
Bermuda	20,621	19,423
Germany	11,075	13,010
Gibraltar	118,841	107,866
Japan	15,036	12,131
Malta	40,068	15,029
Australia	7,257	7,848
South Africa	11,998	14,896
Spain	35,981	37,790
United Kingdom	320,300	305,001
United States	28,849	21,130
Rest of World	39,614	46,385
Total	**649,640**	**600,509**

Portfolio mix
Class of business premium split

	2019 $'000	2018 $'000
Accident & Health	6,395	7,228
Guaranty	73,525	81,072
Marine & Aviation	134,833	133,237
Non-traditional*	97,663	69,504
Professional Liability	15,081	12,937
Property	138,105	141,983
Technical Lines	26,935	27,128
Traditional Casualty	157,103	127,420
Total	**649,640**	**600,509**

*This class primarily relates to the inward whole account quota share arrangement with TReIMCo Limited, a Lloyd's corporate member and fellow group company. Refer to Note 26 Related parties for further details.

ii. Retrocession risk

These are the risks associated with any retrocession arrangements, including the use of entities not on TransRe's accepted security list and effecting arrangements outside of the Company's risk appetite.

The Company benefits from a comprehensive retrocession programme that provides protection for TransRe globally as well as the Company specifically. Risks associated with retrocession are managed and mitigated by ensuring that all retrocession placements are subject to approval and must comply with TransRe's group-wide retrocession procedures (which include minimum credit quality and counterparty limits approved by the Alleghany Reinsurance Security Committee) and delegated retrocession purchasing authorities.

Included within this category is the management of the risks associated with the Company's quota share agreement with TRC.

The Company participates in two special purpose vehicles ("SPV"):

- A series of fully collateralised reinsurance sidecars (referred to as Pangaea); and
- Two collateralised catastrophe bonds, referred to as Bowline Re 2018 ($250m) and Bowline Re 2019 ($250m). Both bonds provide the TransRe group with protection for predominantly US natural catastrophe risks.

Both arrangements are overseen by TransRe Capital Partners and focus on protecting TransRe and the Company from excessive natural catastrophe losses. These arrangements were sponsored by TransRe but are funded by third party capital providers. Liabilities are fully collateralised with assets that meet, as a minimum, the aggregate limit of the SPVs' obligations. As at 31 December 2019, the Company held reinsurance assets of $15.9m in respect of Pangea (2018: $23.6m). The carrying amount of the recorded reinsurance assets represent the maximum exposure to loss from the interest in the SPVs at year end.

Key controls that aid in mitigating retrocession risk include:

- Retrocession procedures;
- Alleghany's Reinsurance Security Committee
- Delegated authorities to purchase retrocession;
- Approved security lists, identifying retrocessionaires that retrocession can be placed with;
- TRC's Counterparty Risk Committee; and
- The Company's Counterparty and Retrocession Risk Committee.

60% quota share agreement between the Company and TRC

The Company has a 60% quota share agreement with TRC. As at 31 December 2019, 91% of the Company's reinsurance assets are due from TRC (2018: 89%). Under the quota share agreement collateral is held in a TRC designated trust account, which is managed by a third party with the Company as the sole beneficiary. TRC is required under the quota share agreement to collateralise its obligations to the Company.

These obligations are as follows:

- any losses and loss adjustment expenses paid by the Company but not recovered from TRC;
- the Company's reserves for losses and loss adjustment expenses reported and outstanding;
- the Company's reserves for losses and loss adjustment expenses incurred but not reported; and
- the Company's share of the unearned premium reserve.

Under the agreement TRC is required to hold in the trust account a minimum of 105% of its obligations matched against at least 60% for each of the currencies USD, GBP and EUR. As part of the day to day operation of the quota share agreement, premiums are held on a "funds withheld" basis and there are also restrictions in place over the withdrawal of assets from the trust account being used to hold the collateral. The process to collateralise funds within the trust account is carried out at a frequency of once per quarter and there is a contractual period of 70 days after the end of each quarter in which TRC must update and settle the collateral balance within the TRC trust account.

As at 31 December 2019, the trust account held \$16.4m (2018: \$22.5m) in USD equivalent cash and \$567.7m (2018: \$528m) in financial investments, totalling \$584.1m (2018: \$550.5m). The \$567.7m financial investments held in trust comprised of US, UK and EUR bonds. The \$584.1m (2018: \$550.5m) represents 99.6% (2018: 108.5%) of TRC's liabilities under the quota share as at 31 December 2019. Under the terms of the contract, TRC is required to hold 105% of its liabilities as collateral within the TRC trust account. Where this requirement is not met at the end of the accounting period, the transfer of additional assets by TRC into the trust account must occur within 70 days, in accordance with the prescribed terms of the agreement.

There was no indication as to any amount of internal group reinsurance being past due or impaired as at 31 December 2019 (2018: None).

iii. Claims management risk

These are the risks associated with the handling of claims, including claims fraud, payments made to sanctioned entities, incorrect payments and processing delays.
Key controls that aid in mitigating this risk include:

- claims procedures;
- claims delegated authorities;
- claims case reviews;
- cedant audits; and
- sanctions procedures and processes.

An 11% increase (2018: 5% increase) in the Company's net loss ratio would result in a profit/loss before tax of zero.

iv. Reserving and provisioning risk

These are the risks which occur when the reserves/provision allocated to new and existing claims and IBNR have been materially incorrectly set due to flaws in the provisioning/reserving methodology or in the application of the methodology. This may result in either excessive movements in reserves or failure to release reserves. Included within this risk are failures to update reserves in line with market changes and trends. Failure to manage reserving risk can have a significant impact on the Company, and similar to the risks associated with the management of exposures and aggregation, can impact on the on-going financial viability of the Company.

Key controls that aid in mitigating this risk include:

- a comprehensive annual reserve study;
- Quarterly reserve reviews;
- reserving risk controls that include major activity reports, high cost claim alerts, major loss memos and retrocession transaction alerts;
- independent external validation of reserves; and
- Board and Reserving Committee oversight.

(b) Liquidity risk

Liquidity risk arises when the Company, though solvent, either does not have sufficient financial resources available to enable it to meet its obligations as they fall due, or can secure them only at excessive cost. The Company sees the coverage of liquidity risk as the management of risk arising from short term cash flows, rather than the risk arising from longer-term matching of assets and liabilities. The Company manages its cash flow requirements and has diversified its investment portfolio to maintain a portion of the Company's financial investments in highly liquid assets. These liquid instruments include cash and US Treasury bills.

The Company has limited liquidity risk and maintains assets in high quality liquid assets, with the assets held in currencies matching the Company's liabilities and claim duration profile. Key controls that aid in mitigating this risk include:

- asset/liability assessment performed every quarter;
- quarterly case reserving exercise;
- quarterly Statement of financial position produced;
- quarterly cash flow forecasting and monitoring;
- half yearly profitability reviews; and
- Investment Committee and Board monitoring.

The following table below presents the fair value of monetary assets and the un-discounted value of monetary liabilities of the Company in the relevant maturing groups based on the remaining period at the end of the year to their contractual maturities or expected payment dates:

Assets	Less than 1 year	1 through 5 years	5 through 10 years	After 10 years	On demand	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Commercial mortgage backed securities	-	-	-	1,141	-	**1,141**
US Corporates	36,396	94,097	50,370	3,769	-	**184,632**
US Federal Agency mortgage backed securities	-	-	681	205,938	-	**206,619**
Non US Corporates	17,644	67,606	22,362	3,639	-	**111,251**
Non US Governments	1,215	26,828	8,536	1,561	-	**38,140**
US Governments	5,005	115,058	62,483	-	-	**182,546**
Municipals	-	2,759	9,013	-	-	**11,772**
Short Term	2,692	-	-	-	-	**2,692**
Exchange trading funds	-	-	-	-	36,916	**36,916**
Total financial investments	**62,952**	**306,348**	**153,445**	**216,048**	36,916	**775,709**
Cash and cash equivalents	-	-	-	-	93,571	**93,571**
Reinsurance assets (excluding UPR)	187,782	313,713	42,615	-	-	**544,110**
Other receivables, including insurance receivables	341,037	20,530	-	-	-	**361,567**
Current tax assets	5,823	-	-	-	-	**5,823**
Total Assets(excluding DAC, UPR and deferred tax assets)	**597,595**	**640,591**	**196,060**	**216,048**	**130,487**	**1,780,781**
Liabilities						
Insurance contract liabilities (excluding UPR)	303,765	500,000	67,938	-	-	**871,703**
Other payables, including insurance payables (excluding RI DAC)	303,304	-	-	-	-	**303,304**
Total Liabilities (excluding UPR)	**607,069**	**500,000**	**67,938**	-	-	**1,175,008**

2018

Assets	Less than 1 year	1 through 5 years	5 through 10 years	After 10 years	On demand	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Commercial mortgage backed securities	-	-	-	1,109	-	**1,109**
US Corporates	-	107,864	47,785	3,027	-	**158,676**
US Federal Agency mortgage backed securities	-	-	768	202,215	-	**202,983**
Non US Corporates	6,963	100,377	13,384	-	-	**120,724**
Non US Governments	-	42,954	47,918	6,281	-	**97,153**
US Governments	-	60,437	60,404	9,564	-	**130,405**
Municipals	-	2,723	8,960	-	-	**11,683**
Short Term	-	-	-	-	-	-
Exchange trading funds	-	-	-	-	30,387	**30,386.84**
Total financial investments	**6,963**	**314,355**	**179,219**	**222,196**	30,387	**753,120**
Cash and cash equivalents	-	-	-	-	57,731	**57,731**
Reinsurance assets (excluding UPR)	211,602	303,636	14,490	-	-	**529,729**
Other receivables, including insurance receivables	305,743	-	-	-	-	**305,743**
Current tax assets	-	-	-	-	-	-
Total Assets(excluding DAC, UPR and deferred tax assets)	**524,308**	**617,991**	**193,709**	**222,196**	**88,118**	**1,646,323**
Liabilities						
Insurance contract liabilities (excluding UPR)	341,526	481,241	22,865	-	-	**845,632**
Other payables, including insurance payables (excluding RI DAC)	246,428	-	-	-	-	**246,428.00**
Total Liabilities (excluding UPR)	**587,954**	**481,241**	**22,865**	-	-	**1,092,060**

Over 90% of DAC and UPR assets are due within 1 year of the reporting date.

The Company is able to sell any of the financial investments ahead of maturity should the need arise.

(c) Credit risk

Credit risk is assumed whenever the Company is exposed to loss if another party fails to perform its financial obligations to the Company, including failure to perform them in a timely manner. This includes default by brokers, retrocessionaires, customers, investment counterparties and suppliers. Included within this category is the management of the credit risk associated with the Company's quota share agreement with TRC.

Key controls that aid in mitigating this risk include:

- monitoring of broker/ceding insurer balances including aged debt analysis;
- Counterparty and Retrocession Risk Committee;
- investment risk and underwriting risk accumulation reporting;
- counterparty exposure monitoring (both insurer and retrocessionaires);
- approved retrocessionaire lists;
- Know Your Customer procedures, which include details of financial resources, brokers and insurers;
- mandates and guidelines provided to external investment managers, which include:
    - Regulatory compliance
    - Duration
    - Benchmark portfolio
    - Credit quality
    - Sector limitations
    - Issuer limitations
    - Currency; and
- fully collateralised quota share agreement with TRC with assets held in a trust account and subject to ongoing oversight (as noted above).

The following tables present the credit ratings of the Company's assets using an established independent credit rating agency ratings for years as indicated:

Credit rating as of 31 December 2019	AAA $'000	AA $'000	A $'000	BBB $'000	BB $'000	No rating assigned $'000	Total $'000
Commercial mortgage backed securities	-	1,141	-	-	-	-	1,141
US Corporates	803	18,234	69,216	95,347	1,032	-	184,632
US Federal Agency mortgage backed securities	-	206,619	-	-	-	-	206,619
Non US Corporates	11,045	17,986	55,617	26,603	-	-	111,251
Non US Governments	20,043	17,245	-	852	-	-	38,140
US Governments	-	182,546	-	-	-	-	182,546
Municipals	-	11,772	-	-	-	-	11,772
Short Term	1,532	760	113	287			2,692
Exchange trading funds	-	-	-	-	-	36,916	36,916
Total Financial investments	33,423	456,303	124,946	123,089	1,032	36,916	775,709
Reinsurance Assets:							
Transatlantic Reinsurance Company	-	-	642,265	-	-	-	642,265
Others	-	-	-	-	-	66,930	66,930
Total Reinsurance assets	-	-	642,265	-	-	66,930	709,195
Receivables, including insurance receivables:							
Transatlantic Reinsurance Company	-	-	146,920	-	-	-	146,920
Others	1,731	16,668	79,912	49,613	-	66,723	214,647
Total receivables, including insurance receivables	1,731	16,668	226,832	49,613	-	66,723	361,567
Cash and cash equivalents	-	-	63,815	29,756	-	-	93,571
Total	35,154	472,971	1,057,858	202,458	1,032	170,569	1,940,042

Credit rating as of 31 December 2018	AAA $'000	AA $'000	A $'000	BBB $'000	BB $'000	No rating assigned $'000	Total $'000
Commercial mortgage backed securities	-	1,109	-	-	-	-	1,109
US Corporates	568	14,873	54,575	88,660	-	-	158,676
US Federal Agency mortgage backed securities	-	202,983	-	-	-	-	202,983
Non US Corporates	54,220	18,983	22,186	25,335	-	-	120,724
Non US Governments	48,301	44,730	1,572	2,550	-	-	97,153
US Governments	-	130,405	-	-	-	-	130,405
Municipals	-	11,683	-	-	-	-	11,683
Short Term	-	-	-	-	-	-	-
Exchange trading funds	-	-	-	-	-	30,387	30,387
Total Financial investments	103,089	424,766	78,333	116,545	-	30,387	753,120
Reinsurance Assets:							
Transatlantic Reinsurance Company	-	-	663,212	-	-	-	663,212
Others	-	-	-	-	-	9,905	9,905
Total Reinsurance assets	-	-	663,212	-	-	9,905	673,117
Receivables, including insurance receivables:							
Transatlantic Reinsurance Company	-	-	128,394	-	-	-	128,394
Others	2,098	26,821	69,460	39,336	-	39,634	177,349
Total receivables, including insurance receivables	2,098	26,821	197,854	39,336	-	39,634	305,743
Cash and cash equivalents	-	-	21,555	36,176	-	-	57,731
Total	105,187	451,587	960,954	192,057	-	79,926	1,789,711

As at 31 December 2019 no receivable amounts were past due and impaired (2018: $0.2m).

(d) Market risk

Market risk is the risk of loss or adverse change in the Company's financial situation resulting from changes in the value of its assets and liabilities caused by the volatility of market prices of assets, liabilities including financial instruments. The Company's market risk exposures arise principally from the large amount of capital invested in fixed income securities.

Key controls that aid in mitigating this risk include:

- investment risk accumulation reporting;
- mandates and guidelines provided to external investment managers, which include:
    - Regulatory compliance;
    - Duration;
    - Benchmark portfolio;
    - Credit quality;
    - Sector limitations;
    - Issuer limitations; and
    - Currency
- Investment Committee mandate and oversight;
- stress testing performed on the investment portfolio; and
- Market risk / value at risk analyses, including extreme market and currency stress tests (+/-300bps movement).

The Company is principally exposed to the following components of market risk:

- Interest rate risk; and
- Foreign currency risk.

Interest rate risk

Movements in interest rates affect the level and timing of cash flows for the Company and the fair value of fixed income securities. As interest rates rise, the fair value of fixed income portfolios declines and conversely, as interest rates decline, the fair value of fixed income portfolios rises. To minimise this risk, the Company adheres to investment policy guidelines developed by the Company's Investment Committee in line with the Company's strategy and TransRe's overall objectives. These guidelines direct the Company to invest in high-quality issuers and, in particular, the strategy is to position its fixed income securities based on its view of future interest rates and the yield curve, balanced with liquidity requirements and the duration of the Company's insurance liabilities.

The following tables present the sensitivity to possible changes in interest rates on the Company's fixed maturity portfolio:

	Market value of fixed maturity portfolio $'000	**Impact on OCI before tax $'000**
December 2019 yield curve +100 basis points	780,539	(28,214)
December 2019 yield curve -100 basis points	834,543	25,790

	Market value of fixed maturity portfolio $'000	**Impact on OCI before tax $'000**
December 2018 yield curve +100 basis points	738,502	(29,202)
December 2018 yield curve -100 basis points	795,861	28,157

Foreign currency risk

Assets are considered by both currency and duration profile in relation to the corresponding insurance liabilities, thereby managing the impact of foreign exchange on the Company's solvency position.

Under this strategy, the total assets of the Company are sought to be held in currencies in proportion to the currencies that its insurance liabilities are held in. The Company seeks to implement this through the use of cash and investments in the respective currencies.

2019	EUR $'000	GBP $'000	USD $'000	Total $'000
Total Assets	**123,674**	**503,790**	**1,395,268**	**2,022,732**
FX rate 10% increase impact on Profit before tax and OCI	12,367	50,379	-	62,746
FX rate 10% decrease impact on Profit before tax and OCI	(12,367)	(50,379)	-	(62,746)
Total liabilities	**91,130**	**553,725**	**802,943**	**1,447,798**
FX rate 10% increase impact on Profit before tax and OCI	9,113	55,373	-	64,486
FX rate 10% decrease impact on Profit before tax and OCI	(9,113)	(55,373)	-	(64,486)

2018	EUR $'000	GBP $'000	USD $'000	Total $'000
Total Assets	**156,836**	**440,676**	**1,252,690**	**1,850,202**
FX rate 10% increase impact on Profit before tax and OCI	15,684	44,068	-	59,751
FX rate 10% decrease impact on Profit before tax and OCI	(15,684)	(44,068)		(59,751)
Total liabilities	**138,179**	**502,290**	**689,092**	**1,329,561**
FX rate 10% increase impact on Profit before tax and OCI	13,818	50,229	-	64,047
FX rate 10% decrease impact on Profit before tax and OCI	(13,818)	(50,229)	-	(64,047)

The above table shows key underlying currencies converted into USD. The majority of the reinsurance assets and liabilities other than USD are denominated in GBP and EUR.

Unearned Premium Reserves (UPR) and Deferred Acquisition Cost (DAC) are included in the analysis above but are not impacted by the changes in FX rate.

(e) Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risk is diverse in nature and permeates all business activities, but remains a distinct form of risk in its own right. Operational risk within the Company has been divided into the following key risk areas:

- regulatory and legal – the risk of legal or regulatory sanctions or loss caused by a failure to comply with applicable laws, regulations, internal policy and standards of best practice;
- financial crime, including internal and external fraud – the risk that the firm might be used to further financial crime;
- financial & accounting – the risks associated with financial reporting and integrity of financial information;
- people – the risk that people do not follow the Company's procedures, practices and/or rules, thus deviating from expected behaviour in a way that could damage the Company;
- business continuity management – the risk associated with the failure to appropriately manage unforeseen events;
- processing failures, including IT system failures – the risks associated with IT systems including cyber security related events;
- model risk – the risk that the output from the models used by the Company is incorrect or flawed due to errors in the design or operation or management's failure to understand the limitations in the output of the models;
- outsourcing – failures relating to the outsourcing of key activities; and
- external events and other changes – failure to react to changes in the external business environment.

The Company does not have any material concentrations to operational risk.

Quarterly, the Company's directors and senior managers identify the key risks, causes and consequences, together with relevant mitigating controls, within their function/span of control. The results of the assessment are recorded in the Company's Risk Register and reviewed by the Risk Management Committee and Risk & Audit Committee.

The Company maintains an Operational Risk policy that sets out the Company's approach to mitigating risks arising from operational risks.

Key controls that aid in mitigating this risk include:

- risk & Audit Committee and Risk Management Committee oversight;
- policies and procedures, including the Alleghany group's Code of Conduct, business continuity plans and succession planning;
- service level agreements;
- purchase of insurances;
- underwriting audits performed by the Business Management Department;
- data quality reviews;
- model validation;
- compliance procedures, monitoring and oversight;
- staff training, oversight and appraisals;
- disaster recovery planning; and
- anti-bribery and corruption procedures.

(f) Group risk

Group risk is defined as the potential impact of risks or issues arising in other parts of the TransRe group of companies and, in the wider context, the Alleghany Corporation's group of companies and how they might adversely impact the Company.

For the Company to satisfy aspects of its capital management strategy and to minimise the risk of counterparty failure arising from its quota share arrangement with TRC, the Company relies on the adequacy and availability of capital resources at TRC to maintain the security rating that is provided to the Company.

The Company may also be adversely affected by the actions of other companies within the TransRe group and other companies within the Alleghany Corporation group through direct financial losses, reputational linkages or regulatory issues. Likewise, the Company may adversely impact other companies within the TransRe group of companies and the wider Alleghany Corporation group.

Key controls that aid in mitigating this risk include:

- local capital / investments that exceed regulatory capital requirements;
- collateralised quota share arrangement with TRC;
- Company representation on key TransRe committees; and
- the Company's Board maintains autonomy over the Company and provides ongoing oversight of key areas of potential group risk. This ensures that decisions affecting the Company are made by persons accountable for overseeing the operation of the Company.

4. Capital management

The Company is regulated by the UK regulators, the Prudential Regulatory Authority (PRA) and Financial Conduct Authority (FCA). The Company is required to adhere to the rules set by the FCA and PRA, and to maintain assets of a certain value over its liabilities throughout the course of the year.

As a regulated entity, the Company's capital is managed exclusively through the use of its EOF in accordance with the requirements of Solvency II. On this basis it maintains robust and sufficient capital to ensure the safety and stability of the Company, whilst meeting regulatory, rating agency and other business needs.

During the period, the Company held capital in excess of the Company's liabilities.

Solvency II

The Company has historically used the Standard Formula to calculate its SCR. During 2018, the Company submitted an application to the Prudential Regulation Authority ("PRA") to replace certain modules of the Solvency II standard formula to calculate its regulatory capital so that is was more aligned with its risk profile (referred to as the Partial Internal Model or PIM). During this period the Company maintained a Capital Add On ("CAO") as part of its Solvency Capital Requirement ("SCR"). In December 2018, the Company's application was approved by the PRA and the CAO in respect of this area was removed. During 2019, the Company submitted a Major Model change ("MMC") to widen the scope of the PIM. Subject to regulatory approval, the revised PIM will be available for calculating the Company's capital in 2020; however during this time the Company has agreed to maintain a CAO.

Capital appetite

Supporting the Company's approach to capital management, it has set out its capital appetite as being the intention to maintain capital of at least 120% of its calculated SCR.

Under Solvency II, rules have been set that establish which assets are admissible for the purposes of calculating the Company's EOF and therefore the SCR.

The Company's Solvency II EOF, which are admissible for the purposes of supporting its SCR calculation are comprised entirely of Tier 1 unrestricted assets. Tier 1 represents the highest quality of capital based on the concepts of "permanence" and "loss absorbency".

Tier 1 funds are maintained by the Company in the form of fully paid up ordinary share capital and retained earnings. The Company also has in place restrictions on its dividends and distributions which are cancellable in accordance with its Articles of Association. This ensures that funds cannot be removed from the Company that would detrimentally impact its ability to meet its regulatory capital requirements.

During 2019 the Company complied at all times with the SCR required and also its own internal capital target of 120% of its calculated SCR.

Available capital resources

	2019	**2018**
	$'000	**$'000**
Share capital	500,000	500,000
Retained earnings	62,006	32,223
Total available capital	**562,006**	**532,223**
Other reserves	12,928	(11,582)
Total equity	**574,934**	**520,641**

Obtaining further capital

In the event it is identified that there is a capital shortfall in the Company, the following actions may be taken:

- additional capital may be secured from its parent, TRC. This can be obtained through the capital support guarantee agreement that has been provided by TRC; and / or
- a revision may be made to the Company's business plan, such as a reduction in planned gross written premium or the purchase of additional retrocession.

Any decision required to revise the business plan or to request additional capital from TRC requires approval from the Company's Board.

5. Fair value hierarchy

Investments held are classified in the fair value hierarchy as follows:

Level analysis as of 31 December 2019	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Asset backed securities	-	-	-	-
Commercial mortgage-backed securities	-	1,141	-	1,141
US Corporates	-	184,632	-	184,632
Federal Agency Mortgage backed-securities	-	206,619	-	206,619
Non US Corporates	-	111,251	-	111,251
Non US Governments	-	38,140	-	38,140
US Governments	-	182,546	-	182,546
Municipals	-	11,772	-	11,772
Short Term	-	2,692	-	2,692
Exchange trading funds	36,916	-	-	36,916
Total	**36,916**	**738,793**	-	**775,709**

Level analysis as of 31 December 2018	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Asset backed securities	-	-	-	-
Commercial mortgage-backed securities	-	1,109	-	1,109
US Corporates	-	158,677	-	158,677
Federal Agency Mortgage backed-securities	-	202,982	-	202,982
Non US Corporates	-	120,723	-	120,723
Non US Governments	-	97,154	-	97,154
US Governments	-	130,404	-	130,404
Municipals	-	11,684	-	11,684
Short Term	-	-	-	-
Exchange trading funds	30,387	-	-	30,387
Total	**30,387**	**722,734**	-	**753,120**

Reconciliation of opening to closing level 3 investments

2019

	1 January 2019	Gains and (losses) included in income	Gains and (losses) included in other comprehensive income	Purchases	Settlements	31 December 2019
Asset backed securities	-	-	-	-	-	-
Total	-	-	-	-	-	-

2018

	1 January 2018	Gains and (losses) included in income	Gains and (losses) included in other comprehensive income	Purchases	Settlements	31 December 2018
Asset backed securities	2,849	-	-	-	(2,849)	-
Total	**2,849**	-	-	-	**(2,849)**	-

The Company has classified debt securities with quoted prices as level 2 assets within the fair value hierarchy on the basis they are not traded on a regulated stock exchange and multiple varying pricing sources are often available.

Level 3 investments in 2018 consisted of Collateralised Loan Obligations (CLOs). The significant unobservable inputs and associated valuation techniques used in the fair value measurements of these are shown below:

- cash flow generation and discounting: unobservable inputs to this valuation technique relate to default, prepayment and recovery assumptions over the underlying loans and other collateral, as well as adjustment factors to baseline Discount Margin (DM) / yield of each CLO bond;
- loan collateral pricing: Net Asset Value (NAV) of the portfolio of loans is determined by gathering pricing data of all underlying collateral adjusted to determine the market value over collateralization for each tranche; and
- reconciliation with recent trading colour: prices are checked against available recent trading and 'Bid Wanted in Competition' (BWIC) colour on each bond, bonds from the same deal, and bonds from the same manager. Adjustments are then made on trading colour.

6. Exchange rates

Euro	**2019 $**	**2018 $**
Average rate €1 equals	1.12	1.17
Closing rate €1 equals	1.11	1.14
Sterling		
Average rate £1 equals	1.28	1.32
Closing rate £1 equals	1.31	1.27

Foreign exchange gains relate predominantly to the revaluation of reinsurance assets and insurance liabilities, insurance receivables and payables, financial investments, cash and cash equivalents and intercompany balances in EUR and GBP.

7. Net earned insurance premium revenue

	2019 $'000	2018 $'000
Premium revenue from insurance contracts issues:		
Gross written premium in period	649,640	600,509
Change in unearned premium provision	(35,641)	(8,833)
Earned premium	**613,999**	**591,676**
Premium revenue ceded to reinsurers on insurance contracts issues:		
Premium ceded to reinsurers in period	(409,075)	(381,094)
Change in unearned premium provision	21,696	5,109
Reinsurers share of earned premium	**(387,379)**	**(375,985)**
Net earned insurance premium revenue	**226,620**	**215,691**

8. Net investment return

	2019 $'000	2018 $'000
Investment return	22,021	19,297
Amortisation of bond issue costs	(3,020)	(2,261)
Investment management charges	(610)	(576)
Net investment income	**18,391**	**16,460**
Realised gains	4,864	501
Realised losses	(1,396)	(1,888)
Net realised gains/(losses) on financial assets	**3,468**	**(1,387)**
Net investment return	**21,859**	**15,073**

9. Net insurance claims

2019	Gross $'000	Reinsurance $'000	Total $'000
Gross claims paid and reinsurance recoveries receivable	357,886	(221,442)	136,444
Movement in claims provisions	21,610	(11,246)	10,364
Total	**379,496**	**(232,688)**	**146,808**

2018	Gross $'000	Reinsurance $'000	Total $'000
Gross claims paid and reinsurance recoveries receivable	292,451	(178,976)	113,475
Movement in claims provisions	94,209	(60,240)	33,969
Total	**386,660**	**(239,216)**	**147,444**

10. Income tax expense

(a) Tax charged in the income statement

	2019 $'000	2018 $'000
Current income tax:		
UK corporation tax	3,626	2,343
US federal income tax	(72)	-
Adjustments in respect of prior years	(16)	(624)
Total current income tax	**3,538**	**1,719**
Deferred tax:		
Origination and reversal of temporary differences	896	(382)
Foreign tax credits	(5,621)	-
Impact of rate change	33	94
Adjustments in respect of prior years	(4,572)	-
Total deferred tax	**(9,264)**	**(288)**
Total tax (credit)/expense reported in the statement of profit and loss	**(5,726)**	**1,431**

The tax credit arising during the period mainly represents US tax credits generated as a result of a US tax election made by the Company. The US tax credits predominantly relate to US foreign tax credits that can be utilised by the Company against future US tax liabilities.

(b) Tax relating to items charged or credited to other comprehensive income

	2019 $'000	2018 $'000
Current tax:		
Unrealised gains/(losses) on available-for-sale financial assets	30,285	(8,827)
UK corporation tax		
- Current tax charge	11	16
- Deferred tax charge	5,137	(1,517)
US federal income tax		
- Deferred tax charge	(567)	-
Adjustments in respect of prior periods	1,194	-
Tax expense/(credit) in the statement of other comprehensive income	**5,775**	**(1,501)**

(c) Reconciliation of the total tax charge

The tax expense/(credit) in the Statement of profit or loss and other comprehensive income for the year is the same standard rate of corporation tax in the UK of 19% (2018: 19%). The differences are reconciled below:

(c) Reconciliation of the total tax charge

	2019	2018
	$'000	$'000
Profit/(loss) before income tax	**24,057**	**10,324**
Tax calculated at UK standard rate of corporation tax of 19.00% (2018:19%)	4,571	1,961
Tax effects of:		
Foreign exchange	(203)	(624)
Adjustments in respect of prior years	(4,588)	94
US foreign tax credits	(5,621)	-
Difference in overseas tax rates	82	-
Impact of rate change	33	-
Total tax expense/(credit) reported in the statement of profit and loss	**(5,726)**	**1,431**

The Company's profits are taxable in the UK under the standard rate of corporation tax being 19% for 2019 (2018: 19%). The Company has made a US tax election. As a result the Company is subject to US tax as if it were a US company. The foreign tax suffered by the Company is attributable to the effects of the US election on the Company's results. The election has no impact on the Company's UK tax position.

11. Auditors' remuneration

	2019	2018
	$'000	$'000
Fees paid to the Company's auditor for:		
Audit of the financial statements	343	326
Other services pursuant to legislation	140	170
Total	**483**	**496**

12. Financial investments

	2019 $'000	2018 $'000
Opening fair value	753,120	679,003
Foreign exchange	701	(2,366)
Purchases	466,624	273,744
Disposals	(475,809)	(184,999)
Unrealised gains/(losses)	30,285	(8,827)
Gain/(losses) on sale	3,468	(1,387)
Net amortisation/accretion of interest	(2,680)	(2,048)
Closing fair value	**775,709**	**753,120**

13. Reinsurance assets

	2019 $'000	2018 $'000
Reinsurers' share of provisions for claims outstanding	235,924	239,315
Reinsurers' share of provisions for IBNR	308,187	290,414
Reinsurers' shares of provisions	**544,111**	**529,729**
Reinsurers' share of unearned premiums	165,084	143,388
Total reinsurance assets	**709,195**	**673,117**

14. Movement in unearned premium

Movement in unearned premium

2019	Gross $'000	Reinsurance $'000	Net $'000
As at 1 January	237,309	(143,388)	93,921
Premiums written in the year	649,640	(409,075)	240,565
Premiums earned during the year	(613,999)	387,379	(226,620)
As at 31 December	**272,950**	**(165,084)**	**107,866**

Movement in unearned premium

2018	Gross $'000	Reinsurance $'000	Net $'000
As at 1 January	228,476	(138,279)	90,197
Premiums written in the year	600,509	(381,094)	219,415
Premiums earned during the year	(591,676)	375,985	(215,691)
As at 31 December	**237,309**	**(143,388)**	**93,921**

15. Net operating expenses

	2019 $'000	2018 $'000
Net acquisition costs	41,057	35,621
Salaries, pension, social security costs and employee benefits (Note 27)	29,754	28,954
Other administration costs	6,401	6,249
Total acquisition costs and other operating expenses	**77,212**	**70,824**

Commissions from direct insurance business were $0.4m (2018: $0.3m), which are included in net acquisition costs.

16. Movement in deferred acquisition costs

2019	$'000
As at 1 January 2019	56,146
Costs deferred during the year	54,092
Amortisation charge for the year	(41,057)
As at 31 December 2019	**69,181**

2018	$'000
As at 1 January 2018	54,150
Costs deferred during the year	41,117
Amortisation charge for the year	(39,121)
As at 31 December 2018	**56,146**

17. Receivables, including insurance receivables

	2019 $'000	2018 $'000
Due from intermediaries	173,947	132,504
Funds held by cedants	22,563	22,013
Contingent commission	14,134	18,697
Due from related parties	146,920	121,730
Insurance receivables	**357,564**	**294,944**
Accrued interest receivable	3,957	4,082
Due from related parties	46	6,717
Receivables, including insurance receivables	**361,567**	**305,743**

18. Cash and cash equivalents

	2019 $'000	2018 $'000
Cash at bank and in hand	60,405	38,050
Short term deposits with credit institutions	33,166	19,681
Total cash and cash equivalents	**93,571**	**57,731**

19. Share capital

	Number	Share capital $'000
Ordinary shares issued and authorised at £1 each		
At 1 January 2019	5,000,002	500,000
Shares issued and authorised	-	-
At 31 December 2019	**5,000,002**	**500,000**
At 1 January 2018	5,000,002	500,000
Shares issued and authorised	-	-
At 31 December 2018	**5,000,002**	**500,000**

There is only one class of shares in issue.

20. Other reserves

	AFS fair value reserve $'000
At 1 January 2019	(11,582)
(Gains)/Losses on available for sale assets	33,752
Fair value gains on investments reclassified from other reserves to profit or loss	(4,863)
Fair value losses on investments reclassified from other reserves to profit or loss	1,396
Associated tax	(5,775)
At 31 December 2019	**12,928**

	AFS fair value reserve $'000
At 1 January 2018	(4,256)
(Gains)/Losses on available for sale assets	(10,214)
Fair value gains on investments reclassified from other reserves to profit or loss	(501)
Fair value losses on investments reclassified from other reserves to profit or loss	1,888
Associated tax	1,501
At 31 December 2018	**(11,582)**

21. Retained earnings

	2019 $'000	2018 $'000
At 1 January	32,223	23,330
Profit for the year	29,783	8,893
At 31 December	**62,006**	**32,223**

22. Insurance liabilities

	2019 $'000	2018 $'000
Gross		
Claims reported	380,196	382,540
Claims incurred but not reported	483,969	456,101
Loss adjustment expenses	802	549
Claims handling provision	6,736	6,442
Claims provision	**871,703**	**845,632**
Unearned premiums	272,950	237,309
Total insurance liabilities	**1,144,653**	**1,082,941**

	2019 $'000	2018 $'000
Recoverable from reinsurers		
Claims reported	(235,442)	(238,985)
Claims incurred but not reported	(308,187)	(290,414)
Loss adjustment expenses	(481)	(329)
Reinsurers' share of claims provision	**(544,110)**	**(529,728)**
Unearned premiums	(165,085)	(143,389)
Total reinsurance assets	**(709,195)**	**(673,117)**

	2019 $'000	2018 $'000
Net		
Claims reported	144,754	143,555
Claims incurred but not reported	175,782	165,687
Loss adjustment expenses	321	220
Claims handling provision	6,736	6,442
Net claims provision	**327,593**	**315,904**
Unearned premiums	107,865	93,920
Total insurance liabilities, net of reinsurance assets	**435,458**	**409,824**

Movement in claims provision

	Gross	Reinsurance
	$'000	$'000
At 1 January 2019	845,632	(529,117)
Claims settled in cash in the year	(357,887)	221,442
Change in claims provision	379,587	(232,687)
Change in foreign exchange rates	6,516	(3,748)
At 31 December 2019	**873,848**	**(544,110)**

	Gross	Reinsurance
	$'000	$'000
At 1 January 2018	766,917	(480,184)
Claims settled in cash in the year	(292,451)	178,976
Change in claims provision	390,321	(239,199)
Change in foreign exchange rates	(19,155)	11,292
At 31 December 2018	**845,632**	**(529,115)**

23. Current and deferred tax

	2019	2018
	$'000	$'000
Current tax:		
UK Corporation tax	5,751	(192)
US Federal income tax	72	-
Net current tax assets/(liabilities)	**5,823**	**(192)**
Deferred tax:		
UK temporary differences:		
- Equalisation provision	(536)	(831)
- Bonus accrual	1,743	2,813
- Unrecognised gains/losses	(2,774)	2,363
US temporary differences:		
- Foreign tax credits	8,916	-
- Other temporary difference	496	-
Net deferred tax assets/(liabilities)	**7,845**	**4,345**

Current tax assets relate to UK Corporation tax recoverable as well as UK tax losses and US foreign tax credits surrendered to the TransRe group for payment at the tax rate prevailing to the period and jurisdiction in which they are generated.

All deferred tax assets have been recognised. Deferred tax assets relate to UK and US temporary differences and US foreign tax credits.

The Company's profits are taxable in the UK under the standard rate of corporation tax being 19% for 2019 (2018: 19%).

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2016 (on 6 September 2016). The proposed further reductions to the main rate, to reduce it to 17% from 1 April 2020, are expected to be put on hold following the General Election in December 2019. Deferred taxes at the reporting date have been measured using enacted tax rates and reflected in these financial statements.

24. Payables, including insurance payables

	2019	**2018**
	$'000	**$'000**
Due to intermediaries	24,977	10,006
Contingent commission	12,084	9,973
Reinsurers' share of DAC	53,017	43,311
Due to related parties	177,172	144,443
Insurance payables	**267,250**	**207,733**
Accruals and deferred income	234	306
Due to related parties	35,820	38,389
Total payables, including insurance payables	**303,304**	**246,428**

25. Claims Development

Insurance Claims - Gross

Underwriting year	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	Total $'000
Estimate of claims costs:							
At end of underwriting year	168,608	164,695	169,450	288,538	185,368	162,679	
One year later	320,960	297,922	340,989	441,044	387,739		
Two years later	332,779	338,669	377,293	483,722			
Three years later	343,812	334,247	373,755				
Four years later	341,352	327,371					
Five years later	338,100						
Cumulative claims payments:							
At end of underwriting year	9,367	7,271	10,183	5,023	4,602	7,044	
One year later	102,607	89,821	111,227	131,641	126,241		
Two years later	190,038	185,811	202,341	257,600			
Three years later	249,266	235,333	260,011				
Four years later	269,860	259,589					
Five years later	291,179						
Current estimate of cumulative claims	338,100	327,371	373,755	483,722	387,739	162,679	2,073,366
Cumulative payments to date	(291,179)	(259,589)	(260,011)	(257,600)	(126,241)	(7,044)	(1,201,664)
Claims liability outstanding	46,921	67,782	113,744	226,122	261,498	155,635	871,703
Total liability included in the Statement of financial position							**871,703**

Insurance Claims - Net

Underwriting year	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	Total $'000
Estimate of claims costs:							
At end of underwriting year	67,041	64,355	63,589	95,396	70,257	62,598	
One year later	128,204	117,896	132,366	153,950	147,735		
Two years later	132,291	134,478	146,070	176,028			
Three years later	136,845	132,604	145,145				
Four years later	135,593	130,055					
Five years later	134,538						
Cumulative claims payments:							
At end of underwriting year	3,747	2,908	4,064	1,852	1,841	1,475	
One year later	41,043	35,909	42,940	49,806	50,185		
Two years later	76,015	74,107	78,764	95,688			
Three years later	99,690	93,709	101,664				
Four years later	107,943	103,026					
Five years later	116,470						
Current estimate of cumulative claims	134,538	130,055	145,145	176,028	147,735	62,598	796,100
Cumulative payments to date	(116,470)	(103,026)	(101,664)	(95,688)	(50,185)	(1,475)	(468,507)
Claims liability outstanding	18,068	27,029	43,481	80,340	97,550	61,123	327,593
Total liability included in the Statement of financial position							**327,593**

26. Related parties

The members of the Board of Directors of the Company are listed on page 1 of these financial statements.

Under a management agreement with TransRe London Services Limited (TRLS), a fellow group undertaking, TRLS supplies and makes charges for the provision of operational assets and services to the Company. The agreement specifies the method of calculation of the amounts payable in respect of these services.

The Company is obligated to cede to TRC a 60% quota share percentage of the Company's contracts of insurance entered into or renewed from 1 January 2014.

The London Branch Office (LBO) is a branch of TRC and the intercompany balances with the Company arise in the normal course of business.

Calpe Insurance Company Limited (Gibraltar) - a fellow group undertaking - cedes to the Company an 80% quota share of the net retained liability of its insurance business for the 2019 underwriting year (2018: 80%).

TReIMCo Limited, a fellow group undertaking, cedes to the Company a 100% whole account quota share of all insurance assets and liabilities. TReIMCo Limited is a Lloyd's corporate member which participates on a number of Lloyd's Syndicates.

Amounts settled during 2019 and outstanding as at 31 December 2019

	TRC $'000	LBO $'000	Calpe $'000	TReIMCo $'000	TRLS $'000
Income	356,679	-	82,388	75,546	6,329
Expense	(339,335)	-	(83,992)	(85,403)	(42,315)
Net statement of profit or (loss)	17,344	-	(1,604)	(9,857)	(35,986)
Asset	690,193	535	10,534	-	-
Liability	(160,943)	-	(119,988)	(20,483)	(34,993)
Net outstanding asset or (liability)	529,250	535	(109,454)	(20,483)	(34,993)

Amounts settled during 2018 and outstanding as at 31 December 2018

	TRC $'000	LBO $'000	Calpe $'000	TReIMCo $'000	TRLS $'000
Income	340,299	-	76,331	66,854	-
Expense	(329,051)	-	(73,854)	(70,692)	(41,267)
Net statement of profit or (loss)	11,248	-	2,477	(3,838)	(41,267)
Asset	667,622	-	4,551	6,527	-
Liability	(115,944)	(1,264)	(101,525)	(19,846)	(24,627)
Net outstanding asset or (liability)	551,678	(1,264)	(96,974)	(13,319)	(24,627)

There are no doubtful debts with related parties outstanding as at 31 December 2019 (2018: None). Refer to Note 3a ii for collateral held as part the quota share agreement with TRC.

The Company also participates in two SPVs. Refer to Note 3a ii on page 43.

27. Employees

TRLS is the employing company of staff in the UK. Disclosures relating to employees may be found in the financial statements of TRLS. The Company receives a recharge from TRLS in relation to staff costs and other expenses.

Recharge from TRLS related to staff costs:

	2019	2018
	$'000	$'000
Salary	24,279	23,938
Employee Benefits	693	568
Pension	711	743
Payroll Taxes	4,071	3,705
Total	**29,754**	**28,954**

Director's remuneration and key management compensation

The directors are paid in the same way as other employees and the Company receives a corresponding recharge from TRLS. The amount of emoluments granted in respect of the financial year to both the executive and non-executive directors of the Company, including any commitments arising or entered into in respect of retirement pension, have been set out in the table below. The amounts below are based on the allocation of time spent on qualifying activities for the Company during the given financial year. For the purposes of International Accounting Standard 24, 'Related Party Disclosures', key managers are defined as the Board of Directors. There are no additional key management personnel other than the Directors of the Company.

	2019	2018
	$'000	$'000
Salaries and other short-term employee benefits	1,564	1,778
Post-employment benefits	128	121
Incentive plans	3,721	1,639
Total	**5,413**	**3,538**

Highest paid director emoluments:

	2019	2018
	$'000	$'000
Highest paid director	1,127	1,175

28. Parent undertaking and ultimate holding company

The immediate parent undertaking is Transatlantic Reinsurance Company, a company incorporated in the United States of America.
The ultimate parent undertaking and controlling party is Alleghany Corporation, a company incorporated in the United States of America. The ultimate controlling entity's accounts are available on application to the company secretary at:

1411 Broadway

34th Floor

New York, New York 10018

Phone: (+1) 212-752-1356

Also at:

http://www.alleghany.com

29. Events since the statement of financial position date

On 10 February 2020, the directors recommended the payment of a dividend of $10m for the year ended 31 December 2019. Subject to the approval of the Company's shareholder TRC, the dividend will be paid during 2020.

30. Reconciliation to US GAAP

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRS), which differs in certain respects from accounting principles generally accepted in the United States (US GAAP). Whilst there are numerous differences between the two bases of accounting, there are only a limited number that are applicable to the Company. The following is a reconciliation of IFRS shareholders funds attributable to equity interests and IFRS profit for the year to the equivalent measures.

Profit and Loss Reconciliation

	2019 $'000	2018 $'000
IFRS profit/(loss)	29,783	8,893
Unrealised gains/(losses) on ETF's	6,529	(1,601)
Foreign exchange on non-monetary items	(1,547)	5,682
Tax on unrealised (gains)/losses on ETF's	(1,240)	304
Tax on foreign exchange on non-monetary items	294	(1,079)
US GAAP profit for the year	**33,819**	**12,199**

Shareholders' equity reconciliation

	2019 $'000	2018 $'000
IFRS equity	574,934	520,641
Profit and loss adjustments:		
Foreign exchange on non-monetary items	19,832	21,824
Tax on foreign exchange	(3,941)	(4,320)
US GAAP shareholders' equity	**590,825**	**538,145**

Foreign exchange on non-monetary items

The Company's functional currency for reporting in accordance with IFRS is USD. Since USD is also the Company's presentational currency, transactions in currencies other than USD are translated into the Company's functional currency at closing rate for monetary assets and historic rate for non-monetary assets. All foreign exchange amounts that arise are reported in the Statement of profit or loss. For the purposes of reporting in accordance with US GAAP, the Company has 3 functional currencies, being USD, GBP and EUR. The conversion of transactions in currencies that are not in one of the 3 US GAAP functional currencies into one of the 3 functional currencies is reported within the Statement of profit of loss. Amounts recorded in the GBP and EUR functional currencies are converted into the Company's presentational currency of USD using the closing rate. The foreign exchange arising on conversion to presentational currency is recorded within other comprehensive income.

Unrealised gains/(losses) on Exchange Traded Funds (ETF's)

Under US GAAP the ETF equity investments are classified as fair value through profit or loss, and unrealised gains and losses are recorded within the statement of profit or loss. Under IFRS these investments have been designated as available for sale financial instruments, and unrealised gains and losses are recorded within other comprehensive income, with any reductions in fair value that meet the criteria for impairment taken to the statement of profit or loss.