

CITY RE LIMITED

Directors' Report and Financial Statements

For the year ended 31 March 2019

CITY RE LIMITED

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CITY RE LIMITED

CORPORATE INFORMATION

DIRECTORS:

Mr G A Hollingsworth
Mr S A Le Prevost
Dr P R Kane
Mr J Mayhew

INSURANCE MANAGER:

JLT Insurance Management (Guernsey) Limited
Mill Court
La Charroterie
St Peter Port
Guernsey
GY1 4ET

SECRETARY:

JLT Insurance Management (Guernsey) Limited
Mill Court
La Charroterie
St Peter Port
Guernsey
GY1 4ET

REGISTERED OFFICE:

PO Box 155
Mill Court
La Charroterie
St Peter Port
Guernsey
GY1 4ET

AUDITOR:

Moore Stephens
Town Mills South
La Rue Du Pre
St Peter Port
Guernsey
GY1 1LT

CITY RE LIMITED

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 March 2019.

INCORPORATION

The Company was incorporated in Guernsey, Channel Islands on 20 December 2010 with registered number 52816. It operates in accordance with the provisions of The Companies (Guernsey) Law, 2008 and The Insurance Business (Bailiwick of Guernsey) Law, 2002 to carry out general insurance business, excluding domestic business.

ACTIVITIES

The principal activity of the Company during the year was to provide re-insurance protection to the RSA Group on the risks associated with material damage and loss of rent for the City of London's property portfolio.

RESULTS

The results for the year are shown on page 8.

DIVIDENDS

During the year the directors proposed a dividend in the sum of £263,721 which has not yet been paid (Declared and paid 2018: £161,341).

DIRECTORS

The directors of the Company who held office during the period are detailed on page 3.

DISCLOSURE OF INFORMATION TO AUDITOR

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

AUDITOR

The Auditor, Moore Stephens, has indicated its willingness to continue in office and offers itself for re-appointment at the forthcoming Annual General Meeting.

GOING CONCERN

The directors have, at the time of approving the financial statements, a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

Approved by the Board of Directors and signed on behalf of the Board

Director:



Date:

25 July 2019

Director:



CITY RE LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Director's Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and Financial Reporting Standard 103 "Insurance Contracts". 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 the affairs of the company and the profit or loss of the company for that period.

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

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies (Guernsey) Law, 2008. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CITY RE LIMITED

Opinion

We have audited the financial statements of City Re Limited for the year ended 31 March 2019 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and Financial Reporting Standard 103 "Insurance Contracts" (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Companies (Guernsey) Law, 2008 and The Insurance Business (Bailiwick of Guernsey) Law, 2002.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"). Our responsibilities under these standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Guernsey, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our 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 this other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where The Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the company; or
- the financial statements are not in agreement with the accounting records; or
- we have failed to obtain all the information and explanations, which, to the best of our knowledge and belief, are

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CITY RE LIMITED (Continued)

Matters on which we are required to report by exception (continued)

We have nothing to report in respect of the following matters where The Insurance Business (Bailiwick of Guernsey) Law, 2002 requires us to report to you if, in our opinion:

- the information given in the annual return prepared pursuant to section 33 is inconsistent with the financial statements; or
- there is any transaction outside the normal course of business which resulted in the Statement of Financial Position showing a situation materially different from that which would otherwise have obtained, and which is not adequately disclosed in the financial statements.

Responsibilities of directors

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

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or 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 of 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 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.

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

Use of our report

This report is made solely to the company's members, as a body, in accordance with Section 262 of The Companies (Guernsey) Law, 2008. 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.



MOORE STEPHENS

Town Mills South
La Rue Du Pre
St Peter Port
Guernsey, GY1 3HZ

Date

29

July
June 2019

CITY RE LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2019

CONTINUING OPERATIONS	<i>Notes</i>	31 Mar 2019 £	31 Mar 2018 £
REVENUE			
Gross premiums written	2	2,713,316	2,393,905
Change in unearned premium provision	2	(209,602)	(106,525)
Premium earned for the year		2,503,714	2,287,380
UNDERWRITING EXPENSES			
Claims payable	2	(1,741,737)	(1,713,077)
Claims reserve movement - outstanding loss reserves	2	(799,638)	(320,400)
IBNR Movement	2	-	125,000
Commission	2	(75,111)	(67,144)
Total underwriting expenses		(2,616,486)	(1,975,621)
UNDERWRITING RESULT FOR THE YEAR		(112,772)	311,759
Interest income	2	22,128	15,078
Administrative expenses	6	(74,530)	(74,897)
PROFIT BEFORE TAXATION AND COMMISSION		(165,174)	251,940
Profit commission payable	2	-	(3,779)
PROFIT BEFORE TAXATION		(165,174)	248,161
Taxation	5	-	-
RETAINED (LOSS)/PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(165,174)	248,161

The notes on pages 12 to 19 form part of these financial statements.

CITY RE LIMITED

STATEMENT OF FINANCIAL POSITION AT 31 MARCH 2019

	Notes	31 Mar 2019 £	31 Mar 2018 £
CURRENT ASSETS			
Deferred commission		58,570	52,282
Prepaid expenses		16,890	15,763
Cash and cash equivalents		5,627,792	4,805,220
TOTAL ASSETS		5,703,252	4,873,265
EQUITY AND LIABILITIES			
Issued capital	7	500,000	500,000
Retained earnings		98,547	263,721
TOTAL EQUITY		598,547	763,721
LIABILITIES			
Trade and other payables	8	261,070	275,149
TECHNICAL RESERVES			
Unearned premium reserve	2	1,952,349	1,742,747
Claims reserves	9	2,891,286	2,091,648
TOTAL EQUITY AND LIABILITIES		5,703,252	4,873,265

These financial statements were approved by the Board of Directors at a meeting on 25 July 2019

Signed on behalf of the Board of Directors

Director



Director



The notes on pages 12 to 19 form part of these financial statements.

CITY RE LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2019

	31 Mar 2019 £	31 Mar 2018 £
Balance at the beginning of the year	763,721	676,901
Dividend paid during the year	-	(161,341)
Total comprehensive (loss)/income for the year	(165,174)	248,161
Balance at the end of the year	<u>598,547</u>	<u>763,721</u>

The notes on pages 12 to 19 form part of these financial statements.

CITY RE LIMITED

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2019

	31 Mar 2019	31 Mar 2018
	£	£
CASH FLOW FROM OPERATING ACTIVITIES		
Profit for the year	(165,174)	248,161
Less interest income	(22,128)	(15,078)
Increase in unearned premiums	209,602	106,525
Increase in prepaid expenses	(7,415)	(4,791)
(Decrease)/Increase in trade and other payables	(14,079)	101,377
Increase in claims reserves	799,638	195,400
Decrease in premium debtors	-	5,979
Net cash inflow from operating activities	800,444	637,573
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	22,128	15,078
Net cash from investing activities	22,128	15,078
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid	-	(161,341)
Net cash from financing activities	-	(161,341)
Net increase in cash and cash equivalents	822,572	491,310
Cash and cash equivalents brought forward	4,805,220	4,313,910
Cash and cash equivalents carried forward	5,627,792	4,805,220

The notes on pages 12 to 19 form part of these financial statements.

CITY RE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

1. BASIS OF PREPARATION

The company is a limited company, limited by shares and is incorporated in Guernsey. The address of its registered office is PO Box 155, Mill Court, La Charroterie, St Peter Port, Guernsey, GY1 4ET.

The principal activity of the company is to provide reinsurance protection to the RSA Group on the risks associated with the material damage and loss of rent insurance programmes of the City of London property investment portfolio.

The financial statements have been prepared in accordance with The Insurance Business (Bailiwick of Guernsey) Law, 2002, FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and FRS 103 "Insurance Contracts".

2. PRINCIPAL ACCOUNTING POLICIES

These financial statements are prepared under the historical cost convention.

The preparation of financial statements in compliance with FRS102 and FRS103 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the accounting policies.

(a) Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

(b) Gross premiums written

Gross premiums written is in respect of the provision of reinsurance protection to RSA Insurance Group Plc on the risks associated with material damage and loss of rent insurance programmes of the City of London portfolio.

(c) Unearned premiums

Unearned premium represents the proportion of premium which has been pre-paid for the following financial period.

(d) Claims

Claims are accounted for on an accruals basis. Provisions made for the cost of outstanding claims reported at the reporting date are included in the outstanding loss reserve. The estimate for the cost of claims incurred but not reported ("IBNR") is included in the IBNR reserve. The current IBNR is in the sum of £125,000 is determined by the Board of Directors using both historical data and any data available up to the approval of the financial statements, in relation to the provision of new claims and deterioration of existing claims.

(e) Commission

Fronting fees calculated as 3% of gross premiums written is payable to RSA Insurance Group Plc and are earned over the related policy period.

Profit commission calculated as 1.5% of the profit before tax in the financial period is payable to JLT Insurance Management (Guernsey) Limited.

(f) Interest income

Interest income is accounted for on an accruals basis.

(g) Cash and cash equivalents

Cash and cash equivalents comprise bank balances, short term fixed deposits and short term notice accounts.

3. FINANCIAL INSTRUMENTS

Financial Assets

Basic financial assets, including debtors and cash and cash equivalents, are initially recognised at transaction price, and are subsequently carried at amortised cost.

CITY RE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 MARCH 2019

3. FINANCIAL INSTRUMENTS (Continued)

Debtors arising out of insurance operations

Debtors arising out of insurance operations consist of balances due from the insurer in respect of outstanding premiums.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. None of the financial assets at the year end are deemed to be impaired.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Financial liabilities

All financial liabilities, are initially recognised at transaction price and are subsequently carried at amortised cost.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

The Company does not hold or issue derivative financial instruments.

Creditors arising out of insurance operations

Creditors arising out of insurance operations consist of balances due to the insurer in respect of outstanding claims payable.

Offsetting

Financial assets and liabilities are not offset in the accounts and the gross amounts are shown in the financial statements.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company accounting policies, which are described in note 2, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of the applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate.

The most significant assumptions made relate to the level of future claims, the level of future claims settlements and the legal interpretation of insurance policies. Whilst the directors consider that the gross provision for claims are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amount provided. Adjustments to the amounts of provision are reflected in the financial statements for the period in which the adjustments are made.

CITY RE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 MARCH 2019

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued) Outstanding loss reserves.

The carrying amount of the reserve is £2,766,286 (2018: £1,966,648). There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims. The level of provision has been set on the basis of the information that is currently available, including potential outstanding loss advices, experience of development of similar claims and on the advice of expert loss adjusters where appropriate.

IBNR

The current IBNR is in the sum of £125,000 (2018: £125,000) is determined by the Board of Directors using both historical data and any data available up to the date of approval of the financial statements, in relation to the provision of new claims and deterioration of existing claims.

5. TAXATION

The Company is taxed at the standard rate of income tax for Guernsey companies of 0%.

6. ADMINISTRATIVE EXPENSES

	31 Mar 2019	31 Mar 2018
	£	£
Management fees	51,975	51,975
Audit fees	6,460	5,890
Directors' fees	7,500	7,500
Consultancy fees	400	400
Company registration fees	6,156	6,022
Directors and officers premium	1,292	1,195
Sundry expenses	747	1,915
	74,530	74,897

7. SHARE CAPITAL

	31 Mar 2019	31 Mar 2018
	£	£
ISSUED SHARE CAPITAL		
500,000 GBP1 Ordinary Shares	500,000	500,000

Dividends

Shareholders of ordinary shares are entitled to receive dividends declared by the Company.

Capital

On winding up of the assets of the Company, the holder of ordinary shares is entitled to repayment of the nominal amount paid thereon. Any surplus is attributable to holders of ordinary shares pro rata in proportion to the number of ordinary shares.

Voting rights

Ordinary shares carry one vote per shareholder at general meetings.

8. TRADE AND OTHER PAYABLES

	31 Mar 2019	31 Mar 2018
	£	£
Claims payable	252,595	263,128
Profit commission	-	3,979
Audit fees	6,000	5,540
Directors and officers premium	-	26
Consultancy fees	400	400
Directors' fees	2,075	2,076
	261,070	275,149

CITY RE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 MARCH 2019

9. CLAIMS RESERVES	31 Mar 2019	31 Mar 2018
	£	£
IBNR reserve	125,000	125,000
Outstanding loss reserves	2,766,286	1,966,648
	<u>2,891,286</u>	<u>2,091,648</u>

10. FINANCIAL RISK MANAGEMENT

The Company is exposed to a range of financial risks through its financial assets, financial liabilities and policyholder liabilities. The most important components of these financial risks are market risk (interest rate risk), credit risk, currency risk and liquidity risk. The risk management policies employed by the Company to manage these risks are discussed below.

a) Credit Risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The Company manages the levels of credit risk it accepts by limiting its exposure to a single counterparty, or groups of counterparty. Such risks are subject to regular review by the Board of Directors.

The assets bearing credit risk and their associated credit ratings are shown below:

	31 Mar 2019	31 Mar 2018
	£	£
<i>Assets bearing credit risk</i>		
Cash and cash equivalents	5,627,792	4,805,220
<i>By Rating</i>		
A rated	5,627,792	4,805,220

No financial assets are past due or impaired at the reporting date and management expects no significant losses from non-performance by these counterparties.

b) Liquidity risk

Liquidity risk is the risk that the company cannot meet its obligations associated with financial liabilities as they fall due. The company has adopted an appropriate liquidity risk management framework for the management of the company's liquidity requirements. The company manages liquidity risk by maintaining banking facilities and monitoring premiums due and by continuously monitoring the forecast and actual cash flows and matching the maturity profiles of assets and liabilities. The company is exposed to liquidity risk arising from its insurance activities. Liquidity management ensures that the company has sufficient access to funds necessary to cover insurance liabilities and expenses. All financial liabilities are due to be settled within the next twelve months.

There were no significant changes to the company's liquidity risk exposure in the financial year nor the objectives, policies and processes for managing liquidity risk.

c) Interest rate risk

The Company is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its bank deposits, cash and cash equivalents and cash flows. At 31 March 2019 the Company had various interest bearing accounts bearing interest rates ranging from 0.10% to 0.55% (2018: 0.10% to 0.55%).

During the year to 31 March 2019, if Bank of England interest rates had been 50 basis points higher with all other variables held constant, profit for the year would have been increased by £28,139 (2018: £24,026), as a result of interest received on cash and cash equivalents. However if Bank of England interest rates had been 50 basis points lower with all other variables held constant, no interest would have been received therefore a decrease to profit for the year by £22,128 (2018: £15,708).

CITY RE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 MARCH 2019

10. FINANCIAL RISK MANAGEMENT (Continued)

The following are the underlying assumptions made in the model used to calculate the effect on profits and other components of equity:

- The bank balances at 31 March 2019 formed the basis of the calculation.
- A 50 basis point charge on these principal balances reflects the absolute increase or decrease in profit that could arise with such an interest rate movement. The directors have chosen the estimate of 50 basis points as this reflects the directors best estimate of the change in interest rates which could reasonably be expected to occur.

d) Currency risk

The company manages their foreign exchange risk by currently ensuring all commercial transactions or recognised assets and liabilities are denominated in its functional currency.

e) Concentration risk

Concentration risk arises when a number of counterparties are engaged in similar business activities or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The Board does not feel that the company is exposed to significant concentration risk at the current time.

11. MANAGEMENT OF INSURANCE RISK

The principal risk that the Company faces under its insurance contracts is that the actual claims are significantly different to the amounts included in the technical reserves. This could occur because the frequency or severity of claims and benefits are greater or lower than estimated. Insurance events are fortuitous and the actual number and amounts of claims may vary from year to year from the estimate established.

The Company provides re-insurance protection to the RSA Insurance Group Plc on the risks associated with material damage and loss of rent for the City of London's property portfolio. The re-insurance protection is limited to a maximum liability of £250,000 for each and every loss with an aggregate limit equal to £250,000 in excess of net written premium.

All risks covered under the insurance policy are within the United Kingdom.

Claims development tables

The claims development table that follows shows claims reported per underwriting year which remain open in the respective policy year.

CITY RE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 MARCH 2019

11. MANAGEMENT OF INSURANCE RISK (Continued)

Claims development table at 31 March 2019

<u>Underwriting</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>Total</u>
accounting period end	427,179	201,400	188,840	223,724	837,927	495,995	2,375,065
one year later	1,361,059	1,350,481	1,543,888	1,436,816	2,172,013	-	7,864,257
two years later	1,411,703	1,239,357	1,643,108	1,603,168	-	-	5,897,336
three years later	1,526,623	1,150,662	1,858,804	-	-	-	4,536,089
four years later	1,496,967	1,130,234	-	-	-	-	2,627,201
five years later	1,846,640	-	-	-	-	-	1,846,640
Current estimate of cumulative claims	1,846,640	1,130,234	1,858,804	1,603,168	2,172,013	495,995	9,106,854
Cumulative payments to date	(1,354,640)	(1,128,133)	(1,474,280)	(1,284,234)	(1,077,875)	(21,406)	(6,340,568)
Statement of Financial Position Reserves	492,000	2,101	384,524	318,934	1,094,138	474,589	2,766,286

The Company has currently provided for an Incurred but not Reported Reserve in the sum of £125,000 (2018: £125,000) which has been agreed by the Board.

12. CAPITAL MANAGEMENT

The Company defines capital in accordance with regulations prescribed by the Guernsey Financial Services Commission ("GFSC"). The Company's capital consists of:-

	31 Mar 2019	31 Mar 2018
	£	£
Share Capital	500,000	500,000
Retained earnings	98,547	263,721
Capital to meet Minimum Capital Requirements	598,547	763,721
Adjustments	-	-
Capital to meet Prescribed Capital Requirements	598,547	763,721

Its objectives when managing capital are:

- to comply with legal and statutory obligations and maintain capital resources commensurate with the nature, scale and risk profile of its business;
- to provide a framework for monitoring the financial and capital position of the Company, including the procedures to be followed during periods of general financial distress, either due to internal or external events; and
- to safeguard the Company's ability to continue as a going concern.

CITY RE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 MARCH 2019

12. CAPITAL MANAGEMENT (Continued)

Under the rules prescribed by the GFSC, the Company must at all times maintain assets of a value sufficient to cover its liabilities, including liabilities arising under or in connection with contracts of insurance and that there is a suitable matching of assets and liabilities.

Under the current regulations, the GFSC rules require the Company to maintain a surplus of admissible assets over its liabilities which is at all times at least higher than both its MCR and PCR. The MCR represents the point at which the regulator would invoke the strongest action, while the PCR is the level of capital above which no action is required, with varying degree of action required if capital lies between MCR and PCR.

As at 31 March 2019, the Company held a surplus of £17,261 above its MCR requirement of £581,236 and a deficit of £203,190 below its PCR requirement of £801,737.

Management information to monitor the Company's capital requirements and solvency position is produced and presented to the Board on a regular basis ensuring that the Company meets its capital requirements at all times.

Due to additional claims reserves following receipt of information subsequent to the financial year end the Company has failed to comply with the GFSC imposed rules and guidance in respect of the prescribed capital requirement in 2019. Following notification of this deficit to the Board, the Shareholder has been requested to forward funds to increase the paid up share capital of the Company to £750,000.

Following receipt of the additional share capital the Company will hold a surplus on the PCR requirement of £43,140.

13. TECHNICAL PROVISIONS

Technical provisions arising from insurance contracts are included in these financial statements as follows:

	31 Mar 2019	31 Mar 2018
	£	£
Gross		
Unearned premium reserve	1,952,349	1,742,747
IBNR provision	125,000	125,000
Outstanding loss reserves	2,766,286	1,966,648
Total technical provisions, gross	<u>4,843,635</u>	<u>3,834,395</u>

Provisions for claims reported are estimated using the latest available information which comprises up to date reports from the claims handlers, loss adjusters and fronting insurers, on that basis there are no significant assumptions impacting on the level of the claims other than the assumption that the information used is complete and accurate.

14. RELATED PARTY DISCLOSURE

The parent Company and ultimate controlling party which has interests in 100% (2018: 100%) of the issued share capital of the company is the City of London Corporation, the municipal body of the City of London, acting in its City's Cash capacity.

Key management personnel of the company

Key management personnel include all directors who together have authority and responsibility for planning, directing and controlling the activities of the company. The total compensation paid to key management personnel for services provided to the company was £7,500 (2018: £7,500).

CITY RE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 MARCH 2019

14. RELATED PARTY DISCLOSURE (Continued)

Entities that provide key management personnel services to the company

During the year management fees of £51,975 (2018: £51,975) were paid to JLT Insurance Management (Guernsey) Limited, regarded as a related party by virtue of the fact that Mr S Le Prevost is a director of both companies.

Profit commission calculated as 1.5% of the profit before tax in the financial year is also payable to the insurance manager JLT Insurance Management (Guernsey) Limited. Due to a loss in the current financial year an amount of £Nil is payable as at 31 March 2019. (2018: £3,979)

15. SUBSEQUENT EVENTS

Following receipt of further information in relation to claims which were reported subsequent to the 31st March 2019 which relate to the period prior to this date, and adjustment of the claims reserves held in respect of these additional cases notified, the Company did not meet its PCR requirement of 100%. The Board of Directors have requested the shareholders of the Company to increase the paid share capital to £750,000 and to remit the sum of £250,000 to rectify the current position which was received on the 18th July 2019.