

Standard Reinsurance (Bermuda) Limited

**Condensed
Consolidated General
Purpose Financial
Statements
2019**



**Standard
Club**

CONTENTS

INDEPENDENT AUDITORS' REPORT	1
CONDENSED CONSOLIDATED BALANCE SHEET	3
CONDENSED CONSOLIDATED STATEMENT OF INCOME.....	7
CONDENSED CONSOLIDATED STATEMENT OF CAPITAL AND SURPLUS ..	9
NOTES TO THE CONDENSED CONSOLIDATED GENERAL PURPOSE FINANCIAL STATEMENTS.....	10
GENERAL NOTES TO THE FINANCIAL STATEMENTS	10
NOTES TO THE CONSOLIDATED STATEMENT OF CAPITAL AND SURPLUS.....	16
NOTES TO THE CONSOLIDATED BALANCE SHEET	16
NOTES TO THE CONSOLIDATED STATEMENT OF INCOME.....	20

2 Reid Street
Hamilton HM11
Bermuda

Mailing address:
P.O. Box HM 2278
Hamilton HMJX
Bermuda

Tel: (441) 295 4800
Fax: (441) 296 6717
Email: msb@msb.bm
www.moorestephens.bm

INDEPENDENT AUDITORS' REPORT

To the Board of Directors

We have audited the accompanying condensed consolidated financial statements of Standard Reinsurance (Bermuda) Limited and its subsidiaries, which comprise the condensed consolidated balance sheet and condensed consolidated statement of capital and surplus as of February 20, 2019, and the related condensed consolidated statement of income for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Condensed Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the condensed consolidated financial statements based on the financial reporting provisions of The Insurance Act 1978, amendments thereto and the Insurance Account Rules 2016 with respect to Condensed General Purpose Financial Statements (the "Legislation"). Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these condensed consolidated financial statements based on our audit. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the condensed consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the condensed consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the condensed consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the condensed consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the condensed consolidated financial statements.

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

Basis for Adverse Opinion on accounting principles generally accepted in the United Kingdom

As described in Note 3 to the condensed consolidated financial statements, the condensed consolidated financial statements are prepared by the Company based on the financial reporting provisions of the Legislation, which is a basis of accounting other than accounting principles generally accepted in the United Kingdom.

The effects on the condensed consolidated financial statements of the variances between the basis of accounting described in Note 3 and the accounting principles generally accepted in the United Kingdom are material.

Adverse Opinion on accounting principles generally accepted in the United Kingdom

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on accounting principles generally accepted in the United Kingdom” paragraph, the condensed consolidated financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United Kingdom, the financial position of the Company and its subsidiaries as of February 20, 2019, or the results of their operations or their cash flows for the year then ended.

Opinion on Condensed Consolidated Financial Statements

In our opinion, the condensed consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of February 20, 2019, and the results of their operations for the year then ended, in accordance with the financial reporting provisions of the Legislation described in Note 3.

Morse Stephens & Butterfield

Chartered Professional Accountants
Hamilton, Bermuda
June 20, 2019

CONDENSED CONSOLIDATED BALANCE SHEET

As at
expressed in
['000s]

February 20, 2019

United States Dollars

LINE No.		2019	2018
1.	CASH AND CASH EQUIVALENTS	57,866	44,539
2.	QUOTED INVESTMENTS:		
(a)	Bonds and Debentures		
	i. Held to maturity	-	-
	ii. Other	376,790	486,424
(b)	Total Bonds and Debentures	376,790	486,424
(c)	Equities		
	i. Common stocks	124,959	149,437
	ii. Preferred stocks	-	-
	iii. Mutual funds	-	-
(d)	Total equities	124,959	149,437
(e)	Other quoted investments	-	-
(f)	Total quoted investments	501,749	635,861
3.	UNQUOTED INVESTMENTS:		
(a)	Bonds and Debentures		
	i. Held to maturity	-	-
	ii. Other	42,809	-
(b)	Total Bonds and Debentures	42,809	-
(c)	Equities		
	i. Common stocks	57,358	-
	ii. Preferred stocks	-	-
	iii. Mutual funds	-	-
(d)	Total equities	57,358	-
(e)	Other unquoted investments	-	31,763
(f)	Total unquoted investments	100,167	31,763
4.	INVESTMENTS IN AND ADVANCES TO AFFILIATES		
(a)	Unregulated entities that conduct ancillary services		
(b)	Unregulated non-financial operating entities		
(c)	Unregulated financial operating entities		
(d)	Regulated non-insurance financial operating entities		
(e)	Regulated insurance financial operating entities		
(f)	Total investments in affiliates		
(g)	Advances to affiliates		
(h)	Total investments in and advances to affiliates		
5.	INVESTMENTS IN MORTGAGE LOANS ON REAL ESTATE		
(a)	First liens		
(b)	Other than first liens		
(c)	Total investments in mortgage loans on real estate		
6.	POLICY LOANS		
7.	REAL ESTATE:		
(a)	Occupied by the company (less encumbrances)		
(b)	Other properties (less encumbrances)	-	30,890
(c)	Total real estate		30,890

STANDARD REINSURANCE (BERMUDA) LIMITED

As at
expressed in
['000s]

February 20, 2019

United States Dollars

LINE No.		2019	2018
8.	COLLATERAL LOANS		
9.	INVESTMENT INCOME DUE AND ACCRUED	11,736	3,000
10.	ACCOUNTS AND PREMIUMS RECEIVABLE:		
(a)	In course of collection	103,172	43,094
(b)	Deferred - not yet due	35,271	10,867
(c)	Receivables from retrocessional contracts		
(d)	Total accounts and premiums receivable	138,443	53,961
11.	REINSURANCE BALANCES RECEIVABLE:		
(a)	Foreign affiliates		
(b)	Domestic affiliates		
(c)	Pools & associations		
(d)	All other insurers		
(e)	Total reinsurance balance receivable		
12.	FUNDS HELD BY CEDING REINSURERS		
13.	SUNDRY ASSETS:		
(a)	Derivative instruments	597	
(b)	Segregated accounts companies - long-term business - variable annuities		
(c)	Segregated accounts companies - long-term business - other		
(d)	Segregated accounts companies - general business		
(e)	Deposit assets		
(f)	Deferred acquisition costs		
(g)	Net receivables for investments sold		
(h)	Fixtures, fittings and software	-	2,444
(i)	Goods sales tax	3,640	342
(j)	Other sundry liabilities (specify)		
(k)	Total sundry assets	4,237	2,786
14.	LETTERS OF CREDIT, GUARANTEES AND OTHER INSTRUMENTS		
(a)	Letters of credit		
(b)	Guarantees		
(c)	Other instruments		
(e)	Total letters of credit, guarantees and other instruments	-	-
15.	TOTAL	814,198	802,800

STANDARD REINSURANCE (BERMUDA) LIMITED

As at
expressed in
['000s]

February 20, 2019

United States Dollars

LINE No.		2019	2018
	TOTAL INSURANCE RESERVES, OTHER LIABILITIES AND STATUTORY CAPITAL AND SURPLUS		
16.	UNEARNED PREMIUM RESERVE		
(a)	Gross unearned premium reserves	17,266	112
(b)	Less: Ceded unearned premium reserve		
	i. Foreign affiliates		
	ii. Domestic affiliates		
	iii. Pools & associations		
	iv. All other insurers	330	58
(c)	Total ceded unearned premium reserve	330	58
(d)	Net unearned premium reserve	16,936	54
17.	LOSS AND LOSS EXPENSE PROVISIONS:		
(a)	Gross loss and loss expense provisions	500,990	505,960
(b)	Less : Reinsurance recoverable balance		
	i. Foreign affiliates	89,311	75,037
	ii. Domestic affiliates		
	iii. Pools & associations		
	iv. All other reinsurers	7,659	5,988
(c)	Total reinsurance recoverable balance	96,970	81,025
(d)	Net loss and loss expense provisions	404,020	424,935
18.	OTHER GENERAL BUSINESS INSURANCE RESERVES		
19.	TOTAL GENERAL BUSINESS INSURANCE RESERVES	420,956	432,088
	LONG-TERM BUSINESS INSURANCE RESERVES		
20.	RESERVE FOR REPORTED CLAIMS		
21.	RESERVE FOR UNREPORTED CLAIMS		
22.	POLICY RESERVES - LIFE		
23.	POLICY RESERVES - ACCIDENT AND HEALTH		
24.	POLICYHOLDERS' FUNDS ON DEPOSIT		
25.	LIABILITY FOR FUTURE POLICYHOLDERS' DIVIDENDS		
26.	OTHER LONG-TERM BUSINESS INSURANCE RESERVES		
27.	TOTAL LONG-TERM BUSINESS INSURANCE RESERVES		
(a)	Total Gross Long-Term Business Insurance Reserves		-
(b)	Less: Reinsurance recoverable balance on long-term business		
	(i) Foreign Affiliates		
	(ii) Domestic Affiliates		
	(iii) Pools and Associations		
	(iv) All Other Insurers		
(c)	Total Reinsurance Recoverable Balance		-
(d)	Total Net Long-Term Business Insurance Reserves		-

STANDARD REINSURANCE (BERMUDA) LIMITED

As at
expressed in
['000s]

February 20, 2019

United States Dollars

LINE No.		2019	2018
	OTHER LIABILITIES		
28.	INSURANCE AND REINSURANCE BALANCES PAYABLE	17,622	33,654
29.	COMMISSIONS, EXPENSES, FEES AND TAXES PAYABLE		
30.	LOANS AND NOTES PAYABLE		
31.	(a) INCOME TAXES PAYABLE		
	(b) DEFERRED INCOME TAXES	-	431
32.	AMOUNTS DUE TO AFFILIATES		
33.	ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	3,692	3,068
34.	FUNDS HELD UNDER REINSURANCE CONTRACTS:		
35.	DIVIDENDS PAYABLE		
36.	SUNDRY LIABILITIES:		
(a)	Derivative instruments	-	1,229
(b)	Segregated accounts companies		
(c)	Deposit liabilities		
(d)	Net payable for investments purchased		
(e)	Other sundry liabilities (specify)		
(f)	Other sundry liabilities (specify)		
(g)	Other sundry liabilities (specify)		
(h)	Total sundry liabilities	-	1,229
37.	LETTERS OF CREDIT, GUARANTEES AND OTHER INSTRUMENTS:		
(a)	Letters of credit		
(b)	Guarantees		
(c)	Other instruments		
(d)	Total letters of credit, guarantees and other instruments	-	-
38.	TOTAL OTHER LIABILITIES	21,314	38,382
39.	TOTAL INSURANCE RESERVES AND OTHER LIABILITIES	442,270	463,371
	CAPITAL AND SURPLUS		
40.	TOTAL CAPITAL AND SURPLUS	371,928	339,429
41.	TOTAL	814,198	802,800

CONDENSED CONSOLIDATED STATEMENT OF INCOME

STANDARD REINSURANCE (BERMUDA) LIMITED

For the year
ended
expressed in
['000s]

February 20, 2019

United States Dollars

LINE No.		2019	2018
	GENERAL BUSINESS UNDERWRITING INCOME		
1.	GROSS PREMIUMS WRITTEN		
	(a) Direct gross premiums written	59,983	38,609
	(b) Assumed gross premiums written	152,663	151,072
	(c) Total gross premiums written	212,646	189,681
2.	REINSURANCE PREMIUMS CEDED	33,186	23,081
3.	NET PREMIUMS WRITTEN	179,460	166,600
4.	INCREASE (DECREASE) IN UNEARNED PREMIUMS	(15,905)	11
5.	NET PREMIUMS EARNED	163,555	166,611
6.	OTHER INSURANCE INCOME		
7.	TOTAL GENERAL BUSINESS UNDERWRITING INCOME	163,555	166,611
	GENERAL BUSINESS UNDERWRITING EXPENSES		
8.	NET LOSSES INCURRED AND NET LOSS EXPENSES INCURRED	159,946	156,395
9.	COMMISSIONS AND BROKERAGE		
10.	TOTAL GENERAL BUSINESS UNDERWRITING EXPENSES	159,946	156,395
11.	NET UNDERWRITING PROFIT (LOSS) - GENERAL BUSINESS	3,609	10,216
	LONG-TERM BUSINESS INCOME		
12.	GROSS PREMIUMS AND OTHER CONSIDERATIONS:		
	(a) Direct gross premiums and other considerations		
	(b) Assumed gross premiums and other considerations		
	(c) Total gross premiums and other considerations	-	-
13.	PREMIUMS CEDED		
14.	NET PREMIUMS AND OTHER CONSIDERATIONS:		
	(a) Life		
	(b) Annuities		
	(c) Accident and health		
	(d) Total net premiums and other considerations	-	-
15.	OTHER INSURANCE INCOME		
16.	TOTAL LONG-TERM BUSINESS INCOME	-	-

STANDARD REINSURANCE (BERMUDA) LIMITED

STANDARD REINSURANCE (BERMUDA) LIMITED

For the year
ended
expressed in
['000s]

February 20, 2019

United States Dollars

LINE No.		2019	2018
	LONG-TERM BUSINESS DEDUCTIONS AND EXPENSES		
17.	CLAIMS - LIFE		
18.	POLICYHOLDERS' DIVIDENDS		
19.	SURRENDERS		
20.	MATURITIES		
21.	ANNUITIES		
22.	ACCIDENT AND HEALTH BENEFITS		
23.	COMMISSIONS		
24.	OTHER		
25.	TOTAL LONG-TERM BUSINESS DEDUCTIONS AND EXPENSES	-	-
26.	INCREASE (DECREASE) IN POLICY RESERVES (ACTUARIAL LIABILITIES):		
	(a) Life		
	(b) Annuities		
	(c) Accident and health		
	(d) Total increase (decrease) in policy reserves	-	-
27.	TOTAL LONG-TERM BUSINESS EXPENSES	-	-
28.	NET UNDERWRITING PROFIT (LOSS) - LONG-TERM BUSINESS	-	-
29.	COMBINED NET UNDERWRITING RESULTS BEFORE THE UNDERNOTED ITEMS	3,609	10,216
	UNDERNOTED ITEMS		
30.	COMBINED OPERATING EXPENSE		
	(a) General and administration	4,488	4,182
	(b) Personnel cost		
	(c) Other		
	(d) Total combined operating expenses	4,488	4,182
31.	COMBINED INVESTMENT INCOME - NET	443	31,305
32.	COMBINED OTHER INCOME (DEDUCTIONS)	(228)	(7,321)
33.	COMBINED INCOME BEFORE TAXES	(664)	30,018
34.	COMBINED INCOME TAXES (IF APPLICABLE):		
	(a) Current	(139)	80
	(b) Deferred	(144)	82
	(c) Total	(283)	162
35.	COMBINED INCOME BEFORE REALIZED GAINS (LOSSES)	(381)	29,856
36.	COMBINED REALIZED GAINS (LOSSES)	11,402	19,408
37.	COMBINED INTEREST CHARGES		
38.	NET INCOME	11,021	49,264

CONDENSED CONSOLIDATED STATEMENT OF CAPITAL AND SURPLUS

STANDARD REINSURANCE (BERMUDA) LIMITED

As at February 20, 2019
expressed in United States Dollars
['000s]

LINE No.			2019	2018
1.	CAPITAL:			
(a)	Capital Stock			
	(i) Common Shares		120	120
	Authorized shares	120,000		
	par value	\$1.00		
	issued and fully paid	120,000		
	(ii)			
	(A) Preferred shares:			
	Authorized shares			
	par value			
	Issues and fully paid			
	aggregate liquidation value for —			
	2019			
	2018			
	(B) Preferred shares issued by a subsidiary:			
	Authorized shares			
	par value			
	Issued and fully paid			
	aggregate liquidation value for —			
	2019			
	2018			
	(iii) Treasury Shares			
	repurchased			
	value	shares of par		
		each issued		
(b)	Contributed surplus			
(c)	Any other fixed capital			
	(i) Hybrid capital instruments		1,000	
	(ii) Guarantees and others		-	-
	(iii) Total any other fixed capital		-	-
(d)	Total Capital		1,120	120
2.	SURPLUS:			
(a)	Surplus - Beginning of Year		335,900	288,606
(b)	Add: Income for the year		11,021	49,264
(c)	Less: Dividends paid and payable		-	-
(d)	Add (Deduct) change in unrealized appreciation (depreciation) of investments			
(e)	Add (Deduct) change in any other surplus		16,406	1,555
(f)	Surplus - End of Year		363,327	335,900
3.	MINORITY INTEREST		7,481	3,409
4.	TOTAL CAPITAL AND SURPLUS		371,928	339,429

NOTES TO THE CONDENSED CONSOLIDATED GENERAL PURPOSE FINANCIAL STATEMENTS

General Note to the Financial Statements

1. Organisation

Standard Reinsurance (Bermuda) Limited ("the company") was incorporated under the laws of Bermuda on 9th January, 1991. The company is a wholly owned subsidiary of The Standard Club Ltd ("the parent") and is licensed as a Class 3A insurer under the Bermuda Insurance Act 1978. The parent is a company limited by guarantee and beneficially owned by its members. The address of its registered office is Swan Building, 2nd Floor, 26 Victoria Street, Hamilton HM 12, Bermuda.

The company's affiliates consolidated in these financial statements are as below:

Affiliates	Classes of Shares Held	Principal Business	% Holding
The Standard Club (Asia) Limited, incorporated in Singapore	Ordinary	Marine mutual	80
Standard House Limited, incorporated in Bermuda	Ordinary	Property investment	100
The Shipowners' Mutual Strike Association Europe, incorporated in Luxembourg	Ordinary	Marine mutual	99
The Shipowners' Mutual Strike Association (Bermuda) Limited, incorporated in Bermuda	Ordinary	Marine mutual	100

On 1 February 2019, following approval by Strike Club members in general meetings, The Shipowners' Mutual Strike Insurance Association Europe ('Strike Insurance Europe') and The Shipowners' Mutual Strike Insurance Association (Bermuda) Limited ('Strike Association Bermuda') merged into the group for nil consideration. The group now has 99% of the voting rights in Strike Insurance Europe and 100% of the voting rights in Strike Association Bermuda.

2. Nature of risks underwritten

The company's operations are principally reinsurance of the protection and indemnity ("P&I") risks underwritten by its affiliates. During the year ended 20 February 2019, the company provided quota share reinsurance ("QSR") of 90% of the underwriting results of The Standard Club (Asia) Limited ("Standard Asia") and The Standard Club UK Limited ("Standard UK").

3. Basis of preparation

The condensed consolidated general purpose financial statements have been prepared in conformity with the financial reporting provisions of the Insurance Act 1978, amendments thereto and the Insurance Account Rules 2016 with respect to Condensed General Purpose Financial Statements (the "Legislation"). The condensed consolidated general purpose financial statements are based upon accounting principles generally accepted in the United Kingdom ("UK GAAP") but are in accordance with the reporting requirements of the Legislation, which varies in certain respects from UK GAAP. The more significant variances are as follows:

- A consolidated statement of cash flows is not included;
- A consolidated statement of comprehensive income is not included;
- The presentation and classification of financial statement line items is in accordance with Schedules IX and XI of the Insurance Account Rules 2017 and differ from the expected presentation and classification under UK GAAP; and
- The notes included in the condensed consolidated general purpose financial statements have been prepared in accordance with Schedule X of the Insurance Account Rules 2017 and exclude certain information required under UK GAAP.

The condensed consolidated general purpose financial statements include the accounts of the company and its subsidiaries. All significant intercompany transactions and balances have been eliminated.

4. Accounting policies

Financial assets at fair value through income

Cash and cash equivalents in the balance sheet comprise cash at banks and in hand and short term deposits with an original maturity date of three months or less.

The company classifies its investments as financial assets at fair value through income. As a result, gains and losses are taken to the statement of income, which reflects the management of the portfolio on a fair value basis. Fair values of investments traded in active markets are measured at bid price. Where there is no active market, fair value is measured by reference to other factors.

Derivative financial investments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. The company does not engage in hedge accounting and changes in the fair value of all derivative investments are recognised immediately in the statement of income.

Real estate

Real estate is included in the balance sheet at its open market value at the balance sheet date. Full valuations are made by independent, professionally qualified valuers in the year of acquisition, and thereafter every five years. In the intervening years, these valuations are updated by the directors with the assistance of independent professional advice as required. In accordance with FRS 102, no depreciation or amortisation is provided in respect of investment properties.

Premiums

Premiums are credited to the statement of income as and when charged to members and when reported to the company by the ceding companies. Premiums for periods after the balance sheet date are treated as prepaid and are not included in the statement of income.

Claims incurred

Claims incurred are recorded when advised by the members and ceding companies. Claims incurred comprise new and adjustments to previously reported case reserves and related expenses, claims settlements and expenses paid in the year, and changes in the provision for claims incurred but not reported and related expenses.

Claims provisions and related reinsurance recoveries

The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries. The estimation of claims incurred but not reported is generally subject to a greater degree of uncertainty than the estimation of the cost of settling the underlying claims already notified to the company. The company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposure. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. An allowance for future claims handling costs is included in the provision.

Liability and marine claims are 'long tail', i.e. with potential liabilities several years after the end of the policy year. Consequently, a large element of the claims provision relates to IBNR. Claims estimates for the company are derived from a combination of loss ratio based estimates and a variety of estimation techniques. These are generally based upon statistical analyses of historical experience, which assume that the development pattern of the current claims will be consistent with past experience. However, allowance is made for changes or uncertainties that may create distortions in the underlying statistics or that may cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims, including:

- changes in the cedants processes that might accelerate or slow down the development and/or recording of paid or incurred claims compared with the statistics from previous periods
- changes in the legal environment
- the effects of inflation
- changes in the mix of business
- the impact of large losses
- movements in industry benchmarks.

The variety of estimation techniques assists in giving greater understanding of the trends inherent in the data being projected and in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each policy year.

Large claims impacting each relevant business class are generally assessed separately, being measured and/or projected on a case-by-case basis in order to allow for the possible distortive effect of the development and incidence of these large claims.

Pollution and asbestosis claims can have a very long delay between the occurrence and notification. In estimating the cost of these claims, the company considers the type of underlying risks written historically that may give rise to exposure to these liabilities, notifications received from policyholders, the nature and extent of the cover provided, the current legal environment, changes in the effectiveness of clean-up techniques and industry benchmarks of the typical cost of such claims.

Claims reserves are estimated on an undiscounted basis apart from asbestos-related claims. Due to the very long delay between the notification and the final settlement of a claim which has arisen due to an exposure to asbestos, such asbestos-related claims provisions and IBNR thereon are discounted to take account of the expected investment income receivable between the balance sheet date and settlement on the assets held to cover these provisions.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from the company's affiliate reinsurer based upon the gross provisions and 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, and are 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 with regard to market data on the financial strength of the reinsurance affiliate.

Investment return

Investment return comprises all investment income, realised investment gains and losses (including rental income on investment property), and movements in unrealised gains and losses, net of investment expenses, charges and interest. Dividends are recorded on the date on which the shares are quoted ex-dividend and include the imputed tax credits. Interest and expenses are accounted for on an accruals basis. Realised gains and losses on investments carried at market value are calculated as the difference between net sales proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

5. Premium

Premium income consists of calls and premiums from members, and QSR reinsurance premiums reported to the company by the ceding insurers. Premium income is recorded on an earned basis and are stated before deductions for taxes. Premium income for periods after the balance sheet date are treated as prepaid and are not included in the statement of income.

Investment income

Investment income is recognised on an accrual basis.

Commission income

The company does not receive commission income.

6. Foreign currency

The company's condensed consolidated financial statements are presented in US dollars and rounded to thousands.

The functional currency of the consolidated group and company is the US dollar, with the exception of the subsidiary Standard House Limited whose functional currency is British pounds.

The results and financial position of the subsidiary whose functional currency is pound sterling are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate at the balance sheet date
- income and expenses are translated at the average rate of exchange during the year
- all resulting exchange differences are recognised in combined other income (deductions).

Monetary assets and liabilities in foreign currencies are translated at the US dollar rate of exchange at the balance sheet date with the resulting difference treated as an exchange gain or loss in combined other income (deductions).

Revenue transactions in foreign currencies are translated into US dollars at the rate applicable for the week in which the transaction takes place. Exchange differences are reported in the statement of income.

Foreign currency contracts are entered into in order to hedge the currency exposure of the investment portfolio. The contracts are for the forward sale of currencies, which are matched by holdings of those currencies. The open contracts have been revalued at year-end rates of exchange and the potential profit or loss included in the statement of income.

7. None (2018: None).

8. Commitments

The company provide commitments on behalf of affiliated companies and subsidiaries to facilitate regulatory capital requirements of those companies. As such, \$1.1m (2018: \$0.1m) of cash and \$155.0m (2018: \$145.0m) of investments have been recognised as encumbered assets guaranteeing these commitments.

9. None (2018: None).

10. None (2018: None).

11. None (2018: None).

12. None (2018: None).

13. Fair value estimations

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1 – Listed quoted prices in active markets and external broker quotes which are publicly, readily and regularly available on an active market

Level 2 – Inputs other than quoted prices included within level 1 that are observable, either directly (that is, as prices) or indirectly (that is, derived from prices)

Level 3 – Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

The following table presents the company's assets and liabilities measured at fair value at 20 February 2019 and at 20 February 2018.

Financial assets at fair value through profit or loss:

	Level 1 US\$m	Level 2 US\$m	Level 3 US\$m	Total US\$m
As at 20 February 2019				
Shares and other variable-yield securities and units in unit trusts	150,801	-	31,545	182,346
Debt securities and other fixed-income securities	280,117	139,453	-	419,570
Forward currency contracts	597	-	-	597
	431,515	139,453	31,545	602,513

	Level 1 US\$m	Level 2 US\$m	Level 3 US\$m	Total US\$m
As at 20 February 2018				
Shares and other variable-yield securities and units in unit trusts	149,437	-	31,763	181,199
Debt securities and other fixed-income securities	352,568	133,846	-	486,415
Forward currency contracts	(1,229)	-	-	(1,229)
	500,776	133,846	31,763	666,385

14. Maturity profile of investments

The following table provides a maturity analysis of the company's investments representing the dates that contracts will mature, amounts are due for payment, or assets could be realised without significant additional cost:

	Within 1 year US\$m	1-5 years US\$m	5-10 years US\$m	Over 10 years US\$m	Total US\$m
As at 20 February 2019					
Shares and other variable-yield securities and units in unit trusts	123,218	-	-	59,127	182,345
Debt securities and other fixed-income securities	227,008	17,166	51,557	123,840	419,571
Forward currency contracts	597	-	-	-	597
	350,823	17,166	51,557	182,967	602,513

	Within 1 year US\$m	1-5 years US\$m	5-10 years US\$m	Over 10 years US\$m	Total US\$m
As at 20 February 2018					
Shares and other variable-yield securities and units in unit trusts	160,614	-	-	20,585	181,199
Debt securities and other fixed-income securities	486,415	-	-	-	486,415
Forward currency contracts	(1,229)	-	-	-	(1,229)
	645,800	-	-	20,585	666,385

15. Related party transactions

The company is related through common control with Standard UK, Standard Asia, Strike Insurance Europe and Strike Association Bermuda, the only sources of insurance business written by the company during the year. The company has no shareholding in Standard UK, 80% share-holding in Standard Asia, 99% in Strike Insurance Europe and 100% in Strike Association Bermuda.

The company recognised no dividends during the year from Standard Asia, Strike Insurance Europe and Strike Association Bermuda (2018: None).

The company has reinsurance transactions with its affiliate, the Hydra Standard Cell, and these transactions are recorded in the primary statements.

16. None (2018: sale of property, please see note 7 for further detail).

17. None (2018: None).

NOTES TO THE CONSOLIDATED STATEMENT OF CAPITAL AND SURPLUS

- 1(a)** The company has authorised and issued share capital of 120,000 ordinary shares of \$1.00 par value each. All of the authorised and issued shares are held by The Standard Club Ltd.

Following the company's merger with Strike Insurance Europe and Strike Association Bermuda, \$1,000k were added to the total capital of the company. This capital relates to statutory reserve held within Strike Association Bermuda as a statutory requirement.

- 1(b)** N/a – no contributed surplus.

2(c) Dividends paid and payable

No dividends were paid to the parent The Standard Club Ltd during the year (2018: None).

Other than the item noted in 1(a) above no other transactions occurred during the year.

NOTES TO THE CONSOLIDATED BALANCE SHEET

1. Cash and cash equivalents

Encumbrance on cash amounts to \$1.1m (2018: \$0.1m) which forms part of the collateral guaranteeing the Funds at Lloyd's (FAL) letter of credit issued by the company's bank. The letter of credit was raised on behalf of a related company, The Standard Club Corporate Name Ltd.

2. Quoted investments

Fair value of quoted investments are derived from active markets and are measured at bid price.

Encumbrance on quoted investments consist of amounts held as collateral by financial institutions against letter of credits ("LOC") and guarantee facilities provided to related companies in the parent's group:

Form of encumbrance	Encumbered amount	Encumbered amount
	2019	2018
	\$ m	\$ m
BARCLAYS Guarantee and LOC facilities for Standard UK and Standard Asia	30.3	7.0
HSBC Guarantee facility for Standard UK and Standard Asia	9.0	9.0
NORDEA Guarantee and LOC facilities for Standard UK and Standard Asia	38.2	31.7
NORDEA LOC facilities for Standard Club Corporate Name	77.8	97.2

3. Unquoted investments

Fair value is based on prices provided by the managers of the unquoted investments and are reviewed by Charles Taylor Investment Management ("CTIM"), the investment management affiliate of the managers of the company.

- 4.** None (2018: None).

- 5.** None (2018: None).

6. None (2018: None).

7. Real estate

On 27 April 2018, the freehold building with a net book value of \$30,890k (£22,000k) was sold for a cash consideration of \$30,180k (£21,650k). Fixtures and fittings with a net book value of £1,740k were also disposed of on sale of the property. Charles Taylor PLC has agreed to make total cash contributions of £1,232k towards the sale (approximately £400k on completion and £126k annually for seven years).

8. None (2018: None).

9. Investment income due and accrued is \$11,736k (2018: \$3,000k).

10. Accounts and premiums receivable

Accounts and premiums receivable consist of amounts receivable from:

- Direct insurance operations \$35,271k (2018: \$10,867k)
- Affiliated companies \$103,172k (2018: \$43,094k).

11. None (2018: None).

12. None (2018: None).

13. Sundry assets

(a) Derivative instruments \$597K (2018: \$None).

Derivative instruments are open forward currency contracts which represent potential losses or gains on forward contracts, which have been entered into to protect the assets of the company. These have been revalued at 20 February 2019 using exchange rates prevailing at that date. The total of the open forward contracts at any one time is limited by guidelines set by the board of directors and matched against currency and asset holdings in excess of the amount of the contracts.

(h) Furniture, Fixtures and Fittings \$None (2018: \$2,444k)

Amounts are at net book value after depreciation.

(i) Goods Sales Tax (GST) \$3,640k (2018: \$342k)

Amount represents GST receivable balance in Standard Asia.

14. None (2018: None).

16. Unearned premium reserve

Unearned premiums represent the proportion of underlying premiums written in the year that relate to unexpired terms of underlying policies in force at the balance sheet date, calculated on a time apportionment basis. Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. In respect of general insurance business, written premiums are recognised as earned over the period of the underlying policies on a time apportionment basis, having regard where appropriate, to the incidence of risk. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

17. Loss and loss expense provisions

(a) Movement in the year

General Business	2019	2018
Gross loss and loss expense provision at beginning of year	505,960	518,723
Less: Reinsurance recoverable at beginning of year	81,025	86,678
Net loss and loss expense provision at beginning of year	424,935	432,045
Acquisition / Sale of loss reserves (net)	13,134	-
Net losses incurred and net loss expenses incurred related to:		
Current year	169,764	143,303
Prior years	(10,410)	13,092
Total net incurred losses & loss expenses	159,354	156,395
Net losses and loss expenses paid or payable related to:		
Current year	(80,814)	(53,484)
Prior years	(111,380)	(111,331)
Total losses and loss expenses paid or payable	(192,194)	(164,815)
Foreign exchange and other	(1,209)	1,310
Net loss and loss expense provisions at end of year	404,020	424,935
Add: Reinsurance recoverable at end of year	96,970	81,025
Gross loss and loss expense provision at end of year	<u>500,990</u>	<u>505,960</u>

(b) Movement in net losses incurred and net loss expenses incurred on prior years relate mainly to payment of the QSR recoveries on prior year contracts to Standard UK. No additional premiums or return premiums have been accrued as a result of the movement in prior years.

(c)(i) There are no restricted assets that are held for security or collateral against a liability or contingent liability

(c)(ii) No policyholder obligations are secured by assets or collateral.

20. N/a – no long-term business.

21. N/a – no long-term business.

22. N/a – no life business.

23. N/a – no accident and health business.

24. N/a – no policyholders' funds on deposit.

25. N/a – no liability for future policyholders' dividends.

26. N/a – no long-term business.

27. N/a – no long-term business.

28. Insurance and reinsurance balances payable

Insurance and reinsurance balances payables consist of amounts payable to:

- Creditors arising out of direct insurance operations \$5,126k (2018: \$1,526k)
- Affiliated companies \$12,496K (2018: \$32,136k).

29. None (2018: None).

30. None (2018: None).

31. Taxes

(b) Deferred income taxes \$None (2018: \$431k)

Relate to timing difference on the capital allowances on the purchase of the freehold premises in 2010. The property was sold in the year therefore no deferred tax is recognised at year end. See item 7 “Real estate” above.

32. None (2018: None).

33. Accounts payable and accrued liabilities

- Accounts payable \$2,394k (2018: \$2,752k)
- Accrued liabilities \$1,298k (2018: \$316k)

34. None (2018: None).

35. None (2018: None).

36. Sundry liabilities

(a) Derivative instruments \$None (2018: \$1,299k)

Derivative instruments are open forward currency contracts which represent potential losses or gains on forward contracts, which have been entered into to protect the assets of the company. These have been revalued at 20 February 2019 using exchange rates prevailing at that date. The total of the open forward contracts at any one time is limited by guidelines set by the board of directors and matched against currency and asset holdings in excess of the amount of the contracts.

37. None (2018: None).

NOTES TO THE CONSOLIDATED STATEMENT OF INCOME

6. None (2018: None).

15. None (2018: None).

32. Combined other income (deductions)

(a) Exchange losses \$839k (2018: \$(7,224)k)

(b) Minority interest \$(447)k (2018: \$260k)

(c) Other income \$(620)k (2018: \$(357)k)

36. None (2018: None).