FINANCIAL STATEMENTS 2019

GARD REINSURANCE CO LTD

for the year to 20 February 2019

To the Shareholder of Gard Reinsurance Co Ltd

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Gard Reinsurance Co Ltd (the "Company"), which comprise:

- The balance sheet as at February 20, 2019, the statement of comprehensive income, statement of changes in equity and statement of cash flow for the year then ended, and notes to the accounts, including a summary of significant accounting policies.

In our opinion:

- The accompanying financial statements of the Company give a true and fair view of the financial position of the Company as at February 20, 2019, and of its financial performance and its cash flow for the year then ended in accordance with "Regulations for Annual Accounts for Insurance Companies" approved by the Norwegian Ministry of Finance.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

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

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Chartered Professional Accountants of Bermuda Rules of Professional Conduct (CPA Bermuda Rules) that are relevant to our audit of the financial statements of the Company in Bermuda. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the CPA Bermuda Rules.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (together "Management") are responsible for the preparation of the financial statements of the Company that give a true and fair view in accordance with "Regulations for Annual Accounts for Insurance Companies" approved by the Norwegian Ministry of Finance, and for such internal control as Management determines is necessary to enable the preparation of financial statements of the Company that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements of the Company, including the disclosures, and whether the financial statements of the Company represent the underlying transactions and events in a manner that achieves fair presentation.

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

PricewaterhouseCoopers Ltd.

Chartered Professional Accountants
Hamilton, Bermuda

May 13, 2019

GARD REINSURANCE CO LTD

Statement of comprehensive income

Amounts in USD 000's	Notes	21.02.18 to 20.02.19	21.02.17 to 20.02.18
Technical account			
Gross written premium	4	222,696	208,572
Gross earned premium		216,351	205,343
Earned premium for own account	3, 5	**216,351**	**205,343**
Gross incurred claims		207,486	139,380
Claims incurred for own account	3, 5	**207,486**	**139,380**
Agents' commission		61,653	55,185
Insurance related expenses for own account	3, 6	**61,653**	**55,185**
Other insurance related expenses	6	**1,493**	**1,421**
Technical result		**(54,281)**	**9,357**
Non-technical account			
Interest and similar income	7	101	12,294
Change in unrealised gain/(loss) on investments		(1,216)	54,275
Gain/(loss) on realisation of investments	9	197	(9,891)
Other investment expenses		(668)	(1,382)
Non-technical result		**(1,586)**	**55,296**
Profit/(loss) before tax		**(55,867)**	**64,653**
Taxation	8	0	0
Net result		**(55,867)**	**64,653**
Other comprehensive income/(loss)			
Total result		**(55,867)**	**64,653**

GARD REINSURANCE CO LTD

Balance sheet

Amounts in USD 000's	Notes	As at 20.02.19	As at 20.02.18
Assets			
Investments			
Financial investments at fair value through profit or loss			
Equities and investment funds	9, 10	306,566	276,810
Interest-bearing securities and funds	9, 10	499,194	535,973
Financial derivative assets	9, 10, 11	0	373
Other financial investments	9, 10	17	14,552
Total investments		**805,777**	**827,708**
Receivables			
Receivables from reinsurance operations			
Receivables from reinsurance operations - group companies	10, 15	41,579	37,151
Total receivables	10, 15	**41,579**	**37,151**
Other assets			
Cash and cash equivalents	10, 12	707	1,415
Total other assets		**707**	**1,415**
Prepayments and accrued income			
Accrued income and other prepayments		14,961	13,037
Total prepayments and accrued income		**14,961**	**13,037**
Total assets		**863,024**	**879,311**

GARD REINSURANCE CO LTD
Balance sheet

Amounts in USD 000's	Notes	As at 20.02.19	As at 20.02.18
Equity and liabilities			
Equity			
Statutory reserve	13	150,000	150,000
Share premium reserve		109,823	109,823
Other equity		106,410	162,277
Total equity		**366,233**	**422,100**
Technical provisions			
Gross premium reserve	5	56,521	50,177
Gross claims reserve	5	426,042	369,390
Total technical provisions		**482,563**	**419,567**
Payables			
Payables arising out of reinsurance operations - group companies	16	14,195	31,653
Payables to group companies	16	13	17
Financial derivative liabilities	9, 10, 11	0	5,906
Total payables		**14,208**	**37,576**
Accruals and deferred income			
Accruals and deferred income		20	68
Total accruals and deferred income		**20**	**68**
Total liabilities		**496,791**	**457,211**
Total equity and liabilities		**863,024**	**879,311**

GARD REINSURANCE CO LTD

Statement of changes in equity

Amounts in USD 000's	Statutory reserve	Share premium reserve	Other equity	Total
Equity as at 21.02.17	**150,000**	**109,823**	**97,624**	**357,447**
Net result	0	0	64,653	64,653
Equity as at 20.02.18	**150,000**	**109,823**	**162,277**	**422,100**
Equity as at 21.02.18	**150,000**	**109,823**	**162,277**	**422,100**
Net result	0	0	(55,867)	(55,867)
Equity as at 20.02.19	**150,000**	**109,823**	**106,410**	**366,233**

GARD REINSURANCE CO LTD

Statement of cash flow

Amounts in USD 000's	21.02.18 to 20.02.19	21.02.17 to 20.02.18
Cash flow from operating activities		
Profit/(loss)before tax	(55,867)	64,653
Change in unrealised (gain)/loss on investments	1,216	(54,275)
Purchase/sale of investments (net)	20,714	26,451
Change in receivables and payables	(27,795)	(3,440)
Change in technical provisions and other accruals	61,024	(34,896)
Net cash flow from operating activities	**(708)**	**(1,508)**
Net change in cash and cash equivalents	(708)	(1,508)
Cash and cash equivalents at beginning of year	1,415	2,923
Cash and cash equivalents at end of year	**707**	**1,415**

GARD REINSURANCE CO LTD

Notes to the accounts

Note 1 – Corporate information

Gard Reinsurance Co Ltd ("the Company" or "Gard Re") is a limited liability company which is domiciled in Bermuda. It is a wholly owned subsidiary of Gard P. & I. (Bermuda) Ltd. ("Gard P&I") and is registered by the Bermuda Monetary Authority as a Class 3A insurer. Its principal activity is the reinsurance of the risks retained by Gard P&I, Gard Marine & Energy Limited ("Gard M&E") and Assuranceforeningen Gard - gjensidig.

Note 2 - Accounting policies

2.1 Basis of preparation of the Accounts
Gard Re is incorporated under Bermuda Law. The operations and insurance activities of the Company are carried out by its insurance manager, Lingard Limited ("Lingard"). The accounts include the activity from 21 February 2018 to 20 February 2019.

The financial statements have been prepared in accordance with Regulations for annual accounts for general insurance companies approved by the Norwegian Ministry of Finance.

2.2 Use of accounting estimates when preparing the accounts
The preparation of the accounts requires management to make estimates and assumptions that affect the valuation of assets, liabilities, revenues, expenses and contingent liabilities. Due to unforeseen circumstances, these estimates can change in the future. Estimates and their assumptions are considered continuously, and accounts adjusted accordingly.

2.3 Foreign currency
Functional currency and presentation currency
The accounts are prepared in USD, which is both the functional currency and presentation currency of the Company.

Transactions in foreign currency
Transactions in foreign currencies are translated at the rate applicable on the transaction date. Monetary items in a foreign currency are retranslated into USD using the exchange rate applicable on the balance sheet date. The currency exposure of the provision for claims is assessed to be equivalent to the same currency exposure as claims paid. The opening and closing balances of the provision for claims in foreign currency are translated into USD based on the same method as for monetary items. Non-monetary items that are measured at fair value and expressed in a non-USD currency are translated into USD using the exchange rate applicable on the transaction date. Translation differences are recognised in the income statement as they occur during the accounting period. Foreign exchange gains and losses that relate to borrowings, cash and cash equivalents and financial investments are presented as part of the non-technical result as 'interest and similar income' and 'change in unrealised gain/loss on investments' respectively. All foreign exchange gains and losses relating to technical operations are presented in the income statement as part of the technical result.

2.4 Provisions, contingent liabilities and assets
Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, and 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. For potential obligations whose likelihood is not remote or probable (i.e. not 'more likely than not'), a contingent liability is disclosed.

There is no provision for contingent liabilities recognised in the balance sheet.

Contingent assets are not recognised in the financial statements but are disclosed if it is likely that resources embodying economic benefits will flow to the Company.

2.5 Events after the reporting period
New and material information on the Company's financial position at the end of the reporting period, which becomes known after the end of the reporting period, is recorded in the annual accounts. Events after the reporting period that do not affect the Company's financial position at the end of the reporting period, but which will affect the financial position in the future, are disclosed if significant.

2.6 Other significant accounting policies
Other significant accounting policies are presented and described in other notes to the financial statements, together with the more expanded disclosures for that particular area. This is done to make the disclosures more relevant to the users and make it easier to get an overview of the relevant note. The following table includes other significant accounting policies that are described in other notes to the financial statements, including the number of the note:

Accounting policy	Note
Technical result	5
Technical provisions	5
Insurance related expenses	6
Non-technical items	7
Tax	8
Financial Investments	9
Derivative financial investments	11
Cash and cash equivalents	12

GARD REINSURANCE CO LTD

Notes to the accounts

Note 3 - Intra-group transactions

Reinsurance agreements

Gard Re has entered into reinsurance agreements with Gard P. & I. (Bermuda) Ltd. (Gard Bermuda) and Gard Marine & Energy Limited (Gard M&E) whereby the two direct insurers are ceding 50 per cent of all reinsurance underwriten that is not reinsured elsewhere to Gard Re.

In addition Gard Re and Assuranceforeningen Gard (Gard Norway) have entered into a stop loss reinsurance agreement protecting Gard Norway. Intra-group transactions are summarised in the table below.

Amounts in USD 000's	**Gard Bermuda**	**Gard M&E**	**Gard Norway**	21.02.18 to 20.02.19 Total
Earned premium for own account	123,618	90,733	2,000	216,351
Gross settled claims	85,123	65,711	0	150,834
Change in gross claims reserve	31,123	27,590	(2,061)	56,652
Agents' commission	38,444	23,209	0	61,653

Amounts in USD 000's	**Gard Bermuda**	**Gard M&E**	**Gard Norway**	21.02.17 to 20.02.18 Total
Earned premium for own account	120,159	83,184	2,000	205,343
Gross settled claims	106,226	69,434	0	175,660
Change is gross claims reserve	(17,418)	(17,381)	(1,481)	(36,280)
Agents' commission	34,513	20,672	0	55,185

Insurance management agreement

Gard Re has appointed Lingard as its Insurance Manager and principal representative in Bermuda. These services are governed by a management agreement entered into between Gard Re and Lingard.

Note 4 - Gross written premium by geographical areas

Amounts in USD 000's	21.02.18 to 20.02.19	21.02.17 to 20.02.18
Norway	2,000	2,000
Bermuda	220,696	206,572
Total gross written premium	**222,696**	**208,572**

The geographical split is made based on the location of the individual Member or client.

GARD REINSURANCE CO LTD

Notes to the accounts

Note 5 - Technical result and technical provisions

Accounting policy

Premiums

Premiums are based on the insurance contracts where one party (the insurer) has accepted a significant risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. Premiums are recognised over the insurance policy period. A deferred call for P&I business for the accounting year is subject to approval by the Board of Directors in the following year, but is included as revenue in the accounts for the current year. Deferred and supplementary calls for P&I business may be charged to Members for previous policy years.

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums are calculated on a daily pro-rata basis. The proportion attributable to subsequent periods is deferred as gross premium reserve.

Claims expenses

Expenses regarding incurred claims and other administrative expenses are recognised in the period in which the are incurred. Paid claims include an allocated portion of both direct and indirect claims handling cost.

Amounts in USD 000's	P&I	M&E	21.02.18 to 20.02.19 Total
Technical result			
Gross written premium	125,610	97,085	222,696
Gross earned premium	125,618	90,733	216,351
Earned premium for own account	**125,618**	**90,733**	**216,351**
Claims incurred, gross			
Incurred this year	134,174	98,456	232,630
Incurred previous years	(19,988)	(5,156)	(25,144)
Total claims incurred, gross	**114,186**	**93,300**	**207,486**
Reinsurers' share of gross incurred claims	0	0	0
Claims incurred for own account	**114,186**	**93,300**	**207,486**

GARD REINSURANCE CO LTD

Notes to the accounts

Note 5 - Technical result and technical provisions continued

Accounting policy

Technical provisions are calculated in accordance with the regulations for annual accounts for insurance companies.

Gross premium reserve

The gross premium reserve is amortised over the risk period and is calculated and accounted for in the balance sheet as a provision for the part of premium written that exceeds the end of the financial year. Changes in the provision are charged to the income statement.

Gross claims reserve

The gross claims reserve comprises estimates of the expected remaining exposure from claims that have been reported to the Company (RBNS), and from claims that have been incurred, but which have not yet been reported (IBNR).

Provisions for reported claims are made by assessing the liability of each claim. Actuarial methods are used in estimating the total cost of outstanding claims. The claim provisions have not been discounted.

In accordance with the Norwegian regulations for insurance companies provisions for internal claims handling expenses (unallocated loss adjustment expenses, or ULAE) and binary events are included in the 'Gross claims reserve'.

Insurance contract liabilities

Insurance contract liabilities are the main items in the balance sheet based upon judgements and estimates. Estimates have to be made both for the expected total cost of claims reported and for the expected total cost of claims incurred, but not reported, at the balance sheet date. Standard actuarial methods are used in estimating the total cost of outstanding claims. The actuarial method uses historical data as one of the elements in the model to estimate the future claims costs. It can take a significant period of time before the ultimate claims cost can be established with certainty.

			As at 20.02.19
Amounts in USD 000's	P&I	M&E	Total
Technical provisions gross			
Provisions, at the beginning of the year	284,901	84,489	369,390
Claims paid	(85,123)	(65,711)	(150,834)
Claims incurred - gross this year	134,174	98,456	232,630
Claims incurred - gross previous years	(19,988)	(5,156)	(25,144)
Provisions, at the end of the year	**313,964**	**112,078**	**426,042**
Reinsurers' share of claims provision	0	0	0
Provisions net, at the end of the year	**313,964**	**112,078**	**426,042**
Provision for unearned premiums, gross	(12)	56,533	56,521
Reinsurers' share of premium provision	0	0	0
Provision for unearned premiums, net	**(12)**	**56,533**	**56,521**
Provision for outstanding claims			
Technical provision gross	313,964	112,078	426,042
Technical provision net	313,964	112,078	426,042

GARD REINSURANCE CO LTD

Notes to the accounts

Note 6 - Insurance related expenses and number of staff

Accounting policy

Insurance related expenses for own account consist of agent commissions, sales and administrative expenses.
Sales expenses are recognised in the period in which they are incurred.
The administrative expenses and commission received are expensed over the underlying policy period.

Other insurance related expenses are accounted for in the period they are incurred.

Amounts in USD 000's	21.02.18 to 20.02.19	21.02.17 to 20.02.18
Acquisition costs and commissions		
Agents' commission	61,653	55,185
Insurance related expenses for own account	**61,653**	**55,185**

Gard Re has no employees.
No salaries or other benefits have been paid to the Board of Directors.

Amounts in USD 000's	21.02.18 to 20.02.19	21.02.17 to 20.02.18
Net operating expenses		
Service cost (Lingard)	1,454	1,379
Other operating expenses	39	42
Other insurance related expenses	**1,493**	**1,421**

Amounts in USD 000's	21.02.18 to 20.02.19	21.02.17 to 20.02.18
Remuneration auditor		
Auditing fee	39	42
Total auditors' fee	**39**	**42**

GARD REINSURANCE CO LTD

Notes to the accounts

Note 7 - Non-technical items

Accounting policy

Total interest and similar income are accounted for in the period they are incurred.

Amounts in USD 000's	21.02.18 to 20.02.19	21.02.17 to 20.02.18
Interest and similar income		
Income from financial investments held for trading (portfolio investments)	101	12,294
Total interest and similar income	**101**	**12,294**

Note 8 - Tax

Accounting policy

The company is not subject to income tax, however certain withholding taxes may from time to time be deducted from investment income and these are expensed as income tax.

Amounts in USD 000's	21.02.18 to 20.02.19	21.02.17 to 20.02.18
Income tax expenses		
Paid foreign withheld tax	0	0
Tax expenses ordinary result	**0**	**0**

As a company organised under the laws of Bermuda, the Insurer is not subject to taxation in Bermuda, as Bermuda does not impose taxation on receipts, dividends, capital gains, gifts or net income. In the event that such taxes are levied, the Insurer has received an assurance from the Bermuda government to be exempted from all such taxes until March 28, 2035.

Note 9 - Financial investments and fair values through profit or loss

Accounting policy

Classification

The company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and held to maturity investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of the financial assets at initial recognition.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivative financial investments are also categorised as held for trading.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as receivables and payables in the balance sheet.

Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity, other than:

- Those that the Company upon initial recognition designates as at fair value through profit or loss;
- Those that meet the definition of loans and receivables.

Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Loans, receivables and held to maturity investments are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method.

Unrealised gains or losses arising from changes in the fair value of the 'Financial assets at fair value through profit or loss' category are presented in the statement of comprehensive income within 'Change in unrealised gain/(loss) on investments' in the period in which they arise. Realised gains or losses are presented within 'Gains on realisation of investments'. Dividends and interest income assets at fair value through profit or loss are recognised in the statement of comprehensive income as part of 'Interest and similar income' when the right to receive payments is established. Dividends from investments are recognised when the Company has an unconditional right to receive the dividend.

Dividend paid is recognised as a liability at the time when the General Meeting approves the payment of the dividend.

Interest on held-to-maturity investments is included in the statement of comprehensive income and reported as 'Interest and similar income'. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the investment and recognised in the statement of comprehensive income.

Note 9 - Financial investments and fair values through profit or loss continued

Offsetting financial investments
Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Impairment of financial assets
The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event'), and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For the 'loans and receivables' category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The Company may measure impairment on the basis of an investment's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the statement of comprehensive income.

Determination of fair value
The following describes the methodologies and assumptions used to determine fair values:

Financial investments at fair value through profit or loss
The fair value of financial assets classified as financial investments at fair value through profit or loss and the fair value of interest-bearing securities included is determined by reference to published price quotations in an active market. For unquoted financial assets the fair value has been estimated using a valuation technique based on assumptions that are supported by observable market prices.

Assets for which fair value approximates carrying value
For financial assets and liabilities that have a short-term maturity, it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, and savings accounts without a specific maturity.

Fair value hierarchy
Gard Re uses the following hierarchy for determining and disclosing the fair value of financial investments by valuation technique.

Financial investments in Level 1
The fair value of financial investments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the last trade price (these investments are included in Level 1).
US government bonds and other financial investments have been classified on level 1 in the pricing hierarchy.

GARD REINSURANCE CO LTD

Notes to the accounts

Note 9 - Financial investments and fair values through profit or loss continued

Financial investments in Level 2
The fair value of financial investments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value of an investment are observable, the investment is included in Level 2.

Investments listed in the following have been classified on level 2 in the pricing hierarchy:
- Equity funds and interest-bearing securities and funds where fair values are determined by using quoted market prices of the assets where the funds are invested.
- Equity futures, interest futures, currency futures, currency forwards and interest rate swaps where fair values are determined on the basis of the price development on an underlying asset or instrument. All deriviatives are priced by standard and well recognized methods.

If one or more of the significant inputs is not based on observable market data, the investment is included in Level 3.

Specific valuation techniques used to value financial investments include:
- Quoted market prices or dealer quotes for similar investments;
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves;
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value;
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial investments.

Note that all of the resulting fair value estimates are included in Level 2 except for financial investments explained below.

Financial investments in Level 3
Level 3 includes securitised debt investments and investments in less liquid fund structures.

				As at 20.02.19				As at 20.02.18
	Quoted market prices	Observable market data	Non observable market data		Quoted market prices	Observable market data	Non observable market data	
Amounts in USD 000's	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial investments								
Equities and investment funds	0	233,817	72,749	306,566	0	230,667	46,143	276,810
Interest-bearing securities and funds	4,865	489,529	4,800	499,194	6,912	529,061	0	535,973
Financial derivative assets	0	0	0	0	0	373	0	373
Cash incl. in other financial investments	1	0	0	1	11,040	0	0	11,040
Other financial investments	16	0	0	16	3,512	0	0	3,512
Total financial investments	**4,882**	**723,346**	**77,549**	**805,777**	**21,464**	**760,101**	**46,143**	**827,708**
Financial liabilities								
Financial derivative liabilities	0	0	0	0	0	5,906	0	5,906
Total financial liabilities	**0**	**0**	**0**	**0**	**0**	**5,906**	**0**	**5,906**

Note 9 - Financial investments and fair values through profit or loss continued

The majority of investments held are subfunds of the newly established Gard Unit Trust Fund, a legal fund structure establised in Ireland. Holdings have moved from Gard Common Contractual Fund to Gard Unit Trust Fund during the year by redeeming and simultaneously subscribing into the new structure. Unrealised gains and losses of units held in old fund structure have been realised and the new fund structure was launched with fresh cost values. Otherwise, no material changes to the investment profile or mandates managed within the Unit Trust Fund.

Equities and investment funds

Each subfund holds well diversified portfolios with different investment objectives, and the underlying holdings are common stocks traded on regional stock exchanges. The Company possesses only minority interests in quoted companies.
The Company also has funds other than the Gard Unit Trust Fund that hold investments in direct property, alternatives and private debt.

Interest-bearing securities and funds

Funds classified as Interest-bearing securities and funds are predominantly invested in fixed income securities and money markets. There is also some exposure to floating rate loans and private debt.

Amounts in USD 000's	Investment profile	Currency	As at 20.02.19
Equity funds			
Gard Global Mutifactor Equity Fund	Global Equity	USD	23,467
Gard Global Impact Equity Fund	Global Equity	USD	20,412
Gard Global Equity Fund II	Global Equity	USD	36,557
Gard Emerging Markets Equity Fund	Emerging Market Equity	USD	40,910
Bridgewater Pure Alpha Fund	Global tactical asset allocation	USD	112,471
Phoenix Global Real Estate Fund II	Global real estate	USD	42,319
CBRE Global Real Estate Fund	Global real estate	USD	30,430
Total Equity funds			**306,566**
Total Equities and investment funds			**306,566**
The part of Equity fund invested in quoted shares.			121,346

Amounts in USD 000's	Investment profile	Currency	As at 20.02.19
Interest-bearing funds			
Gard Emerging Market Debt Fund	Emerging market debt	USD	47,131
Gard Global Bond Fund I	Global aggregate interest-bearing securities	USD	234,693
Gard Global Credit Bond Fund I	Global corporate interest-bearing securities	USD	68,622
Gard Global Treasury Fund	Government debt	USD	30,129
CQS Credit Fund	Global multi asset credit	USD	108,954
Gard Private Debt Fund	Global private debt	USD	4,800
Northern Trust Cash Fund	Money market US Dollar	USD	4,865
Total Interest-bearing funds			**499,194**
Total Interest-bearing securities and funds			**499,194**

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Notes to the accounts

Note 10 - Financial risk

Risk management framework

The purpose of the risk management system is to ensure that material reisks are managed in accordance with the Company's corporate objectives and risk-bearing capacity. The risk management system consists of the following components:

Risk appetite and limits: Overall Risk Appetite and Comfort Zone (target range for capitalisation) are defined in accordance with risk-bearing capacity and corporate objectives. This cascades into limits by risk type and legal entities. This forms the basis for all risk management, monitoring and reporting.

Risk policies: There are group policies describing the processes and procedures for managing material risk exposures. The purpose of the policies is to ensure consistent and adequate risk and capital management.

Risk management cycle: Material risks are identified, assessed regulary, managed proactively, monitored regulary and reported to the relevant responsible body.

Main financial risks

Market risk

Market risk arises from the investment activities and the sensitivity of liabilities to changes in market price. The sensitivity analysis of investments assets aims to illustrate the risk of economic losses resulting from deviations in the value of assets caused by changes in observable market prices differing from expected values. The five main market risks selected for testing of sensitivity due to price changes are:

Equity risk

The risk of economic losses resulting from deviations of market values of equities from expected values. The equity portfolio is well diversified, although with skewedness towards emerging markets and smaller companies compared to a global market capitalised benchmark. This is expected to generate a slightly higher return combined with higher volatility over time. The equity portfolio is being managed by a selection of specialist fund managers in which portfolios are partly hedged through a rolling equity index futures program. The sensitivity analysis for equity risk includes equities net of equity index derivatives.

Interest rate risk

The risk of economic losses resulting from deviations in actual interest rates from expected interest rates. The term structure of interest-bearing assets is broadly matched to the expected duration of the liabilities. The sensitivity analysis for interest-bearing securities instruments is testing the portfolio's interest rate sensitivity with a weighted average duration approach. Interest sensitive liabilities are not part of the analysis.

Alternatives risk

The risk that the actual return of investments due to benchmark of investments due to active management decisions will be lower than expected. The sensitivity analysis for alternative risk is assigned to a global alternative fund which aims to generate excess return by tactically adjusting asset allcoation across a variety of asset classes.

Real estate risk

The risk of economic losses resulting from deviations of actual values and/or income from real estate from those expected. The sensitivity analysis for real estate is performed on funds which represent the part that is strategically allocated to real estate.

Currency risk

The risk of economic losses resulting from actual foreign exchange rates differing from expected foreign exchange rates. Foreign currency exposures are assumed to be tightly matched across the balance sheet and managed with an emphasise on major currency exposures. Currency forward derivatives may also serve as an effective tool for mismatch adjustments. The sensitivity analysis for foreign currencies only applies to investments assets and illustrates the impact on values given changes in exchange rates against USD.

Note 10 - Financial risk continued

The table below splits the balance sheet into the major currencies USD, EUR and GBP, and remaining currencies are grouped into Other. Note that investments held as shares/units in various fund structures are reported in base currency. The split deviates from underlying currency exposure that is used as input in the enterprice risk models.

Currency split balance sheet

Amounts in USD 000's	As at 20.02.19	As at 20.02.18
Assets		
USD	863,024	857,972
Other	0	21,339
Total assets	**863,024**	**879,311**
Equity and Liabilities		
USD	863,024	793,372
EUR	0	33,608
GBP	0	29,559
Other	0	22,772
Total equity and liabilities	**863,024**	**879,312**
Net asset exposure		
USD	0	64,600
EUR	0	(33,608)
GBP	0	(29,559)
Other	0	(1,433)

Financial instruments - sensitivity analysis

The analysis below is performed for reasonably possible movements in key market variables with all other variables held constant.

	As at 20.02.19	As at 20.02.18
Impact on equity portfolio given a 10 per cent drop in quoted market prices	(11,915)	(14,056)
Impact on fixed income portfolio investments given an increase of 50 basis points	(185)	(6,976)
Impact on alternatives portfolio given a 10 per cent drop NAV	(11,247)	(10,859)
Impact on real estate portfolio given a 10 per cent drop in NAV	(7,275)	(4,558)
Impact on total investment portfolio given a change of 10 percent in foreign exchange rates against USD	(20,673)	(14,218)

The sensitivity analysis assumes no correlation between equity price, property market and foreign currency rate risk. It also assumes that all other receivables and payables remain unchanged and that no management action is taken. The Company has no significant risk concentrations which are not in line with the overall investment guidelines set by the Company's Board of Directors. Any impact from risk tested in the table above is not, due to tax regulations, assumed to have any taxable impact.

Note 10 - Financial risk continued

Credit risk

The risk of economic losses resulting from the default of third parties, split into:

Credit default risk

The risk that actual credit losses will be higher than expected due to the failure of counterparties to meet their contractual debt obligation.

Credit spread risk

The risk of economic losses due to the difference in yield between a defined rating class bucket and treasury bills/interest-bearing securities with the same duration.

Credit migration risk

The risk that a portfolio's credit quality will materially deteriorate over time, without allowing a re-pricing of the constituent loans to compensate the creditor for the higher default risk being undertaken.

Counterparty default risk

The main sources of counterparty default risk are reinsurers, cash deposits at banks, derivative counterparties, and receivables from policyholders.

Banks and custodians are in line with the guidelines with a credit rating of at least A/stable.

The Company also has counterparty default risk over-the-counter (OTC) financial derivative positions. However, common risk mitigation techniques are exercised to minimise the default risk towards counterparties. The credit risk in respect of receivables is handled by policies and by close follow up. Outstanding receivables can be netted off against outstanding claims payments to reduce the risk of doubtful debts.

The tables below show the credit risk exposure as at 20 February 2019. Assets are classified according to the median rating amongst the three market leading providers, Standard & Poor's, Moody's and Fitch. Top rated assets are denoted with AAA rating and US long-term sovereign credit rating is equivalent to a AAA rating due to an applied median approach.

Credit risk exposure in balance sheet

Amounts in USD 000's	As at 20.02.19	As at 20.02.18
Interest-bearing securities and funds		
AA	0	6,912
A	499,194	0
Not rated	0	529,061
Total interest-bearing securities and funds	**499,194**	**535,973**
Financial derivative assets		
A	0	373
Total financial derivative assets	**0**	**373**
Other financial investments		
A	7	14,552
Not rated	10	0
Total other financial investments	**17**	**14,552**
Receivables		
A	41,579	37,151
Total receivables	**41,579**	**37,151**
Cash and cash equivalents		
BBB	707	1,415
Total cash and cash equivalents	**707**	**1,415**

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Notes to the accounts

Note 10 - Financial risk continued

Liquidity risk
The risk that cash resources are insufficient to meet financial obligations when they fall due. In respect of catastrophic events there is also a liquidity risk associated with the timing differences between gross cash outflows and expected reinsurance recoveries. Liquidity risk arises primarily due to the unpredictability of the timing of payment of insurance liabilities and the illiquidity of the assets held or when market depth is insufficient to absorb the required volumes of assets to be sold, resulting in asset sale at a discount.

Maturity profile
The tables below set out the maturity profile of liabilities combining amounts expected to be recovered within one year, between one and five years and more than five years.

The Company maintains highly marketable financial investments and diverse assets that can be liquidated in the event of an unforeseen interruption of cash flow. This, combined with the credit facility and cash pool to meet liquidity needs, gives a presentation of how assets and liabilities have been matched.

Amounts in USD 000's	Within 1 year	1-5 years	More than 5 years	No maturity date	As at 20.02.19 Total
Gross claims reserve	147,957	244,358	33,727	0	426,042

Amounts in USD 000's	Within 1 year	1-5 years	More than 5 years	No maturity date	As at 20.02.18 Total
Gross claims reserve	117,874	228,578	22,938	0	369,390

Note 11 - Financial derivatives at fair value through profit or loss

Accounting policy

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The Company does not practice hedge accounting.

Financial derivatives

Financial derivatives are integrated components in the investment philosophies and strategies of the Gard group's fund management. They are used for risk management, liquidity improvement, cost reduction and to optimise return within the guidelines set for the Gard group's investment management. The Gard group has implemented a derivative overlay programme whereby regional equity specialists are employed with mandates which have historically provided value creation from active management. The market exposure is then hedged out through equity futures contracts in order to maintain total equity market exposure within the allowed range, and simultaneously fixed income exposure is gained through interest rate swap contracts. The program was terminated during the year.

Investment guidelines

The key features of the Gard group's derivative guidelines are as follows:

The aggregate economic exposure of the group's investment portfolio may not exceed 100 percent of the portfolio's market value i.e. there must be no leverage or gearing of any nature whatsoever of the portfolio.

Compliance monitoring

Compliance with the guidelines is monitored on an ongoing basis through the use of both internal and external resources. Even though the investment managers have internal risk analysis and compliance monitoring processes it is necessary to have independent verification based on alternative sources of data. The global custodian is therefore responsible for detailed compliance monitoring and reporting both at the overall fund level and the individual portfolio level. The investment managers are also subject to a bi-annual independent assessment of investment processes and skills to ensure that, *inter alia* , risk management and compliance monitoring routines are satisfactory.

Valuation and reporting

All derivative investments are carried at independently sourced market values.
Underlying contract values represent the value of the underlying gross commitments of all open contracts.

Types of financial derivatives used during the financial year

Forward exchange contracts

A forward exchange contract is a contract between two parties whereby one party contracts to sell and the other party contracts to buy one currency for another, at an agreed future date, at a rate of exchange which is fixed at the time the contract is entered into.

Interest rate options

An option is a contract in which the writer of the option grants the buyer of the option the right to purchase from or sell to the writer a designated instrument at a specific price within a specified period of time. An interest rate option can be written on cash investments or futures, and is used to manage the interest rate and volatility exposure of the portfolio. Written options generate gains in stable rate environments, but may create obligations to buy or sell underlying securities under greater rate movements. Purchased options are used to generate gains based on interest rate forecasts.

Interest rate futures

An interest rate futures contract is a standardised agreement between a buyer (seller) and an established exchange or its clearing house in which the buyer (seller) agrees to take (make) delivery of a financial rate instrument at a specified price at the end of a designated period of time.

Interest rate swaps

An interest rate swap is an agreement between two parties to exchange periodic interest payments. In the most common type of swap, one party agrees to pay the other party fixed-interest payments at designated dates for the life of the contract. This instrument is used to change interest rate risk by changing the cash flow of fixed rate bonds to adjustable rate bonds or vice versa.

Equity index futures

An equity index future contract is a standardised agreement between a buyer (seller) and an established exchange or its clearing house in which the buyer (seller) agrees to take (make) delivery of an amount based on an equity index at designated point in time.

Note 11 - Financial derivatives at fair value through profit or loss continued

Amounts in USD 000's	Within 1 year	1-5 years	More than 5 years	Total Notional 20.02.19	Fair value 20.02.19
Type of derivatives					
Interest rate related					
Futures	0	0	0	0	0
Swaps	0	0	0	0	0
Net interest rate related	**0**	**0**	**0**	**0**	**0**
Equity related contracts					
Futures	0	0	0	0	0
Net equity related	**0**	**0**	**0**	**0**	**0**
Foreign currency related					
Forward foreign exchange contracts	0	0	0	0	0
Net foreign currency related	**0**	**0**	**0**	**0**	**0**
Net financial derivative liabilities					**0**
Financial derivative assets					0
Financial derivative liabilities					0
Net financial derivative liabilities					**0**

Amounts in USD 000's	Within 1 year	1-5 years	More than 5 years	Total Notional 20.02.18	Fair value 20.02.18
Type of derivatives					
Interest rate related					
Futures	21,625	17,510	30,093	69,228	0
Swaps	52,000	52,000	30,000	134,000	(1,983)
Net interest rate related	**73,625**	**69,510**	**60,093**	**203,228**	**(1,983)**
Equity related contracts					
Futures	19,257	0	0	19,257	0
Net equity related	**19,257**	**0**	**0**	**19,257**	**0**
Foreign currency related					
Forward foreign exchange contracts	105,568	0	0	105,568	(3,550)
Net foreign currency related	**105,568**	**0**	**0**	**105,568**	**(3,550)**
Net financial derivative liabilities					**(5,533)**
Financial derivative assets					373
Financial derivative liabilities					(5,906)
Net financial derivative liabilities					**(5,533)**

Note 12 - Cash and cash equivalents

Accounting policy

Cash and cash equivalents include cash in hand and deposits held at call with banks, brokers and fund managers. In the balance sheet, cash and cash equivalents that relate to investment management is presented as other financial investments. All other cash is presented as Cash and cash equivalents. In the cash flow statement, cash and cash equivalents do not include cash and cash equivalents presented as other financial investments.

Note 13 - Statutory reserve

Gard Re is registered under and regulated by the Insurance Act 1978 and the regulations. Under these regulations Gard Re is required to maintain USD 150,000,000 in statutory capital and surplus. Gard Re is under the supervision of the Bermuda Monetary Authority (BMA) and has to be in compliance with a set of regulatory requirements. All regulatory requirements are complied with as at 20 February 2019.

Par value is USD 1,000 per share.

All shares have the same rights in the Company.

All shares are owned by Gard P. & I. (Bermuda) Ltd.

The Company is consolidated into the accounts of Gard P. & I. (Bermuda) Ltd. as at 20 February 2019 and the consolidated accounts are available at the office of Gard P. & I. (Bermuda) Ltd`s management company Lingard Limited in Bermuda.

Note 14 - Statutory and regulatory requirement

Gard Re has operations which are subject to laws and regulations in Bermuda.
The statutory capital and surplus in Bermuda as at 20 February 2019 and 2018 was as follows:

Amounts in USD 000's	As at 20.02.19	As at 20.02.18
Required statutory capital and surplus	63,906	131,921
Actual capital and surplus	366,233	417,793

Gard Re is required to maintain a minimum statutory capital and surplus equal to the greater of a minimum solvency margin ("MSM") and the Enchanced Capital Requirement ("ECR"). The ECR is equal to the higher of MSM or the Bermuda Solvency Capital Requirement ("BSCR") model or approved internal capital model. The BSCR for Gard Re for the year ended 20 February 2019 will not be filed with the BMA until June 2019. As a result, the required statutory capital and surplus as at 20 February 2019 is based on the MSM, whereas the required statutory capital and surplus as at 20 February 2018 is based on the MSM and ECR.

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Note 15 - Receivables from group companies

Amounts in USD 000's	Gard Bermuda	Gard M&E	Lingard	As at 20.02.19 Total
Accounts receivable - premium provision	0	41,579	0	41,579
Receivables from group companies	**0**	**41,579**	**0**	**41,579**

Amounts in USD 000's	Gard Bermuda	Gard M&E	Lingard	As at 20.02.18 Total
Accounts receivable - premium provision	0	37,151	0	37,151
Receivables from group companies	**0**	**37,151**	**0**	**37,151**

Note 16 - Payables to group companies

Amounts in USD 000's	Gard Bermuda	Gard M&E	Lingard	As at 20.02.19 Total
Payables arising out of reinsurance operations - group companies	11,080	3,115	0	14,195
Payables to group companies	0	0	13	13
Payables to group companies	**11,080**	**3,115**	**13**	**14,208**

Amounts in USD 000's	Gard Bermuda	Gard M&E	Lingard	As at 20.02.18 Total
Payables arising out of reinsurance operations - group companies	26,533	5,120	0	31,653
Payables to group companies	0	0	17	17
Payables to group companies	**26,533**	**5,120**	**17**	**31,670**