StarStone Insurance SE

Financial Statements and Appropriation of Retained Earnings

For the year ended 31 December 2019

Company Number: FL-0002.546.357-6

STARSTONE INSURANCE SE
DIRECTORS AND OFFICERS
For the year ended 31 December 2019

Index Page

Directors and Officers	1
Directors' Report	2
Report of the Statutory Auditor	8
Income Statement	9
Balance Sheet	10
Notes to the Financial Statements	12
Report of the Responsible Actuary	22

STARSTONE INSURANCE SE
DIRECTORS AND OFFICERS
For the year ended 31 December 2019

Directors and Officers

Board of Directors

Chris Rash – appointed 14/01/20
Michael Handler – appointed 06/06/16
Donat Marxer – appointed 08/05/17
Ian Poynton – appointed 16/01/15
Michael Summersgill – appointed 01/11/16, resigned 15/04/19

Management Board

Richard Etridge – appointed 08/05/17, resigned 24/1/19
Alexandra Cliff – appointed 08/05/17, resigned 28/3/19
Udo Pickartz – appointed 08/05/17
Richard Cowling - appointed 31/03/20
Gordon Walters – appointed 31/03/20
Jeroen Claesen – appointed 31/03/20
Jörg Raschke – appointed 31/03/20

Company Secretary

Clare Traxler
Siobhan Hextall

Company Number
FL-0002.546.357-6

Registered Office

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9494 Schaan
Liechtenstein

Branches

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8002 Zürich
Switzerland

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United Kingdom

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50672 Köln
Germany

42 Rue de Bassano
75008 Paris
France

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3011 AA Rotterdam
Netherlands

Corso Magenta N.10
20123, Milan
Italy

Auditors

KPMG (Liechtenstein) AG
Aeulestrasse 2
9490 Vaduz

Directors' Report

The Directors present their report and the audited financial statements for StarStone Insurance Societas Europaea ("the Company") for the year ended 31 December 2019.

Principal activity

The principal activity of the Company is the underwriting of specialty insurance and reinsurance business. The Company offers a broad range of insurance products from large multi-national through to small and middle-market clients around the world, with the Company writing a diversified portfolio by territory and line of business. The Company's business is also written through its European branch network as listed on page 1.

The Company is authorised by the Financial Market Authority ("FMA") to operate property and casualty insurance in the following classes of business: Accident; Sickness; Land vehicles (excluding railway rolling stock); Railway rolling stock; Aircraft; Ships (sea, lake and river navigation vessels); Goods in transit (including merchandise, baggage and all goods); Fire and natural forces; Other damage to property; Aircraft liability; Liability for ships (sea, lake, river and canal vessels); General liability; Credit; Suretyship; Miscellaneous Financial loss; and Legal expenses.

Insurance companies have to comply with the requirements of the Insurance Distribution Act (VersVertG) for implementing Directive (EU) 2016/97 (IDD) and Regulations (EU) 2017/2358 (POG) and 2017 / 1469 (in terms of IPID). The Company's compliance with said regulations are detailed within the additional report. ("Zusatzbericht").

Results and performance

The Company's key financial indicators during the period were as follows:

	2019 USD'000	2018 USD'000
Gross written premium	222,629	251,772
Net earned premium	22,624	19,447
Underwriting result	(896)	(9,976)
Net profit/ (loss) for the year	2,767	(11,057)
Net Claims ratio %	59.6%	109.1%
Net Expense ratio % (i)	44.4%	42.2%
Combined ratio % (ii)	104.0%	151.3%

(i) Net Expense includes Acquisition Costs, Commissions Received and Administrative Expenses
(ii) The combined ratio is the sum of the ratios of Net Expense and Net Claims incurred as a proportion of Net earned premiums. A combined ratio of less than 100% represents an underwriting profit.

The Company has generated a net profit for the year of USD 2.8m (2018: Loss USD 11.1m) which is primarily driven by the Company's favourable investment performance.

The Company's gross written premiums has reduced by 12% from prior year, as expected, to USD 222.6m (2018: USD 251.8m), mainly from its remediated and discontinued lines but also reduced volumes. This is a result of the focus on underwriting discipline, pricing adequacy and pricing for profitability rather than scale.

Despite the decline in gross written premium, the Company experienced a favourable increased in its net earned premium from prior year. This is driven by the run-off of the Whole Account quota share with Kayla Re and also a change in the Company's internal reinsurance programme with its parent company, StarStone Insurance Bermuda Limited ("SIBL") in which the ceding rate reduced from 90% to 80%.

The underwriting result for the financial year ended 31 December 2019 was impacted by unfavourable claims, due to large losses in Construction and Aviation which are the lines of business that have been exited. Despite this claims experience, the combined ratio improved to 104.0% (2018: 151.3%). The Company's net expenses remained flat year-on-year with marginal deterioration in the net expense ratio of 44.4% (2018: 42.4%).

The Company's investment performance was favourable with gains of USD 6,755,271 (2018: 657,123). The favourable gains in investment income was mainly driven by an increase in net realised and unrealised gains as a result of tightening credit spreads and a decrease in interest rates.

Key developments in the year

Effective 1 January 2019 the intragroup reinsurance agreement has been signed with the Company's parent company, SIBL, at a ceding rate of 80% for all continuing lines of business for the 2019 underwriting year (90% for 2018) and at a ceding rate of 73.6% for continuing lines of business relating to the 2017 underwriting years and prior and at a 100% cession rate for discontinued lines of business.

Effective 1 October 2019, the Company's immediate parent company has entered an adverse development cover with a subsidiary of its ultimate parent company. Effective 1 October 2019, the same parties entered into a separate reinsurance agreement that provides 100% reinsurance for the construction line of business.

Effective 1 October 2019, the quota share agreement with SIBL has been endorsed to extend the economic benefits of this agreement to the Company.

The Company has ceded 100% of its reserves for all its business and the unearned premium provision as at 30 September 2019 for the construction line of business to SIBL.

Strategy and Future outlook

As part of the strategic business plan for the year ended 31st December 2019, StarStone made significant changes to the underwriting portfolio for SISE, which resulted in SISE focusing on certain lines of business where loss experience is less volatile and we have adequate scale. This resulted in exiting unprofitable lines of business (e.g. direct and facultative property, international excess casualty, construction and portfolio solutions), the closure of specific continental European branch office locations (such as Zurich) as well as the restructuring of other marginal lines of business (such as marine cargo, hull and general aviation). This restructuring has reduced volatility and simplified the business model for the future.

During 2018 and 2019, the Company has transitioned a number of functions away from a shared service model with the parent to create a more autonomous operating model to satisfy the needs of the Company's customers and stakeholders. Certain functions remain a shared service where it is beneficial to the Company leverage expertise and that is not core to the day-to-day insurance business operations such as investment management. The Company will continue to focus on cost management.

Covid-19

In response to the outbreak of the Coronavirus pandemic (COVID-19), the Company has successfully implemented its Business Continuity Plan with all staff working from home with minimal disruption to its day-

to-day operations for customers. The COVID-19 is a pandemic event that is not clearly timebound nor limited to direct consequences that are easily quantifiable due to the unprecedented nature. As a result, the exposure estimates continue to be assessed on an ongoing basis and remains judgemental. The impact on the Company's financial and capital position to date has been limited due to the Whole Account intragroup reinsurance arrangement with SIBL and the conservative investment strategy.

Brexit

Following the EU Referendum in June 2016, pursuant to the exit process triggered under Article 50 of the Treaty on European Union in March 2017 and the ratification of the withdrawal agreement by the UK government and the EU (through the Council of Ministers), the UK ceased to be a member of the EU and the European Economic Area ('EEA') on 31 January 2020 ('Brexit') and entered a transition period, currently due to expire on 31 December 2020. During this transition period, the UK retains the benefits of membership of the EU's internal market and the customs union but loses its representation in the EU's institutions and its role in EU decision-making.

The UK and EU are currently seeking to determine the terms of their future relationship by the end of the transition period, and the resulting economic, trading and legal relationships with both the EU and other counterparties currently remain unclear and subject to significant uncertainty. If the UK and EU do not agree a new comprehensive trade agreement by the end of the transition period and the transition period is not extended, then, subject to separate agreements being made with third countries, the UK would be expected to operate on basic World Trade Organization terms, the outcome of which for the Company would be similar in certain respects to a 'no-deal' Brexit, and which may result in, amongst others, loss of access to the EU single market for goods and services, the imposition of import duties and controls on trade between the UK and the EU and related trade disruption.

Whilst UK business is only a small proportion of the Company's overall business, it has worked on contingency arrangements to ensure that it will continue to be able to offer insurance to EU and UK customers through its network of branches in Continental Europe and London, in addition to authorise its UK branch as a Third Country Branch. During 2018, the Prudential Regulation Authority ("PRA") announced a temporary permissions regime (TPR), that will apply from the day Great Britain leaves the European Union in the absence of any Brexit agreement. This TPR will allow EEA insurers to continue insurance business in the UK without an authorised branch, with permission until 31 December 2020. Permission under the TPR will automatically be granted upon the receipt of the application for authorisation, which the Company have submitted to the PRA. The Company will continue to discuss these arrangements with the FMA and the PRA in the UK. As a result, the Company is confident that its future performance will not be materially impacted by Brexit.

Dividends

The Directors have not declared nor proposed any dividends to date.

Principal risks and uncertainties

The process of risk acceptance and risk management is addressed through the Enterprise Risk Management (ERM) framework along with supporting policies, procedures and internal controls. The ERM Framework and related policies are subject to approval from the Risk Appetite, Capital and Exposure (RACE) Committee and the Board and are subject to ongoing review by the RACE Committee and Risk Management. Compliance with regulation, legal and ethical standards is a high priority for the Company and the Compliance team and Finance department take on an important oversight role in this regard. The Company's Management Board is responsible

for satisfying itself that a proper internal control framework exists to manage financial risks and that controls operate effectively. From the beginning of 2019, the Company has transitioned to a dedicated Internal Audit Function tasked with ensuring the adequacy and effectiveness of the Company's risk management, control and governance processes. The Company is subject to S-Ox requirements driven by its ultimate parent. Internal Audit assist in enabling the Chief Executive Officer and Chief Finance Officer in discharging their Sarbanes-Oxley (SOX) responsibilities through review and testing of key control activities.

Insurance Risk

Risk that policy terms, premiums, reinsurance protection, and claim handling will not be sufficient to cover ultimate loss and expenses and achieve rate of returns expected by shareholders. Key components and associated controls include:

- Catastrophe/Clash Risk - risk arising from a loss event or occurrence involving more than one insured and/or line of business. Key controls include defined risk appetite/tolerance levels, models used to calculate risk levels, catastrophe control reports overseen by the StarStone Group Executive Committee and the Company's Board.
- Underwriting Selection Risk - risk of underwriting loss due to poor underwriting selection, errors in terms and conditions on individual accounts or actual premium and loss ratios being materially different from plan. Key controls include defined risk appetite/tolerance levels, formal written and signed underwriting authorities/underwriting guidelines, maximum gross and net line sizes and business plans, internal and external peer reviews and StarStone International Underwriting Committee oversight.
- Underwriting Pricing Risk - risk of underwriting loss due to poor pricing decisions on individual accounts. Key controls include underwriting pricing guidelines, technical pricing tools/management information, peer review process and StarStone Underwriting Committee oversight.
- Reserving Risk - risk of potential for deterioration in prior accident year reserves or technical provisions not sufficient to meet policyholder obligations. Key controls include case reserve guidelines, IBNR reserving guidelines, peer review process, Independent Opinion Report and StarStone International Reserving Committee oversight.
- Outward Reinsurance Risk - risks associated with unexpected loss arising from inadequate or inappropriate reinsurance. Key controls include guidelines and procedures for purchasing treaty and facultative reinsurance, approved reinsurance security, quarterly reports, and StarStone International Underwriting Committee oversight.
- Delegated Underwriting Risk - Risk of loss resulting from actions of third parties to whom we have delegated underwriting and claims authority to act on our behalf (e.g coverholders, consortia and master binders). Key controls include coverholder audits, underwriting guidelines and oversight from the Delegated Underwriting Group and the International Underwriting Committee.

Financial Risk

The Company is exposed to a range of financial risks through its financial assets, financial liabilities (investment contracts), reinsurance assets and policyholder liabilities. In particular, the key financial risk is that proceeds from financial assets are not sufficient to fund the obligations arising from insurance policies as they fall due. The most important components of this financial risk are market risk (including interest rate risk and currency risk), credit risk and liquidity risk. These risks arise from interest rate and currency products, all of which are exposed to general and specific market movements.

The Company's financial risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

Market risk is the risk of loss resulting from under-performing investment returns, dilution of investment capital, or adverse financial market movements (such as interest rates or exchange rates). The primary risk is the interest rate risk and its impact on values as the majority of the investments of the Company are bonds, asset and mortgage backed securities and deposits.

The Company manages Investment / Market risk in a number of ways, including use of investment guidelines; regular reviews of investment opportunities; market conditions; portfolio duration; oversight of the selection and performance of external asset managers; regular stress testing of the portfolio against known and hypothetical scenarios; established tolerance levels; and, where possible, foreign currency asset/liability matching. Investments are primarily managed by the Investment function, which is overseen by the Investment Committee.

Credit risk relates to the uncertainty of a counterparty's ability to make timely payments in accordance with contractual terms of the instrument or contract. Key areas where the Company is exposed to credit risk include reinsurers' share of insurance liabilities, amounts due from reinsurers in respect of claims already paid, amounts due from insurance contract holders, amounts due from insurance intermediaries and amounts due from corporate bond issuers and issuers of collateralised mortgage obligations.

The Company manages the levels of investment credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparties, and to geographical and industry segments. Such guidelines are subject to regular review.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim, the Company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on a regular basis by reviewing their financial strength. In addition, management assesses the creditworthiness of all reinsurers by reviewing credit grades provided by rating agencies and other publicly available financial information. Exposures to individual policyholders and groups of policyholders are collected within the on-going monitoring of the controls associated with regulatory solvency.

Liquidity Risk is the risk that we are unable to realize investments and other assets in order to settle financial obligations when they fall due or that we would have to incur excessive cost to do so. The projected value of these liabilities is modelled, on a regular basis, using actuarial techniques. The Company's Board sets the appetite for the minimum proportion of maturing funds that should be in place to cover anticipated liabilities and unexpected levels of demand.

Operational Risk

Operational risk is the risk of a loss arising from inadequate or failed internal processes, or from external events, personnel, systems or third parties. The Company maintains a robust control environment which is under continuous review. All controls are assessed on a quarterly basis and remedial actions developed for any controls with identified deficiencies. All operational risks incidents are recorded and are subject to a root cause analysis.

Strategic Risk

Strategic risk is the risk of unintended adverse impact on the business plan objectives arising from business decisions, improper implementation of those decisions, inability to adapt to changes in the external environment, or circumstances that are beyond the Company's control. Strategic planning incorporates the Company's specific component plan consideration and creation which is subject to Board oversight.

Group Risk

Group risk arises from other group entities which may impact on the operation of the Company's risk in regard to parental influence is managed through the Enstar Group's and StarStone Group's Board and Audit Committee. The Company's regulatory requirements are maintained by local compliance functions.

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Report of the Statutory Auditor on the Financial Statements to the General Meeting of Shareholders of

StarStone Insurance SE, Schaan

As statutory auditor, we have audited the financial statements (balance sheet, income statement and notes) and the annual report of StarStone Insurance SE for the year ended 31 December 2019.

These financial statements and the annual report are the responsibility of the board of directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Liechtenstein profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements and the annual report are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position and the results of operations in accordance with Liechtenstein law. Furthermore, the financial statements and the annual report comply with Liechtenstein law and the company's articles of incorporation.

The annual report is consistent with the financial statements. In our opinion, the annual report does not include material misleading information.

We recommend that the financial statements submitted to you be approved.

KPMG (Liechtenstein) AG

Lars Klossack
Chartered Accountant
Auditor in Charge

Benjamin Marte

Vaduz, 17 April 2020

Enclosures:

- Financial statements (balance sheet, income statement, notes)
- Annual report

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STARSTONE INSURANCE SE
INCOME STATEMENT
As at 31 December 2019

Income statement

	Notes	Year ended 31 December 2019	Year ended 31 December 2018
		USD	USD
I. Technical account			
1. Net earned premium			
a. Gross written premium	**1**	222,629,013	251,771,929
b. Premiums ceded	**1**	(207,927,977)	(230,117,073)
c. Change in unearned premium reserves	**1 & 4**	28,856,979	(34,323,278)
d. Change in unearned premium ceded	**1 & 4**	(20,933,711)	32,115,763
		22,624,304	**19,447,341**
4. Net claims incurred			
a. Claims paid			
aa. Gross	**1**	(179,581,312)	(150,571,247)
bb. Ceded	**1**	180,751,084	134,227,199
		1,169,772	**(16,344,048)**
b. Change in outstanding claims reserve			
aa. Gross	**1 & 5**	(98,285,421)	(148,091,903)
bb. Ceded	**1 & 5**	83,636,489	143,215,461
		(14,648,932)	**(4,876,442)**
7. Expenses for insurance business			
a. Acquisition costs	**1**	(41,011,520)	(55,664,638)
b. Administrative expenses	**2**	(28,658,379)	(32,756,892)
c. Commissions received	**1**	59,629,187	80,218,580
		(10,040,712)	**(8,202,952)**
10. Technical result		**(895,569)**	**(9,976,099)**
III. Non-technical result			
3. Investment income			
c. Income from other investments		4,987,816	2,698,432
e. Realised gains		2,432,533	-
5. Investment management expense			
a. Investment management and interest expenses		(92,442)	(124,088)
b. Depreciation and impairment of investments		(572,636)	(568,255)
c. Realised losses		-	(1,348,967)
7. Other income		-	456,478
8. Other expenses		(1,951,780)	-
9. Result on ordinary activities		**3,907,922**	**(8,862,500)**
13. Income taxes		(1,141,415)	(2,194,734)
Net gain (loss) for the year		**2,766,507**	**(11,057,233)**

See accompanying notes to the financial statements on pages 12 to 21.

STARSTONE INSURANCE SE
BALANCE SHEET
For the year ended 31 December 2019

Balance Sheet

Assets

	Notes	31 December 2019	31 December 2018
		USD	USD
B. Investments			
III. Other investments			
2. Bonds and fixed income securities	3	168,134,124	140,099,810
D. Other receivables			
I. Receivables from policyholders	6a	158,435,253	145,543,458
II. Other reinsurance business receivables			
1. Receivables from affiliated companies	6b	23,656,883	28,422,283
3. Receivables from other parties		21,982,873	17,141,509
III. Other receivables			
1. Receivables from affiliated companies	6b	2,479,337	8,290,079
3. Receivables from other parties		1,777,333	859,075
E. Other assets			
II. Cash at bank and on hand		34,871,071	44,867,198
F. Accrued items			
I. Accrued interest and rent		923,502	523,231
III. Other accrued items	7	1,072,907	2,784,024
Total assets		**413,333,283**	**388,530,667**

See accompanying notes to the financial statements on pages 12 to 21.

These financial statements were approved by the Board of Directors on 17 April 2019 and signed on their behalf by

Michael Handler
Director

Donat Marxer
Director

STARSTONE INSURANCE SE
BALANCE SHEET
For the year ended 31 December 2019

Liabilities and Equity	Notes	31 December 2019	31 December 2018
		USD	USD
A. Equity			
I. Called up share capital	**10**	190,392,725	190,392,725
II. Fund Account - Liechtenstein law	**10**	-	-
III. Additional paid in capital	**10**	55,254,795	55,254,795
IV. Retained earnings			
1. Legal reserves	**10**	-	-
V. Retained earnings brought forward	**10**	(26,469,281)	(15,412,048)
VII. Net profit/(loss) for the year	**10**	2,766,507	(11,057,233)
		221,944,747	**219,178,239**
D. Technical reserve			
I. Unearned premium reserve			
1. Gross	**4**	179,269,903	208,121,414
2. Of which: reinsurance companies	**4**	(150,279,136)	(170,932,508)
		28,990,767	**37,188,906**
III. Outstanding claims reserves			
1. Gross	**5**	655,895,223	557,952,428
2. Of which: reinsurance companies	**5**	(636,279,641)	(542,421,460)
		19,615,582	**15,530,968**
H. Other payables			
II. Other reinsurance payables			
1. Payable to affiliated companies	**6b**	61,302,961	62,376,700
3. Payable to other creditors	**8**	73,404,247	46,362,673
V. Other liabilities			
1. Taxes		-	-
2. Social security		-	-
3. Affiliated companies	**6b**	4,777,256	1,273,791
4. Other liabilities against third parties		2,161,688	5,734,715
VI. Accruals			
1. Other accruals		1,136,036	774,907
3. Affiliated companies		-	109,768
Liabilities and equity total		**413,333,283**	**388,530,667**

See accompanying notes to the financial statements on pages 12 to 21.

Basis of Preparation

The accounting policies of the Company have been established in conformity with the Liechtenstein Persons and Company Law ("PGR") as well as the Law of 12 June 2015 on the Supervision of Insurance Undertakings (Insurance Supervision Act, "ISA") and the Ordinance of 25 August 2015 on the Supervision of Insurance Undertakings (Insurance Supervision Ordinance, "ISO") . A summary of the principal accounting policies is set out below.

Principal Accounting Policies

A. Insurance Operations

Written Premiums – Gross written premiums comprise the total premiums receivable for the whole period of cover provided by the contracts entered into during the reporting period, regardless of whether these are wholly due for payment in the reporting period, together with any adjustments arising in the reporting period to such premiums receivable in respect of business written in prior reporting periods. They are recognised on the date on which the policy commences. Additional or return premiums are treated as a re-measurement of the initial premium. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them.

Written premiums include an estimate for pipeline premiums (i.e. premiums written but not reported to the Company by the reporting date) relating only to those underlying contracts of insurance where the period of cover has commenced prior to the reporting date. The most significant assumption in this estimate is that prior year experience will be consistent with current experience.

Earned Premiums – Premiums are earned as revenue over the period of the contract in proportion to the level of protection provided. Generally, this is on a pro-rata basis over the term of the policies to which they relate. Where the amount of insurance protection varies according to a predetermined schedule, the premium is earned over the period of cover in line with the underwriter's assessment of the level of protection provided.

Claims – Claims include all claims occurring during the year, whether reported or not, related internal and external claims management costs that have been determined by an apportionment of employment costs, and any adjustments to claims outstanding from previous years.

Internal claims handling costs, including remuneration costs of the claims department, are reclassified from administrative expenses and included within claims incurred.

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at cost. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest rate method.

The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of profit or loss. Insurance receivables are derecognised when the de-recognition criteria for financial assets have been met.

Insurance payables

Insurance payables are recognised when due and measured on initial recognition at cost. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method.

Insurance payables are derecognised when the obligation under the liability is settled, cancelled or expired.

Reinsurance – Ceded reinsurance premiums are recognised in the same accounting period as the related insurance. Reinsurance premiums ceded are expensed over the period under which the coverage is provided. For contracts written on a 'losses occurring during basis', the reinsurance premiums are earned on a pro-rata basis over the term of the contract. For contracts written on a 'risk attaching basis', the reinsurance premiums are earned based on the terms of the underlying contracts.

Reinsurance reinstatement premiums – Where a mandatory reinstatement premium is payable under the contract terms after a loss event has occurred, the reinstatement premiums are recorded as written and fully earned at the date of the loss.

Risk transfer – With respect to ceded business, reinsurance accounting is only applied on reinsurance contracts where the risk transfer requirements have been met including the following key conditions:

(a) The reinsurer assumes significant insurance risk under the reinsured portions of the underlying insurance contracts; and
(b) It is reasonably possible that the reinsurer may realise a significant loss from the transaction.

Acquisition Costs – Acquisition costs comprise those costs that are incurred in the acquisition of new and renewed insurance contracts. These consist of commissions, premium taxes, underwriting costs and other costs, which vary with and are primarily related to, the acquisition of premiums. Acquisition costs are expensed as incurred.

Unearned premium reserve – Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Written premiums are recognised as earned over the period of the policy on a time apportionment basis having regard, where appropriate, to the incidence of risk. The provision for unearned premiums is calculated on a daily pro rata basis where appropriate. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

Unearned reinsurance premiums are those proportions of reinsurance premiums written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts, and over the term of the reinsurance contract for losses-occurring contracts.

Unexpired risk provision – Provision is made for unexpired risks arising from general insurance contracts where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the balance sheet date exceeds the unearned premiums provision in relation to such policies. The provision for unexpired risks is calculated by reference to classes of business which are managed together, after taking into account the future investment return on investments held to back the unearned premiums and unexpired claims provisions.

Unpaid losses – A liability for unpaid losses is established where the insured event has occurred on or before the balance sheet date. The reserve for the unpaid losses is established by management based on the estimated ultimate cost of settling the claim and includes provisions for both reported claims ("case reserves") and estimates relating to incurred but not reported claims ("IBNR").

IBNR is generally subject to a greater degree of uncertainty than reported claims. Classes of business where the IBNR proportion of the total reserve is high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves. Classes of business where claims are typically reported relatively quickly after the claim event tend to display lower levels of volatility. In calculating the estimated cost of unpaid claims, the Company uses a variety of estimation techniques. In the initial years, the estimation of the claims will be based on pricing assumptions and comparison to industry benchmarks. Once adequate data is available, the estimation is generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

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

A component of these estimation techniques includes the estimation of the cost of notified but not paid claims. In estimating the cost of these the Company has regard to the claim circumstance as reported, any information available from loss adjusters and any available information on the cost of settling claims with similar characteristics.

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

Where possible the Company adopts multiple techniques to estimate the required level of loss provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assist 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 underwriting year.

Loss provisions are calculated net of any estimated amounts of salvage and subrogation recoveries, but gross of any reinsurance recoveries. No benefit has been taken for discounting the reserves.

Loss adjustment expenses – A liability is established for all costs expected to be incurred in connection with the settlement of unpaid claims. These include the direct cost relating to the investigation of the claims and other costs which cannot be associated with specific claims but are related to claims paid or in the process of settlement such as internal costs of the claims functions.

Reinsurance recoverable on unpaid losses – Reinsurance recoverable are balances due from reinsurance companies for paid and unpaid losses and loss expenses that are expected to be recoverable from reinsurers under the terms of the reinsurance agreements.

Reinsurance recoverable will be stated net of a reserve for uncollectable reinsurance. This reserve will be calculated based on management's estimate of any amounts that the Company would be unable to recover from

the reinsurer due to insolvency or known liquidity issues, contractual dispute or any other reason which in management's judgement is likely to warrant a reserve against a particular reinsurer.

In the determination of the reserve for uncollectable reinsurance, the Company will consider the recoverable balance by reinsurer net of any collateral held. The definition of collateral for this purpose is generally limited to assets held in trust, letters of credit and liabilities held by the Company with the same legal entity for which the Company believes there is a legal right of offset**.**

B. Investments and other assets

Classification – The Company classifies its investments as Bonds and fixed income securities. The Company determines the classification of its investments in securities on initial recognition.

Recognition – Investments are recognised when the Company becomes a party to the contractual provisions of the investment. Investments are derecognised if the Company's contractual rights to the cash flows from the investments expire or if the Company transfers the investments to another party without retaining control of substantially all risks and rewards of the investment.

Purchases and sales of Investments are recognised and derecognised, as applicable, on the trade date, i.e. the date that the Company commits itself to purchase or sell the investment.

Measurement – Investments in securities are stated at the lower of cost or market value.

Cash at bank and on hand - Cash at bank and on hand includes cash at bank and in hand as well as short-term deposits with credit institutions.

Cash at bank and on hand on the balance sheet includes only cash and balances at central banks and loans and advances to banks repayable on demand. Cash at bank and on hand is measured at nominal values.

C. Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the balance sheet when, and only when, the Company currently has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

D. Foreign Currencies

The functional and reporting currency of the Company is U.S Dollars ("USD").

Transactions in foreign currencies are translated to the functional currency using the exchange rates at the date of the transactions. The Company's monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rates of exchange at the balance sheet date. Non-monetary items denominated in foreign currencies that are measured at historic cost are translated to the functional currency using the exchange rate at the date of the transaction. Unearned premium reserves are non-monetary items.

Differences arising on translation of foreign currency amounts relating to the operations of the Company are included in the Income Statement.

E. Taxes

Current tax expense is charged or credited in the Income Statement based upon amounts payable or recoverable as a result of taxable income or loss for its operations in each country in the current period.

1. Segment Information

An analysis of the Company's underwriting results before operating expenses, investment return and profit/(loss) on foreign exchange by class of business is presented in the table below.

a) The summaries below present written premium, earned premiums, claims incurred, and acquisition costs by class of business, as well as reinsurers share that includes ceding commission.

2019	Written premium	Earned premiums	Claims incurred	Acquisition costs
	USD	USD	USD	USD
Marine, aviation and transport	101,211,313	112,821,893	(124,022,819)	(15,379,355)
Property	50,785,138	65,662,738	(121,693,259)	(9,590,771)
Motor	19,427,492	26,395,479	(13,179,500)	(5,443,043)
Accident and health	5,541,917	6,690,164	(3,153,812)	(1,138,271)
Casualty and other	45,663,153	39,915,718	(15,817,343)	(9,460,080)
Gross	222,629,013	251,485,992	(277,866,733)	(41,011,520)
Reinsurer's share	(207,927,977)	(228,861,688)	264,387,573	59,629,187
TOTAL	14,701,036	22,624,304	(13,479,160)	18,617,667

2018	Written premium	Earned premiums	Claims incurred	Acquisition costs
	USD	USD	USD	USD
Marine, aviation and transport	69,178,120	65,868,556	(63,000,644)	(12,361,805)
Property	71,364,501	70,191,961	(172,300,164)	(14,589,853)
Motor	8,850,213	3,901,494	(5,953,308)	(4,695,368)
Accident and health	13,766,032	11,522,174	(5,912,218)	(4,465,128)
Casualty and other	88,613,063	65,964,466	(51,496,815)	(19,552,485)
Gross	251,771,929	217,448,651	(298,663,149)	(55,664,638)
Reinsurer's share	(230,117,073)	(198,001,310)	277,442,660	80,218,580
TOTAL	21,654,856	19,447,341	(21,220,489)	24,553,942

The Company generated gross written premiums of USD 25,042,561 (2018: USD 21,069,904) in Liechtenstein and the branches in the EEA generated gross written premiums of USD 197,818,571 (2018: USD 197,184,262). Negative written premiums of USD 232,119 (2018: positive written premiums of USD 33,517,763) were generated in 'Other' as it relates to changes in estimated premiums for Zurich branch which has been placed into run-off.

2. Net Operating Expenses

The majority of the Company's administrative expenses are incurred by affiliated entities, StarStone Insurance Services Limited ("SISL") and Enstar EU Limited that provides administrative services to the Company. Expenses are recharged to the Company in line with group policy.

3. Investments

By category

As at 31 December	2019 Cost USD	2019 Market value USD	2018 Cost USD	2018 Market value USD
Long Term:				
Corporate Securities	53,343,289	54,491,577	45,226,403	43,909,846
US Government Securities	33,462,448	33,897,999	16,557,484	16,558,524
Non-U.S. Government	18,494,509	19,276,419	7,372,132	7,069,515
Mortgage Backed Securities	24,203,785	24,622,814	12,798,079	12,620,753
Municipals	-	-	550,274	549,060
Short Term:				
US Government Securities	-	-	986,913	987,380
Corporate Securities	8,691,314	8,484,338		
Other:				
Collective investment scheme	29,938,779	29,938,779	58,405,200	58,420,698
Total investments	168,134,124	170,711,926	141,896,486	140,115,775

Investments are valued as lower of cost or market value by category.

By maturity

As at 31 December	2019 Cost USD	2019 Market value USD	2018 Cost USD	2018 Market value USD
Due in one year or less	73,069,861	73,241,080	70,669,212	70,175,980
Due after one through five years	69,956,671	71,907,912	48,912,965	47,916,605
Due after five through ten years	2,020,426	2,071,134	10,375,096	10,303,263
Due after ten years	23,087,165	23,491,800	11,939,212	11,719,927
Total investments	168,134,124	170,771,926	141,896,485	140,115,775

Deposits with banks and cash at bank and on hand include assets of USD 891,028 (2018: USD 3,368,993) that were pledged as collateral for letters of credit issued in relation to insurance business written and USD 1,620,173 (2018: USD 5,028,882) are also used as collateral within individual trust funds or as deposits with regulatory authorities.

The Company has restricted investments of USD 69,762,805 (2018: USD 53,808,747) which are used as collateral within trust funds.

4. Unearned Premium Reserves

As at 31 December 2019	Gross	Reinsurer's share	Net
	USD	USD	USD
Balance at the beginning of the period	208,121,414	(170,932,508)	37,188,906
Change in reporting period	(28,856,979)	20,933,711	(7,923,268)
Currency translation	5,468	(280,339)	(274,871)
Balance at the end of the period	179,269,903	(150,279,136)	28,990,767

As at 31 December 2018	Gross	Reinsurer's share	Net
	USD	USD	USD
Balance at the beginning of the period	173,929,156	(146,082,659)	27,846,497
RI Payable Reclassification	-	7,222,150	7,222,150
Change in reporting period	34,323,278	(32,115,763)	2,207,515
Currency translation	(131,020)	43,764	(87,256)
Balance at the end of the period	208,121,414	(170,932,508)	37,188,906

5. Claims Reserves

Claims reserve

As at 31 December 2019	Gross	Reinsurer's share	Net
	USD	USD	USD
Balance at the beginning of the period	557,952,428	(542,421,460)	15,530,968
Change in reporting period	98,285,421	(83,636,489)	14,648,932
Adverse Development Cover Additional Cession	-	(10,630,700)	(10,630,700)
Currency translation	(342,626)	409,008	66,382
Balance at the end of the period	655,895,223	(636,279,641)	19,615,582

As at 31 December 2018	Gross	Reinsurer's share	Net
	USD	USD	USD
Balance at the beginning of the period	416,800,788	(385,502,218)	31,298,570
Change in reporting period	148,091,903	(143,215,461)	4,876,442
Adverse Development Cover Additional Cession	-	(14,839,692)	(14,839,692)
Currency translation	(6,940,263)	1,135,911	(5,804,352)
Balance at the end of the period	557,952,428	(542,421,460)	15,530,968

6. Receivables and payables

a. Receivables and payables from insurance activities:

	Year ended 31 December 2019	Year ended 31 December 2018
	USD	USD
Receivable from policyholders	158,435,253	160,243,458
Provision for bad debt on policyholders	-	(14,700,000)
	158,435,253	145,543,458

The provision for bad debt on policyholders reported in 2018 relates to the Company's estimated premium income (EPI) write down which are presented as a deduction against receivable from policyholders in 2019 (2019: USD 8,981,856).

b. Receivables and payables to affiliated companies:

	Year ended 31 December 2019	Year ended 31 December 2018
	USD	USD
Other receivables	2,479,337	8,290,079
Other reinsurance receivables	23,656,883	28,422,283
Other reinsurance payables	(61,302,961)	(62,376,700)
Other liabilities	(4,777,256)	(1,273,791)
	(39,943,997)	(26,938,129)

The right to offset were not applied to the Company's other reinsurance receivables and payables in 2018. The comparatives for Other reinsurance business receivables and Other reinsurance payables have been reclassified to conform with the 2019 presentation. This had no impact on the income statement for the year or equity.

7. Other accrued items

	Year ended 31 December 2019	Year ended 31 December 2018
	USD	USD
Prepaid expenses	181,090	9,656
Prepaid IPT	891,817	921,293
Prepaid Corporation Tax	-	1,853,075
	1,072,907	2,784,024

8. Reinsurance payables other creditors

	Year ended 31 December 2019	Year ended 31 December 2018
	USD	USD
Reinsurance premiums payable	73,404,247	43,858,946
Unearned ceding commission	-	2,503,727
	73,404,247	46,362,673

9. Taxation

The Company had income tax expenses of USD 1,141,415 for 2019 (USD 2,194,734 for 2018).

10. Share Capital and movement in shareholders' funds

	Year Ended 31 December 2019	Year Ended 31 December 2018
	USD	USD
140,392,725 registered shares, each with fully paid-up nominal value of USD 1 each	140,392,725	140,392,725
50,000,000 preference shares of USD 1 each	50,000,000	50,000,000
Total Share Capital	190,392,725	190,392,725
III. Additional paid in capital	55,254,795	55,254,795
V. Retained earnings brought forward	(26,469,281)	(15,412,048)
VII. Net profit / (loss) for the year	2,766,507	(11,057,233)
	221,944,747	219,178,239

11. Remuneration of the supervisory board members and executives

Pursuant to Art.1092 (9) lit.d PGR, the Company paid a total remuneration to the supervisory board members and as follows:

	Year ended 31 December 2019	Year ended 31 December 2018
	USD	USD
Directors' emoluments	439,127	1,350,000
Contributions to pension	9,243	50,000

Highest paid Director's emoluments for the Company are as follows:

	Year ended 31 December 2019	Year ended 31 December 2018
	USD	USD
Director's emoluments	121,200	980,000
Contributions to pension	-	30,000

12. Employees

There were no employees of the Company during the year. All employees in Continental Europe performing work for the Company are employed by StarStone Insurance Services Ltd. The Company's employees based in the United Kingdom are employed by Enstar (EU) Limited.

13. Related party transactions

The Company has elected the disclosure exemption from presenting related party transactions on the basis these are presented in its immediate parent Starstone Insurance Bermuda Limited's Financial Statements.

14. Subsequent events

In response to the outbreak of the Coronavirus pandemic (COVID-19), the Company has successfully implemented its Business Continuity Plan with all staff working from home with minimal disruption to its day-to-day operations for customers. The COVID-19 is a pandemic event that is not clearly timebound nor limited to direct consequences that are easily quantifiable due to the unprecedented nature. As a result, the exposure estimates continue to be assessed on an ongoing basis and remain judgemental. The impact on the Company's financial and capital position to date has been limited due to the Whole Account intragroup reinsurance arrangement with SIBL and the conservative investment strategy.

15. Ultimate parent company

StarStone Insurance Bermuda Limited, a company incorporated in Bermuda, is the immediate parent company. Enstar Group Limited, a company incorporated in Bermuda, is the ultimate parent company and the ultimate controlling party. Copies of the consolidated financial statements of Enstar Group Limited can be obtained from The Secretary, Enstar Group Limited, Windsor Place, 22 Queen Street, Hamilton HM11, Bermuda.

Actuarial opinion as at 31 December 2019 of StarStone Insurance SE

According to Art. 36c section 1) b) first sentence VersAG (Insurance Supervisory Act) I, Damien Pujade-Lauraine certify as responsible actuary per Art. 18b VersAG that the actuarial reserves have been calculated correctly and according to accepted actuarial rules and Liechtenstein laws and regulations (especially VersAV (Art. 29 Non-Life Insurance / Art. 39 Life Insurance / Art 47a Reinsurance) and have been included as follows:

	31 December 2019 USD	31 December 2018 USD
D. Technical reserve		
I. Unearned premium reserve		
1. Gross	179,269,903	208,121,414
2. Of which: reinsurance companies	(150,279,136)	(170,932,508)
	28,990,767	**37,188,906**
III. Outstanding claims reserves		
1. Gross	655,895,223	557,952,428
2. Of which: reinsurance companies	(636,279,641)	(542,421,460)
	19,615,582	**15,530,968**

StarStone Insurance SE writes insurance business that provides the following coverages; property and casualty, motor physical damage, accident and health; aerospace, marine and energy and losses arising from war and terror events. The Company is protected by a quota share reinsurance program provided by its parent company, StarStone Insurance Bermuda Limited. The ceding percentage under this agreement varies between 73.6% and 100% depends on the class of business and the underwriting year. A full list is available upon request. StarStone Insurance SE has branch offices in Cologne, Germany; Zurich, Switzerland; London, England; Paris, France; Rotterdam, Netherlands and Milan, Italy.

Damien Pujade-Lauraine

8 April 2020