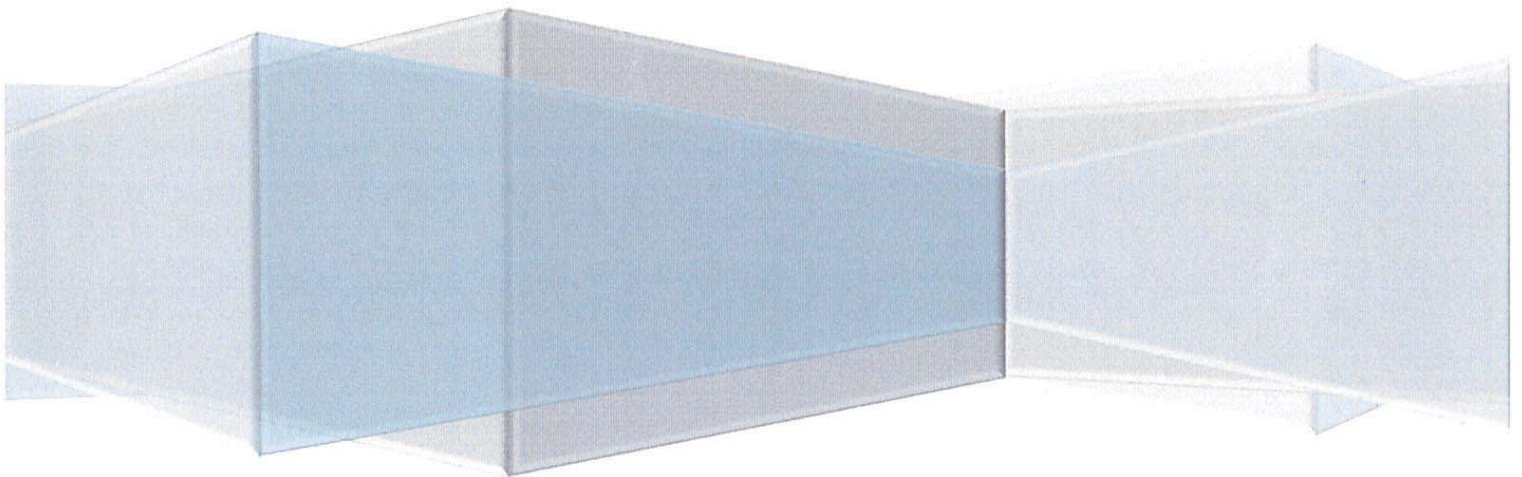


CATALINA LONDON
LIMITED

Catalina London Limited

**Solvency and Financial Condition Report (SFCR)
31 December 2017**



Catalina London Limited

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Executive Summary

Catalina London Limited (“the Company” or “CLL”) is an insurance undertaking authorised by the Prudential Regulation Authority (“PRA”), pursuant to the European Union (Insurance and Reinsurance) regulations 2015, to carry on non-life insurance business in classes 1 to 17 as defined in Solvency II Directive 2009. The Company is regulated by the Financial Conduct Authority (“FCA”) and the PRA.

The Solvency and Financial Condition Report (“SFCR”) has been prepared in accordance with the requirements of the Commission Delegated Regulations (EU) 2015/35. It covers the Business and Performance of AGF Insurance Company Limited, its System of Governance, Risk Profile, Valuation for Solvency Purposes and Capital Management. The quantitative reporting templates which form part of the Annual Regulatory Templates and the disclosures in the SFCR have been prepared in accordance with all applicable PRA rules and Solvency II regulations. Where necessary, comparatives in this document have been restated to conform to changes in presentation in the current year.

Business and Performance

The Company is in run-off. Its principal activities are therefore the efficient and proper run-off of its claims portfolio, the management of its cash and investments, and the timely collection of its reinsurance assets and other debts. In 2017 the Company’s effective management of the remaining claims portfolio resulted in a positive development of the held technical provisions.

The Part VII transfer where the whole of the insurance business of KX Reinsurance Company Limited (“KX Re”) and OX Reinsurance Company (“OX Re”) transferred into the Company, was approved by the High Court in November 2017. On 30 November 2017, assets of US\$67.8m were transferred into the Company to cover the transfer in of technical, and non-technical, liabilities of US\$42.4m. From this date the Company has an ongoing responsibility for all present and future KX Re and OX Re liabilities.

During the year the Company made a loss before tax of US\$0.5m (2016: loss before tax US\$4.1m). This comprised of underwriting loss of US\$2.2m (2016: loss of US\$4.3m), net investment income of US\$1.5m (2016: US\$0.8m) and other income of US\$0.2m (2016: costs of US\$0.6m).

Section A includes further details about the Company’s financial performance in the year.

System of Governance

The Board is responsible for managing the overall direction and activities of the Company and for ensuring that an appropriate system of governance is in place throughout the Company. There were no significant changes to the system of governance during the year. Further the standardisation in operating model across the Catalina UK companies, including KX Re and OX Re, mean that there is no impact on the system of governance following the Part VII transfer of KX Re and OX Re into CLL. Many of the Directors of CLL were also Directors of KX Re and OX Re and hence ensure continuity in understanding and approach.

Section B includes further details of the Company’s system of governance.

Risk Profile

The Company performed a full Own Risk and Solvency Assessment (“ORSA”) during the second half of 2017 with the updated ORSA approved by the Board of Directors on 27th November 2017 as part of the Catalina Holdings UK Limited Group ORSA. The ORSA is an integral part of the business and is taken into account on an ongoing basis in the strategic decisions of the Company.

The types of risk to which the Company is exposed have not changed significantly over the year and remain underwriting, market, credit, liquidity and operational risks. Section C includes further details of the risks to which the Company is exposed and the methods by which it manages and mitigates these risks.

Valuation for Solvency Purposes

Assets, technical provisions and other liabilities are valued in the Company’s Solvency II Balance Sheet according to Solvency II regulations.

As at 31 December 2017 the Company’s Total Own funds of US\$44.3m (2016: US\$19.8m) were US\$4.0m less than the value in the Company’s Financial Statements under UK GAAP (2016: US\$3.1m less). The difference is primarily due to the valuation of technical provisions under Solvency II. The Company’s Total Own Funds are determined in line with the best

Catalina London Limited

estimate of liabilities and the risk margin according to Articles 75 to 86 of the Solvency II regulations and the Company's Financial Statements report undiscounted technical provisions.

Section D provides further details of the different valuation bases used by Solvency II and UK GAAP for assets, technical provisions and other liabilities.

Capital Management

This RSR is prepared under the Solvency II regulations where the emphasis is one of measuring and monitoring capital and the Company using a risk-based approach. The Company currently uses the Standard Formula to calculate its Solvency Capital Requirement ("SCR"). As at 31 December 2017 there was a Solvency II surplus of US\$26.0m (2016: US\$7.7m) and a Solvency II coverage ratio of 242% (2016: 164%). This substantial increase on 2016 is a result of the increased diversification obtained following the Part VII Transfer of KX Re and OX Re liabilities into CLL and the overall reduction of technical reserves. Both metrics relate to the excess of the Company's total eligible own funds over the solvency capital requirement.

	Total	Total
	2017	2016
	USD'000	USD'000
Total Own Funds	44,298	19,766
Standard Formula Solvency Capital Requirement (SCR)	18,338	12,044
Surplus	25,960	7,722
Ratio of Eligible own funds to SCR	242%	164%

There was no capital injection or release in 2017 (2016: US\$8 million capital release).

Outlook

The Company is part of a growing UK legacy business which provides opportunities for increased operational efficiency and the maintenance of high professional standards in all areas of its operations. The service obligations to our policyholders remain a high priority at all times.

No changes in the principal activity of the Company are anticipated in the foreseeable future. The Company will continue its focused approach that ensures a proactive claims agreement process whilst continuing to manage its investments within risk appetite and shareholder approved guidelines. This enables compliance with the holding group's policy requiring very strict adherence to the FCA Treating Customers Fairly ("TCF") requirements, while at the same time managing the Company's liabilities.

On decreasing claims activity, the Company still seeks commutations on its inwards reinsurance liabilities in order to both realise value and to reduce portfolio volatility. Management will also pursue commutations of the Company's remaining outwards reinsurance assets with external counterparties. On any commutation the Company will not enter into these where the return is not greater than or equal to the cost of capital.

Inwards reinsurance claims will continue to be managed internally deploying a common functional structure that delivers operational efficiencies making best use of the available expertise. A very active involvement is pursued in the day to day adjustment of claims. Regular inspections by CLL will continue throughout 2018 to ensure that the counterparty is adhering to the terms and conditions of the relevant policy. The Company will also actively press for the closure of its remaining insurance claims portfolio. Direct insurance claims that are either handled or administered to some extent by a third party, are subject to very close control over their activities. This includes that element of US direct exposures which are outsourced to the San Diego office of Catalina US Insurance Services in California.

Management will continue to review the Company's capital requirements in line with Solvency II requirements, with the intention of releasing excess capital where it is not detrimental to policyholder interests.

Statement of Directors' Responsibilities

We acknowledge our responsibility for preparing the SFCR in all material respects in accordance with the PRA Rules and the Solvency II Regulations.

We are satisfied that:

- a) throughout the financial year ended 31 December 2017, the Company has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations as applicable to the insurer; and
- b) it is reasonable to believe that the Company has continued so to comply subsequently and will continue so to comply in future

By Order of the Board



P M Hernon
Director
2 May 2018

Report of the external independent auditor to the Directors of Catalina London Limited (“the Company”) pursuant to Rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook applicable to Solvency II firms

Report on the Audit of the Relevant Elements of the Solvency and Financial Condition Report

Opinion

Except as stated below, we have audited the following documents prepared by Catalina London Limited as at 31st December 2017:

- The ‘Valuation for solvency purposes’ and ‘Capital Management’ sections of the Solvency and Financial Condition Report of Catalina London Limited as at 31st December 2017, (‘the Narrative Disclosures subject to audit’); and
- Company templates S02.01.02, S17.01.02, S23.01.01, S25.01.21, S28.01.01, (‘the Templates subject to audit’).

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the ‘Relevant Elements of the Solvency and Financial Condition Report’. We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the Other Information which comprises:

- The ‘Business and performance’, ‘System of governance’ and ‘Risk profile’ elements of the Solvency and Financial Condition Report;
- Company templates S05.01.02, S19.01.21;
- the written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report (‘the Responsibility Statement’).

In our opinion, the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report of Catalina London Limited as at 31st December 2017 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Relevant Elements of the Solvency and Financial Condition Report* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Solvency and Financial Condition Report in the UK, including the FRC’s Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – special purpose basis of accounting

We draw attention to the ‘Valuation for solvency purposes’ and ‘Capital Management’ and other relevant disclosures sections of the Solvency and Financial Condition Report, which describe the basis of accounting. The Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

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

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

Other Information

The Directors are responsible for the Other Information. Our opinion on the Relevant Elements of the Solvency and Financial Condition Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the Relevant Elements of the Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Relevant Elements of the Solvency and Financial Condition Report or a material misstatement of the Other Information. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error; 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Relevant Elements of the Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the Relevant Elements of the Solvency and Financial Condition Report are prepared, in all material respects, with financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Our objectives are to obtain reasonable assurance about whether the Relevant Elements of the Solvency and Financial Condition Report 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 it is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decision making or the judgement of the users taken on the basis of the Relevant Elements of the Solvency and Financial Condition Report.

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

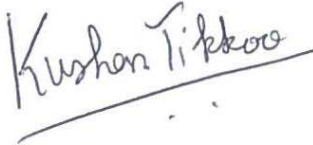
Report on Other Legal and Regulatory Requirements

In accordance with Rule 4.1 (3) of the External Audit Chapter of the PRA Rulebook we are required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of Catalina London Limited's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

The purpose of our audit work and to whom we owe our responsibilities

This report of the external auditor is made solely to the company's directors, as its governing body, in accordance with the requirement in Rule 4.1(2) of the External Audit Part of the PRA Rulebook and the terms of our engagement. We acknowledge that the directors are required to submit the report to the PRA, to enable the PRA to verify that an auditor's report has been commissioned by the company's directors and issued in accordance with the requirement set out in Rule 4.1(2) of the External Audit Part of the PRA Rulebook and to facilitate the discharge by the PRA of its regulatory functions in respect of the company, conferred on the PRA by or under the Financial Services and Markets Act 2000.

Our audit has been undertaken so that we might state to the company's directors those matters we are required to state to them in an auditor's report issued pursuant to Rule 4.1(2) and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company through its governing body, for our audit, for this report, or for the opinions we have formed.



Kushan Tikkoo for and on behalf of KPMG LLP
15 Canada Square
London
E14 5GL

2 May 2018

- The maintenance and integrity of Catalina London Limited's website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Solvency and Financial Condition Report since it was initially presented on the website.
- Legislation in the United Kingdom governing the preparation and dissemination of Solvency and Financial Condition Reports may differ from legislation in other jurisdictions.

Appendix – relevant elements of the Solvency and Financial Condition Report that are not subject to audit

Solo standard formula

The Relevant Elements of the Solvency and Financial Condition Report that are not subject to audit comprise:

- The following elements of template S.17.01.02
 - Rows R0290 to R0310 – Amount of transitional measure on technical provisions
- Elements of the Narrative Disclosures subject to audit identified as 'unaudited'.

A. Business and Performance

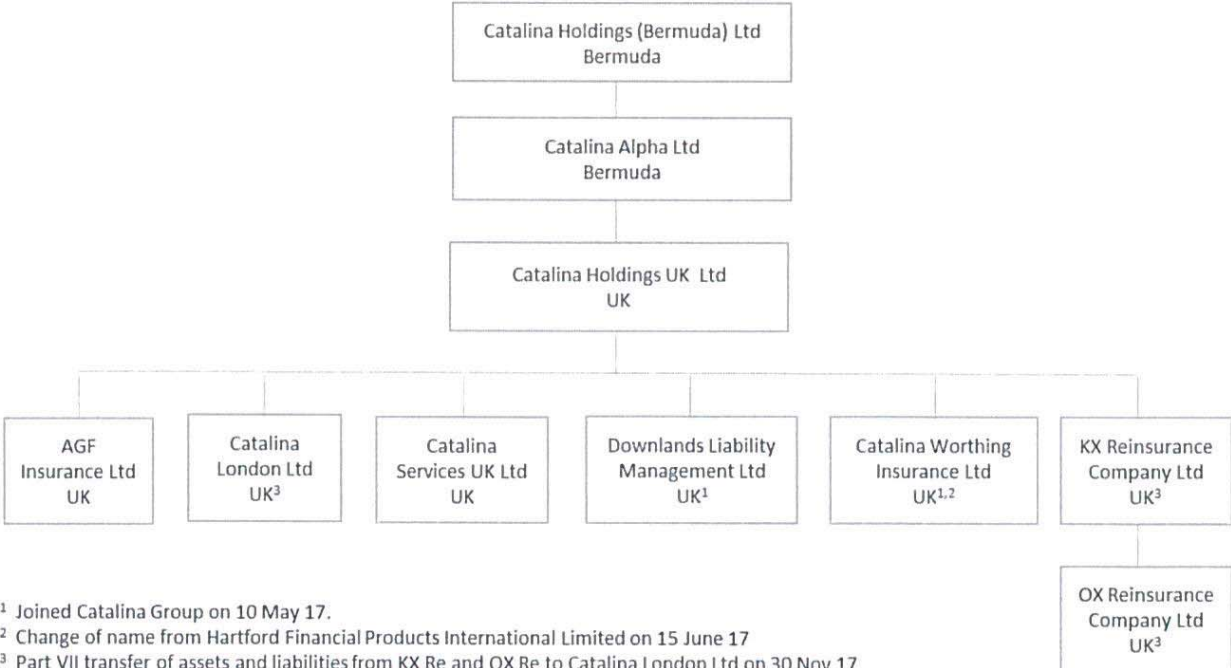
A.1 Business and external environment

A.1.1 Undertaking, financial supervisory authority and external auditor

Name of the undertaking:	Catalina London Limited
Address of its registered office:	1 Alie Street London E1 8DE
Legal status:	Private Limited Company
Company registration number:	01531718
Legal Entity Identifier (LEI):	5493009IUEXJFUIM2W86
Ultimate parent:	Catalina Holdings (Bermuda) Ltd.
Financial supervisory authority:	Prudential Regulation Authority (“PRA”) Bank of England Threadneedle Street London EC2R 8AH
External auditor:	KPMG LLP 15 Canada Square London E14 5GL

A simplified structure chart is laid out below outlining sister companies, vertical structure and ultimate shareholder ownership. No director of the ultimate holding company sits on any of the UK Boards.

Catalina Holdings UK Ltd Simplified Structure



¹ Joined Catalina Group on 10 May 17.
² Change of name from Hartford Financial Products International Limited on 15 June 17
³ Part VII transfer of assets and liabilities from KX Re and OX Re to Catalina London Ltd on 30 Nov 17

As at 31 December 2017 more than 85% of the voting rights, in aggregate, of Catalina Holdings (Bermuda) Ltd (“CHBL”, or “the Group”), the ultimate parent entity, are held across three shareholders being, CDP VSI I Limited Partnership, 1397225

Catalina London Limited

Ontario Limited and Apollo Rose LLP. Apollo Global Management, LLC has signed a definitive agreement to acquire a majority shareholding in CHBL. The agreement is subject to customary regulatory conditions, among others, and is expected to close in Q2 2018.

RenaissanceRe Ventures Ltd., a subsidiary of RenaissanceRe Holdings Ltd., has signed a definitive agreement to acquire a minority shareholdings in Catalina Holdings (Bermuda) Ltd. The agreement is subject to regulatory approval and is expected to close concurrently with the majority acquisition of Catalina by Apollo Global Management.

A.1.2 Material lines of business and geographical areas where the Company carries out business

CLL, formerly "Alea London Limited" ("ALL"), was purchased by CHBL in October 2009. CHBL is a specialist consolidator of non-life general insurance and reinsurance companies and portfolios in run-off. CHBL acquires and manages such portfolios in run-off with the purpose of achieving a competitive return on equity and consistent growth in net tangible assets. The Group is based in Bermuda and currently has other offices in the United Kingdom, the Republic of Ireland, the United States of America and Switzerland.

ALL was created following the acquisition of The Imperial Fire and Marine Re-Insurance Company by the Alea Group in July 2000. ALL wrote general insurance and reinsurance business from 2000 until 5th December 2005 when it announced its intention to place its operations into run-off. In May 2009, the Alea Group took the strategic decision to sell ALL and commenced a sales process in order to do so. Catalina emerged as the successful bidder.

On 30 November 2017, by way of a Part VII Transfer, the whole of the insurance business of KX Re and OX Re, both Catalina owned UK companies, was transferred to CLL.

KX Re was formerly a UK regulated subsidiary of CNA Financial Corporation, part of the Loews Corporation, and wrote direct and reinsurance business principally in the London Insurance Market between 1951 and 1992 when it was closed to new business. After ceasing to write new business in 1992, KX Re entered into a number of inwards transfer agreements. Under these agreements certain UK portfolios of fellow group UK subsidiaries were transferred to KX Re. The portfolios transferred cover a wide range of insurance and reinsurance risks including aviation, marine, personal lines (including motor, yacht, personal accident, etc.) and London Market amongst others.

OX Re was a member of a pool of reinsurers which reinsured property and casualty risks written by Community Re between 1979 and 1983. The vast majority of OX Re's reserves have been paid out via various Schemes of Arrangement and the book now consists of its membership of the Community Re pool which is 100% reinsured and very limited UK Employers' Liability exposures from the WFUM pool which were not subject to a Scheme of Arrangement. The business is managed and administered by Hampden Plc.

Since entering run-off, CLL has continued to honour its claims liabilities, reducing its claims provision from US\$907 million at the time of going into run-off to US\$75.3m as at 31 December 2017 (US\$77.0m on a Solvency II basis). This includes the addition of US\$40.5m of gross reserves as part of the Part VII transfer during 2017. Shareholder's equity stood at US\$48.3m (2016: US\$22.9m) at 31 December 17 following the Part VII transfer. CLL has also been successful in reducing potential volatility through the commutation of inwards reinsurance contracts and in reducing its dependency on reinsurance recoveries through the commutation of large whole account outwards reinsurances and much of its excess of loss and pro rata reinsurance treaties.

On a Company Financial Statements valuation basis the remaining portfolio of US\$74.0m of gross claims liabilities (excluding loss adjustment expenses) (2016: US\$41.7m) consist of the following classes of business. These can include each of direct, proportional reinsurance or non-proportional reinsurance liabilities.

Catalina London Limited

Reserves	Total	US	Europe	Other
	2017	2017	2017	2017
Class	USD'000	USD'000	USD'000	USD'000
Liability	58,779	35,666	22,280	833
Motor	369	31	-	338
Property	3,150	2,351	457	342
Marine, Aviation and Transport	9,620	8,100	1,068	452
Workers Compensation	1,675	1,675	-	-
Other	431	412	19	-
Total	74,024	48,235	23,824	1,965
	2016	2016	2016	2016
Class	USD'000	USD'000	USD'000	USD'000
Liability	27,497	13,702	13,157	638
Motor	1,188	1,027	159	2
Property	2,251	1,387	274	590
Marine, Aviation and Transport	8,309	6,488	998	823
Workers Compensation	1,934	1,934	-	-
Other	508	508	-	-
Total	41,687	25,046	14,588	2,053

The Company's functional and presentational currency is the US Dollar, reflecting the historical distribution of the Company's geographical business mix.

A.2 Performance from underwriting activities

The table below shows the underwriting performance for the year end 31 December 2017, together with comparatives for the previous year. During 2017 the Company realised an underwriting loss of US\$2.2m (2016: loss of US\$4.3m). The current year result reflects reserve deteriorations offset by gains on commutations and dormant claims reviews.

	2017	2016
	USD'000	USD'000
Earned premiums, net of reinsurance	(625)	41
Claims incurred, net of reinsurance	1,391	(729)
Net operating expenses	(3,005)	(3,634)
Balance on the technical account	(2,239)	(4,322)
By class of business:		
Direct Insurance		
Property	(765)	(3,044)
Casualty	(15)	53
Reinsurance		
Casualty	(1,277)	(1,378)
Marine/Aviation	(100)	466
Property	(82)	(419)
Balance on the technical account	(2,239)	(4,322)

During 2017 the balance on the technical account result improved from a loss of \$4,322K to a loss of \$2,239K. The focus in 2017 on redundant reserves within the previous KX Re element of the portfolio has yielded reserve releases, particularly with respect to asbestos reserves. These were offset by a further \$1,060K deterioration on a single auto liability claim.

The 17.3% reduction in operating expenses reflects a change in the level of activity required to manage the run-off of the Company. This reducing activity and hence costs, is a function of a mature claims portfolio with smaller volumes of claims payments and reserve movements which demand less time.

Catalina London Limited

A.3 Performance from investment activities

The table below shows the investment income performance for the year ended 31 December 2017, together with comparatives for the previous year.

	Net investment income	Net investment expense	Net realised gains and losses	Changes in fair value	Net investment result
	2017	2017	2017	2017	2017
	USD'000	USD'000	USD'000	USD'000	USD'000
Investments:					
- measured at FVTPL	1,016	(50)	154	388	1,508
- measured at amortised cost	-	-	-	-	-
- measured at cost	-	-	-	-	-
- derivative assets	-	-	-	-	-
	1,016	-50	154	388	1,508
	2016	2016	2016	2016	2016
	USD'000	USD'000	USD'000	USD'000	USD'000
Investments:					
- measured at FVTPL	524	(90)	2,724	(2,362)	796
- measured at amortised cost	-	-	-	-	-
- measured at cost	-	-	-	-	-
	524	(90)	2,724	(2,362)	796

Investment returns produced a gain of US\$1.5m (2016: US\$0.8m). This improvement reflects a buoyant year for fixed interest and equities, particularly in the United States where the majority of the portfolio is held. The timing of the Part VII transfer has meant that there is negligible impact on investment returns but the portfolio is now more diversified and holds higher yielding investments.

The portfolio was managed to ensure Solvency II compliance throughout the year. The high level of assets required to collateralise the Company's US insurance and reinsurance liabilities meant that cash levels were kept moderately high.

A.4 Other operating income and expenses

The table below details any other material operating income and expenses not shown in A.2 and A.3 above.

	2017	2016
	USD'000	USD'000
Foreign exchange gain / (loss)	270	(617)

The Company's claim liabilities are mainly US Dollar, Sterling and Euro. The company is therefore exposed to currency fluctuations in the US Dollar against the Sterling and Euro. While the Company manages these exposures by matching assets and liabilities by currency, asset availability can from time to time result in a net currency exposure. The Company mitigates the currency risk of non USD investments by hedging the exposure through foreign exchange derivatives.

A.5 Any other disclosures

Not applicable.

B. System of Governance

The system of governance described in Section B reflects the structure that operated across the Catalina Group of companies in the UK in 2017. It has therefore been uniformly applied in 2017 to the three components of the Company at 31 December 2017; CLL, KX Re and OX Re.

B.1 General Governance arrangements

The Board has mandated a basis for effective risk management within the Company dictated by a clear system of governance that covers all significant aspects of the business, provides an open forum for challenge, and allocates clear responsibilities for both collective management committees and individuals. In addition, there are clear responsibilities within the Company for four key functions –

- Risk Management
- Actuarial
- Compliance and
- Internal Audit.

Management Team

The Board has delegated the day to day running of the company to the Legal Entity Chief Executive Officer (“CEO”) who has been instructed to appoint a Management Team to assist him in these duties. The CEO reports on these activities at each quarterly board meeting and presents a Management Team Board Pack for Board approval.

The following sub-committees have been established:

Board Risk Management Committee

The Board, acting as the Risk Management Committee, (“BRMC”) has the responsibility of analysing and taking ownership of the fundamental risk management principles employed by the Company.

The Board has delegated the responsibility of oversight of the Company’s risk management policy to the Group Chief Risk Officer (“CRO”). The CLL Risk Management Policy defines the framework of the systems, controls, processes and procedures in place to identify, assess, mitigate and manage risk at CLL.

The Company has determined a number of risk tolerances that are measured on a quarterly basis. CLL management provide data to the CRO whose quarterly report is included in the Board papers and discussed with the CRO at each Board meeting. The CRO implements any remedial measures that the Board determines are appropriate.

Board Audit Committee

A principal objective of the Board Audit Committee is to evaluate and provide assurance that the risk management, control and governance systems of the company are functioning as intended and will enable the company’s objectives and goals to be met. This includes the Board discharging its responsibilities for monitoring the integrity of the Company’s Financial Statements and monitoring the effectiveness, performance and objectivity of the internal and external auditors.

The Board has delegated the responsibility of oversight of the Company’s internal audit policy to the Group Head of Internal Audit. The CLL Internal Audit Charter defines the framework of the systems, controls, processes and procedures in place to support the Board Audit Committee in its duties at CLL.

Loss Reserving Committee

The Loss Reserving Committee (“LRC”) is in place to review and challenge the output from internal actuarial reviews. It is responsible for reviewing the adequacy of, and approving, the reserves of the Company. Matters arising from this Committee are reported by the CEO to the Board.

Large Loss/Claims Committee

The Large Loss Committee is charged with the responsibility of overseeing the Company’s claims practices, processes and procedures and providing a further level of control and direction for very large losses. Matters arising from this Committee are reported by the CEO to the Board.

Commutations Committee

The Commutations Committee is charged with the responsibility of overseeing the company's commutation policy and approving all significant commutations. Matters arising from this Committee are reported by the CEO to the Board.

Finance Committee

The Finance Committee is charged with the responsibility of overseeing the Company's capital structure, financial condition and requirements for funds. Matters arising from this Committee are reported by the CEO to the Board.

Investments

The Board is responsible for the oversight of the Company's investments and has appointed the Group Chief Investment Officer (CIO) as Company CIO to manage its portfolio of investments on its behalf. As part of the group level management of investments the CIO consults with the Group Investment Committee ("IC") regarding overall investment strategy. The CIO provides a report to each Company Board meeting, which looks at the risk and objectives for the Company of the investment approach, as well as the relative performance.

Remuneration Policy

The Company has applied the principle of proportionality to requirements regarding remuneration. The Company does not have a remuneration committee, but it does have a policy on remuneration.

The objectives of the Company's remuneration policy are to ensure that

- policy and practices are aligned with the Company's overall strategy, risk management strategy and risk appetite, objectives, values and long-term interests of the Company;
- the policy applies to the undertaking as a whole in a proportionate and risk focused way, taking into account the respective roles of the Company's employees;
- the policy does not foster practices adverse to policyholders' interests;
- the Company can attract and retain highly qualified employees with skills required to effectively manage the Company;
- employees are compensated appropriately for the services they provide the company; and
- employees are motivated to perform in the best interests of the Company and its stakeholders.

The Company does not have any direct employees, rather all services are provided by Catalina Services (UK) Limited ("CSUK"). All CSUK employees are retained on a fixed basic salary, considered annually and determined in light of market best practice. Discretionary performance related bonuses can be agreed but the target bonus cannot exceed 50% of the individual's basic salary. Recommendations can be submitted for higher performance related bonuses which are to be considered by the Catalina Group Remuneration Committee. Any such award will be subject to deferral over a three year period and have clawback provisions.

B.2 Fit and proper requirements

Management at Group and entity level must ensure that key roles performed within their operations are identified, and filled by staff who are demonstrably qualified for the role. The business head is responsible for ensuring that activities are undertaken and managed by professionals with the appropriate experience, skill levels, and degrees of specialisation.

While the Company is regulated by the PRA, it is also regulated by the FCA for the purposes of carrying out the Company's day to day business. Of particular importance is the close association that the FCA makes between business conduct and misconduct, and the culture, tone and oversight set by the Board and senior executive management. The FCA looks to firms' governing bodies to set, embed and maintain a firm-wide culture that supports good business conduct and an appropriate degree of protection for counterparties. That culture needs to take into account factors such as the firm's business plan, risk appetite, remuneration mechanisms and identified internal and external risks.

Solvency II requirements

Solvency II requires that "all persons who effectively run the undertaking or have other key functions are Fit and Proper at all times". 'Fit and proper' persons must have the appropriate professional qualifications, knowledge and experience to enable them to perform their duties and fulfil their obligations, as well as being of good repute and integrity. Key functions are defined as all functions considered important or critical in the system of governance, including at least the Risk Management Function, Compliance Function, Internal Audit Function and Actuarial Functions. The requirement for Fit and Proper extends to the Board, which collectively should contain the qualifications, knowledge and experience to be able to provide for the sound and prudent management of the business.

Regulatory Requirements

Under section 59 of the Financial Services and Markets Act 2000, authorised firms are required to ensure that individuals seeking to perform one or more of the PRA-designated Senior Management Functions seek PRA and FCA approval prior to taking up their position.

The Senior Managers Regime (“SMR”) and Senior Insurance Managers Regime (“SIMR”) came into force on 7 March 2016. The regimes replaced the Approved Persons regime.

CLL takes reasonable care to maintain a clear and appropriate apportionment of significant responsibilities among its directors and senior managers in such a way that:

- it is clear who has which of those responsibilities; and
- the business affairs of the firm can be adequately monitored and controlled by the directors and relevant senior managers and governing body of the firm.

It also appropriately allocates to one or more individuals the functions of:

- dealing with the apportionment of responsibilities; and
- overseeing the establishment and maintenance of systems and controls.

The function of apportionment of responsibilities is allocated to the Company’s CEO. They may carry out this function with the help of other board members and senior management but the function nevertheless is that of the CEO.

In addition CLL maintains a Governance Map to satisfy the requirements regarding apportionment and allocation of significant responsibilities and updates this quarterly or more frequently if there are any changes. All changes to the Governance Map are notified to the PRA.

The following table sets out the Significant Influence Management Functions (“SIMF”) for the PRA and Controlled Functions (“CF”) for the FCA for dual-regulated firms such as CLL.

Senior Insurance Manager Role	SIMF/CF	Holder
Chairman, Senior INED, Audit Committee Chair	SIMF9, SIMF11 SIMF14	Timothy Cox
CEO, Executive Director	SIMF1, CF1	Philip Heron
Executive Director, Compliance Officer	CF1, CF10	Ian Grottick*
Non-executive Director	CF2	Peter Johnson
Non-executive Director	CF2	Christopher Fleming
Independent Non-executive Director	CF2	Richard Hudson
Chief Financial Officer, Executive Director	SIMF2, CF1	Graeme McAndrew
Chief Actuary	SIMF20	James Upson
Chief Risk Officer	SIMF4	Tim Walker
Head of Internal Audit	SIMF5	Björn Hartvigsen
Money Laundering Reporting Officer	CF11	Alexander Jenkins

The company, via its Head of Regulatory and Compliance*, keeps the PRA informed of persons filling the designated roles, and reviews that they meet the fitness and probity requirement on an ongoing basis. A person filling a CF must be:

- competent and capable;
- honest, ethical and act with integrity; and
- financially sound.

These checks are conducted independently to any checks performed by the PRA under its own fit and proper review. These include a number of checks; criminal record, credit, evidence of professional qualification and ongoing continuing professional development and reference.

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The Company maintains an ongoing Board education programme for which the SIMFs also receive the benefit.

The governance structure of CLL has not changed in 2017.

In addition, the PRA have been notified of the following Key Function Holders and the relevant documentation outlining their fitness and probity has been provided to them.

Key Function	Holder
Investments	Peter Harnik
Claims	Allan Archer
Commutations	Lee Payne
Operations	Darren Rowswell
Information Technology	Rhian Duff
Human Resources	Marina Young

B.3 Risk management system

Catalina's enterprise risk management function is coordinated by the Chief Risk Officer, who works under the authority of the BRMC. In line with the internal risk management policies of the Group, management at the Company, acting as the 'first line of defence' are primarily responsible for the running of the business and the operation of controls within their own areas as well as the management of the business' risk profile, in line with Board expectations. However, acting as part of the 'second line of defence', the Risk Management Function is responsible for the ongoing monitoring of business operations and the effectiveness and integrity of the risk management framework.

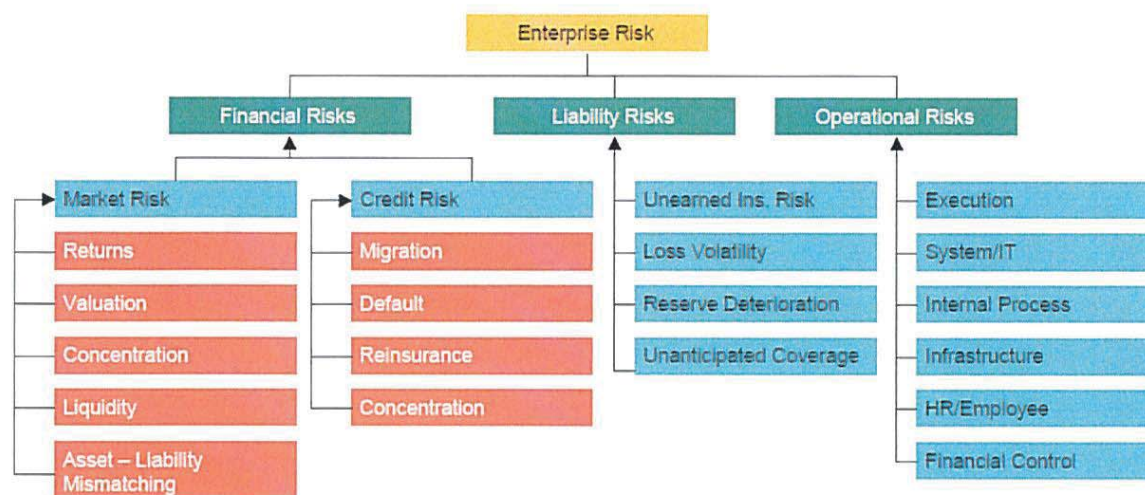
The overall risk management strategy is to ensure that a proper balance is struck between:

- The risks that are economically attractive to take. These must be properly modelled, measured and priced.
- The risks that are economically unattractive to take. These should be avoided, identified, managed, mitigated and reduced where it is efficient to do so.

Within the Company's Risk Management framework there are measures in place to ensure:

- Appropriate risk tolerances are in place to govern risk taking activities;
- The Company maintains an appropriate risk culture and risk appetite forms an essential part of its strategic decision making;
- The Company measures and monitors risk appropriately and reports key risk metrics to senior management and the Board; and
- Appropriate business planning and capital planning processes are in place to support the Company's risk taking activities.

The risk management framework is intended to reduce, but cannot eliminate, the range of possibilities which might cause detriment to the Company. Similarly, the risk management framework cannot provide protection with certainty against any failure of the Company to meet its business objectives, or guard against material errors, losses, fraud, or breaches of law and regulations. The risk management framework is intended to provide reasonable assurance that the Company will conduct its business in an orderly manner and that reasonable foreseeable circumstances will not prevent or limit the Company from achieving its business objectives.



Own Risk and Solvency Assessment

The Own Risk and Solvency Assessment process documents the output of the Company's Enterprise Risk Management process. The purpose of the ORSA is principally to support the Board of Directors and Company management to actively manage the economic risk and capital requirements and allow a strategic, forward-looking discussion of future risks and capital needs.

The Board and senior management's involvement are integrated in the ORSA and they are engaged to challenge, discuss and debate the process. The ORSA process allows management and the Board to review the risk and capital requirements and take a strategic, forward-looking view of future risks and capital needs. The ORSA process is used to highlight key issues to management, and allows management to confirm that:

- The current risk profile is understood and appropriate for the nature of a legacy portfolio and within the risk appetite of the firm
- Capital requirements during the reporting period have continuously been met (or if not corrective action was taken)
- The Company's current capital and solvency position is appropriate
- The Standard Formula model has been used appropriately for strategic decisions throughout the period
- The risks to the enterprise that could likely change the risk profile are understood
- Plans to cover the solvency position and planned capital distributions over the required period are appropriate.

The ORSA is produced by management in conjunction with the Actuarial and Risk Management function. The ORSA is presented to the Board for challenge, comment and review annually. The result of the Board's review forms the basis for the future strategy of the business, which forms the basis for the following year's ORSA. The ORSA was last reviewed and updated in November 2017.

B.4 Internal control system

The Company's internal control system provides assurance that its operations are effectively controlled, it is compliant with applicable laws and regulations and its financial reporting is reliable. The Board is ultimately responsible for overseeing and maintaining the adequacy and effectiveness of the risk management and internal control systems. The oversight and management of these systems necessarily involves participation of the Board, the Board Audit Committee, the Board Risk Management Committee, senior management, Finance, Legal, business managers and Internal Audit.

Responsibility for ensuring day-to-day oversight of the internal control system lies with the Company's Controlled Function holders and Key Function holders.

The Company promotes the importance of appropriate internal controls throughout the organisation. All employees are aware of the importance of risk management and are reminded to consider the risks they encounter as they go about their day to day work. Risk awareness is promulgated through the organisation, and both senior management and the risk management function are pro-active at keeping risk awareness to the forefront of daily operations by: i) ensuring that all employees are aware of their role in the internal control system as per the Fit and Proper Policy; ii) ensuring consistent

communication and implementation of the internal control systems; iii) establishing monitoring and reporting mechanisms to review and report the decision making processes: and providing appropriate training to all employees.

Compliance Function

The UK Head of Compliance and Regulatory (“HCR”) is a company officer. All actual or potential breaches of regulation are immediately referred to the HCR.

Line managers have a responsibility to implement all compliance policies locally by containing compliance risk in liaison with the HCR, ensuring adequate compliance resources and training, fostering a compliance culture and optimising relations with regulators. The role of the Compliance function is to provide advice and support to line management in this regard. The HCR has unfettered access to line management and also to the Board of Directors.

The HCR is expected to act on the policies and practices by which the Group expects compliance and reputational risk to be managed and controlled, and covers a number of specific issues such as money laundering, insider dealing, takeovers and mergers, maintaining relations with the regulator and participating on regulatory solvency related projects.

The compliance function is subject to oversight by the CEO. The HCR is also a CLL Director, and the Board are in turn ultimately responsible that the Company remains compliant with the requirements of the ‘PRA and FCA Handbooks of rules and guidance’.

The role of Compliance is to support Management in its duty to control compliance risk. At the operational level, the HCR will:

- Compile and maintain Compliance Charts and/or Compliance Risk Assessments;
- Devise annual Compliance Plans to record risk-based activity for the coming year;
- Undertake regular monitoring and ad-hoc reviews as may be necessary to verify that controls remain robust and understanding of / adherence to procedures is maintained; and
- Report compliance control failures, or incidents which may indicate a need to review Compliance Risk Assessments or mitigating procedures.

In CLL, the HCR also participates in bi-weekly management meetings.

The Company maintains regulatory and compliance calendars in order to ensure that all external and internal deadlines are met.

A Key Risk Dashboard provides the Board with details of the Company’s compliance with its key risk target indicators: target capital ratio, best estimate reserving, investment policy compliance, counterparty credit risk, commutation targets and operational risk.

The company runs all payments and any potential new business arrangements through an Anti-Money Laundering, Anti Bribery and Corruption and Sanctions on line tool in accordance with its Counterparty Due Diligence Policy, providing the Board with a quarterly report of all significant activity.

The Board is advised quarterly of the status of all open claims complaints.

B.5 Internal audit function

The mission of the Internal Audit function (“IA”) is to enhance and protect organisational value by providing risk-based, independent and objective assurance, advice, and insight. IA is an independent assurance function within Catalina’s third line of defence, providing the Board, Board Audit Committee (“AC”) and Management with independent and objective assurance and value adding insight on the effectiveness and efficiency of governance, risk management, and internal control processes.

IA applies a risk-based approach, performing its own risk assessment as well as making use of risk assessments performed by Catalina’s Enterprise Risk Management and other assurance functions. Based on the results of the risk assessment, relative financial importance within the group, regulatory requirements, corporate objectives and priorities as well as industry wide risks and business developments, IA produces an annual Audit Plan for review and approval by the Board Audit Committee. The Audit Plan is updated on a regular basis according to Catalina’s evolving risk landscape and needs.

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IA regularly provides formal updates on its activities to the Board Audit Committee, which include audit results and other assurance related observations, the status of management actions required, the appropriateness of the resources and skills of IA and any changes in the approved plan, tools and methodologies it uses.

The Head of Internal Audit (“HIA”) also meets privately with the Board Audit Committee, immediately reporting any issue which could have a potentially material impact on the business of Catalina to the Chairperson of the Board Audit Committee. The HIA and IA staff are authorised to review all areas of Catalina and to have full, free and unrestricted access to all of its activities, records, property and personnel necessary to complete their work. IA is authorised to allocate resources, set frequencies, select areas, determine audit scopes and apply audit tools and techniques, and to obtain the necessary assistance and specialised services within or outside the Group to accomplish the audit objectives.

IA staff are governed by following the Code of Ethics issued by the Institute of Internal Auditors (“IIA”). The operating guidance for the department constitute the IIA’s International Standards for the Professional Practice of Internal Auditing as well as the International Professional Practices Framework (“IPPF”) which include both mandatory and recommended guidance.

B.6 Actuarial function

The Actuarial function is made up of an in house actuarial team, based in the UK, with support from other actuaries across the Group, and as appropriate, external firms of consulting actuaries.

Under the leadership of the Company’s Head of Actuarial function the UK team:

- Co-ordinates the GAAP reserving for the Company;
- Adjusts the GAAP reserves to Solvency II Best Estimate of Liabilities (“BEL”);
- Uses the BEL and audited balance sheet to develop the Standard Formula SCRs and Risk Margin;
- Project the capital level and capital requirements of the Company over the planning period for the ORSA, including the modelling of stresses, scenarios, and reverse stress tests;
- Opines on levels of reserve adequacy, reinsurance arrangements and underwriting policy;
- Assesses the impact of a material change to the Company in terms of its capital position, such as a material change in its reinsurance arrangements; and
- Evaluates and advises on the impact, on request, of changes in (for example) the Company’s investments.

Each of these activities is undertaken at least annually, but also on an “as and when required” basis to support the business and its decisions making processes.

B.7 Outsourcing

Outsourcing is the delegation of a process, service or activity to a service provider. The Company’s core strategy is to utilise and enhance key and distinguishing in-house competences in areas required to manage and extract value from books of business under its control; such competences include claims adjustment, commutation negotiation, reinsurance collections, actuarial evaluation, capital modelling and developing and implementing the most effective and efficient exit strategies, whilst at all times properly meeting the rights and requirements of policyholders, reinsurers, regulators, capital providers and other stakeholders.

When outsourcing the service provider can be both intra-Group or an external company. In considering whether to outsource any process, service or activity, the Company will take account:

- its own resource levels and availability;
- its own internal capabilities and cost structures;
- the timing and extent of any requirements in comparison with the capabilities; and
- costings and security of an outsource service provider

The overarching principle will be that whereas processes, services or activities may be delegated to an outsource service provider, ultimate responsibility for those processes, services and activities will remain with the Company. Outsourcing arrangements have been established in locations that are a best fit for the underlying service, namely the United States and United Kingdom.

The Company has an outsourcing policy, the purpose of which is to establish the requirements for identifying, justifying, and implementing outsourcing arrangements for its critical or important operational functions or activities. The objective of the outsourcing policy is to ensure that the outsourcing of critical or important operational functions or activities does not lead to:

- Reduction in the Board's responsibility for, or influence over key functions of the Company
- Material impairment of the quality of the Company's system of Governance
- Non-adherence to the Company's approved policies and procedures
- Undue increases in operational risk or cost
- Material impairment of the Company's ability to fulfil its obligations to stakeholders, nor impede effective supervision by regulators
- Conflicts of Interest
- Breach of the Company's data protection obligations

The Board is ultimately responsible for the approval and termination of all outsourcing arrangements of critical or important functions or activities. Critical or important functions or activities include key functions of the Company's system of governance and all functions within the Company that are fundamental to carry out its core business. The Board is responsible for reviewing the performance of outsourced service providers against the agreed Service Level Agreements. The Company currently outsources some claims handling and investment management.

B.8 Assessment of Governance

The company has assessed its system of governance and has concluded that it effectively provides for the sound and prudent management of the business which is proportionate to the nature, scale and complexity of the operations of the Company.

C. Risk Profile

C.1 Underwriting (Liability) Risk

C.1.1 Risk exposure

CLL entered into an orderly self-managed run-off in 2005; the last underwriting exposures expired before Catalina acquired the business. Hence, as at 31 December 2017, there were no unexpired Insurance Risk exposures from in-force policies. Similarly, there are no unexpired Insurance Risk exposures emanating from the incoming KX Re and OX Re portfolios.

Underwriting or insurance risk is concerned with fluctuations in the timing, frequency and severity of insured events, relative to expectations at the time of underwriting. Given the Company's run-off status the principal insurance risk the Company is subject to is reserve risk whereby there is potential for future claims to deteriorate beyond the actuarial best estimates. This is influenced by the frequency of claims, severity of claims, actual claims paid and subsequent development of long-term claims.

Actual underwriting results are monitored against budgeted results on a quarterly basis, although for meaningful variances the underwriting reserves, gross and net, are reviewed actuarially bi-annually and compared to the business plan. Reinsurance recoveries, notified claims and reserves are compared to plan. The policy incorporates identification, measurement and explanation of variances which are reported to senior management. Given the Company's run-off status, management focuses primarily on variances in claims reserves. Therefore, the primary objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

C.1.2 Underwriting (Liability) Risk Exposures, Concentrations, Mitigations and Sensitivities

The insurance book has now been reduced to a portfolio that consists almost entirely of construction defect claims. CLL's major concerns here are the level of loss adjustment expense and the rate of downturn in new claims. The company increased its IBNR provision for this class at year end 2015 and strengthened again in 2016 to reflect the higher than expected loss development on this account. With a greater understanding of the South Carolina book of claims in this part of the portfolio, the company considers that it is now carrying appropriate reserves. There was no significant movement in ultimate loss following the Company's 2017 review.

The KX Re proportion of the book is dominated by US asbestos liability exposures. Activity during the year has been largely consistent with expected outcomes and the company saw an overall reduction in its ultimate expected exposures.

Liability risk exposures are mitigated by diversification across a portfolio of insurance contracts and geographical areas. Furthermore, strict claim review policies are in place to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent review of all claims are the key policies and procedures put in place to reduce the risk exposure of the Company. The Company further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business. Inflation risk is mitigated by taking expected inflation into account when estimating insurance contract liabilities.

Reserves are relatively insensitive, due to the events which caused the claim occurring many years ago. Nevertheless, reserve sensitivity is modelled in both the ORSA and in the Solvency II SCR. Risk sensitivity is further reduced by the company having reinsurance. Consideration is given to the potential to purchase further reinsurance, to further reduce risk sensitivity other on an intragroup basis or externally.

C.2 Market Risk

C.2.1 Risk exposure

Market risk is the risk of adverse financial impact as a consequence of market movements such as currency exchange rates, interest rates and other price changes. Market risk arises due to fluctuations in both the value of assets held and the value of liabilities.

The Investment policy governs the Company's exposure to market risks. Exposures are controlled by the setting of investment limits in line with the Company's risk appetite. The Investment policy is approved by the Board and is applied by the Group Investment team, who are responsible for making and implementing investment decisions on behalf of the Company in line with the Investment policy and risk appetite statements approved by the Board.

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The Company seeks to maximise investment returns within the Board approved Risk Appetite Statement and requirements of the Prudent Person Principle. The investment management philosophy is implemented through both internal investment management decisions and the assistance of external investment managers to best achieve the objectives of the Investment policy. Investments are held at fair value, with changes in fair value recorded through the profit and loss account because their performance is actively monitored and they are managed on a fair value basis.

The Company's investment policy and related guidelines have been formulated to ensure that they are in accordance with all aspects of the Prudent Person Principle. The investment goals in order of relative importance are:

- i. To preserve invested capital;
- ii. To maintain the ability to meet obligations and operating expenses as they become due;
- iii. To always manage the portfolios in conformity to the regulatory framework and agreed investment guidelines;
- iv. Simultaneously with the goals set out above, to earn the best possible risk adjusted total return on invested capital.

Interest rate risk

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company is exposed to interest rate risk as it invests in long term investments at both fixed and floating interest rates. The risk is managed by the Company by maintaining an appropriate mix between fixed and floating rate investments.

The sensitivity analyses below have been determined based on the exposure to interest rates for investments held at the balance sheet date. A 1% increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

	Pre-tax profit		Shareholder's equity	
	2017	2016	2017	2016
	USD'000	USD'000	USD'000	USD'000
1% increase	(1,724)	(1,886)	(1,724)	(1,886)
1% decrease	1,724	1,886	1,724	1,886

Interest rate changes affect the valuations of the assets (in respect of fixed interest bonds, for example, although not for many other asset classes such as cash, equities and property). While for UK GAAP purposes, the value of liabilities is unaffected by interest rate changes, for Solvency II purposes, the technical provisions are also affected, as they are discounted in line with risk free interest rates. An increase in interest rates reduces the value of both interest rate-sensitive assets and the value of Solvency II technical provisions. This provides a natural offsetting effect, as the net impact is reduced compared to the monetary amount of the change for the assets or liabilities alone. An interest rate risk charge is modelled as part of the solvency capital requirement, to ensure sufficient capital with a probability of 99.5% over a twelve month period.

Foreign exchange risk

The Company undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. The risk of exposing the Company assets or liabilities to exchange rate fluctuations is managed by broadly matching liabilities with assets in the same currencies.

The Company reviews assets and liabilities by currency each quarter to ensure they are matched where possible and that cash is available to discharge liabilities in their respective currencies. From time to time, the Company may utilise foreign currency forward contracts as part of its overall foreign currency risk management strategy or to obtain exposure to a particular financial market, as well as for yield enhancement. These derivatives are not designated as hedging investments.

The sensitivity analyses below have been determined based on the exposure to currency movements against risk exposures at 31 December 2016. A 10% increase or decrease is used when reporting foreign exchange risk internally to key management personnel and represents management's assessment of the reasonably possible change in currency rates.

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	Pre-tax profit		Shareholders' equity	
	2017	2016	2017	2016
	USD'000	USD'000	USD'000	USD'000
USD / GBP				
10% increase in USD/GBP exchange rate	(242)	(359)	(242)	(359)
10% decrease in USD/GBP exchange rate	242	359	242	359
USD / EUR				
10% increase in USD/EUR exchange rate	45	19	45	19
10% decrease in USD/EUR exchange rate	(45)	(19)	(45)	(19)

Other price risk

The Company is exposed to price risk arising from fluctuations in the value of financial instruments as a result of changes in the market prices and the risks inherent in all investments. The Company has no significant concentration of price risk. The risk is managed by the Company by maintaining an appropriate mix of investment instruments, including those with floating rate characteristics.

The Company's sensitivity to a 1% increase and decrease in market prices is as follows:

	Pre-tax profit		Shareholders' equity	
	2017	2016	2017	2016
	USD'000	USD'000	USD'000	USD'000
1% increase				
Movement in fair value of share and other variable securities in unit trusts	26	117	26	117
Movement in fair value of debt securities and other fixed income securities	284	57	284	57
Movement in fair value of other financial investments	167	-	167	-
1% decrease				
Movement in fair value of share and other variable securities in unit trusts	(26)	(117)	(26)	(117)
Movement in fair value of debt securities and other fixed income securities	(284)	(57)	(284)	(57)
Movement in fair value of other financial investments	(167)	-	(167)	-

C.2.2 Market Risk Exposures, Concentrations, Mitigations and Sensitivities

The Company manages investment risk through extensive use of portfolio management analysis software and the appointment of specialist third party asset managers, who have demonstrated an extensive and successful track record of managing assets on behalf of insurance and reinsurance company clients. Mandates assigned to asset managers clearly stipulates the terms on which investments may be made. They follow a mandate which is called the Investment Policy Statement.

Regular oversight of all investment decisions, their compliance with regulations and our own guidelines by the Chief Investment Officer, coupled with regular convening of the Group Investment Committee and clear reporting lines from this committee, ensures that the Company is not exposed to threatening levels of market or credit risk.

The Company carries out quarterly scenario testing based on various past market distress events to understand the implication of changes in asset mix, duration and currency. Asset Liability Management is carried out by currency. For the management of interest rate risk this takes the form of matching asset cashflow duration with maturities of liabilities in order to maintain adequate positive net cash flow and ascertain any duration imbalance.

Where appropriate and cost efficient, hedging strategies may be pursued to protect the strength and ensure the stability of the Company's asset base.

C.3 Credit Risk

C.3.1 Risk exposure

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The key areas of exposure to credit risk for the Company are in relation to its investment portfolio, reinsurance programme and to a lesser extent amounts due from intermediaries. The objective of the Company in managing its credit risk is to ensure risk is managed in line with the Company's risk appetite. The Company has established policies and procedures in order to manage credit risk and methods to measure it.

The Company monitors the credit risk in relation to its investment portfolio and reinsurance programme by monitoring external credit ratings for the investments and reinsurance assets held by the Company on a regular basis. The following table shows aggregated credit risk exposure for assets with external credit ratings. The table also shows the carrying value of assets that are neither past due nor impaired, the ageing of assets that are past due but not impaired and assets that have been impaired. The factors considered in determining whether the value of an asset is impaired are: analysis of impairment, ageing of balances, past loss experience, current economic conditions and other relevant circumstances.

	2017	2016
	USD'000	USD'000
By class of asset:		
Financial investments	2,627	11,346
Debt securities and other fixed income securities	28,418	5,699
Other Financial Investments	16,688	-
Assets arising from reinsurance contracts held	53,597	34,461
Assets arising from insurance contracts held	999	-
Cash and cash equivalents	22,836	16,651
Other assets	3,375	1,637
Total assets bearing credit risk	128,540	69,794
By credit rating:		
AAA	7,961	2,801
AA	21,798	16,326
A	44,749	19,469
BBB	11,450	3,536
Below BBB or not rated	42,582	27,662
Total assets bearing credit risk	128,540	69,794
Financial assets past due or impaired		
Past due less than 30 days	16,648	863
Past due more than 180 days	2,732	15,306
Total financial assets past due or impaired	19,380	16,169

C.3.2 Credit Risk Exposures, Concentrations, Mitigations and Sensitivities

Credit risk relates to the possibility that the Company becomes exposed to losses occurring as a result of third parties and counterparties failing to fulfil their obligations. Credit risk on receivables is minimised by pursuing early commutation where possible.

The Company is also exposed to credit risk via its investment portfolio. Our Investment Guidelines stipulate that credit quality may not fall below a weighted average of A- across the portfolio. Regular oversight of all investment decisions by the Chief Investment Officer, coupled with regular convening of the advisory Investment Committee will ensure that stated standards are adhered to. For example, there are specific concentration limits with regard to both sector level

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investment and individual obligors. The Chief Investment Officer is responsible for credit risk compliance reporting to the Board and the BRMC documentation independently exhibits this.

Credit risk is measured in several ways. Catalina assesses credit ratings, issuers and domicile concentrations. We also carefully track our spread duration based on security level modelling. A third way we measure credit risk is by performing historic stress tests for key events, like the Lehman Brothers default, and by doing a VaR like analysis of worst month performance over the last year.

Selected credit risk metrics including any non-compliance with the Investment Guidelines is reported to the Board of Directors, while keeping abreast of developments within the capital markets, should ensure that Company is never exposed to threatening levels of counterparty or investment credit risk.

The stress testing and sensitivity results above cover both market and credit risks.

C.4 Liquidity Risk

C.4.1 Risk exposure

Liquidity risk is the risk that the Company cannot meet its obligations associated with financial liabilities as they fall due. The Company manages liquidity risk by monitoring forecast and actual cash flows. Liquidity management ensures that the Company has sufficient access to funds necessary to cover insurance claims. Most of the Company's assets are marketable securities which could be converted into cash when required.

C.4.2 Liquidity Risk Exposures, Concentrations, Mitigations and Sensitivities

The Company manages liquidity risk through regular forecasting of expected cash flows. The Company also takes liquidity management into consideration, including analysis of asset and liability mean terms and durations.

Regular oversight of the Company's relative liquidity is conducted by the Chief Financial Officer, Group Treasurer and/or Chief Investment Officer in conjunction with other individuals within the Company who are informed with respect to the key drivers of the Company's cash flows. Regular reporting of the Company's assets encumbered by Letter of Credit or Trusts is supplied to the Board. In addition, a quarterly analysis of estimated time to liquidate assets from the portfolio is presented during the BRMC to establish our exposure to illiquid positions.

The company holds significant amounts of liquid investments and cash. Liquidity stress testing and sensitivity analysis is not undertaken here given the considerable cash and cash equivalents held compared against the duration of liabilities.

C.5 Operational Risk

C.5.1 Risk exposure

Operational risk relates to the possibility that the Company becomes exposed to losses occurring as a result of failures within the Company's internal systems and processes.

Management adopt an approach to operational risk in proportion to the size of the company and its operations. As the Group acquires more businesses, there is more scope to deal with 'key staff' operational risks associated with individuals and offices, as there is increased scope to use other Group staff and/or offices which will help to mitigate those risks. Management believes strongly in setting performance precedents for their staff, and ensuring as far as practicable the maintenance of our business systems.

Close collaboration with Human Resources ("HR") and Information Technology ("IT") will allow the CRO and the local executive team to identify any vulnerabilities before they are able to adversely affect business process or maintenance of accounts. Processes and procedures are regularly enhanced.

Organizational Risk

Organizational risk is the possibility that the Company is adversely affected by the failure of the execution processes employed and relative effectiveness of the Group employees supporting the Company. On a daily basis, the ability of the Company's employees to manage projects (prioritization, resource planning and subsequent monitoring) ensures that the

Company's staff find themselves in a productive environment in which all members of the firm are confident and clear about the role they play within the corporate structure.

Management are aware that as the Group grows in presence and employee numbers, effective management of reporting lines, divisional responsibilities and governance are paramount.

Through the various Board and local entity Committees, senior management delegate responsibility for effective corporate governance across both the Group and regulated entity level.

C.6 Other Material Risks

There are no other material risks.

D. Valuation for Solvency Purposes

This section provides a description of the bases, methods and other assumptions used in the valuation of assets, technical provisions and other liabilities on the Solvency II balance sheet. Their valuation is determined in line with the Solvency II regulations. The value of each material class of Solvency II assets and liabilities are set out together with the equivalent Company Financial Statements valuation. There have been no significant changes in the basis of valuation of assets or liabilities between 31 December 2017 and 31 December 2016. Details of the Solvency II valuation basis can be found in the notes in sections D.1, D.2 and D.3. Any alternative methods for valuation are found in D.4.

D.1 Assets

Assets have been recognised in line with the requirements of Solvency II valuation regulations, the basis of which is the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction.

Solvency II Classification	Solvency II Value	Reclassification Differences	Valuation Differences	Financial Statements Value	Note
	2017	2017	2017	2017	
	USD'000	USD'000	USD'000	USD'000	
Equities Listed	1,779	848		2,627	1
Government Bonds	6,699	(14)		6,685	3
Corporate Bonds	21,756	(991)		20,765	4
Collateralised Securities	969	(1)		968	5
Collective Investment Undertakings	10,036	-	-	10,036	6
Loans and mortgages	6,786	(134)	-	6,652	7
Deposits Other than Cash Equivalents	15,520	5,353	-	20,873	8
Reinsurance Recoverable from Non Life	34,671	-	545	35,216	9
Deposits to Cedants	1,204	-	-	1,204	10
Insurance and intermediaries receivables	999	-	-	999	11
Reinsurance Receivables	16,695	-	1,686	18,381	12
Cash and Cash Equivalents	6,118	(5,359)	-	759	13
Other Assets	2,928	300	147	3,375	14
Total Assets	126,162	-	2,378	128,540	
	2016	2016	2016	2016	
	USD'000	USD'000	USD'000	USD'000	
Equities Listed	4,383	821	-	5,204	1
Equities Unlisted	6,142	-	-	6,142	2
Government Bonds	4,235	(31)	-	4,204	3
Corporate Bonds	1,733	(834)	-	899	4
Collateralised Securities	596	-	-	596	5
Deposits Other than Cash Equivalents	-	15,630	-	15,630	8
Reinsurance Recoverable from Non Life	18,625	-	417	19,042	9
Deposits to Cedants	536	-	-	536	10
Reinsurance Receivables	14,897	-	1,315	16,212	12
Cash and Cash Equivalents	16,650	(15,630)	1	1,021	13
Other Assets	43	44	221	308	14
Total Assets	67,840	-	1,954	69,794	

Notes to Asset Valuation Basis

Where financial assets are valued using active markets, an active market means quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis.

1. Equities Listed

All listed equities are based on quoted prices in active markets that are readily and regularly available. The fair value of these instruments does not entail a significant degree of judgement. The valuation basis for Solvency II is consistent with the Company Financial Statements basis. For Company Statutory Account purposes US\$0.85m (2016: US\$0.82m) is disclosed as "Shares and Other Variable Yield Securities and Holdings in Collective Investment Schemes", for the purpose of Solvency II valuation it is classified as Corporate Bonds.

2. Equities Unlisted

At 31st December 2016 the unlisted equities represented a holding in a non-listed legal entity that invested in commercial real estate. As this entity was not listed on a recognised exchange, fair value was determined by reference to the net asset value of the entity itself. Net asset value was based on commercial real estate valuations performed by Chartered Surveyors (members of the Royal Institution of Chartered Surveyors) of the underlying properties taking into account aggregate rentals and where relevant associated costs. The valuation basis for Solvency II was consistent with the Company Statutory Accounts basis. The asset was sold during 2017.

3. Government Bonds

Government Bonds are valued using prices provided by external pricing vendors where these valuations are mostly based on quoted prices in active markets that are readily and regularly available. Where not readily available pricing vendors will often determine prices by consolidating prices of recent trades for identical or similar securities obtained from a panel of market makers into a composite price. The pricing service may make adjustments for the elapsed time from a trade date to the valuation date to take into account available market information. Lacking recently reported trades, pricing vendors will use modelling techniques to determine a security price.

The valuation basis for Solvency II is consistent with the Company Financial Statements basis. The Solvency II valuation includes Accrued Interest of US\$0.01m (2016: US\$0.03m). For Company Statutory Account purposes Accrued Interest forms part of Prepayments and Accrued Income.

4. Corporate Bonds

Corporate Bonds are valued using prices provided by external pricing vendors where these valuations are mostly based on quoted prices in active markets that are readily and regularly available. Where not readily available pricing vendors will often determine prices by consolidating prices of recent trades for identical or similar securities obtained from a panel of market makers into a composite price. The pricing service may make adjustments for the elapsed time from a trade date to the valuation date to take into account available market information. Lacking recently reported trades, pricing vendors will use modelling techniques to determine a security price. The valuation basis for Solvency II is consistent with the Company Financial Statements basis.

For Company Statutory Account purposes there is US\$0.85m (2016: US\$0.82m) disclosed as "Shares and Other Variable Yield Securities and Holdings in Collective Investment Schemes" for the purpose of Solvency II valuation is classified as Corporate Bonds. The Solvency II valuation includes Accrued Interest of US\$0.15m (2016: US\$0.01m). For Company Statutory Account purposes Accrued Interest forms part of Prepayments and Accrued Income.

5. Collateralised Securities

Collateralised securities represent residential backed mortgages for which different valuation techniques are used. The valuation basis for Solvency II is consistent with the Company Statutory Account basis.

The Solvency II valuation includes Accrued Interest of US\$0.001m (2016: nil). For Company Statutory Account purposes Accrued Interest forms part of Prepayments and Accrued Income.

6. Collective Investment Undertakings

Collective Investment Undertakings represent holdings in non-listed third party investment vehicles. These are not listed on a recognised exchange hence fair value is determined via direct or indirect observable data which is generally recent transactions in the same or similar instruments. This is considered to represent fair value for Solvency II and Company Statutory Account purposes.

7. Loans and Mortgages

Loans and Mortgages of US\$6.652m (2016: Nil) are to a single non listed third party that invests in commercial real estate and for which there is no observable market price. For these loans the best estimate of fair value at 31 December 2017 is the actual value of the debt provided. This valuation reflects both the proximity of the debt commencement date to 31 December 2017, stability in underlying market conditions and the ongoing servicing of the debt. For Company Statutory Account purposes this investment is disclosed as Other Financial Investments – Other Loans.

The Solvency II valuation includes Accrued interest of £0.135m. The valuation basis for Solvency II is consistent with the Company Statutory Account basis.

8. Deposits Other than Cash Equivalents

Deposits Other than Cash Equivalents of US\$15.6m (2016 : nil) are deposits with credit institutions with maturities in excess of three months from acquisition date or for which there are restrictions on accessing the deposits. For both Solvency II and Company Statutory Account purposes fair value is the value of the deposit holding.

For Company Statutory Account purposes within Deposits within Credit Institutions of US\$20.9m (2016 : US\$15.6m) there is US\$5.3m of unrestricted cash and cash equivalents with maturities of less than three months which are treated as Cash and Cash Equivalents for Solvency II purposes.

9. Reinsurance Recoverables from Non-Life

The fair value of reinsurers' share of technical provisions is determined after applying discounting whereas for Financial Statements purposes the gross technical provisions and related reinsurers' share of technical provisions are undiscounted. Discounting for fair value purposes uses the relevant risk free yield curves for each currency. For a fuller explanation of the impact of the US\$0.545m (2016: US\$0.471m) refer to Section D.2 Technical Provisions.

10. Deposits to Cedants

Deposits to Cedants are a requirement of certain reinsurance contracts. These amounts are provided as cash and considered to represent fair value. Determination of fair value for deposits with cedants for Solvency II and Financial Statements is after consideration of impairment of any amounts receivable. The valuation basis for Solvency II is consistent with the Company Financial Statements basis

11. Insurance and Intermediaries Receivables

Insurance and Intermediaries Receivables are measured at amortised cost for Company Statutory account purposes. For Solvency II purposes, given that the level of discount or premium held against the principal receivable is immaterial, amortised cost is considered to materially reflect fair value.

12. Reinsurance Receivables

Within reinsurance receivables is a receivable due beyond twelve months where fair value is determined after applying a discounting rate that reflects the relevant risk free yield curve. The total impact of discounting is to reduce the value of Reinsurance Receivables by US\$1.686m (2016: US\$1.315m). The valuation basis for this receivable within the Company Financial Statements is undiscounted. Determination of fair value for Reinsurance Receivables for Solvency II and Financial Statements is after consideration of impairment of any amounts receivable.

13. Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date and for which there are no restrictions on accessing cash or cash equivalents, hence fair value under Solvency II is the value of the cash holding. The valuation basis for Solvency II is consistent with the Company Financial Statements basis.

For Company Statutory Account purposes within Deposits within Credit Institutions of US\$20.9m (2016 : US\$15.6m) there is US\$5.3m (2016 : US\$15.6m) of unrestricted cash and cash equivalents with maturities of less than three months which are treated as Cash and Cash Equivalents for Solvency II purposes.

14. Other Assets

Prepayments of US\$0.15m (2016 \$0.22m) are deemed to have a fair value of nil for Solvency II purposes. Accrued interest of US\$0.3m (2016: US\$0.04m) has been reclassified to investments (Government Bonds, Corporate Bonds and Collateralised securities).

D.2 Technical provisions

The technical provisions comprise Best Estimate Liabilities and a Risk Margin according to Articles 75 to 86 of the Solvency II regulations.

Best Estimate Liabilities is the sum of the claims provision and the premium provision.

- The claims provision is the discounted best estimate of future cashflows relating to events prior to the valuation date, including claims which have not yet been reported. The cash flows include gross claims, future expenses incurred to settle these claims and future premiums receivable in relation to the past exposure. The corresponding reinsurers' share of gross claims technical provisions, disclosed as Reinsurance Recoverable from Non Life in Section D.1, is valued using the same techniques as the gross claims technical provisions.
- The premium provision is the discounted best estimate of future cashflows relating to claim events that have not yet occurred but that are covered by contracts in existence at the valuation date. The cash flows include gross claims, future expenses incurred to settle these claims and future premiums receivable in relation to future claims events. The run-off nature of the Company means that there are no future exposures at the valuation date and therefore no premium provision.

The Risk Margin is an estimate of the amount that a third party taking on the insurance obligations of the Company would require over and above Best Estimate Liabilities. The Risk Margin is calculated using a cost of capital approach.

The following table quantifies the total gross technical provisions on a Solvency II basis at 31 December 2017. The lines of business can represent direct, proportional reinsurance or non-proportional reinsurance liabilities.

	Gross Best Estimate	Risk Margin	Total Solvency II Gross Provisions Value	Total Financial Statements Value
2017	2017	2017	2017	2017
	USD'000	USD'000	USD'000	USD'000
By material line of business:				
Liability	56,232	4,878	61,110	59,665
Motor	353	31	384	378
Property	3,014	262	3,276	3,229
Marine, Aviation and Transport	9,203	798	10,001	9,861
Workers Compensation	1,603	139	1,742	1,718
Other	412	36	448	441
	70,817	6,144	76,961	75,292
	2016	2016	2016	2016
	USD'000	USD'000	USD'000	USD'000
By material line of business:				
Liability	28,031	1,756	29,787	28,338
Motor	1,175	74	1,249	1,224
Property	2,139	134	2,273	2,320
Marine, Aviation and Transport	7,887	494	8,381	8,564
Workers Compensation	1,821	114	1,935	1,994
Other	479	29	508	524
	41,532	2,601	44,133	42,964

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The Company has adopted a deterministic approach to estimating Best Estimate Liabilities by making the following adjustments to the GAAP reserves in the Company's Financial Statements:

Solvency II Liability Adjustments	2017	2016
Increase /(decrease)	USD'000	USD'000
Event Not In Data (ENID) included in Solvency II Balance Sheet	1,587	1,000
Expense Provision increase included in Solvency II Balance Sheet	3,054	1,248
Discounting at the Risk Free Rate	(9,116)	(3,680)
Risk Margin	6,144	2,601
Total Solvency II Liability Adjustments	1,669	1,169

The total of the Solvency II Liability adjustments above result in the gross Best Estimate Liabilities on the Solvency II balance sheet being US\$1.669m (2016: US\$1.169m) higher than the gross technical provisions of US\$75.292m (2016 US\$42.964m) in the Company Financial Statements.

The main risks and uncertainties associated with the technical provisions relate to the following:

- Claims provisions: there is an inherent uncertainty in estimating claims provisions for the eventual outcome of outstanding notified claims as well as estimating the value of claims yet to be reported.
- Event Not In Data ("ENID"): this is an adjustment to technical provisions which is designed to capture potential future claims that do not exist in the historical data used for GAAP reserves calculation. These claims are typically low frequency and high severity impact.
- Expense provisions: the estimation of the future costs of claims management involves uncertainty over factors such as number of claims and staff costs.
- Risk free rates: these rates are prescribed and provided by EIOPA but are volatile over time.

The Company's business model is to actively manage claims, including the closure of remaining claims through commutations. This results in a tendency for actual technical provisions to reduce more quickly than the estimates used in Best Estimate Liabilities. The investment portfolio will continue to be managed in a way that supports this approach.

The Part VII portfolio transfer into CLL from KX Re and OX Re is not expected to change the approach to which assets and liabilities are managed or reported.

D.3 Other liabilities

Other liabilities representing Creditors are not subject to reclassification or valuation adjustment between Financial Statements or Solvency II. These liabilities are measured at amortised cost in the Company Financial Statements. With these liabilities expected to be settled during 2018, in a time of relative benign interest rate volatility, the fair value adjustment is not material.

Other liabilities representing derivatives correspond with derivative assets. Similarly as commented on for derivative assets the forward currency derivatives are netted in the statutory accounts but for Solvency II they are shown separately as assets and liabilities. The value of the derivatives is determined by reference to the agreed forward rate. The value of the net derivative liability is US\$0.004 million (2016: nil).

D.4 Alternative methods for valuation

No other alternative methods for valuation are used.

D.5 Any other information

Not applicable.

E. Capital Management

Capital management refers to the implementation of measures to maintain sufficient capital and to assess the internal capital adequacy of the Company in order that it can meet its obligations. The Company manages capital to ensure a prudent level of Own Funds to protect the Company's economic viability, finance new growth opportunities and meet the requirements of its stakeholders and regulator. The Company has a business plan which feeds into the ORSA and which demonstrates capital adequacy is expected throughout a three year planning horizon. The Company targets a capital level of a minimum 115% - 125% of SCR.

E.1 Own Funds

Own Funds represent Ordinary Share Capital and Reconciliation Reserve. The Company's Ordinary share capital has no restrictions on the right of the Company to cancel dividends before they are paid and has a single class of ordinary shares. As the shares are unrestricted and dividends can be cancelled after they have been declared, the Company's Ordinary share capital is classified as unrestricted Tier 1.

	Tier 1	Tier 2	Tier 3	Total
	USD'000	USD'000	USD'000	USD'000
Basic Own Funds	2017	2017	2017	2017
Ordinary Share Capital	1,000	-	-	1,000
Reconciliation Reserve	43,298	-	-	43,298
Total basic Own Funds	44,298	-	-	44,298
	2016	2016	2016	2016
	USD'000	USD'000	USD'000	USD'000
Basic Own Funds				
Ordinary Share Capital	1,000	-	-	1,000
Reconciliation Reserve	18,766	-	-	18,766
Total basic Own Funds	19,766	-	-	19,766

The following shows the movement in Own Funds:

Reconciliation between opening and closing own funds	2017
	US\$'000
Opening own funds 1 January 2017	19,766
Movement Statutory Account Retained Deficit	67
Movement Statutory Account Capital Reserve	25,390
Movement Solvency II Asset Valuation differences – refer Section D.1 Assets	(424)
Movement Solvency II Liability Valuation differences – refer Sections D.2 and D.3 Liabilities	(501)
Closing Own Funds 31 December 2017	44,298

Within Own Funds, the Reconciliation Reserve represents the retained earnings and capital reserve as reported in the Company Financial Statements less differences in valuations between Solvency II and Company Financial Statements valuations for assets and liabilities. The components of the Reconciliation Reserve at 31 December are:

Reconciliation Reserve Components	2017	2016	Movement
	USD'000	USD'000	USD'000
Financial Statements Capital Reserve	51,643	26,253	25,390
Financial Statements Retained Deficit	(4,297)	(4,364)	67
Solvency II Asset Valuation differences – refer Section D.1 Assets	(2,378)	(1,954)	(424)
Solvency II Liability Valuation differences – refer Sections D.2 and D.3 Liabilities	(1,670)	(1,169)	(501)
Total Reconciliation Reserve	43,298	18,766	24,532

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The eligibility of tiered Capital to cover the SCR and Minimum Capital requirement ("MCR") depends on the tiering levels of the Company's Own Funds. The Company's Own Funds are all Tier 1 and comply with the Solvency II Regulations that:

- Eligible tier 1 items shall be at least 50% of the SCR; and
- Eligible tier 1 items shall be at least 80% of the MCR

	Tier 1	Tier 2	Tier 3	Total
	2017	2017	2017	2017
	USD'000	USD'000	USD'000	USD'000
Available and eligible own funds				
Total available own funds to meet the SCR	44,298			44,298
Total available own funds to meet the MCR	44,298			44,298
Total eligible own funds to meet the SCR	44,298			44,298
Total eligible own funds to meet the MCR	44,298			44,298
SCR				18,338
MCR				5,237
Ratio of Eligible own funds to SCR				242%
Ratio of Eligible own funds to MCR				846%

	Tier 1	Tier 2	Tier 3	Total
	2016	2016	2016	2016
	USD'000	USD'000	USD'000	USD'000
Available and eligible own funds				
Total available own funds to meet the SCR	19,766	-	-	19,766
Total available own funds to meet the MCR	19,766	-	-	19,766
Total eligible own funds to meet the SCR	19,766	-	-	19,766
Total eligible own funds to meet the MCR	19,766	-	-	19,766
SCR				12,044
MCR				4,050
Ratio of Eligible own funds to SCR				164%
Ratio of Eligible own funds to MCR				488%

E.2 Solvency Capital Requirement and Minimum Capital Requirement

	2017	2016
	USD'000	USD'000
By risk module		
Market risk	4,021	5,966
Default risk	3,773	2,249
Non-life risk	12,879	6,570
Basic SCR before diversification	20,673	14,785
Diversification Benefits	(4,460)	(3,986)
Basic SCR	16,213	10,799
Operational risk	2,125	1,246
SCR	18,338	12,044
MCR	5,237	4,050

The significant increase in the Solvency Capital requirement between 2017 and 2016 mostly reflects the Part VII transfer of assets and liabilities from KX Re and OX Re into the Company at 30 November 2017. The run-off nature of CLL means that the MCR is based on claims technical provisions.

Market risk, counterparty default risk, non-life premium and reserve risk and operational risk all contribute to the SCR, although the main drivers of the SCR are the market risk and non-life premium and reserve risk. These modules are discussed in more detail in Section C.

E.3 Use of the duration-based equity risk sub-module in the calculation of the SCR

The Company has not used the duration-based equity risk sub-module in the calculation of the SCR.

E.4 Internal model

The Company calculates the SCR using the standard formula. No internal or partial internal model is used in the calculation of the SCR.

E.5 Non-compliance with the MCR and significant non-compliance with the SCR

There has not been any non-compliance with the SCR or the MCR over the financial year nor is there expected to be any non-compliance with the SCR and MCR in the business planning period.

E.6 Any other information

Not applicable.

Appendix A: Reporting templates

The quantitative reporting templates which form part of the Annual Regulatory Templates listed below are required to be published alongside the SFCR.

- S.02.01.02 Balance Sheet Information
- S.05.01.02 Information on Premiums, Claims and Expenses, applying the valuation and recognition principles used in the company's financial statements.
- S.17.01.02 Information on non-life technical provisions by LOB
- S.19.01.21 Information on non-life insurance claims by LOB in the format of development triangles.
- S.23.01.01 Information on Own funds
- S.25.01.21 Information on the SCR using the Standard Formula
- S.28.01.01 Minimum Capital Requirement for the Entity

		Solvency II value
		C0010
	Assets	0
R0030	Intangible assets	0
R0040	Deferred tax assets	0
R0050	Pension benefit surplus	0
R0060	Property, plant & equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	56,760
R0080	Property (other than for own use)	0
R0090	Holdings in related undertakings, including participations	0
R0100	Equities	1,779
R0110	Equities - listed	1,779
R0120	Equities - unlisted	0
R0130	Bonds	29,424
R0140	Government Bonds	6,699
R0150	Corporate Bonds	21,756
R0160	Structured notes	0
R0170	Collateralised securities	969
R0180	Collective Investments Undertakings	10,036
R0190	Derivatives	0
R0200	Deposits other than cash equivalents	15,520
R0210	Other investments	0
R0220	Assets held for index-linked and unit-linked contracts	0
R0230	Loans and mortgages	6,786
R0240	Loans on policies	0
R0250	Loans and mortgages to individuals	0
R0260	Other loans and mortgages	6,786
R0270	Reinsurance recoverables from:	34,671
R0280	Non-life and health similar to non-life	34,671
R0290	Non-life excluding health	34,671
R0300	Health similar to non-life	0
R0310	Life and health similar to life, excluding health and index-linked and unit-linked	0
R0320	Health similar to life	0
R0330	Life excluding health and index-linked and unit-linked	0
R0340	Life index-linked and unit-linked	0
R0350	Deposits to cedants	1,204
R0360	Insurance and intermediaries receivables	999
R0370	Reinsurance receivables	16,695
R0380	Receivables (trade, not insurance)	0
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	6,118
R0420	Any other assets, not elsewhere shown	2,928
R0500	Total assets	126,162
		Solvency II value
		C0010
R0510	Technical provisions – non-life	76,962
R0520	Technical provisions – non-life (excluding health)	74,291
R0530	TP calculated as a whole	0
R0540	Best Estimate	68,821
R0550	Risk margin	5,971
R0560	Technical provisions - health (similar to non-life)	2,170
R0570	TP calculated as a whole	0
R0580	Best Estimate	1,997
R0590	Risk margin	173
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	Technical provisions - health (similar to life)	0
R0620	TP calculated as a whole	0
R0630	Best Estimate	0
R0640	Risk margin	0
R0650	Technical provisions – life (excluding health and index-linked and unit-linked)	0
R0660	TP calculated as a whole	0
R0670	Best Estimate	0
R0680	Risk margin	0
R0690	Technical provisions – index-linked and unit-linked	0
R0700	TP calculated as a whole	0
R0710	Best Estimate	0
R0720	Risk margin	0
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	0
R0760	Pension benefit obligations	0
R0770	Deposits from reinsurers	0
R0780	Deferred tax liabilities	0
R0790	Derivatives	4
R0800	Debts owed to credit institutions	0
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	0
R0830	Reinsurance payables	4,684
R0840	Payables (trade, not insurance)	214
R0850	Subordinated liabilities	0
R0860	Subordinated liabilities not in Basic Own Funds	0
R0870	Subordinated liabilities in Basic Own Funds	0
R0880	Any other liabilities, not elsewhere shown	0
R0900	Total liabilities	81,864
R1000	Excess of assets over liabilities	44,298

	Direct business and accepted proportional reinsurance					Accepted non-proportional reinsurance					Total Non-Life obligation
	Workers' compensation insurance	Motor vehicle liability insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	
	C0040	C0050	C0070	C0080	C0090	C0130	C0140	C0150	C0160	C0170	C0180
R0010 Technical provisions calculated as a whole	0	0	0	0	0	0	0	0	0	0	0
R0050 Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	0	0	0	0	0	0	0	0	0	0	0
Technical provisions calculated as a sum of BE and RM											
Best estimate											
Premium provisions											
R0060 Gross	0	0	0	0	0	0	0	0	0	0	0
R0140 Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	0	0	0	0	0	0	0	0	0	0	0
R0150 Net Best Estimate of Premium Provisions	0	0	0	0	0	0	0	0	0	0	0
Claims provisions											
R0160 Gross	1,603	353	6,510	1,015	20,467	19	394	35,765	2,603	1,298	29,817
R0240 Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	0	0	4,272	492	7,335	0	0	19,952	2,016	604	34,671
R0250 Net Best Estimate of Claims Provisions	1,603	353	2,238	523	13,132	19	394	15,813	677	1,298	26,146
R0260 Total Best estimate - gross	1,603	353	6,510	1,015	20,467	19	394	35,765	2,603	1,298	29,817
R0270 Total Best estimate - net	1,603	353	2,238	523	13,132	19	394	15,813	677	1,298	26,146
R0280 Risk margin	139	31	565	88	1,776	2	34	3,103	234	173	5,144
Amount of the transitional on Technical Provisions											
R0290 Technical Provisions calculated as a whole	0	0	0	0	0	0	0	0	0	0	0
R0300 Best estimate	0	0	0	0	0	0	0	0	0	0	0
R0310 Risk margin	0	0	0	0	0	0	0	0	0	0	0
Technical provisions - total											
R0320 Technical provisions - total	1,742	384	7,075	1,103	22,243	20	428	38,868	2,927	2,172	36,962
R0330 Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	0	0	4,272	492	7,335	0	0	19,952	2,016	604	34,671
R0340 Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	1,742	384	2,803	611	14,908	20	428	18,916	911	1,568	42,291

Total Non-Life Business

Z0020 Accident year / Underwriting year **Z0020** Underwriting year [UWY]

Gross Claims Paid (non-cumulative)
(absolute amount)

Year	Development year											In Current year	Sum of years (cumulative)	
	0	1	2	3	4	5	6	7	8	9	10 & +			
	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110			
R0100												8,482	C0170	C0180
R0160	0	0	0	0	0	0	0	0	0	0		8,482	647,458	
R0170	0	0	0	0	0	0	0	0	0			0	0	
R0180	0	0	0	0	0	0	0	0				0	0	
R0190	0	0	0	0	0	0	0					0	0	
R0200	0	0	0	0	0	0						0	0	
R0210	0	0	0	0	0							0	0	
R0220	0	0	0	0								0	0	
R0230	0	0	0									0	0	
R0240	0	0										0	0	
R0250	0											0	0	
R0260	0											0	0	
Total												8,482	647,458	

Gross undiscounted Best Estimate Claims Provisions
(absolute amount)

Year	Development year											Year end (discounted data)	
	0	1	2	3	4	5	6	7	8	9	10 & +		
	C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300		
R0100												79,933	C0360
R0160	0	0	0	0	0	0	0	0	0	0		70,817	
R0170	0	0	0	0	0	0	0	0	0			0	
R0180	0	0	0	0	0	0	0	0				0	
R0190	0	0	0	0	0	0	0					0	
R0200	0	0	0	0	0	0						0	
R0210	0	0	0	0	0							0	
R0220	0	0	0	0								0	
R0230	0	0	0									0	
R0240	0	0										0	
R0250	0											0	
R0260	0											0	
Total												70,817	

R0010 Market risk
 R0020 Counterparty default risk
 R0030 Life underwriting risk
 R0040 Health underwriting risk
 R0050 Non-life underwriting risk
 R0060 Diversification
 R0070 Intangible asset risk
 R0100 **Basic Solvency Capital Requirement**

Gross solvency capital requirement	USP	Simplifications
C0110	C0090	C0120
4,021		
3,773		
0		
585		
12,294		
-4,460		
0		
16,213		

Calculation of Solvency Capital Requirement
 R0130 Operational risk
 R0140 Loss-absorbing capacity of technical provisions
 R0150 Loss-absorbing capacity of deferred taxes
 R0160 Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC
 R0200 **Solvency capital requirement excluding capital add-on**
 R0210 Capital add-on already set
 R0220 **Solvency capital requirement**
Other information on SCR
 R0400 Capital requirement for duration-based equity risk sub-module
 R0410 Total amount of Notional Solvency Capital Requirement for remaining part
 R0420 Total amount of Notional Solvency Capital Requirements for ring fenced funds
 R0430 Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios
 R0440 Diversification effects due to RFF nSCR aggregation for article 304

C0100
2,125
0
0
0
18,338
0
18,338
0
0
0
0
0

Linear formula component for non-life insurance and reinsurance obligations

R0010	MCRNL Result	C0010	5,237
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Net (of reinsurance/SPV) best estimate and TP calculated as a whole

Net (of reinsurance) written premiums in the last 12 months

R0040	Workers' compensation insurance and proportional reinsurance
R0050	Motor vehicle liability insurance and proportional reinsurance
R0070	Marine, aviation and transport insurance and proportional reinsurance
R0080	Fire and other damage to property insurance and proportional reinsurance
R0090	General liability insurance and proportional reinsurance
R0130	Miscellaneous financial loss insurance and proportional reinsurance
R0140	Non-proportional health reinsurance
R0150	Non-proportional casualty reinsurance
R0160	Non-proportional marine, aviation and transport reinsurance
R0170	Non-proportional property reinsurance

C0020	C0030
1,603	0
353	0
2,238	0
523	0
13,132	0
18	0
394	0
15,813	0
677	0
1,395	0

Linear formula component for life insurance and reinsurance obligations

R0200	MCRL Result	C0040	0
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Net (of reinsurance/SPV) best estimate and TP calculated as a whole

Net (of reinsurance/SPV) total capital at risk

R0210	Obligations with profit participation - guaranteed benefits
R0220	Obligations with profit participation - future discretionary benefits
R0230	Index-linked and unit-linked insurance obligations
R0240	Other life (re)insurance and health (re)insurance obligations
R0250	Total capital at risk for all life (re)insurance obligations

C0050	C0060
0	
0	
0	
0	
0	0

Overall MCR calculation

R0300	Linear MCR	C0070	5,237
R0310	SCR		18,338
R0320	MCR cap		8,252
R0330	MCR floor		4,585
R0340	Combined MCR		5,237
R0350	Absolute floor of the MCR		4,306

R0400	Minimum Capital Requirement	C0070	5,237
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