

Catalina Insurance Ireland dac

Directors' report and financial statements

Year ended 31 December 2017

Registered number: 225221

Contents

	Page
Directors and other information	2
Directors' report	3 - 5
Independent auditor's report	6 - 9
Profit and loss account:	
- Technical account - non-life insurance business	10
- Non-technical account	11
Balance sheet	12 - 13
Statement of changes in equity	14
Notes to the financial statements	15 - 38

Directors and other information

Board of Directors

Peter Johnson	(American)	
Chris Fleming	(British)	
Phil Hemon	(British)	
Brian Myles		
David O'Connor		(Independent)
John Perham	(British)	(Independent)

Solicitors

William Fry
Fitzwilton House
Wilton Place
Dublin 2

Secretary and Registered Office

Keith Lyon
Unit 44 Block 5
Northwood Court
Northwood Crescent
Northwood
Santry
Dublin 9

Principal Bankers

HSBC Bank plc
1 Grand Canal Square
Grand Canal Harbour
Dublin 2

Registered Number: 225221

Country of incorporation: Ireland

Auditor

KPMG
Chartered Accountants
1 Harbourmaster Place
IFSC
Dublin 1

Head of Actuarial Function

James R K Upson, FIA

Directors' report

The Directors present their annual report and audited financial statements for the year ended 31 December 2017.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Directors' Report and financial statements, in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with FRS 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland and FRS 103 Insurance Contracts.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities and financial position of the Company and of its profit or loss for that year. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- use the going concern basis of accounting unless they either intend to liquidate the Company or cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the assets, liabilities, financial position and profit or loss of the Company and enable them to ensure that the financial statements comply with the Companies Act 2014 and the European Union (Insurance Undertakings: Financial Statements) Regulations 2015. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities. The Directors are also responsible for preparing a Directors' Report that complies with the requirements of the Companies Act 2014.

Accounting Records

The measures taken by the Directors to secure compliance with the Company's obligations, under section 281 of the Companies Act 2014, to keep adequate accounting records are the use of appropriate systems, procedures and controls, and the employment of competent persons. The accounting records are kept at Unit 44 Block 5, Northwood Court, Northwood Crescent, Northwood, Santry, Dublin 9.

Principal activity, business review and future developments

The Company is an insurance undertaking authorized by the Central Bank of Ireland, pursuant to the European Union (Insurance and Reinsurance) Regulations 2015, to carry on non-life insurance business in classes 1 to 18 as defined in European Union (Insurance and Reinsurance) Regulations 2015 (SI No. 485 of 2015), with the right to carry on business in such classes in other EU jurisdictions including the UK on a freedom of services basis.

The Company previously underwrote creditor and personal lines business in Ireland, the UK and Italy. These classes of business have been in run-off since July 2010. During 2015 the Company acquired a portfolio of insurance liabilities from Quinn Insurance Ltd (under administration) ("QIL"). The portfolio comprised business in the UK, Northern Ireland and Europe (Germany, Belgium and the Netherlands). The business is predominately UK and Northern Ireland motor and professional indemnity and some employer's liability and public liability business. All classes of business transferred have been in run-off since 31 December 2012, with the exception of a portfolio of professional indemnity risks which have a run-off period of six years once the policy has expired.

On 6 November 2017 the Company entered into an agreement with Zurich Insurance Plc ("ZIP") to acquire part of the German non-life insurance business of ZIP. The business consists of a portfolio of insurance policies which provide cover for various types of losses arising in connection with the business and healthcare operations of hospitals, clinics and other healthcare providers in Germany including as a result of medical malpractice ("MedMal"). The business was written through specialist German MedMal brokers to German hospitals between 1946 and 2012. The transaction will be completed in two stages, an initial loss portfolio reinsurance agreement to pass the economic risk followed by the passing of legal liability via an Irish Section 13 insurance business transfer into the Company. The reinsurance agreement, effective from 21 September 2017, was conditional on approval/non-objection from the Central Bank of Ireland. Approval/non-objection was received on 26 February 2018 and as a result the transaction will be recorded in the Company's 2018 financial statements. The legal business transfer, which is subject to approval by the Irish High Court, is expected to be complete by 30 November 2018.

Directors' report - continued

On 17 October 2017 Apollo Global Management LLC ("Apollo") signed a definitive agreement with the Company's ultimate parent, Catalina Holdings (Bermuda) Ltd. ("CHBL"), 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. Affiliates of Apollo made an initial investment in CHBL in December 2013, and as a result of the transaction in 2017, the Apollo acquisition vehicle, which is expected to include investment from certain long term institutional and strategic investors, will have a controlling interest in the business.

The profit after tax for the year ended 31 December 2017 was Stg£9.8 million (2016: Stg£38.2 million), mainly due to favourable claims development and positive investment returns. A dividend of Stg£23 million was paid during the year (2016: Stg£123 million). No final dividend has been proposed.

The Company is planning to run-off the remaining lines of business as efficiently as possible. The Directors are satisfied with progress made in the run-off to date. The Company may acquire and manage run-off portfolios in the future.

The Company has a documented reinsurance strategy, which is approved by the Board of Directors. Exposure and credit ratings of individual reinsurers are monitored by the Company.

The Company has a risk management function which reports to the Board of Directors. The Board of Directors have approved the Company's risk appetite statement and approves any variation in the risk appetite. 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 benefits paid and subsequent development of long-term claims. The Company is also exposed to market risk on its investment portfolio. The Company has a documented investment strategy approved by the Board of Directors which 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. Further details on the risks to which the Company is exposed are included in note 27 and 28 to the financial statements.

Directors

The names of the persons who were Directors at any time during the year ended 31 December 2017 are set out below:

Peter Johnson	
Chris Fleming	
Phil Hernon	
Brian Myles	
David O'Connor	(Independent)
John Perham	(Independent)

In accordance with the Company's Constitution, the Directors are not required to retire by rotation.

Directors' and secretary's interests

The Directors and secretary who held office at 31 December 2017 had no interests in the shares in, or debentures or loan stock of the Company.

Central Bank of Ireland Corporate Governance Code

The Company is subject to the Corporate Governance Requirements for Insurance Undertakings (the "Corporate Governance Requirements") issued by the Central Bank of Ireland in November 2015 that came into effect on 1 January 2016. The Company has complied with the Corporate Governance Requirements throughout 2017 and to the date of this report. The Company is not required to comply with the additional requirements for major institutions.

The Directors have 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, the Directors have established the four key control functions required under the Corporate Governance Requirements, risk management, actuarial, compliance and internal audit. These functions are responsible for providing oversight of, and challenge to, the business and for providing assurance to the Board in relation to the Company's control framework.

Going Concern

The Directors have undertaken a review of the financial performance of the Company. After reviewing the Company's budget and business plan, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

Directors' report - continued

Post balance sheet events

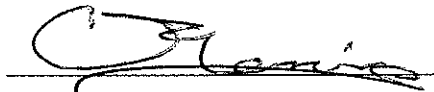
On 26 February 2018 the Central Bank of Ireland issued a letter of no objection in relation to the Company's updated business plan in respect of the acquisition of the German MedMal portfolio. The Company subsequently issued share capital of Stg£46 million (Eur€52 million) to support the transaction.

Auditor

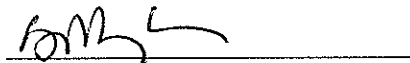
The auditor, KPMG, has indicated its willingness to continue in office in accordance with section 383(2) of the Companies Act, 2014. As the Company is classified as an EU Public Interest Entity ("PIE") the Audit Partner was required to rotate off the audit for the 2017 financial year and has been replaced by a new signing Partner.

Each Director who was a Director of the Company at the time the report is approved confirms that, so far as the Director is aware, there is no relevant audit information of which the Company's statutory auditors are unaware; and the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's statutory auditors are aware of that information.

On behalf of the Board



Chris Fleming
Director
2 May 2018



Brian Myles
Director
2 May 2018

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF CATALINA INSURANCE IRELAND DAC

1 Opinion: our opinion is unmodified

We have audited the financial statements of Catalina Insurance Ireland Designated Activity Company ("the Company") for the year ended 31 December 2017 which comprise the profit and loss – technical account, profit and loss – non-technical account, balance sheet, statement of changes in equity, and the related notes, including the basis of preparation and accounting policies set out in Note 1. The financial reporting framework that has been applied in their preparation is Irish Law and FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and FRS 103 *Insurance Contracts*.

In our opinion, the financial statements:

- give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and FRS 103 *Insurance Contracts*; and
- have been properly prepared in accordance with the requirements of the Companies Act 2014 and the European Union (Insurance Undertakings: Financial Statements) Regulations 2015.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) ("ISAs (Ireland)") and applicable law. Our responsibilities under those standards are further described in the *Auditor's Responsibilities* section of our report. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the directors for the year ended 31 December 2012. The period of total uninterrupted engagement is the 6 years ended 31 December 2017. We have fulfilled our ethical responsibilities under, and we remained independent of the Company in accordance with, ethical requirements applicable in Ireland, including the Ethical Standard issued by the Irish Auditing and Accounting Supervisory Authority (IAASA) as applied to public interest entities. No non-audit services prohibited by that standard were provided.

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In arriving at our audit opinion above we determine that there were two key audit matters as follows:

Valuation of technical provisions Stg€91.4 million (2016: Stg€123.4 million)

Refer to pages 15 -21 (accounting policy) and page 29 (technical provisions)

The key audit matter

The Company's technical provisions consists of provision for unearned premiums and claims outstanding which represents outstanding loss reserves and incurred but not reported reserves.

These insurance liabilities collectively represent the single largest liability for the Company, representing over 60% of total liabilities.

How the matter was addressed in our audit

With the involvement of our actuarial specialists we performed the following procedures:

Assessing the design and implementation of the key controls performed by management in relation to technical provisions. This included testing controls over the data used by the reporting actuary and the appropriate governance oversight in determining the key assumptions for the actuarial best estimate and the additional margin applied above the best estimate.

Obtaining and assessing the independent report provided by the external actuary.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF CATALINA INSURANCE IRELAND DAC – CONTINUED

The level of subjectivity in the estimated impact of uncertain or unknown future events serves to increase the level of judgement required and subjectivity inherent in the estimation of these provisions.

Comparison of assumptions, reserving methodologies and estimates of losses to expectations based on the Company's historical experience, current trends and benchmarking to our own industry knowledge, including information relating to forthcoming legislation that may affect claims settlement speed or amount. For the Periodic Payment Order ("PPO") technical provisions, this included evaluating mortality, inflation, investment return and real discount rate assumptions.

Evaluation of the appropriateness of the margin applied to the actuarial best estimate. We reviewed the Head of Actuarial Function's approach to, and analysis performed, in setting the margin. In particular, we consider the allowance for uncertainties inherent in the data and assumptions in developing the actuarial best estimate through inquiry with the Head of Actuarial Function.

Assessment of a sample of case reserves included within outstanding claims to check that the reserve reflects the most up-to-date information obtained in respect of the claim, based on supporting evidence on file.

Re-performance of reconciliations between the claims data recorded in the insurance systems and the actuarial reserving calculations to ensure integrity of the data used in the actuarial reserving process. We also check the completeness and accuracy of the data flow from the claims and policy systems to the financial systems.

Performing analytical review procedures to evaluate the appropriateness of the provision for unearned premiums.

Overall, we found the key assumptions used in, and the resulting estimate of, the valuation of the technical provisions to be reasonable.

Valuation of investments £62.2 million (2016: £94.6 million)

Refer to pages 15-21 (accounting policy) and page 26-27 (Investments in group undertakings and participating interests and other financial investments)

The key audit matter

The Company holds and manages a significant investment portfolio to meet its obligations under insurance contracts and for shareholder investment purposes.

The valuation of the investment portfolio involves a degree of judgement in selecting the valuation basis for each investment.

The size of the portfolio, mix of investments and market exposure all contribute to making the valuation and ownership a key area of focus within our audit.

This portfolio also includes a number of harder to value investments including alternative investments, group loans and real estate investments held through group companies.

How the matter was addressed in our audit

Our procedures, all of which involved the support of our colleagues in Bermuda due to the centralised group investment function in operation in the Company, included but were not limited to:

Understanding, assessing and testing the design and implementation and operating effectiveness of the key controls for the investments process.

Testing the valuation of the investments by agreeing the prices used to independent third party sources using pricing specialists.

Assessing the valuation methodology and assumptions applied to harder to value investments and testing inputs where applicable.

Assessing the valuation of group companies with underlying real estate investments by obtaining and reviewing real estate valuations.

Obtaining and assessing group loan agreements and supporting loan schedules.

We found the valuation of the investments at year end to be reasonable.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF CATALINA INSURANCE IRELAND DAC – CONTINUED

3 Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at Stg£1.7 million (2016: Stg£4.7 million), determined with reference to a benchmark of net assets (of which it represents 5% (2016: 5% of net assets)). We consider net assets to be the most appropriate benchmark as it provides a more stable measure year on year and is reflective of the level of activity of the Company. We compared our materiality to other relevant benchmarks, such as profit before tax, to ensure the materiality selected was appropriate for our audit.

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding Stg£0.086 million (2016: Stg£0.236 million) in addition to other qualitative misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above and was performed at the Company's head office in Dublin. In addition to this, some audit work was performed by other group audit teams working in London and Bermuda.

4 We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

5 We have nothing to report on the other information in the annual report

The directors are responsible for the other information presented in the annual report together with the financial statements. The other information comprises the information included in the directors' report and statement of directors' responsibilities. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Based solely on that work on the other information,

- we have not identified material misstatements in the directors' report;
- in our opinion, the information given in the directors' report is consistent with the financial statements;
- in our opinion, the directors' report has been prepared in accordance with the Companies Act 2014.

6 Our opinions on other matters prescribed by the Companies Act 2014 are unmodified

We have obtained all the information and explanations which we consider necessary for the purpose of our audit.

In our opinion, the accounting records of the Company were sufficient to permit the financial statements to be readily and properly audited and the Company's balance sheet, profit and loss account – technical account and profit and loss account – non-technical account are in agreement with the accounting records.

7 We have nothing to report on other matters on which we are required to report by exception

The Companies Act 2014 requires us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions required by sections 305 to 312 of the Act are not made.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF CATALINA INSURANCE IRELAND DAC – CONTINUED

8 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 3, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are 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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The risk of not detecting a material misstatement resulting from fraud or other irregularities is higher than for one resulting from error, as they may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control and may involve any area of law and regulation not just those directly affecting the financial statements.

A fuller description of our responsibilities is provided on IAASA's website at https://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors_responsibilities_for_audit.pdf.

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

Our report is made solely to the Company's members, as a body, in accordance with section 391 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for our report, or for the opinions we have formed.



Ivor Conlon

for and on behalf of

KPMG

Chartered Accountants, Statutory Audit Firm

1 Harbourmaster Place

International Financial Services Centre

Dublin 1

14 May 2018

**Profit and loss account – technical account – non-life insurance
for the year ended 31 December 2017**

	Notes	2017		2016	
		Stg£'000	Stg£'000	Stg£'000	Stg£'000
Earned premiums, net of reinsurance					
Gross premiums written	3	(105)		(101)	
Outward reinsurance premiums		<u>104</u>		<u>100</u>	
Net premium written			(1)		(1)
Change in the gross provision for unearned premiums and unexpired risk	17	700		1,437	
Change in the provision for unearned premium and unexpired risk, reinsurers' share	17	<u>(684)</u>		<u>(1,323)</u>	
Change in the net provision for unearned premium			<u>16</u>		<u>114</u>
Earned premiums, net of reinsurance			15		113
Allocated investment return transferred from the non-technical account	3		2,860		8,698
Other technical income	3		<u>4,320</u>		<u>4,320</u>
Total technical income			7,195		13,131
Claims incurred, net of reinsurance					
Claims paid					
- Gross amount		(16,114)		(30,370)	
- Reinsurers' share		<u>10,582</u>		<u>21,726</u>	
Net claims paid		<u>(5,532)</u>		<u>(8,644)</u>	
Change in the provision for claims					
- Gross amount	17	31,548		80,654	
- Reinsurers' share	17	<u>(20,554)</u>		<u>(57,116)</u>	
Change in the net provision for claims		<u>10,994</u>		<u>23,538</u>	
Claims incurred, net of reinsurance			5,462		14,894
Net operating expenses	5		(1,896)		(806)
Balance on the technical account			<u>10,761</u>		<u>27,219</u>

All the above amounts are derived from continuing activities.

**Profit and loss account – non-technical account – non-life insurance
for the year ended 31 December 2017**

	Notes	2017 Stg£'000	2016 Stg£'000
Balance on the technical account		10,761	27,219
Investment income			
- Income from participating interests – group undertakings		2,295	1,770
- Income from other investments		2,397	5,509
Net investment income	4	4,692	7,279
Gains on the realisation of investments	4	4,118	7,669
Unrealised gains/(losses) on investments	4	(2,455)	4,547
Investment charges	4	(191)	(647)
Allocated investment return transferred to the non-life insurance business technical account	3	(2,860)	(8,698)
Foreign exchange gains/(losses)		(1,110)	6,442
Interest expense	21	(1,589)	(70)
Profit on ordinary activities before tax	8	11,366	43,741
Tax charge on profit on ordinary activities	9	(1,551)	(5,522)
Profit for the year		9,815	38,219

The notes on pages 15 to 38 form an integral part of the financial statements.

All the above amounts are derived from continuing activities.

**Balance sheet
as at 31 December 2017**

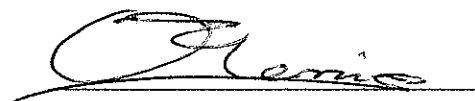
	Notes	2017 Stg£'000	2017 Stg£'000	2016 Stg£'000	2016 Stg£'000
ASSETS					
Investments					
Investments in group undertakings and participating interests	13	19,828		20,525	
Other financial investments	14	42,419		74,109	
			62,247		94,634
Reinsurers' share of technical provisions					
Provision for unearned premiums	17	468		1,120	
Claims outstanding	17, 28	60,493		80,843	
			60,961		81,963
Debtors					
Debtors arising out of direct insurance operations	10	3,417		4,978	
Other debtors	11	136		7	
			3,553		4,985
Other assets					
Tangible assets	12	8		18	
Cash at bank and in hand	14	23,151		18,189	
			23,159		18,207
Prepayments and accrued income					
Accrued interest and prepayments		754		874	
Deferred acquisition costs	16	387		882	
			1,141		1,756
Total assets			151,061		201,545

**Balance sheet - continued
as at 31 December 2017**

	Notes	2017		2016	
		Stg£'000	Stg£'000	Stg£'000	Stg£'000
LIABILITIES					
Capital and reserves					
Called up share capital	23	635		635	
Retained earnings	24	34,488		47,673	
Shareholder's funds attributable to equity interests			35,123		48,308
Technical provisions					
Provision for unearned premiums	17	488		1,155	
Claims outstanding	17, 28	90,895		122,197	
			91,383		123,352
Creditors - amounts falling due within one year					
Creditors arising out of insurance operations	18	63		149	
Creditors arising out of reinsurance operations	19	25		22	
Other creditors	20	206		1,920	
			294		2,091
Creditors - amounts falling due greater than one year					
Subordinated loan notes	14, 21	20,672		19,590	
			20,672		19,590
Accruals and deferred income					
Other accruals	22	3,202		7,322	
Deferred reinsurance commissions	16	387		882	
			3,589		8,204
Total liabilities			151,061		201,545

The notes on pages 15 to 38 form an integral part of the financial statements.

On behalf of the board


Chris Fleming
Director
2 May 2018


Brian Myles
Director
2 May 2018

**Statement of changes in equity
as at 31 December 2017**

	Notes	Called-up share capital Stg£'000	Capital contribution Stg£'000	Profit and loss account Stg£'000	Total Stg£'000
At 31 December 2015		635	103,000	29,454	133,089
Profit for the year		-	-	38,219	38,219
Transfer		-	(103,000)	103,000	-
Dividend paid		-	-	(123,000)	(123,000)
At 31 December 2016		635	-	47,673	48,308
Profit for the year		-	-	9,815	9,815
Dividend paid	29	-	-	(23,000)	(23,000)
At 31 December 2017		635	-	34,488	35,123

Notes to the financial statements

1 Significant Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

1.1 Basis of accounting

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standards (FRS) 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* and FRS 103 *Insurance Contracts* (FRS 102 and 103) issued by the Financial Reporting Council, and promulgated for use in Ireland by Chartered Accountants Ireland. The Company is also subject to the requirements of the Companies Acts 2014 and the European Union (Insurance Undertakings: Financial Statements) Regulations, 2015.

In accordance with FRS 103, the Company has applied existing accounting policies for insurance contracts.

Although the Company's business is in run-off, as the Company intends to continue to operate as an insurance company for the foreseeable future and has the ability to manage the current business lines, the Directors consider it appropriate to prepare the financial statements on a going concern basis.

1.2 Foreign Currencies

The presentation currency of the Company is pounds Sterling (Stg£). The financial statements of the Company are presented in the currency of the primary economic environment in which it operates (its functional currency).

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates ruling at the balance sheet date and revenues, costs and non-monetary assets at the exchange rates ruling at the dates of the transactions. Profits and losses arising from foreign currency translation and on settlement of amounts receivable and payable in foreign currencies are dealt with through the profit and loss account.

1.3 Insurance Classification

The Company's contracts are classified at inception, for accounting purposes, as insurance contracts. A contract that is classified as an insurance contract remains an insurance contract until all rights and obligations are extinguished or expire. Insurance contracts are those contracts that transfer significant insurance risk, if and only if, an insured event could cause an insurer to make significant additional benefits in any scenario, excluding scenarios that lack commercial substance. Such contracts may also transfer financial risk.

1.4 Revenue Recognition

1.4.1 Premiums

Gross insurance premiums for non-life insurance business are reported as income over the term of the insurance contract based on the proportion of risks borne during the accounting period. Written premiums on short term reinsurance contracts are recognised as income when received. Written premiums on long term reinsurance contracts are recognised as earned over the life of the underlying reinsurance policies. Premium refunds are accounted for in the year in which they arise.

Outward reinsurance premiums are accounted for in the same year as the premiums for the related direct insurance.

1.4.2 Unearned premiums

The provision for unearned premiums comprises the amount representing that part of gross premiums written which is estimated to relate to unexpired terms of policies in force at the balance sheet date, calculated on a time apportioned basis.

1.4.3 Investment Return

Investment return consists of dividends, interest, movements in amortised cost on debt securities and other loans and receivables, realised gains and losses, and unrealised gains and losses on fair value assets.

1.4.4 Allocated investment return transferred from the non-technical account

A transfer of investment return is made from the non-technical account to the technical account of the estimated share of investment income arising from investments and cash supporting the insurance technical provisions. This calculation is based on the ratio of net technical provisions to shareholder's equity.

Notes to the financial statements – continued

1.4.5 Dividend income

Dividend income from investments is recognised when the shareholder's rights to receive payment have been established.

1.4.6 Realised gains and losses

The realised gain or loss on disposal of an investment is the difference between the proceeds received, net of transaction costs, and its original cost or amortised cost as appropriate.

1.4.7 Unrealised gains and losses

Unrealised gains or losses represent the difference between the carrying value at the year end and the carrying value at the previous year end or purchase value during the year, less the reversal of previously recognised unrealised gains and losses in respect of disposals during the year.

1.5 Taxation

Tax on the profit for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity, in which case the related income tax is also recognised in equity.

Current tax is the expected tax payable on the taxable profit for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date and which will result in an obligation to pay more tax in the future or a right to pay less tax in the future. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments.

Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the Company intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are offset only if: a) the Company has a legally enforceable right to set off current tax assets against current tax liabilities; and b) the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future year in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

1.6 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost or valuation, less accumulated depreciation. The charge for depreciation is calculated to write down the cost or valuation of other tangible fixed assets to their estimated residual values by equal annual instalments over their expected useful lives which are as follows:

Computer equipment	3 years
Fixtures & fittings	3 years

1.7 Employee retirement benefits

The Company operates a defined contribution plan. Payments to the plan are charged to the profit and loss account as an expense as they fall due.

1.8 Impairment of assets

Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in the profit and loss account.

For financial assets carried at amortised cost, the amount of an impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised. The amount of the reversal is recognised in the profit and loss account immediately.

Notes to the financial statements – continued

1.9 Financial assets and liabilities

The Company's investments are comprised of debt and equity investments, cash and cash equivalents, loans and receivables and investment in associates and subsidiaries.

Impairment:

A financial asset not held at fair value, through the profit and loss account is assessed at each reporting date to determine whether there is objective evidence of impairment. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event had an impact on the estimated future cash flows of that asset that can be measured reliably.

Objective evidence that a financial asset is impaired includes significant financial difficulty of the issuer or obligor, a breach of contract, default or delinquency in interest or principal payments, restructuring of the amount due on terms that the Company would not otherwise consider, indications that a borrower will enter bankruptcy or other financial reorganisation, or adverse changes in the payment status of the borrower due to adverse national or local economic conditions or adverse changes in industry conditions.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. Losses are recognised in the profit and loss account and reflected in an allowance against receivables. Interest on the impaired asset continues to be recognised.

If an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through the profit and loss account.

1.9.1 Recognition

Financial assets and liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. Financial liabilities are classified according to the substance of the contractual arrangements entered into.

1.9.2 Initial measurement

All financial assets and liabilities are initially measured at transaction price, except for those financial assets classified as at fair value through the profit and loss account, which are initially measured at fair value.

1.9.3 Subsequent measurement

With the exception of Subordinated loan notes, debt instruments are measured at fair value through the profit and loss account. Fair value is determined based on whether quoted prices are available for instruments such as corporate bonds and government gilts. The Subordinated loan is valued at amortised cost using the effective interest rate method. The placement fees and directly attributable costs of issuing the Subordinated loan have also been amortised. The Subordinated loan notes meet the definition of a *Basic Financial Instrument* under FRS 102 as they meet the conditions in paragraph 11.9. The fair value has been approximated at the nominal value/amortised cost. For instruments such as loans and receivables where fair value cannot be determined from active markets the nominal value is used as an approximated fair value given the short term duration of the loans. Equity instruments shall be measured at fair value with changes in fair value recognised in the profit and loss account, if the shares are publicly traded or their fair value can otherwise be measured reliably; and all other such investments shall be measured at cost less impairment. Investments in group undertakings are measured at fair value with changes recognised in the profit and loss account.

Realised and unrealised gains and losses arising from changes in the fair value of investments are presented in the non-technical profit and loss account in the year in which they arise. Interest income is recognised when earned. Investment management and other related expenses are recognised when incurred.

1.9.4 Derecognition of financial assets and liabilities

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Company transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Company, despite having retained some significant risks and rewards of ownership, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

1.9.5 Fair value measurement

Fair value is the price for which the asset could be exchanged, a liability settled or an equity instrument granted could be exchanged, between knowledgeable willing parties in an arm's length transaction. The best evidence of fair value is a quoted price for an identical asset in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the market is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the Company estimates the fair value by using a valuation technique. See note 2 for further information on the Company's valuation techniques.

Notes to the financial statements – continued

1.9.6 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

1.9.7 Investments in group undertakings and participating interests

In the Company balance sheet, investments in group undertakings and participating interests are measured at fair value through the profit and loss account.

In prior years the Company has complied with FRS 102.9.9 whereby a subsidiary shall be excluded from consolidation where the interest in the subsidiary is held exclusively with a view to subsequent resale; and the subsidiary has not previously been consolidated in the consolidated financial statements prepared in accordance with this FRS. The subsidiary is held as part of an investment portfolio whose value to the Company is through its fair value as part of the investment portfolio.

The Company has no Subsidiary for the 2017 financial year-end, see note 14 to the financial statements for further information on the Company's holdings in group undertakings and participating interests.

1.10 Derivative financial instruments

The Company uses derivative financial instruments to reduce exposure to foreign exchange risk movements. The Company does not hold or issue derivative financial instruments for speculative purposes. Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately.

1.11 Insurance contracts

1.11.1 Technical result

The technical result is determined on an annual basis whereby the incurred cost of claims, commission and related expenses are charged against the earned portion of premiums, net of reinsurance.

1.11.2 Claims

Claims consists of claims paid to policyholders, changes in the valuation of the liabilities arising on policyholder contracts and claims handling expenses, net of salvage and subrogation recoveries.

1.11.3 Acquisition costs

Commission income consists of fees and commissions paid to brokers and are directly related to the acquisition of policies.

Reinsurance commissions receivable are deferred in the same way as acquisition costs. All other fee and commission income is recognised as the services are provided.

1.11.4 Provision for outstanding claims

Provision for the liabilities of non-life insurance contracts is made for outstanding claims and settlement expenses incurred at the balance sheet date including an estimate for the cost of claims incurred but not reported (IBNR) at that date. Included in the provision is an estimate of the costs of handling the outstanding claims.

Full provision is made on an individual case basis for the estimated cost of claims notified but not settled by the balance sheet date. In estimating the cost of claims notified but unpaid, the Company has regard to the claim circumstances as reported, any information available from loss adjustors and/or other experts and information on the cost of settling claims with similar characteristics in previous years. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures.

In addition, a provision for IBNR is also established. The estimation of IBNR claims is subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is available.

In calculating the estimated total cost of unpaid claims, the Company uses a variety of actuarial estimation techniques, generally based upon statistical analyses of historic claims experience information available to the Company which assume that the development pattern of current claims will be related to past experience. However, allowance is made for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims. Examples of such issues include operational changes affecting the timing and adequacy of case reserving or settlements and also the impact of external factors from the legal/judicial environment. Large claims impacting each relevant business class are projected in order to allow for the possible distortion of the development and incidence of these large claims.

The final reserve selection is chosen based on the results of a range of methodologies used taking into account the characteristics of each business class, the extent and development of each accident year and the length of 'tail' on the claims involved. Whilst the directors consider that the gross provision for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability may vary as a result of subsequent information and events. In such circumstances, any differences between provisions and subsequent settlements are dealt with in the technical accounts of later years.

Notes to the financial statements – continued

Included in the provision is an estimate of the costs of handling the outstanding claims. The provision is based on projected costs that have been allocated to each line of business.

On periodic payment order claims, due to the long delay from when the claim was settled and when the final payment will be made, the outstanding claims are discounted to take account of investment income receivable to the final payment date.

1.11.5 Provision for unexpired risk

A provision for unexpired risks is established where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the balance sheet date exceeds the unearned premium provision in relation to such policies, after deduction of any deferred acquisition costs.

1.11.6 Provision for unearned premium

The provision for unearned premiums represents that part of written premiums, gross of commission payable to intermediaries, that is estimated to be earned in subsequent years. The change in the provision is recorded in the profit and loss account to recognise revenue over the period of the risk.

1.12 Deferred acquisition costs

Acquisition costs comprise the expenses, both direct and indirect, of acquiring insurance policies written during the year. Acquisition costs, which relate to a subsequent year are deferred and charged to the years in which the related premiums are earned. Deferred acquisition costs represent the proportion of acquisition costs incurred, which corresponds to the proportion of gross premiums written which are unearned at the balance sheet date.

1.13 Reinsurance

The Company enters into reinsurance contracts in the normal course of business in order to limit the potential for losses arising from certain exposures. Outwards reinsurance premiums are accounted for in the same year as the related premiums for the direct or inwards reinsurance business being reinsured.

Reinsurance liabilities comprise premiums payable for outwards reinsurance contracts and are recognised as an expense when due.

Reinsurance assets include balances due from reinsurance companies for paid and unpaid losses. Reinsurance assets are measured consistently with the amounts associated with the underlying insurance contract and in accordance with the terms of the reinsurance contract. Reinsurance is recorded as an asset unless a right of set-off exists, in which case the associated liabilities are reduced to take account of reinsurance.

Reinsurance assets are subject to impairment testing and the carrying amount is reduced to its recoverable amount. The impairment loss is recognised as an expense in the profit and loss account. The asset is impaired if objective evidence is available to suggest that it is probable that the Company will not be able to collect the amounts due from reinsurers.

The reinsurers' share of claims incurred, in the profit and loss account, reflects the amounts received or receivable from reinsurers in respect of those claims incurred during the year.

1.14 Insurance receivables and payables

Receivables and payables arising under insurance contracts are recognised when due and measured at amortised cost, using the effective interest rate method. A provision for impairment is established when there is objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows have been impacted.

2 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 1, the Directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

2.1 Critical judgements in applying the Company's accounting policies

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

Notes to the financial statements – continued

Intangible liability

The Company has applied an expanded presentation in accounting for the Quinn portfolio transfer, which resulted in the recognition of an intangible liability when initially recorded in 2015. The intangible liability represents the difference between the fair value of the contractual insurance rights acquired and insurance obligations assumed and the liability measured in accordance with the Company's accounting policies. The portfolio comprises both Periodic Payment Order claims (PPOs) and non-PPO claims. PPO claims are fixed by Court Order and unlikely to change, therefore it is assumed the intangible liability is derived from non-PPO claims and will be amortised in line with the underlying liabilities. The expected duration of the non-PPO liabilities is three years and the intangible liabilities will be amortised on a straight-line basis over this term. The Company's policy is to review the intangible liability for impairment on at least an annual basis. In determining whether an impairment should be charged to the profit and loss account at the reporting date, the Company reviews the assumptions used when the intangible liability was initially recorded to determine if there has been a material change in the carrying value.

Reinsurance assets

Reinsurance assets include balances due from reinsurance companies for paid and unpaid losses. Reinsurance assets are measured in accordance with the accounting policy stated in note 1.13.

Impairment of debtors

The Company's policy is to review its debtors for impairment on at least an annual basis. In determining whether an impairment loss should be charged to the profit and loss account at the reporting date, the Company makes judgements as to whether any observable data exists indicating evidence of impairment which would be likely to result in a measurable decrease in the timings and amounts of the estimated future cash flows.

2.2 Key Sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

2.2.1 Valuation of liabilities of non-life insurance contracts

Estimates are made for both the expected ultimate cost of claims reported and claims incurred but not reported (IBNR) at the balance sheet date. The estimate of IBNR is generally subject to a greater degree of uncertainty than that for reported claims. In calculating the estimated liability, the Company uses a variety of estimation techniques based upon statistical analyses of historical experience which assumes past trends can be used to project future developments. The carrying amount for non-life insurance contract liabilities at the balance sheet is Stg£90.9 million (2016: Stg£122.2 million).

2.2.2 Discounting of Periodic Payment Orders (PPOs)

The Company acquired a portfolio of insurance liabilities from QIL. The portfolio comprises predominately UK and Northern Ireland motor and professional indemnity and some employer's liability and public liability business. The portfolio included both settled and high potential PPOs. Since the introduction of PPO's in the UK there have been a number of legal cases which have clarified how PPO's will operate, the most significant being a ruling in 2006 which linked the rise in the future care costs to a care index (ASHE index) rather than the Retail Price Index. The Company received approval from the Central Bank of Ireland to discount its PPO's at a real discount rate of 0%, assuming a long term ASHE inflation rate of 3% (2016: 2.5%) per annum, offset by expected investment returns of 3% (2016: 2.5%).

For known PPO's, cashflows were projected in accordance with the claimants' life expectancy. Annual cashflows were increased in line with an assumed ASHE inflation rate of 3% per annum. These cashflows are then discounted to the valuation date at an assumed discount rate of 3% per annum.

The Company has discounted the cashflows as it is of the opinion that estimating undiscounted reserve for PPO's is neither reliable nor representative of the underlying value of the losses. The unreliability stems from the significant uncertainty involved in estimating an absolute level of indexation. Discounting cashflows using a real yield assumption based on the relationship of investment returns relative to inflation indices is more reliable in the long term. Furthermore, valuing PPO's on an undiscounted basis results in inconsistent values for claims that settle as lump sums compared with PPO's. The long payment duration and the difficulty of projecting absolute indexation over the long term make the undiscounted numbers much less meaningful from an economic perspective.

Notes to the financial statements – continued

2.2.3 Valuation of financial instruments

The directors use their judgement in selecting an appropriate valuation technique. Where possible, financial instruments are marked at prices quoted in active markets. In certain instances, such price information is not available for all instruments and the Company uses valuation techniques to measure such instruments. These techniques use “market observable inputs” where available, derived from similar assets in similar and active markets, from recent transaction prices for comparable items or from other observable market data. For positions where observable reference data are not available for some or all parameters the Company estimates the non-market observable inputs used in its valuation models. For derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument.

FRS 102 section 11.27, establishes a fair value hierarchy that prioritises the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical asset or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 2). The three levels of the fair value hierarchy are as follows:

- Level 1 – The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.
- Level 3 – Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability .

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, yield curves, credit spreads, liquidity statistics and other factors.

The use of different valuation techniques could lead to different estimates of fair value.

3 Segmental information

(a) Analysis of gross premiums written	2017	2016
By geographical segment:	Stg£'000	Stg£'000
United Kingdom	(4)	(1)
Italy	(101)	(100)
	<u>(105)</u>	<u>(101)</u>

Notes to the financial statements - continued

3 Segmental information – continued

(b) Analysis of gross premiums written, gross premiums earned, gross claims incurred, gross operating expenses, allocated investment return, other technical income and the reinsurance balance

	Gross premiums written 2017 Stg£'000	Gross premiums earned 2017 Stg£'000	Gross claims incurred 2017 Stg£'000	Gross operating expenses 2017 Stg£'000	Allocated investment return 2017 Stg£'000	Other technical income 2017 Stg£'000	Reinsurance balance 2017 Stg£'000
Direct insurance:							
- Motor	-	-	3,567	(1,108)	1,926	4,320	(2,204)
- Liability	-	42	11,994	(914)	921	-	(7,585)
- Property	-	-	21	(1)	1	-	(13)
- Creditor / Personal Accident Reinsurance	(101)	552	(132)	(392)	-	-	(1)
	(4)	1	(16)	(240)	2	-	10
	(105)	595	15,434	(2,655)	2,860	4,320	(9,793)

	Gross premiums written 2016 Stg£'000	Gross premiums earned 2016 Stg£'000	Gross claims incurred 2016 Stg£'000	Gross operating expenses 2016 Stg£'000	Allocated investment return 2016 Stg£'000	Other technical income 2016 Stg£'000	Reinsurance balance 2016 Stg£'000
Direct insurance:							
- Motor	-	-	17,859	(741)	5,250	4,320	(12,785)
- Liability	-	315	25,448	(903)	3,439	-	(16,515)
- Property	-	-	2,601	(1)	5	-	(1,719)
- Creditor / Personal Accident Reinsurance	(100)	1,011	4,356	(794)	-	-	(3,963)
	(1)	10	20	63	4	-	(61)
	(101)	1,336	50,284	(2,376)	8,698	4,320	(35,043)

All the above amounts are derived from continuing activities.

Notes to the financial statements - continued

4 Net investment return

	Net investment income 2017 Stg£'000	Net investment expense 2017 Stg£'000	Net realised gains and losses 2017 Stg£'000	Changes in fair value 2017 Stg£'000	Net investment result 2017 Stg£'000
Financial assets:					
- measured at fair value through the profit and loss account	3,777	(191)	4,118	(2,324)	5,380
- measured at amortised cost	932	-	-	-	932
- measured at cost	(17)	-	-	-	(17)
- derivatives	-	-	-	(131)	(131)
	<u>4,692</u>	<u>(191)</u>	<u>4,118</u>	<u>(2,455)</u>	<u>6,164</u>

	Net investment income 2016 Stg£'000	Net investment expense 2016 Stg£'000	Net realised gains and losses 2016 Stg£'000	Changes in fair value 2016 Stg£'000	Net investment result 2016 Stg£'000
Financial assets:					
- measured at fair value through the profit and loss account	6,754	(647)	7,669	4,547	18,323
- measured at amortised cost	528	-	-	-	528
- measured at cost	(5)	-	-	-	(5)
- derivatives	2	-	-	-	2
	<u>7,279</u>	<u>(647)</u>	<u>7,669</u>	<u>4,547</u>	<u>18,848</u>

5 Net operating expenses

	2017 Stg£'000	2016 Stg£'000
Acquisition costs	453	131
Change in deferred acquisition costs (note 16)	521	860
Administrative expenses	1,681	1,385
Gross operating expenses	<u>2,655</u>	<u>2,376</u>
Reinsurance commissions and profit participation	(224)	(684)
Override commissions	(14)	(26)
Changes in reinsurers' shares of deferred acquisition costs (note 16)	(521)	(860)
Net operating expenses	<u>1,896</u>	<u>806</u>

Notes to the financial statements - continued

6 Employees

	2017 Stg£'000	2016 Stg£'000
The aggregate payroll costs in respect of employees were as follows:		
Wages and salaries	659	584
Social welfare costs	72	64
Other pension costs	49	31
	<u>780</u>	<u>679</u>

The average number of persons employed by the Company (including executive directors) during the year was as follows:

	2017	2016
Management	1	1
Claims	1	1
Compliance	2	2
Finance	2	2
	<u>6</u>	<u>6</u>

7 Directors remuneration

	2017 Stg£'000	2016 Stg£'000
Directors' emoluments	225	184
Contributions paid to retirement benefit scheme	15	13
Directors' fees	42	39

The Company made payments to a defined contribution scheme for one director (2016: one director). All remuneration was paid by the Company.

8 Profit on ordinary activities before tax

The profit for the year has been arrived at after charging the following items :

	2017 Stg£'000	2016 Stg£'000
Auditor's remuneration		
- Audit of the Company's individual accounts	89	82
- Other assurance services	45	49
- Tax services	7	7
- Other non-audit services	-	-
Depreciation of tangible assets	10	9

Notes to the financial statements - continued

9 Taxation

	2017 Stg£'000	2016 Stg£'000
On profit for the year:		
Corporation tax charge	1,461	5,660
Adjustments in respect of prior years	90	(138)
Total current tax	<u>1,551</u>	<u>5,522</u>
Deferred tax		
Corporation tax charge	-	-
Total deferred tax	<u>-</u>	<u>-</u>
Total current and deferred tax charge	<u><u>1,551</u></u>	<u><u>5,522</u></u>

Reconciliation of current tax charge based on applying the standard rate of tax to the profit per the financial statements and the current tax charge reported in the financial statements:	2017 Stg£'000	2016 Stg£'000
Profit for the year before tax	11,366	43,741
Current tax charge based on standard rate of 12.5% (2016: 12.5%)	1,421	5,468
Adjustments from standard rate:		
Adjustments in respect of prior years	90	(138)
Miscellaneous adjustments	40	192
Total tax charge for the year	<u><u>1,551</u></u>	<u><u>5,522</u></u>

10 Debtors arising out of direct insurance operations

	2017 Stg£'000	2016 Stg£'000
Amounts owed by intermediaries	1,337	2,119
Amounts owed by fellow subsidiary undertakings	2,080	2,859
	<u>3,417</u>	<u>4,978</u>

11 Other debtors

	2017 Stg£'000	2016 Stg£'000
Other debtors	136	7
	<u>136</u>	<u>7</u>

Notes to the financial statements - continued

12 Tangible assets

	Computer equipment Stg£'000	Fixtures and fittings Stg£'000	Total Stg£'000
Cost			
At beginning and end of year	19	11	30
Accumulated Depreciation			
At beginning of year	8	4	12
Charge for year	6	4	10
At end of year	14	8	22
Net Book Value			
At 31 December 2017	5	3	8
At 31 December 2016	11	7	18

13 Investments in group undertakings and participating interests

The Company has the following investments in group undertakings:

	2017 Stg£'000	2016 Stg£'000
Investment in subsidiary	-	3,875
Investment in participating shares	11,224	16,650
	11,224	20,525

The Company has the following loans to group undertakings:

	2017 Stg£'000	2016 Stg£'000
Oxenwood Catalina Limited	3,202	-
Oxenwood Catalina II Limited	5,402	-
	8,604	-

Group undertakings	Country of incorporation	Nature of business	No. of shares	Percentage
Catalina ORE Ltd.	Bermuda	Investment company	4,365,306	46.40%
Catalina Oxenwood Investments Ltd.	Bermuda	Investment company	3,842,517	10.19%

On 2 August 2017 a restructuring of the Oxenwood investments was completed through a buyback of 5,614,059 shares by Catalina Oxenwood Investments Ltd. in exchange for Stg£5,614,059 of 8% mezzanine loans to Oxenwood Catalina Ltd. and Oxenwood Catalina II Ltd. Following the share buyback, but also effective 2 August 2017, Catalina General Insurance Ltd. transferred Stg£2,704,815 of mezzanine debt in exchange for 1,773,916 shares in Catalina Oxenwood Investments Ltd. Further mezzanine debt of Stg£286,000 was issued to Oxenwood Catalina II Ltd. in December 2017. As at 31 December 2017 Catalina Oxenwood Investments Ltd. owns 95% of both Oxenwood Catalina Ltd. and Oxenwood Catalina II Ltd.

Catalina ORE Ltd. made a profit of Stg£794,397 for the year ended 31 December 2017 (2016: Stg£51,999) and had net assets of Stg£10,076,701 (2016: Stg£4,316,404) as of that date. Catalina Oxenwood Investments Ltd. made a profit of Stg£8,735,921 for the year ended 31 December 2017 (2016: Stg£1,142,406) and had net assets of Stg£41,382,950 (2016: Stg£73,682,000) as of that date.

Notes to the financial statements - continued

14 Financial instruments

	2017 Stg£'000	2016 Stg£'000
Financial assets		
<i>Measured at fair value through the profit and loss account</i>		
- Shares and other variable yield securities in unit trusts	7,374	13,835
- Debt securities and other fixed income securities	21,563	40,772
- Equities	7,496	8,082
- Forward currency contracts	48	-
- Investment in group undertakings	11,224	20,525
	<u>47,705</u>	<u>83,214</u>
<i>Measured at amortised cost</i>		
- Loans and receivables	5,938	11,420
- Loans to group undertakings	8,604	-
	<u>14,542</u>	<u>11,420</u>
<i>Measured at cost</i>		
- Cash and cash equivalents	23,151	18,189
	<u>23,151</u>	<u>18,189</u>
<i>Measured at undiscounted amount receivable</i>		
- Other debtors	136	7
	<u>136</u>	<u>7</u>
Total financial assets	<u>85,534</u>	<u>112,830</u>
Financial liabilities		
<i>Measured at fair value through the profit and loss account</i>		
- Forward currency contracts (Other creditors)	179	-
	<u>179</u>	<u>-</u>
<i>Measured at amortised cost</i>		
- Subordinated loan notes	20,672	19,590
	<u>20,672</u>	<u>19,590</u>
<i>Measured at undiscounted amount payable</i>		
- Other creditors	27	1,920
	<u>27</u>	<u>1,920</u>
Total financial liabilities	<u>20,878</u>	<u>21,510</u>

Notes to the financial statements - continued

15 Derivative financial instruments

The Company uses derivative financial instruments to reduce exposure to foreign exchange risk movements. The Company had three open derivative instruments as at 31 December 2017 (2016: none). The table below sets out the open derivatives at 31 December 2017:

Foreign exchange forward contract 2017	Contract date	Settlement date	Contract amount	Settlement amount	Fair value at 31 December Stg£'000	Net gains/(Losses) Stg£'000
Stg£	13 Dec 2017	15 Mar 2018	Stg£5,137	EUR5,823	48	48
EUR	21 Dec 2017	27 Mar 2018	EUR14,654	US\$17,500	(151)	(151)
Stg£	21 Dec 2017	27 Mar 2018	Stg£2,239	US\$3,000	(28)	(28)
					<u>(131)</u>	<u>(131)</u>

16 Deferred acquisition costs

	2017 Stg£'000	2016 Stg£'000
Gross amount		
At beginning of year	882	1,483
Changes in deferred acquisition costs (note 5)	(521)	(860)
Foreign exchange movement	26	259
At end of year	<u>387</u>	<u>882</u>
Reinsurance amount		
At beginning of year	(882)	(1,483)
Changes in deferred acquisition costs (note 5)	521	860
Foreign exchange movement	(26)	(259)
At end of year	<u>(387)</u>	<u>(882)</u>
Net deferred acquisition costs	<u>-</u>	<u>-</u>

Notes to the financial statements - continued

17 Technical provisions	Provision for unearned premiums Stg£'000	Outstanding loss reserve Stg£'000	IBNR Stg£'000	Total Stg£'000
Gross amount				
At beginning of year	1,155	65,892	56,305	123,352
Movement in provision	(700)	(18,207)	(13,341)	(32,248)
Foreign exchange movement	33	169	77	279
At end of year	<u>488</u>	<u>47,854</u>	<u>43,041</u>	<u>91,383</u>
Reinsurance amount				
At beginning of year	1,120	43,859	36,984	81,963
Movement in provision	(684)	(11,919)	(8,635)	(21,238)
Foreign exchange movement	32	141	63	236
At end of year	<u>468</u>	<u>32,081</u>	<u>28,412</u>	<u>60,961</u>
Net technical provision				
At beginning of year	<u>35</u>	<u>22,033</u>	<u>19,321</u>	<u>41,389</u>
At end of year	<u>20</u>	<u>15,773</u>	<u>14,629</u>	<u>30,422</u>
Net technical provisions at end of year			2017 Stg£'000	2016 Stg£'000
			<u>30,422</u>	<u>41,389</u>
Included within claims outstanding is a provision for future claims handling costs of Stg£1,155,173 (2016: Stg£2,033,447).				
18 Creditors arising out of insurance operations				
		2017 Stg£'000	2016 Stg£'000	
Amounts due to cedants		<u>63</u>	<u>149</u>	
		<u>63</u>	<u>149</u>	
19 Creditors arising out of reinsurance operations				
		2017 Stg£'000	2016 Stg£'000	
Amounts due to cedants		<u>25</u>	<u>22</u>	
		<u>25</u>	<u>22</u>	
20 Other creditors				
		2017 Stg£'000	2016 Stg£'000	
Forward currency contracts (Note 15)		179	-	
Corporation tax payable		8	1,750	
VAT payable		<u>19</u>	<u>170</u>	
		<u>206</u>	<u>1,920</u>	

Notes to the financial statements - continued

21 Subordinated loan notes

In December 2016 the Company issued Eur€23.8 million (Stg£20.4 million) of floating rate subordinated loan notes. The notes are due in January 2027 and they are listed on the Channel Island Stock Exchange. Interest on the notes is based on EURIBOR plus a margin of 7.2%. Interest expense in connection with these notes was Stg£1,588,688 for the year ended 31 December 2017 (2016: Stg£69,576).

22 Accruals

	2017 Stg£'000	2016 Stg£'000
Intangible liability	2,160	6,479
Other accruals	1,042	843
	<u>3,202</u>	<u>7,322</u>

The intangible liability represents the difference between the fair value of the contractual insurance rights acquired and insurance obligations assumed and the liability measured in accordance with the Company's accounting policies. The liability will be amortised in line with the underlying liabilities. The amount amortised for the year ended 31 December 2017 was Stg£4,319,740 (2016: Stg£4,319,744). An impairment review was undertaken at 31 December 2017 and the outcome of that review was the intangible liability is not impaired.

23 Called up share capital

	2017 Stg£'000	2016 Stg£'000
Authorised		
50,000,000 ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>
Allotted, called up and fully paid		
635,001 ordinary shares of £1 each (2016: 635,001 of £1 each)	<u>635</u>	<u>635</u>

24 Reconciliation of shareholder's funds

	Share capital 2017 Stg£'000	Capital contribution 2017 Stg£'000	Retained profit 2017 Stg£'000	Total shareholder's funds 2017 Stg£'000
Opening balance	635	-	47,673	48,308
Profit for the year	-	-	9,815	9,815
Dividend paid	-	-	(23,000)	(23,000)
Closing balance	<u>635</u>	<u>-</u>	<u>34,488</u>	<u>35,123</u>
	2016 Stg£'000	2016 Stg£'000	2016 Stg£'000	2016 Stg£'000
Opening balance	635	103,000	29,454	133,089
Profit for the year	-	-	38,219	38,219
Transfer	-	(103,000)	103,000	-
Capital contribution received	-	-	(123,000)	(123,000)
Closing balance	<u>635</u>	<u>-</u>	<u>47,673</u>	<u>48,308</u>

Notes to the financial statements - continued

25 Capital management

Capital management refers to implementing measures to maintain sufficient capital and assessing the internal capital adequacy of the Company. The Company has a capital management plan which ensures it meets its objectives of maintaining a prudent cushion of equity to protect the Company's economic viability and to finance new growth opportunities, and maintaining sufficient capital in order to meet regulatory requirements. The capital management plan forms a part of the strategic decision making of the Company. The Company was in compliance with capital requirements imposed by the Central Bank of Ireland throughout the year.

The Company is a Solvency II Undertaking authorised under the European Union (Insurance and Reinsurance) Regulations 2015 to carry on insurance business. Under the Solvency II regime, the Company is subject to minimum capital requirements and solvency capital requirements. The Company uses the standard formula to determine these in the context of the measurement of assets, liabilities and capital to satisfy the requirements set out in Pillar I of the regulations. The table below sets out the Solvency II Solvency Capital Requirement ("SCR") and the Company's SCR coverage.

	2017 Stg£'000	2016 Stg£'000
Solvency Capital Requirement	21,916	24,210
Total Available Own Funds to meet the SCR	49,426	45,505
Total Eligible Own Funds to meet the SCR	<u>39,712</u>	<u>38,020</u>
<i>Ratio of Eligible Own Funds to SCR</i>	<i>181%</i>	<i>157%</i>

The 2016 solvency figures in the above table have been updated to reflect the final numbers as per the Company's Solvency and Financial Condition Report. The 2016 available and eligible own funds are after the deduction of foreseeable dividends amounting to Stg£23 million, which were not declared at 31 December 2016 but were since approved by the Board and subsequently paid.

26 Pension commitments

Pensions for employees, including Directors of the Company, are funded through an independent external defined contribution scheme. The total pension cost for the year amounted to Stg£49,007 (2016: Stg£31,157).

At the 31 December 2017, there was Stg£Nil outstanding contributions in relation to this scheme (2016: Stg£Nil).

27 Financial risk management

The Company operates a number of committees which meet on a regular basis to review, monitor and control the Company's financial and risk matters. Key risks are documented and graded according to their likelihood and potential impact. Identified risks are assessed and mitigated or eliminated where possible, or otherwise closely monitored. These risks include market risk (currency risk, interest rate risk and price risk), credit risk and liquidity risk.

The Company may seek to minimise the effects of these risks by using derivative financial instruments to hedge risk exposures. The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

(a) Fair value

Fair value is the amount for which an asset or liability could be exchanged between willing parties in an arm's length transaction. Fair values are determined at prices quoted in active markets. In some instances, such price information is not available for all instruments and the Company applies valuation techniques to measure such instruments. These valuation techniques make maximum use of market observable data but in some cases management estimate other than observable market inputs within the valuation model. There is no standard model and different assumptions would generate different results.

Fair values are subject to a control framework designed to ensure that input variables and output are assessed independent of the risk taker. These inputs and outputs are reviewed and approved by the asset management team.

The table below shows financial assets and liabilities carried at fair value through the profit and loss account (as disclosed in note 14) grouped into the level in the fair value hierarchy into which each fair value measurement is categorized.

Notes to the financial statements - continued

27 Financial risk management – continued

	Level 1 2017 Stg£'000	Level 2 2017 Stg£'000	Level 3 2017 Stg£'000	Total 2017 Stg£'000
Financial assets				
Shares and other variable yield securities in unit trusts	-	-	7,374	7,374
Debt securities and other fixed income securities	108	21,455	-	21,563
Equities	4,852	-	2,644	7,496
Forward currency contracts	-	-	48	48
Investment in group undertakings	-	-	11,224	11,224
	4,960	21,455	21,290	47,705

	Level 1 2016 Stg£'000	Level 2 2016 Stg£'000	Level 3 2016 Stg£'000	Total 2016 Stg£'000
Financial assets				
Shares and other variable yield securities in unit trusts	2,661	1,941	9,233	13,835
Debt securities and other fixed income securities	-	40,772	-	40,772
Equities	8,082	-	-	8,082
Investment in group undertakings	-	-	20,525	20,525
	10,743	42,713	29,758	83,214

(b) Market Risk

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.

The primary goal of the Company's investment strategy is to maximise investment returns within the Board approved Risk Appetite Statement. 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.

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 analysis 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 Stg£'000	2016 Stg£'000	2017 Stg£'000	2016 Stg£'000
1% increase	(1,819)	(2,791)	(1,592)	(2,442)
1% decrease	1,819	2,791	1,592	2,442

Notes to the financial statements - continued

27 Financial risk management – continued

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 month 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 most significant currency to which the Company is exposed is the US Dollar, as the Company holds a portion of its capital in US Dollars. At 31 December 2017, if Sterling had weakened/strengthened by 20% against the US Dollar, with all other variables held constant, shareholder's funds would have been Stg£37,000 (2016: Stg£3,850,000) higher/lower.

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.

The Company's sensitivity to a 1% increase and decrease in market prices is as follows:	2017	2016
	Stg£'000	Stg£'000
1% increase		
Movement in fair value of shares and other variable securities in unit trusts	74	138
Movement in fair value of debt securities and other fixed income securities	216	408
Equities	75	81
1% decrease		
Movement in fair value of shares and other variable securities in unit trusts	(74)	(138)
Movement in fair value of debt securities and other fixed income securities	(216)	(408)
Equities	(75)	(81)

(c) Credit risk

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 Company's intra-group reinsurance arrangement is protected by collateral held in a trust fund at a level equivalent to at least 102% of the technical provisions. The following table shows aggregated credit risk exposure for assets with external credit ratings. The financial instruments carrying amount best represents the maximum exposure to credit risk. 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.

Notes to the financial statements - continued

27 Financial risk management – continued

	2017 Stg£'000	2016 Stg£'000
Equities	7,496	8,082
Investment in group undertakings	11,224	20,525
Shares and other variable yield securities in unit trusts	7,374	13,835
Debt securities	21,563	40,772
Loans and receivables	5,938	11,420
Loans to group undertakings	8,604	-
Forward currency contracts	48	-
Assets arising from reinsurance contracts held	63,041	84,822
Other assets	2,227	3,000
Cash and cash equivalents	23,151	18,189
Total assets bearing credit risk	<u>150,666</u>	<u>200,645</u>
AAA	399	1,579
AA	7,975	14,068
A	8,644	8,728
BBB	8,753	13,137
Below BBB or not rated	124,895	163,133
Total assets bearing credit risk	<u>150,666</u>	<u>200,645</u>
Neither past due nor impaired	150,666	200,645
Past due less than 30 days	-	-
Past due less 31 to 60 days	-	-
Past due less 61 to 90 days	-	-
Past due more than 90 days	-	-
Past due and impaired	-	-
Total assets bearing credit risk	<u>150,666</u>	<u>200,645</u>

(d) Liquidity risk

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 and matching the maturity profiles of assets and liabilities. 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.

The following table shows details of the expected maturity profile of the Company's undiscounted obligations with respect to its financial liabilities and estimated cash flows of recognised insurance and participating investment contract liabilities. Unearned premiums are excluded from this analysis. The table includes both interest and principal cash flows.

	Less than 1 year 2017 Stg£'000	1 – 5 years 2017 Stg£'000	5+ years 2017 Stg£'000	Total 2017 Stg£'000
Subordinated loan notes	-	-	20,672	20,672
Other creditors	206	-	-	206
Financial liabilities	<u>206</u>	<u>-</u>	<u>20,672</u>	<u>20,878</u>
Claims outstanding	21,095	20,100	89,708	130,903
	<u>21,301</u>	<u>20,100</u>	<u>110,380</u>	<u>151,781</u>

Notes to the financial statements - continued

27 Financial risk management – continued

	Less than 1 year 2016 Stg£'000	1 – 5 years 2016 Stg£'000	5+ years 2016 Stg£'000	Total 2016 Stg£'000
Financial liabilities and claims outstanding				
Subordinated loan notes	-	-	19,590	19,590
Other creditors	1,920	-	-	1,920
Financial liabilities	1,920	-	19,590	21,510
Claims outstanding	17,917	34,068	102,832	154,817
	19,837	34,068	122,422	176,327

28 Insurance risk management

The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities. The Company's legacy business has been in run-off since July 2010. There is no on-going insurance risk exposure to this business. In 2015 the Company acquired a portfolio of insurance liabilities from QIL. All classes of business transferred have been in run-off since 31 December 2012, with the exception of a portfolio of professional indemnity risks which have a run-off period of six years once the policy has expired.

The above risk exposure is mitigated by diversification across a portfolio of insurance contracts and geographical areas. The insurance liabilities, net of external reinsurance, are protected by a collateralised 65% intra-group reinsurance arrangement. 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.

The concentration of non-life insurance and reinsurance by the location of the underlying risk is summarised below by reference to liabilities.

	Gross		Reinsurance		Net	
	2017 Stg£'000	2016 Stg£'000	2017 Stg£'000	2016 Stg£'000	2017 Stg£'000	2016 Stg£'000
UK	84,017	114,597	54,819	74,702	29,198	39,895
Italy	3,401	3,396	3,401	3,396	-	-
Ireland	817	476	544	322	273	154
Other	2,660	3,728	1,729	2,423	931	1,305
	90,895	122,197	60,493	80,843	30,402	41,354

The concentration of non-life insurance and reinsurance by type of contract is summarised below by reference to liabilities.

	Gross		Reinsurance		Net	
	2017 Stg£'000	2016 Stg£'000	2017 Stg£'000	2016 Stg£'000	2017 Stg£'000	2016 Stg£'000
Motor	59,099	71,963	38,613	46,982	20,486	24,981
Liability	28,224	46,657	18,345	30,327	9,879	16,330
Property	109	124	94	101	15	23
Other direct insurance	3,401	3,396	3,401	3,396	-	-
Reinsurance	62	57	40	37	22	20
	90,895	122,197	60,493	80,843	30,402	41,354

Notes to the financial statements - continued

28 Insurance risk management – continued

Assumptions and sensitivities

The risks associated with the non-life insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The Company uses several statistical and actuarial techniques based on past claims development experience. This includes indications such as average claims cost, ultimate claims numbers and expected loss ratios. The key methods used by the Company for estimating liabilities are:

- chain ladder;
- expected loss ratio;
- Bornhuetter-Ferguson;
- trending;
- benchmarking; and
- the Bootstrap technique.

The principal assumption underlying the liability estimates is that the Company's future claims development will follow past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each accident year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example: once-off occurrence; changes in market factors such as public attitude to claiming; economic conditions; as well as internal factors such as portfolio mix, policy conditions and claims handling procedures.

Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates. Other key circumstances affecting the reliability of assumptions include variation in interest rates, delays in settlement and changes in foreign currency rates. The Company considers that the liability for non-life insurance claims recognised in the balance sheet is adequate. However, actual experience will differ from the expected outcome.

Some results of sensitivity testing are set out below, showing the impact on profit before tax and shareholder's equity gross and net of reinsurance. For each sensitivity the impact of a change in a single factor is shown, with other assumptions unchanged.

	Pre-tax profit		Shareholder's equity	
	2017 Stg£'000	2016 Stg£'000	2017 Stg£'000	2016 Stg£'000
5% increase in claims outstanding				
- Gross	(4,545)	(6,110)	(3,977)	(5,346)
- Net	(1,520)	(2,067)	(1,330)	(1,809)
5% decrease in claims outstanding				
- Gross	4,545	6,110	3,977	5,346
- Net	1,520	2,067	1,330	1,809

The Company's method for sensitivity testing has not changed significantly from the prior year.

Claims development tables

The following tables show the development of claims over a period of time on both a gross and net of reinsurance basis. The tables show changes in the gross and net loss reserves in subsequent years from the prior loss estimates based on experience as of the end of each succeeding year. The estimate is increased or decreased as more information becomes known about the frequency and severity of losses for individual years. A redundancy means the original estimate was higher than the current estimate; a deficiency means that the current estimate is higher than the original estimate. The "Reserve redundancy" line represents, as of the date indicated, the difference between the latest re-estimated liability and the reserves as originally estimated. The "Cumulative payments to date" line represents total claim payments on the reserves since they were originally estimated.

Notes to the financial statements - continued

28 Insurance risk management – continued

	2011	2012	2013	2014	2015	2016	2017
	Stg£'000	Stg£'000	Stg£'000	Stg£'000	Stg£'000	Stg£'000	Stg£'000
Gross claims development							
Reserves held at end of year	51,835	38,815	22,955	16,712	199,725	122,197	90,895
One year later	47,042	30,096	21,081	14,762	149,441	106,763	
Two years later	38,323	28,222	19,131	10,229	134,007		
Three years later	36,449	26,272	14,598	10,766			
Four years later	34,499	21,739	15,135				
Five years later	29,966	22,276					
Six years later	30,503						
Reserve redundancy	21,332	16,539	7,820	5,946	65,718	15,434	-
<i>Cumulative payments to date</i>	<i>26,184</i>	<i>17,957</i>	<i>10,816</i>	<i>6,447</i>	<i>43,112</i>	<i>15,868</i>	-

	2011	2012	2013	2014	2015	2016	2017
	Stg£'000	Stg£'000	Stg£'000	Stg£'000	Stg£'000	Stg£'000	Stg£'000
Net claims development							
Reserves held at end of year	10,962	7,967	3,539	2,017	184,696	41,354	30,402
One year later	10,239	4,700	2,875	1,444	169,802	35,892	
Two years later	6,972	4,036	2,302	1,280	164,340		
Three years later	6,308	3,463	2,138	1,408			
Four years later	5,735	3,299	2,266				
Five years later	5,571	3,427					
Six years later	5,699						
Reserve redundancy	5,263	4,540	1,273	609	20,356	5,462	-
<i>Cumulative payments to date</i>	<i>5,401</i>	<i>3,129</i>	<i>1,968</i>	<i>1,110</i>	<i>13,886</i>	<i>5,490</i>	-

29 Dividends

	2017	2016
	Stg£'000	Stg£'000
Interim dividends paid at Stg£36.22 (2016: Stg£193.70) per share	23,000	123,000

30 Lease commitments

	2017	2016
	Stg£'000	Stg£'000
Total future minimum lease payments under non-cancellable operating leases are as follows:		
Within one year	38	35
Between one and five years	160	26

The lease is accounted for within net operating expenses.

31 Cash flow statement

As the Company is a wholly owned subsidiary undertaking, its results will be consolidated in the financial statements of Catalina Foxtrot Holdings Limited, a Company incorporated in England. As Catalina Foxtrot Holdings Limited is preparing a consolidated cash flow statement, the Company is availing of the exemption under FRS102.3.17(d) not to present a cash flow statement.

Notes to the financial statements - continued

32 Related party transactions

The Company is availing of the exemption under FRS102.33.1A not to disclose details of transactions with companies within the Catalina Holdings (Bermuda) Ltd. group.

33 Ultimate parent undertaking

The Company's ultimate parent undertaking is Catalina Holdings (Bermuda) Ltd., a company incorporated in Bermuda. The largest group in which the results of the Company are consolidated is that headed by Catalina Holdings (Bermuda) Ltd.

The Company is a wholly owned subsidiary of Catalina Foxtrot Holdings Limited, a company incorporated in England. The smallest group in which the results of the Company are consolidated is that headed by Catalina Foxtrot Holdings Limited and those consolidated financial statements may be obtained from The Secretary, Catalina Foxtrot Holdings Limited, 5th Floor, 18 Mansell Street, London, United Kingdom, E1 8AA.

34 Subsequent Events

On 26 February 2018 the Central Bank of Ireland issued a letter of no objection in relation to the Company's updated business plan in respect of the acquisition of the German MedMal portfolio. The Company subsequently issued share capital of Stg£46 million (Eur€52 million) to support the transaction.

35 Approval of financial statements

The board of Directors approved these financial statements on 2 May 2018.