CATALINA WORTHING
INSURANCE
LIMITED

# *Catalina Worthing Insurance Limited*

## Solvency Financial Condition Report (SFCR)
## 31 December 2017

## Contents

## Executive Summary

Catalina Worthing Insurance Limited ("the Company" or "CWIL") is an insurance undertaking authorised by the Prudential Regulation Authority ("PRA"), pursuant to the European Union (Insurance and Reinsurance) regulations 2015, to carry on non-life insurance business in classes 1 to 18 as defined in Solvency II Directive 2009. The Company is regulated by the Financial Conduct Authority ("FCA") and the PRA.

The Solvency and Financial Condition Report ("SFCR") has been prepared in accordance with the requirements of the Commission Delegated Regulations (EU) 2015/35. It covers the Business and Performance of CWIL, its System of Governance, Risk Profile, Valuation for Solvency Purposes and Capital Management. This second SFCR for the company follows the initial one approved by the Board at 31 December 2016. Where necessary, comparatives in this document have been restated to conform to changes in presentation in the current year.

**2017 Solvency and Financial Condition**
All of the Company's share capital was acquired by Catalina Holdings UK Limited ("CHUK") from The Hartford Financial Services Group, Inc. ("The Hartford") on 10 May 2017. The Company's previous name of Hartford Financial Products International Limited (HFPI) was changed to CWIL on 15 June 2017. Accompanying the change in control was a 100% quota share arrangement with Catalina General Insurance Limited ("CatGen"), a Bermuda based reinsurer which is part of the Catalina Group. This reinsurance arrangement has significantly changed the solvency and financial condition of the Company.

**Business and Performance**
The Company has been in run-off since July 2012. Its principal activities are the efficient and proper run off of its claims portfolio, the management of its cash and investments, and the timely collection of its reinsurance assets and other debts. As part of the change in control of the Company the previous Adverse Development Cover and quota share reinsurance arrangements with The Hartford were commuted and replaced with the purchase of a 100% unlimited quota share reinsurance arrangement with CatGen. This reinsurance arrangement fully protects the run-off result as well as affording some recovery of operating expenses.

During the year the Company made a loss before tax of £36.7m (2016: profit before tax £15.4m). This comprised an underwriting loss of £44.0m (2016: loss of £7.9m) net investment income of £7.4m (2016: £20.7m) and other expenses of £0.2m (2016: other income of £2.6m).

Section A includes further details about the Company's financial performance in the period.

**System of Governance**
The Board is responsible for managing the overall direction and activities of the Company and for ensuring that an appropriate system of governance is in place throughout the Company. Following the change of control the Company transitioned to the Catalina Group system of governance. At all times through 2017 there was an appropriate system of governance.

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

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

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

**Valuation for Solvency Purposes**
Assets, technical provisions and other liabilities are valued in the Company's Solvency II Balance Sheet according to Solvency II regulations.

As at 31 December 2017 the Company's Total Own funds of £139.2m (2016: £135.4m) were £43.2m less (2016: £92.2m) than the value in the Company's Financial Statements under UK GAAP. The difference is primarily due to the valuation of technical provisions. Section D provides further details of the different valuation bases used by Solvency II and UK GAAP for assets, technical provisions and other liabilities.

**Capital Management**

This SFCR is prepared for the Company under the Solvency II regulations where the emphasis is one of measuring and monitoring capital of the Company using a risk-based approach. The Company currently uses the Standard Formula to calculate its Solvency Capital Requirement ("SCR"). As at 31 December 2017 there was a Solvency II surplus of £104.4m (2016, £15.8m) and a Solvency II coverage ratio of 399% (2016, 113%). Both metrics relate to the excess of the Company's total eligible own funds over the solvency capital requirement.

| | Total 2017 GBP'000 | Total 2016 GBP'000 |
|---|---|---|
| Total Own Funds | 139,236 | 135,424 |
| Standard Formula Solvency Capital Requirement (SCR) | 34,871 | 119,573 |
| Surplus | 104,365 | 15,851 |
| Ratio of Eligible own funds to SCR | 399% | 113% |

The nature of the 100% quota share reinsurance arrangement with CatGen is that across the Catalina group, in particular within CWIL, there is a high level of capital held. On 27 July 2017 the Company submitted an application to the PRA for a release of capital that would address this excessive capitalisation within the Catalina Group. On 23 March 2018, the Company received permission from the PRA for a £55 million capital release. Following this, a capital repayment of £55m was made to the CHUK parent on 28 March 2018.

**Outlook**

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

No changes in the principal activity of the Company are anticipated in the foreseeable future. The Company will continue its focused approach that ensures a proactive claims agreement process whilst continuing to manage its investments within risk appetite and shareholder approved guidelines. This enables compliance with the holding group's policy requiring very strict adherence to the FCA Treating Customers Fairly ("TCF") requirements, while at the same time managing the Company's liabilities. As part of its ongoing claims management strategy the Company's management will continue to outsource elements of the portfolio. Noise Induced Hearing Loss claims ("NIHL") are currently handled by an FCA approved outsource provider. The more complex asbestos and abuse claims are handled in-house. The company currently has approximately 2,300 open UK Employer's Liability ("EL") claims whilst 70% of known case reserves by value relates to asbestos claims; 70% of claims by volume are NIHL. The Company maintains very close control over the activities of its external and internal outsource providers as well as its claims legal panel.

The company has moved to a much more proactive approach to run off management under Catalina's ownership. The Company will seek commutations on its inwards reinsurance liabilities in order to both realise value and to reduce portfolio volatility. Management will also consider commutations of the Company's outwards reinsurance assets with external counterparties. The Company will not enter into commutations where the return is not greater than or equal to the cost of capital.

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

## Statement of Directors' Responsibilities

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

We are satisfied that:

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

By Order of the Board

R P Jackson
Director
2 May 2018

# Report of the external independent auditor to the Directors of Catalina Worthing Insurance Limited ("the Company") pursuant to Rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook applicable to Solvency II firms

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

**Opinion**

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

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of Catalina Worthing Insurance Limited as at 31st December 2017, ('the Narrative Disclosures subject to audit'); and

- Company templates S02.01.02, S12.01.02, S17.01.02, S23.01.01, S25.01.21, S28.01.01, ('the Templates subject to audit').

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

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

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

**Basis for opinion**

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

**Emphasis of Matter – special purpose basis of accounting**

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

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

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

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

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

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

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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

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

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

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

**The purpose of our audit work and to whom we owe our responsibilities**
This report of the external auditor is made solely to the company's directors, as its governing body, in accordance with the requirement in Rule 4.1(2) of the External Audit Part of the PRA Rulebook and the terms of our engagement. We

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

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

Kushan Tikkoo

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

2 May 2018

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

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

**Solo standard formula**

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

- The following elements of template S.17.01.02
  - Rows R0290 to R0310 – Amount of transitional measure on technical provisions

- Elements of the Narrative Disclosures subject to audit identified as 'unaudited'.

# A. Business and Performance

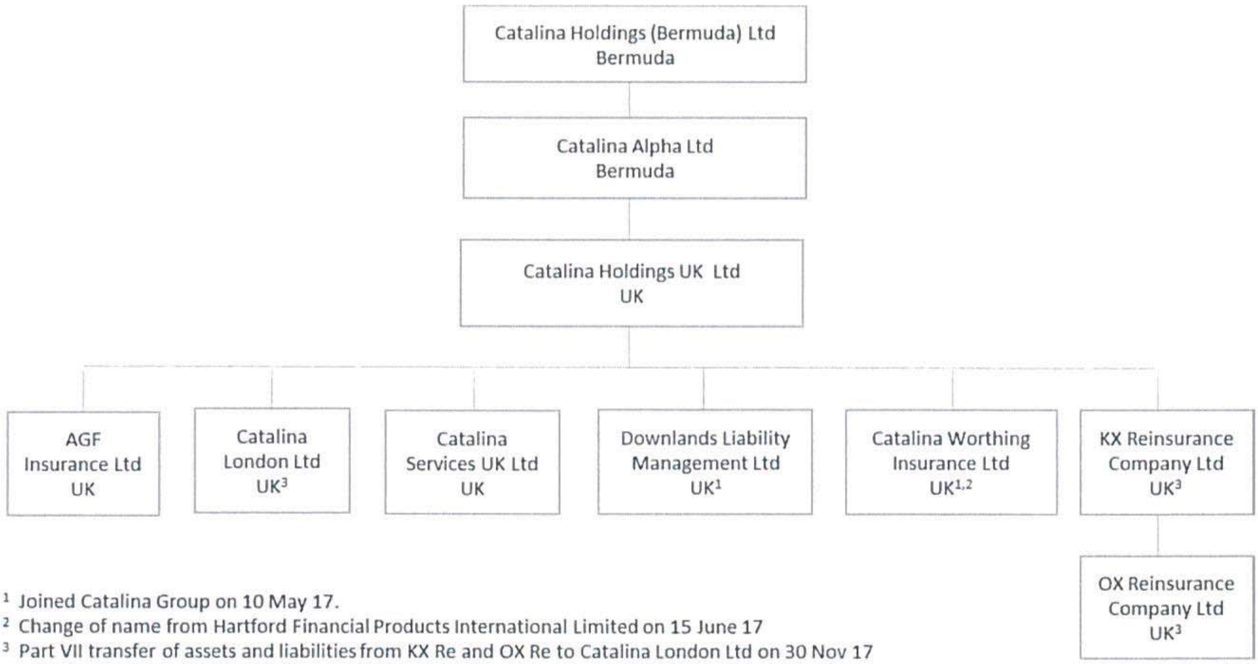
## A.1 Business and external environment

### A.1.1 Undertaking, financial supervisory authority and external auditor

| | |
|---|---|
| **Name of the undertaking:** | Catalina Worthing Insurance Limited |
| **Address of its registered office:** | DLM House<br>Downlands Business Park<br>Lyons Way, Worthing<br>West Sussex<br>BN14 9RX |
| **Legal status:** | Private Limited Company |
| **Company registration number:** | 05965916 |
| **Legal Entity Identifier (LEI):** | 213800JEV93JTFJ41Q27 |
| **Ultimate parent:** | Catalina Holdings (Bermuda) Ltd. |
| **Financial supervisory authority:** | Prudential Regulation Authority<br>Bank of England<br>Threadneedle Street, London<br>EC2R 8AH |
| **External auditor:** | KPMG LLP<br>15 Canada Square<br>London<br>E14 5GL |

A simplified structure chart is laid out below outlining sister companies, vertical structure and ultimate shareholder ownership.

Catalina Holdings UK Ltd Simplified Structure




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

At present more than 85% of the voting rights, in aggregate, of Catalina Holdings (Bermuda) Ltd ("CHBL" or "the Group"), the ultimate parent entity, are held across three shareholders being, CDP VSI I Limited Partnership, 1397225 Ontario

Limited and Apollo Rose LLP. Apollo Global Management, LLC has signed a definitive agreement to acquire a majority shareholding in CHBL. The agreement is subject to customary regulatory conditions, among others, and is expected to close in Q3 2018.

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

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

CWIL was purchased by CHUK on 10th May 2017 when 100% of CWIL's share capital was purchased from Nutmeg Insurance Company, part of The Hartford Financial Services Group, Inc. The ultimate parent of CHUK is CHBL. CHBL is a specialist consolidator of non-life general insurance and reinsurance companies and portfolios in run-off. CHBL acquires and manages portfolios in run-off with the purpose of achieving a competitive return on equity and consistent growth in net tangible assets. The Group is based in Bermuda and currently has offices in Bermuda, the United Kingdom, the Republic of Ireland, the United States of America and Switzerland.

The Company was initially established by The Hartford as a specialist Directors and Officers ("D&O") writer in the London market where it wrote business from 2007 until July 2012 when it was placed into run off. In October 2015, the insurance business of Excess Insurance Company Limited ("Excess"), Hart Re (the trading name of the London branch of Hartford Fire Insurance Company Limited) and a portfolio of business originally written by London & Edinburgh Insurance Company ("L&E") was transferred into the company by order of the High Court pursuant to Part VII of the Financial Services and Markets Act 2000. These transfers were part of The Hartford's rationalisation of its UK run offs.

The business transferred in from Excess has been in run off since 1993 and represents the bulk of the Company's business. The Company's principal activities are the efficient and proper run off of its claims portfolio, the management of its cash and investments, and the timely collection of its reinsurance assets and other debts.

The company's portfolio comprises:

- Original D&O business written 2007 -2012;
- Business of Excess written prior to 1992; which mainly comprise US direct and treaty business Asbestos, Pollution and Health ("APH") and UK Employers Liability business;
- Business of Hart Re, a pure reinsurer of European insurers which wrote business from 1993 to 2002, remaining risks being UK and European motor (including Periodic Payment Orders ("PPO"'s)) and some pharmaceutical losses;
- Portfolio of L&E business almost entirely being US direct and treaty APH written through pools including Old Tower, Tower X, HS Weavers and B D Cooke.

On a Company Statutory Accounts valuation basis the remaining portfolio of £492.2 million of gross claims liabilities (excluding loss adjustment expenses) consist of the following classes of business. These can each include direct, proportional reinsurance or non-proportional reinsurance liabilities.

| Claim Reserves | Total | US | Europe | Other |
|---|---|---|---|---|
| | 2017 | 2017 | 2017 | 2017 |
| Class | GBP'ooo | GBP'ooo | GBP'ooo | GBP'ooo |
| Direct Insurance | | | | |
| Marine, aviation and transport | 33,127 | 1,833 | 31,206 | 88 |
| Fire and other damage to property | 3,489 | 425 | 2,415 | 649 |
| General liability | 276,669 | 150,825 | 121,133 | 4,711 |
| Proportional and Non-proportional Reinsurance | | | | |
| Casualty | 166,249 | 21,671 | 116,418 | 28,160 |
| Marine, aviation and transport | 2,446 | 268 | 2,164 | 14 |
| Property | 10,226 | 1,125 | 8,783 | 318 |
| | 492,206 | 176,147 | 282,119 | 33,940 |

| Class | 2016<br>GBP'000 | 2016<br>GBP'000 | 2016<br>GBP'000 | 2016<br>GBP'000 |
|---|---|---|---|---|
| Direct Insurance | | | | |
| Marine, aviation and transport | 33,695 | 41 | 33,588 | 66 |
| Fire and other damage to property | 3,778 | 161 | 3,384 | 233 |
| General liability | 274,829 | 128,165 | 141,970 | 4,694 |
| Proportional and Non-proportional Reinsurance | | | | |
| Casualty | 203,745 | 21,749 | 150,340 | 31,656 |
| Marine, aviation and transport | 6,303 | 136 | 6,122 | 45 |
| Property | 12,341 | 582 | 11,404 | 355 |
| | 534,691 | 150,834 | 346,808 | 37,049 |

The Company's functional and presentational currency is GBP, reflecting the historical distribution of the Company's geographical business mix. Assets and liabilities are predominantly held in GBP and USD and to a lesser extent Euros.

## A.2 Performance from underwriting activities

The table below shows the underwriting performance for the year end 31 December 2017, together with comparatives for the previous year.

| | 2017 | 2016 |
|---|---|---|
| | GBP'000 | GBP'000 |
| Earned premiums, net of reinsurance | (6) | (434) |
| Claims incurred, net of reinsurance | (35,634) | - |
| Net operating expenses | (8,363) | (7,500) |
| **Balance on the technical account** | **(44,003)** | **(7,934)** |
| **By class of business:** | | |
| Direct Insurance | | |
| Marine, aviation and transport | (3,334) | (767) |
| Fire and other damage to property | (224) | (70) |
| General liability | (27,406) | (3,086) |
| Proportional and Non-proportional Reinsurance | | |
| Casualty | (12,471) | (3,205) |
| Marine, aviation and transport | (589) | (525) |
| Property | 21 | (281) |
| | (44,003) | (7,934) |

The Company recognised a negative balance on the technical account of £44.0 million during 2017 (2016; negative technical account of £7.9m). This change is driven largely by the movement in net claims incurred where there are three key components behind the result;

- a change in basis for recognising unallocated claims handling expenses
- an increase in the bad debt provision on reinsurance assets
- a loss on the commutation of the previous Hartford Adverse Development Cover ("ADC") and quota share reinsurances

The increase in Operating Expenses represents one-off costs of integrating CWIL into the Catalina Group.

## A.3 Performance from investment activities

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

| | Net investment income | Net investment expense | Net realised gains and losses | Changes in fair value | Net investment result |
|---|---|---|---|---|---|
| | 2017 | 2017 | 2017 | 2017 | 2017 |
| | GBP'000 | GBP'000 | GBP'000 | GBP'000 | GBP'000 |
| Investments: | | | | | |
| - measured at FVTPL | 7,985 | (150) | 422 | (1,020) | 7,237 |
| - measured at amortised cost | | | | | |
| - measured at cost | 266 | (5) | | | 261 |
| - derivative assets | | | | (79) | (79) |
| | 8,251 | (155) | 422 | (1,099) | 7,419 |
| | 2016 | 2016 | 2016 | 2016 | 2016 |
| | GBP'000 | GBP'000 | GBP'000 | GBP'000 | GBP'000 |
| Investments: | | | | | |
| - measured at FVTPL | 16,324 | (432) | (84) | 4,787 | 20,595 |
| - measured at amortised cost | | | | | |
| - measured at cost | 80 | (2) | | | 78 |
| - derivative assets | | | | | |
| | 16,404 | (434) | (84) | 4,787 | 20,673 |
| *Percentage change* | *(49.7%)* | *(64.29%)* | *(602.38%)* | *(122.96%)* | *(64.11%)* |

Predominately the combination of a GBP fixed income portfolio and USD portfolio backing insurance collateralisation obligations, the year on year change in investment return is the function of the hard rally in UK Gilts post-Brexit in 2016, as well as the switch in 2017 to more liquid assets in anticipation of PRA approval of the Company's capital reduction request. Since the acquisition of CWIL by CHUK on 10 May 2017, investment returns were 1.88% (2.82% annualised). CWIL generated positive investment returns in five out of the eight months since the change in control.

The Company continues to review and adjust its investment portfolio with reference to dynamic macro-economic trends in order to maximise returns within its risk appetite and investment guidelines.

## A.4 Other operating income and expenses

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

| | 2017 | 2016 |
|---|---|---|
| | GBP'000 | GBP'000 |
| Foreign exchange (losses)/gains | (167) | 2,629 |
| Tax on profit on ordinary activities | (8,577) | (3,322) |

The Company's net assets are predominately held in GBP Sterling and to a lesser extent also United States Dollars and then Euros. The company is therefore exposed to currency fluctuations in USD and Euro against Sterling. While the company manages these exposures by matching assets and liabilities by currency, asset availability can from time to time result in a net currency exposure. The foreign exchange loss in the period is largely a function of the strengthening of Sterling relative to USD. The Company mitigates the currency risk of non GBP investments by hedging the exposure through foreign exchange derivatives.

The 100% quota share arrangement with CatGen that provides full protection on claims incurred as well as some level of protection against operating expenses alters the forecast future taxable income of the Company to an extent that it was considered prudent to no longer recognise any Deferred Tax asset.

## A.5 Any other disclosures

Not applicable.

# B. System of Governance

The system of governance described in Section B reflects the structure that operates across the Catalina Group of companies in the UK and hence reflects how the Company has been operating since the change of control on 10 May 2017. Prior to the change in control, the Company system of governance was as under the previous Hartford ownership. Information regarding the previous system of governance can be found in the Company's 31 December 2016 Solvency and Financial Condition Report on the company's website. Throughout 2017 both systems of governance were considered appropriate.

## B.1 General Governance arrangements

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

- risk management
- actuarial
- compliance and
- internal audit.

**Management Team**

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

The following sub-committees have been established:

**Board Risk Committee**

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

The Board has delegated the responsibility of overseeing the Group's risk management policy at the CWIL level to the Group Chief Risk Officer ("CRO"). The CWIL Risk Management Policy defines the framework of the systems, controls, processes and procedures in place to identify, assess, mitigate and manage risk at CWIL.

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

**Audit Committee**

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

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

**Loss Reserving Committee**

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

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

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

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

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

**Remuneration Policy**
The Company does not have any direct employees, rather from 1 August 2017, all services are provided by Catalina Services (UK) Limited ("CSUK"). While the Company does not have a Remuneration Committee or Remuneration Policy, all CSUK employees are retained on a fixed basic salary, considered annually and determined in light of market best practice. Discretionary performance related bonuses can be agreed subject to restrictions on quantum and deferral.

## B.2 Fit and proper requirements

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

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

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

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

The Company manages these requirements in accordance with the Senior Managers Regime ("SMR") and Senior Insurance Managers Regime ("SIMR").

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

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

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

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

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

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

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

| Key Role | PCF | Holder |
|---|---|---|
| Chairman | SIMF9 | Peter Johnson |
| Executive Director | CF1 | Philip Hernon |
| Chief Executive Officer, Executive Director | SIMF1, CF1 | Roland Jackson |
| Executive Director | CF1 | Peter Harnik |
| Compliance Officer | CF10 | Ian Grottick* |
| Non-Executive Director | CF2 | Christopher Fleming |
| Senior Independent Non-Executive Director, Audit Committee Chair | SIMF11, SIMF14 | Timothy Cox |
| Independent Non-Executive Director | CF2 | David O'Connor |
| Chief Financial Officer | SIMF2 | Denis Maslin |
| Chief Actuary | SIMF20 | Paul Jackson |
| Chief Risk Officer | SIMF4 | Tim Walker |
| Head of Internal Audit | SIMF5 | Björn Hartvigsen |
| Money Laundering Reporting Officer | CF11 | Alexander Jenkins |

* Head of Regulatory and Compliance

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

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

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

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

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

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

## B.3 Risk management system

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

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

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

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

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

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

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

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

a) The current risk profile is understood and appropriate for the nature of a legacy portfolio and within the risk appetite of the firm
b) Capital requirements during the reporting period have continuously been met (or if not corrective action was taken)

c) The Company's current capital and solvency position is appropriate
d) The Standard Formula model has been used appropriately for strategic decisions throughout the period
e) The risks to the enterprise that could likely change the risk profile are understood
f) Plans to cover the solvency position and planned capital distributions over the required period are appropriate.

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

## B.4 Internal control system

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

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

**Compliance Function**
The UK Head of Compliance and Regulatory ("HCR") is a Key Function Holder. All actual or potential breaches of regulation are immediately referred to the HCR.

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

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

The compliance function is subject to oversight by the CEO. The HCR and the Board are in turn ultimately responsible that the Company remains compliant with the requirements of the 'PRA and FCA Handbooks of rules and guidance'.

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

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

In CWIL, the UK Head of Compliance and Regulatory also participates in bi-weekly management meetings.

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

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

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

Any open claims complaints are reported at Company Board meetings.

## B.5 Internal audit function

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

IA applies a risk-based approach, performing its own risk assessment as well as making use of risk assessments performed by Catalina's Enterprise Risk Management and other assurance functions. Based on the results of the risk assessment, relative financial importance within the group, regulatory requirements, corporate objectives and priorities as well as industry wide risks and business developments, IA produces an annual Audit Plan for review and approval by the Board Audit Committee. The Audit Plan is updated on a regular basis according to Catalina's evolving risk landscape and needs. IA regularly provides formal updates on its activities to the Board Audit Committee, which include audit results and other assurance related observations, the status of management actions required, the appropriateness of the resources and skills of IA and any changes in the approved plan, tools and methodologies it uses.

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

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

## B.6 Actuarial function

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

Under the leadership of the Company's UK based Chief Actuary, who reports to the UK CEO, the UK team:

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

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

## B.7 Outsourcing

As part of the ongoing strategy the Company's management will continue to outsource elements of the portfolio to a FCA approved outsourced provider to manage Noise Induced Hearing Loss claims; all other claims will be managed within the UK group.
Outsourcing is the delegation of a process, service or activity to a service provider. The Company's core strategy is to utilise and enhance key and distinguishing in-house competences in areas required to manage and extract value from books of business under its control; such competences include claims adjustment, commutation negotiation, reinsurance collections, actuarial evaluation, capital modelling and developing and implementing the most effective and efficient exit strategies, whilst at all times properly meeting the rights and requirements of policyholders, reinsurers, regulators, capital providers and other stakeholders.

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

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

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

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

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

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

## B.8 Assessment of governance

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

# C. Risk Profile

## C.1 Underwriting Risk

### C.1.1 Risk exposure

CWIL has residual liabilities on predominately direct US Casualty business and UK Employer's Liability business. It ceased writing new business in 2012 and has since been in run-off. Hence, as at 31 December 2017, there were no unexpired Insurance Risk exposures from in-force policies.

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

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

### C.1.2 Market Risk Exposures, Concentrations, Mitigations and Sensitivities

Most of the remaining exposure relates to asbestos, pollution and hearing impairment claims, arising from employer's liability business. Almost all claims are either from the UK or the US.

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

Reserve sensitivity is modelled in both the ORSA and in the Solvency II SCR. Underwriting risk sensitivity is fully mitigated by 100% quota share reinsurance arrangement that the company has with CatGen.

## C.2 Market Risk

### C.2.1 Risk exposure

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

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

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

| | Pre-tax profit | | Shareholders' equity | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | GBP'000 | GBP'000 | GBP'000 | GBP'000 |
| 1% increase | (10,099) | (24,400) | (10,099) | (24,400) |
| 1% decrease | 10,099 | 24,400 | 10,099 | 24,400 |

Interest rate changes affect the valuations of the assets (in respect of fixed interest bonds, for example, although not for many other asset classes such as cash, equities and property). For GAAP purposes, the value of liabilities is unaffected by interest rate changes: however, for solvency purposes, the technical provisions are also affected, as they are discounted in line with risk free interest rates.

An increase in interest rates reduces the value of both interest rate-sensitive assets and the value of solvency II technical provisions. This provides a natural offsetting effect, as the net impact is reduced compared to the monetary amount of the change for the assets or liabilities alone.

An interest rate risk charge is modelled as part of the solvency capital requirement, to ensure sufficient capital with a probability of 99.5%.

**Foreign exchange risk**

The Company's assets & liabilities are predominantly held in Sterling, US Dollars and Euros. Therefore the Company is exposed to currency risk arising from fluctuations in the exchange rates of the Sterling against US Dollar & Euro. The Company mitigates the currency risk of non GBP investments by hedging the exposure through foreign exchange derivatives.

The foreign exchange policy is to maintain assets in the currency in which the cash flows from liabilities are to be settled in order to hedge the currency risk inherent in these contracts. Asset / Liability management is an important component in the Company's investment management philosophy. The weighted average life of investments are typically managed to be slightly shorter than the run-off profile of liabilities. The investment strategy is such that, by policy and design, investment portfolio currencies generally match those of the liabilities, with any excess generally held in Sterling.

The sensitivity analyses below have been determined based on the exposure to currency movements against risk exposures at 31 December 2017. A 10% increase or decrease is used when reporting foreign exchange risk internally to key management personnel and represents management's assessment of the reasonably possible change in currency rates.

| Pre-Tax Profit Impact | 2017 | 2016 |
|---|---|---|
| | GBP'000 | GBP'000 |
| GBP / USD | | |
| 10% increase in GBP/USD exchange rate | (2,814) | (664) |
| 10% decrease in GBP/USD exchange rate | 2,814 | 664 |
| | | |
| GBP / EUR | | |
| 10% increase in GBP/EUR exchange rate | (344) | (16) |
| 10% decrease in GBP/EUR exchange rate | 344 | 16 |

**Other price risk**

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

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

| | 2017 | 2016 |
|---|---|---|
| | GBP'000 | GBP'000 |
| **1% increase** | | |
| Movement in fair value of share and other variable securities in unit trusts | 34 | - |
| Movement in fair value of debt securities and other fixed income securities | 1,658 | 5,060 |
| Other Investments | 160 | |
| | | |
| **1% decrease** | | |
| Movement in fair value of share and other variable securities in unit trusts | (34) | - |
| Movement in fair value of debt securities and other fixed income securities | (1,658) | (5,060) |
| Other Investments | (160) | - |

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

Catalina Asset Management manages investment risk through extensive use of portfolio management analysis software and the appointment of specialist third party asset managers, who have demonstrated an extensive and successful track record of managing assets on behalf of insurance and reinsurance company clients. In addition they provide investment accounting, asset-liability management analysis and other services.

The mandate that the Catalina Asset Management Team assigns to said asset managers clearly stipulates the terms on which investments may be made, so as to achieve a state whereby assets are suitably matched to corresponding and related liabilities. They follow a mandate which is called the Investment Policy Statement.

Regular oversight of all investment decisions, their compliance with regulations and the Company's guidelines by the Chief Investment Officer, coupled with regular convening of the ad hoc Investment Committee and clear reporting lines from this committee and its members to the Board of Directors should ensure that the regulated entities are never knowingly exposed to threatening levels of market or credit risk.

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

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

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

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

With respect to undertaking stress testing the following scenarios have been tested. The nature of the stress tests undertaken changed in the year with the change in control of the company and the introduction of the 100% quota share reinsurance arrangement with CatGen.

Stress Tests Applied in Prior to Change in Control
A deterioration in the rating of Hart Re from A rated to BBB rated; a 10% increase in expenses; a 10% increase in bond portfolio defaults; an increase in gross reserves of $50m.

Stress Tests Applied Following Change in Control
The following stress tests are considered most relevant to the company post change in control. The outcome of these tests indicate that the Company would be able to withstand these scenarios and maintain robust levels of capital.

**A. 10% increase in gross claims reserve.**

This test is to assess the sensitivity of the modelled capital result for the Gross claims reserve due to an increase in the gross claims reserve by 10% and reduce the own fund by an equal amount.

**B. 10% shock on market risk.**

This test is to assess the sensitivity of the modelled capital result to the market exposure. The test was carried out by reducing investment assets by 10% (which also causes market risk to reduce as there is less downside risk due to the lower remaining exposure).

**C. 50% increase in stressed reserve risk volatility**

This test is to assess the sensitivity of the modelled capital result on the Gross claims reserve due to an increase in the reserve volatility of 50%.

**D. 50% Loss Given Default on all credit risk**

This test is to assess the sensitivity of the modelled capital result of counterparty defaults equivalent to 50%.

**E. Multi-Event stress test of 10% shock on market risk and 50% increase in stressed reserve risk volatility**

This test combines stress test B and C.

**F. Multi-Event stress test of 10% increase in gross claims reserve and 50% Loss Given Default on all credit risk**

This test combines stress test A and D.

## C.3 Credit Risk

### C.3.1 Risk exposure
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The key areas of exposure to credit risk for the Company are in relation to its investment portfolio, reinsurance programme and to a lesser extent amounts due from intermediaries. The objective of the Company in managing its credit risk is to ensure risk is managed in line with the Company's risk appetite. The Company has established policies and procedures in order to manage credit risk and methods to measure it.

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

| | 2017 | 2016 |
|---|---|---|
| | GBP'000 | GBP'000 |
| **By class of asset:** | | |
| Shares and other variable yield securities in unit trusts | 3,413 | - |
| Debt securities and other fixed income securities | 165,802 | 500,822 |
| Other financial investments | 27,144 | 24,551 |
| Assets arising from reinsurance contracts held | 530,595 | 214,570 |
| Assets arising from insurance contracts held | 893 | - |
| Cash and cash equivalents | 44,020 | 16,897 |
| Other assets | 1,326 | 13,891 |
| **Total assets bearing credit risk** | **773,193** | **770,731** |
| **By credit rating:** | | |
| AAA | 101,495 | 28,967 |
| AA | 96,610 | 334,308 |
| A | 84,272 | 323,716 |
| BBB | 14,452 | 36,285 |
| Below BBB or not rated | 476,364 | 47,455 |
| **Total assets bearing credit risk** | **773,193** | **770,731** |
| **By past due aging of debtors:** | | |
| Past due and impaired | 19,442 | 19,025 |
| **Net carrying value of past due or impaired debtors** | **19,442** | **19,025** |

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

Credit risk relates to the possibility that the regulated entities become exposed to losses occurring as a result of third parties and counterparties failing to fulfil their obligations. Credit risk on receivables is minimised by pursuing early commutation where possible. Suitable provisions for successful commutation of outstanding reinsurances receivables are clearly set out and assessed within the Group's commutations and reserving process.

The Company is also exposed to credit risk via their investment portfolio. Investment Guidelines stipulate a specific level of that credit quality may not fall below a weighted average of A- across the portfolio. Regular oversight of all investment decisions by the Chief Investment Officer, coupled with regular convening of the advisory Investment Committee will ensure that stated standards are adhered to. For example, there are specific concentration limits with regard to both sector level investment and individual obligors. The Chief Investment Officer is responsible for credit risk compliance reporting to the Board and the Risk Management Committee documentation independently exhibits this.

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

There has been a significant change to the company's credit risk profile through the 100% quota share reinsurance with CatGen. The coverage of the arrangement being; all claims, reinsurer counterparty default, unallocated loss adjustment expenses and vast majority of general administrative expenses, make the recovery under the arrangement very material and significant to the Company. To manage this counterparty and concentration risk there is a collateralisation requirement on CatGen whereby investment collateral of average A- grade is held in a trust to the Company's benefit in the United Kingdom against 120% of technical reserves including ULAE. The fund can only be invested in accordance with the Investment Management Guidelines set and the Company receive daily weekly and monthly reports from the custodian, Bank of New York Mellon London branch, on the value of the collateral fund. Any surplus can only be withdrawn by CatGen with the approval of the CWIL board.

Selected credit risk metrics including any non-compliance with the Investment Guidelines are reported to the Legal Entity Board and, combined with clear reporting lines from this committee and its members to the Board of Directors, while keeping abreast of developments within the capital markets, should ensure that it is never knowingly exposed to threatening levels of counterparty or investment credit risk.

The stress testing and sensitivity results detailed in Section 2.2 include credit risk.

## C.4 Liquidity Risk

### C.4.1 Risk exposure

Liquidity risk is the risk that the Company cannot meet its obligations associated with financial liabilities as they fall due. The Company manages liquidity risk by monitoring forecast and actual cash flows 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.

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

Liquidity risk is managed through the detailed analysis of asset and liability mean term and duration, cash flow matching to predicted liability payment patterns and the negotiation and implementation, where applicable, of revolving credit facilities.

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

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

## C.5 Operational Risk

### C.5.1 Risk exposure

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

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

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

**Organisational Risk**

Organisational risk is the possibility that the Company is adversely affected by the failure of the execution processes employed and relative effectiveness of the Group employees supporting the regulated entities. On a daily basis, the ability of the Company's employees to pursue systematic strategies to manage projects (prioritization, resource planning and subsequent monitoring) will ensure that the Company's staff remain in a productive environment in which all members of the firm are confident and clear about the role they play within the corporate structure.

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

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

## C.6 Other Material Risks

All material risks are in the in the Standard Formula SCR calculation.

## D. Valuation for Solvency Purposes

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

### D.1 Assets

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

| 2017<br>Solvency II Classification | Solvency II Value | Reclassification Differences | Valuation Differences | Statutory Accounts Value | Note |
|---|---|---|---|---|---|
| | 2017 | 2017 | 2017 | 2017 | |
| | GBP'000 | GBP'000 | GBP '000 | GBP '000 | |
| Equities – listed | - | 1,702 | - | 1,702 | 1 |
| Equities - unlisted | 1,711 | - | - | 1,711 | 2 |
| Government Bonds | 95,454 | (15,852) | - | 79,602 | 3 |
| Corporate Bonds | 37,664 | (1,993) | - | 35,671 | 4 |
| Collateralised securities | 50,717 | (188) | - | 50,529 | 5 |
| Collective Investments Undertakings | 5,074 | - | - | 5,074 | 6 |
| Deposits other than cash equivalents | 13,635 | (2,489) | - | 11,146 | 7 |
| Loans and mortgages | 11,033 | (109) | - | 10,924 | 8 |
| Reinsurance recoverable – non life and life | 421,415 | - | 70,791 | 492,206 | 9 |
| Deposits to cedants | 12,787 | - | - | 12,787 | 10 |
| Insurance and Intermediaries receivables | 893 | - | - | 893 | 11 |
| Reinsurance receivables | 7,324 | - | 429 | 7,753 | 12 |
| Receivables – trade not insurance | 37,312 | - | (6,676) | 30,636 | 13 |
| Cash and cash equivalents | 13,616 | 17,617 | - | 31,233 | 14 |
| Other Assets | 7 | 1,319 | - | 1,326 | 15 |
| **Total Assets** | **708,642** | **7** | **64,544** | **773,193** | |

| 2016<br>Solvency II Classification | Solvency II Value | Reclassification Differences | Valuation Differences | Statutory Accounts Value | Note |
|---|---|---|---|---|---|
| | 2016 | 2016 | 2016 | 2016 | |
| | GBP'000 | GBP '000 | GBP '000 | GBP '000 | |
| Deferred tax asset | 17,936 | | (9,359) | 8,577 | 16 |
| Equities – listed | - | | - | - | 1 |
| Equities - unlisted | - | - | - | - | 2 |
| Government Bonds | 135,731 | - | - | 135,731 | 3 |
| Corporate Bonds | 370,241 | - | - | 370,241 | 4 |
| Collateralised securities | - | - | - | - | 5 |
| Collective Investments Undertakings | - | - | - | - | 6 |
| Deposits other than cash equivalents | 24,462 | - | - | 24,462 | 7 |
| Other loans and mortgages | - | - | - | - | 8 |

| | | | | | |
|---|---|---|---|---|---|
| Reinsurance recoverable – non life and life | 154,660 | - | 46,993 | 201,653 | 9 |
| Deposits to cedants | 12,833 | - | - | 12,833 | 10 |
| Insurance and Intermediaries receivables | - | - | - | - | 11 |
| Reinsurance receivables | 11,731 | - | 1,095 | 12,826 | 12 |
| Receivables – trade not insurance | 124 | - | 14 | 138 | 13 |
| Cash and Cash Equivalents | 4,153 | - | - | 4,153 | 14 |
| Other Assets | 9 | - | 91 | 100 | 15 |
| **Total Assets** | 731,880 | | 38,834 | 770,714 | |

Notes to Asset Valuation Basis

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

1. Equities – Listed

   For Solvency II purposes there are no listed equities held at 31 December 2017 (2016: nil).

   For Company Statutory Account purposes there is GBP£3.4m (2016: nil) reported as "Shares and Other Variable Yield Securities and Holdings in Collective Investment Schemes" which, for the purpose of Solvency II disclosure, has been reported as Equities – Unlisted GBP£1.7m (2016: nil) and Corporate Bonds GBP£1.7m (2016: nil).

2. Equities – Unlisted

   This represents a holding in a non-listed legal entity that invests in commercial real estate. As this entity is not listed on a recognised exchange, fair value has been determined by reference to the net asset value of the entity itself. The net asset value is largely determined by commercial real estate valuations performed by Chartered Surveyors (members of the Royal Institution of Chartered Surveyors). The valuations are prepared by considering the aggregate for the net annual rents receivable and where relevant, associated costs. The valuation basis for Solvency II is consistent with the Company Statutory Accounts basis.

   For Company Statutory Account purposes these unlisted equities have been disclosed as "Shares and Other Variable Yield Securities and Holdings in Collective Investment Schemes". There is no 2016 equivalent.

3. Government Bonds

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

   For Solvency II purposes there are Government Bonds totalling GBP £15.1m (2016: nil) which mature within three months from their acquisition date which are disclosed within the Company Statutory Accounts as Cash and Cash Equivalents. The Solvency II valuation includes Accrued interest of GBP £0.7m (2016: nil).

4. Corporate Bonds

   Corporate Bonds are valued using prices provided by external pricing vendors where these valuations are mostly based on quoted prices in active markets that are readily and regularly available. Where not readily available pricing vendors will often determine prices by consolidating prices of recent trades for identical or similar securities obtained from a panel of market makers into a composite price. The pricing service may make adjustments for the elapsed time from a trade date to the valuation date to take into account available market information. Lacking recently reported trades, pricing vendors will use modelling techniques to determine a security price. The valuation basis for Solvency II is consistent with the Company Statutory Accounts basis. The Solvency II valuation includes Accrued interest of GBP£0.2m (2016: GBP£5.1m).

Within Corporate Bonds for Solvency II purposes there is GBP£1.7m (2016: nil) which for Statutory Account purposes is disclosed as "Shares and Other Variable Yield Securities and Holdings in Collective Investment Schemes". The valuation of these instruments is via direct or indirect observable data which is generally recent transactions in the same or similar instruments.

5. Collateralised Securities
Representing residential and commercial backed mortgages and asset backed securities, the fair value is determined based on quoted prices in active markets for similar assets or liabilities. The Solvency II valuation includes Accrued Interest of GBP£0.2m (2016: nil). For Company Annual Financial Statements purposes Accrued Interest forms part of Prepayments and Accrued Income.

6. Collective Investments Undertaking
Collective Investments Undertaking comprise units held in an open-ended corporate debt fund that is market traded. Fair value is via direct or indirect observable data which is generally recent transactions in the same or similar instruments. The valuation basis for Solvency II is consistent with the Company Statutory Accounts basis. For Statutory Account purposes these Collective Investments Undertakings are disclosed as Debt Funds.

7. Deposits Other than Cash Equivalents
Deposits Other than Cash Equivalents of GBP £13.6m (2016: £24.5m) are deposits with credit institutions with maturities in excess of three months from acquisition date or for which there are restrictions on accessing the deposits. For both Solvency II and Company Statutory Account purposes fair value is the value of the deposit holding.

For Solvency II purposes there are Deposits Other than Cash Equivalents totalling GBP £2.5m (2016: nil) which mature within three months from their acquisition date which are disclosed within the Company Statutory Accounts as Cash and Cash Equivalents.

8. Loans and Mortgages
Loans and Mortgages of £10.9m (2016: Nil) are to a single non listed third party that invests in commercial real estate and for which there is no observable market price. For these loans the best estimate of fair value at 31 December 2017 is the actual value of the debt provided. This valuation reflects both the proximity of the debt commencement date to 31 December 2017, stability in underlying market conditions and the ongoing servicing of the debt. For Company Statutory Account purposes this investment is disclosed as Other Financial Investments – Other Loans.

The valuation for Solvency II purposes includes Accrued Interest of GBP£0.1m (2016: nil). For Company Annual Financial Statement purposes Accrued Interest forms part of Prepayments and Accrued Income.

9. Reinsurance Recoverables from Non-Life and Life
For Solvency II purposes, the fair value of reinsurers' share of technical provisions is determined after applying discounting whereas for Company Annual Financial Statements purposes the gross technical provisions and related reinsurers' share of technical provisions are undiscounted. Discounting for fair value purposes uses the relevant risk free yield curves for each currency. For a fuller explanation of the impact of the GBP£70.8m (2016: GBP£47.0m) refer to Section D.2 Technical Provisions.

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

11. Insurance and Intermediaries Receivables
Insurance and intermediaries receivables of £0.9m (2016: nil) are measured at amortised cost for Company Annual Financial Statements purposes. For Solvency II purposes, given that the level of discount or premium held against the principal receivable is immaterial, amortised cost is considered to materially reflect fair value.

12. Reinsurance Receivables
For reinsurance receivables, where the receivable is due beyond twelve months, fair value is determined after applying a discounting rate that reflects the relevant risk free yield curve. The total impact of discounting is to decrease the value of Reinsurance Receivables by GBP£0.4m (2016: GBP£1.1m reduction). The valuation basis for this receivable within the Company Annual Financial Statements is fully undiscounted. Determination of fair value

for Reinsurance Receivables for Solvency II and Financial Statements is after consideration of impairment of any amounts receivable.

13. Receivables – trade not insurance
Receivables – trade not insurance, comprise an inter-company debt representing future administration fees recoverable under the 100% quota share arrangement with CatGen. For Solvency II purposes fair value has been based on the forecast of all future administration expenses discounted at the risk free rate. For Company Statutory Account purposes the valuation of £30.6m is based on the equivalent quota share premium paid to CatGen at the outset of the contract. There was no equivalent asset in 2016.

    For Company Statutory Account purposes this asset is disclosed within Debtors as "Amounts owed by other group undertakings".

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

    For Company Statutory Accounts within Cash and Cash Equivalents of GBP£30.6m (2016: GBP£4.2m) there are restricted cash and cash equivalents balances of GBP£15.1m (2016: nil) and GBP £2.5m (2016: nil) which for Solvency II purposes are disclosed respectively as Government Bonds and Deposits Other than Cash Equivalents.

15. Other Assets
Prepayments of GBP£7k (2016: GBP£6k) are deemed to have a fair value of nil for Solvency II purposes. Accrued interest of GBP£1.3m (2016: GBP£5.1m) has been reclassified to investments (Government Bonds, Corporate Bonds & Collateralised securities).

16. Deferred tax asset
Given the presence in 2016 of an Adverse Development Cover reinsurance contract, the Company's future profits were anticipated to be significant and of an extremely high probability. The valuation basis for Solvency II capped the 2016 deferred tax asset of GBP£17.9m at 15% of the SCR due to its status as Tier 3 capital. For 2016 Company Annual Financial Statements the deferred tax asset of GBP£8.6m was recognised on tax losses transferred in under a Part VII Transfer in 2015, tax losses brought forward and 2016 tax losses. Following the acquisition of the Company in 2017, the 100% quota share arrangement put in place reduced the degree of certainty that future taxable earnings would be sufficient to fully realise the deferred tax asset. Accordingly, for 2017 Company Annual Financial Statements and for Solvency II the deferred tax asset is no longer recognised.

## D.2 Technical provisions

The technical provisions comprise the best estimate of liabilities and risk margin according to Articles 75 to 86 of the Solvency II regulations. The best estimate technical provision is the sum of the claims provision and the premium provision.

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

- The claims provision is the discounted best estimate of future cashflows relating to events prior to the valuation date, including claims which have not yet been reported. The cash flows include gross claims, future expenses incurred to settle these claims and future premiums receivable in relation to the past exposure. The corresponding reinsurers' share of gross claims technical provisions, disclosed as Reinsurance Recoverable from Non Life in Section D.1, is valued using the same techniques as the gross claims technical provisions.

- The premium provision is the discounted best estimate of future cashflows relating to claim events that have not yet occurred but that are covered by contracts in existence at the valuation date. The cash flows include net claims, future expenses incurred to settle these claims and future premiums receivable in relation to future claims events. The run off nature of the Company means that there are no future exposures at the valuation date and therefore no premium provision.

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

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

| | Gross Best Estimate | Risk Margin | Total Solvency II Provisions | Total Statutory Account Value |
|---|---|---|---|---|
| | 2017 | 2017 | 2017 | 2017 |
| **By material line of business:** | **GBP'000** | **GBP'000** | **GBP'000** | **GBP'000** |
| Direct Insurance | | | | |
| Marine, aviation and transport | 15,361 | 330 | 15,691 | 33,127 |
| Fire and other damage to property | 1,114 | 25 | 1,139 | 3,489 |
| General liability | 246,948 | 4,840 | 251,788 | 276,669 |
| Proportional and Non-proportional Reinsurance | | | | |
| Casualty | 174,508 | 3,779 | 178,287 | 166,249 |
| Marine, aviation and transport | 4,707 | 116 | 4,823 | 2,446 |
| Property | 8,225 | 191 | 8,416 | 10,226 |
| Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations | 11,744 | 203 | 11,947 | 0 |
| | 462,607 | 9,484 | 472,091 | 492,206 |
| | 2016 | 2016 | 2016 | 2016 |
| **By material line of business:** | **GBP'000** | **GBP'000** | **GBP'000** | **GBP'000** |
| Direct Insurance | | | | |
| Marine, aviation and transport | 22,881 | 3,846 | 26,727 | 33,695 |
| Fire and other damage to property | 1,155 | 169 | 1,324 | 1,951 |
| General liability | 275,379 | 42,599 | 317,978 | 276,656 |
| Proportional and Non-proportional Reinsurance | | | | |
| Casualty | 188,160 | 27,894 | 216,054 | 203,745 |
| Marine, aviation and transport | 5,123 | 646 | 5,769 | 6,303 |
| Property | 7,520 | 1,031 | 8,551 | 12,341 |
| Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations | 10,188 | 1,599 | 11,787 | 0 |
| | 510,406 | 77,784 | 588,190 | 534,691 |

- An Event Not In Data ("ENID") was included in the Solvency II balance sheet for 2017.
- An increased expense provision was included in the Solvency II balance sheet.
- Reserves were discounted at the risk free rate.

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

| Solvency II Liability Adjustments | 2017 | 2016 |
|---|---|---|
| **Increase /(decrease)** | **GBP'000** | **GBP'000** |
| Event Not In Data (ENID) included in Solvency II Balance Sheet | 9,570 | - |
| Expense Provision increase included in Solvency II Balance Sheet | 32,868 | 79,002 |
| Discounting at the Risk Free Rate | (72,036) | (103,288) |
| Risk Margin | 9,482 | 77,785 |
| **Total Solvency II Liability Adjustments** | **(20,116)** | **53,499** |

The total of all technical provision adjustments above and separate risk margin result in the gross best estimate technical provisions on the Solvency II balance sheet being £20.1m lower (2016: £53.5m higher) than the gross technical provisions of £492.2m (2016: £534.7m) in the Company's annual financial statements.
The main risks and uncertainties associated with the technical provisions relate to the following:

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

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

## D.3 Other liabilities

Other liabilities are subject to fair value adjustments between Annual Financial Statements or Solvency II. For Company Annual Financial Statements these liabilities are measured as amortised cost. Where settlement is expected beyond 2018, other Liabilities have been discounted on a basis consistent with technical provisions. The total discounting adjustment against other liabilities is GBP£1.285m (2016 GBP£0.058m).

Other liabilities include deposits received from reinsurers. For Company Annual Financial Statements these liabilities are measured at amortised cost of GBP£89.4m (2016: £5.8m). For Solvency II reporting a discounting adjustment of GBP£0.3m (2016: nil) has been applied and is included in the total discounting adjustment against other liabilities.

Other liabilities include derivative liabilities which are used to mitigate currency risk. The fair value of derivatives for both Solvency II and Statutory Account purposes is determined using readily available foreign currency exchange rates to value the open contracts at reporting date. The difference in value between the reporting date and contract maturity date is recognised as either an asset or liability. For both Solvency II and Statutory Account purposes, at 31 December 2017 there is a net liability of GBP £0.079m (2016: nil).

## D.4 Alternative methods for valuation

No other alternative methods for valuation are used.

## D.5 Any other information

Not applicable.

# E. Capital Management

Capital management refers to the implementation of measures to maintain sufficient capital and to assess the internal capital adequacy of the Company in order that that it can meet its obligations. The Company manages capital to ensure a prudent level of Own Funds to protect the Company's economic viability, finance new growth opportunities and meet the requirements of its stakeholders and regulator. At the level of the Company, there is a business plan which feeds into the ORSA and which demonstrates capital adequacy is expected throughout the three year planning horizon. The Company aims to not fall below the CHUK target capital level of a minimum of 110% of SCR.

## E.1 Own funds

Own funds represent Ordinary Share Capital, Capital Contribution, Reconciliation Reserve and Subordinated Liabilities (an amount equal to the value of net deferred tax assets).

With respect to the Ordinary Share Capital there is a single class of share which is unrestricted i.e. dividends can be cancelled after they have been declared and also there are no restrictions on the repayment of the capital contribution, other than being subject to ongoing regulatory approval. For this reason Own Funds at 31 December 2017 are only Tier 1.

The Tier 3 capital in 2016 was a deferred tax asset, recognised under Solvency II valuation rules and capped at 15% of the SCR. Following the acquisition of the Company in 2017, the quota share arrangement put in place reduced the degree of certainty that future taxable earnings would be sufficient to fully realise the deferred tax asset. Accordingly, the deferred tax asset was written off in the current year.

| | Tier 1 | Tier 2 | Tier 3 | Total |
|---|---|---|---|---|
| | 2017 | 2017 | 2017 | 2017 |
| | GBP'000 | GBP'000 | GBP'000 | GBP'000 |
| **Basic own funds** | | | | |
| Ordinary Share Capital | 158,000 | | | 158,000 |
| Reconciliation Reserve | (18,764) | | | (18,764) |
| **Total basic own funds** | 139,236 | | | 139,236 |
| | | | | |
| | 2016 | 2016 | 2016 | 2016 |
| | GBP'000 | GBP'000 | GBP'000 | GBP'000 |
| **Basic own funds** | | | | |
| Ordinary Share Capital | 158,000 | | | 158,000 |
| Reconciliation Reserve | (40,512) | | | (40,512) |
| Value of Net Deferred Tax Asset | | | 17,936 | 17,936 |
| **Total basic own funds** | 117,488 | - | 17,936 | 135,424 |

The following shows the movement in the year in Own Funds:

| Reconciliation between Opening and Closing own funds | 2017 |
|---|---|
| | GBP'000 |
| **Opening own funds 1 January 2017** | **135,424** |
| Movement Statutory Account Retained Deficit | (45,328) |
| Movement Solvency II Asset Valuation differences – refer Section D.1 Assets | (25,700) |
| Movement Solvency II Liability Valuation differences – refer Sections D.2 and D.3 Liabilities | 74,840 |
| **Closing Own Funds 31 December 2017** | **139,236** |

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

| Reconciliation Reserve Components | 2017 | 2016 | Movement |
|---|---|---|---|
| | GBP'000 | GBP '000 | GBP '000 |
| Statutory Account Retained Deficit | (50,532) | (5,204) | (45,328) |
| Statutory Account Capital Reserve | 74,920 | 74,920 | - |
| Solvency II Movement in Value of Net Deferred Tax Asset | - | (17,936) | 17,936 |
| Solvency II Asset Valuation differences – refer Section D.1 Assets | (64,551) | (38,851) | (25,700) |
| Solvency II Liability Valuation differences – refer Section D.2 and D.3 Liabilities | 21,399 | (53,441) | 74,840 |
| **Total Reconciliation Reserve** | **(18,764)** | **(40,512)** | **21,748** |

The eligibility of tiered Capital to cover the Solvency Capital Requirement and Minimum Capital requirement ("MCR") depends on the tiering levels of the Company's Own Funds. At 31 December 2017 the Company's Own Funds are all Tier 1 and comply with the Solvency II Regulations that:

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

| | Tier 1 | Tier 2 | Tier 3 | Total |
|---|---|---|---|---|
| | 2017 | 2017 | 2017 | 2017 |
| | GBP'000 | GBP'000 | GBP'000 | GBP'000 |
| **Available and eligible own funds** | | | | |
| Total available own funds to meet the SCR | 139,236 | | | 139,236 |
| Total available own funds to meet the MCR | 139,236 | | | 139,236 |
| Total eligible own funds to meet the SCR | 139,236 | | | 139,236 |
| Total eligible own funds to meet the MCR | 139,236 | | | 139,236 |
| **SCR** | | | | **34,871** |
| **MCR** | | | | **8,718** |
| **Ratio of Eligible own funds to SCR** | | | | 399% |
| **Ratio of Eligible own funds to MCR** | | | | 1,597% |
| | Tier 1 | Tier 2 | Tier 3 | Total |
| | 2016 | 2016 | 2016 | 2016 |
| | GBP'000 | GBP'000 | GBP'000 | GBP'000 |
| **Available and eligible own funds** | | | | |
| Total available own funds to meet the SCR | 117,488 | - | 17,936 | 135,424 |
| Total available own funds to meet the MCR | 117,488 | - | - | 117,488 |
| Total eligible own funds to meet the SCR | 117,488 | - | 17,936 | 135,424 |
| Total eligible own funds to meet the MCR | 117,488 | - | - | 117,488 |
| **SCR** | | | | **119,573** |
| **MCR** | | | | **47,261** |
| **Ratio of Eligible own funds to SCR** | | | | **113%** |
| **Ratio of Eligible own funds to MCR** | | | | **249%** |

## E.2 Solvency Capital Requirement and Minimum Capital Requirement

| | 2017 | 2016 |
|---|---|---|
| | GBP'000 | GBP'000 |
| **By risk module** | | |
| Market risk | 31,702 | 34,590 |
| Default risk | 3,118 | 5,347 |
| Non-life risk | 1,029 | 118,502 |
| Life reserve risk | 659 | 1,123 |
| **Basic SCR before diversification** | **36,508** | **159,562** |
| Diversification Benefits | (3,392) | (25,148) |
| **Basic SCR** | **33,116** | **134,414** |
| Operational risk | 9,935 | 15,052 |
| Adjustment for loss absorbing capacity of deferred taxes | (8,180) | (29,893) |
| **SCR** | **34,871** | **119,573** |
| **MCR** | **8,718** | **47,261** |

The significant decrease in the Solvency Capital and Minimum Capital requirement between 2017 and 2016 mostly reflects the impact of the change in reinsurance arrangements from the previous Adverse Development Cover and quota share reinsurance arrangements under the Hartford ownership to the purchase of a 100% unlimited quota share reinsurance arrangement with CatGen under Catalina ownership. This latter reinsurance arrangement fully protects the run-off result as well as affording some recovery of operating expenses. The run-off nature of CWIL means that the MCR is based on claims technical provisions.

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

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

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

## E.4 Internal model

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

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

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

## E.6 Any other information

Not applicable.

## Appendix A: Reporting templates

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

| | |
|---|---|
| S.02.01.02 | Balance Sheet Information |
| S.05.01.02 | Information on Premiums, Claims and Expenses, applying the valuation and recognition principles used in the company's financial statements. |
| S.05.02.01 | Information on Premiums, Claims and Expenses - by Country, applying the valuation and recognition principles used in the company's financial statements. |
| S.12.01.02 | Life and Health SLT Technical Provisions |
| S.17.01.02 | Information on non-life technical provisions by LOB |
| S.19.01.21 | Information on non-life insurance claims by LOB in the format of development triangles. |
| S.23.01.01 | Information on Own funds |
| S.25.01.21 | Information on the SCR using the Standard Formula |
| S.28.01.01 | Minimum Capital Requirement for the Entity |

S.02.01.02 - Balance sheet

Contents

Tabular
Microsoft Excel-based Solvency II reporting solution

| | | Solvency II value |
|---|---|---|
| | **Assets** | C0010 |
| R0030 | Intangible assets | 0 |
| R0040 | Deferred tax assets | 0 |
| R0050 | Pension benefit surplus | 0 |
| R0060 | Property, plant & equipment held for own use | 0 |
| R0070 | Investments (other than assets held for index-linked and unit-linked contracts) | 204,255 |
| R0080 | Property (other than for own use) | 0 |
| R0090 | Holdings in related undertakings, including participations | 0 |
| R0100 | Equities | 1,711 |
| R0110 | Equities - listed | 0 |
| R0120 | Equities - unlisted | 1,711 |
| R0130 | Bonds | 183,835 |
| R0140 | Government Bonds | 95,454 |
| R0150 | Corporate Bonds | 37,664 |
| R0160 | Structured notes | 0 |
| R0170 | Collateralised securities | 50,717 |
| R0180 | Collective Investments Undertakings | 5,074 |
| R0190 | Derivatives | 0 |
| R0200 | Deposits other than cash equivalents | 13,635 |
| R0210 | Other investments | 0 |
| R0220 | Assets held for index-linked and unit-linked contracts | 0 |
| R0230 | Loans and mortgages | 11,033 |
| R0240 | Loans on policies | 0 |
| R0250 | Loans and mortgages to individuals | 0 |
| R0260 | Other loans and mortgages | 11,033 |
| R0270 | Reinsurance recoverables from: | 421,415 |
| R0280 | Non-life and health similar to non-life | 410,552 |
| R0290 | Non-life excluding health | 410,552 |
| R0300 | Health similar to non-life | 0 |
| R0310 | Life and health similar to life, excluding health and index-linked and unit-linked | 10,864 |
| R0320 | Health similar to life | 0 |
| R0330 | Life excluding health and index-linked and unit-linked | 10,864 |
| R0340 | Life index-linked and unit-linked | 0 |
| R0350 | Deposits to cedants | 12,787 |
| R0360 | Insurance and intermediaries receivables | 893 |
| R0370 | Reinsurance receivables | 7,324 |
| R0380 | Receivables (trade, not insurance) | 37,312 |
| R0390 | Own shares (held directly) | 0 |
| R0400 | Amounts due in respect of own fund items or initial fund called up but not yet paid in | 0 |
| R0410 | Cash and cash equivalents | 13,616 |
| R0420 | Any other assets, not elsewhere shown | 7 |
| R0500 | **Total assets** | 708,642 |

| | | Solvency II value |
|---|---|---|
| | **Liabilities** | C0010 |
| R0510 | Technical provisions – non-life | 460,143 |
| R0520 | Technical provisions – non-life (excluding health) | 460,143 |
| R0530 | TP calculated as a whole | 0 |
| R0540 | Best Estimate | 450,863 |
| R0550 | Risk margin | 9,280 |
| R0560 | Technical provisions - health (similar to non-life) | 0 |
| R0570 | TP calculated as a whole | 0 |
| R0580 | Best Estimate | 0 |
| R0590 | Risk margin | 0 |
| R0600 | Technical provisions - life (excluding index-linked and unit-linked) | 11,947 |
| R0610 | Technical provisions - health (similar to life) | 0 |
| R0620 | TP calculated as a whole | 0 |
| R0630 | Best Estimate | 0 |
| R0640 | Risk margin | 0 |
| R0650 | Technical provisions – life (excluding health and index-linked and unit-linked) | 11,947 |
| R0660 | TP calculated as a whole | 0 |
| R0670 | Best Estimate | 11,744 |
| R0680 | Risk margin | 203 |
| R0690 | Technical provisions – index-linked and unit-linked | 0 |
| R0700 | TP calculated as a whole | 0 |
| R0710 | Best Estimate | 0 |
| R0720 | Risk margin | 0 |
| R0740 | Contingent liabilities | 0 |
| R0750 | Provisions other than technical provisions | 0 |
| R0760 | Pension benefit obligations | 0 |
| R0770 | Deposits from reinsurers | 89,177 |
| R0780 | Deferred tax liabilities | 0 |
| R0790 | Derivatives | 79 |
| R0800 | Debts owed to credit institutions | 0 |
| R0810 | Financial liabilities other than debts owed to credit institutions | 0 |
| R0820 | Insurance & intermediaries payables | 0 |
| R0830 | Reinsurance payables | 4,286 |
| R0840 | Payables (trade, not insurance) | 1,555 |
| R0850 | Subordinated liabilities | 0 |
| R0860 | Subordinated liabilities not in Basic Own Funds | 0 |
| R0870 | Subordinated liabilities in Basic Own Funds | 0 |
| R0880 | Any other liabilities, not elsewhere shown | 2,220 |
| R0900 | **Total liabilities** | 569,407 |
| R1000 | **Excess of assets over liabilities** | 139,236 |

S.05.01.02.01 - Premiums, claims and expenses by line of business - Table 1

Contents

Tabular

Microsoft Excel-based Solvency II reporting solution

| | | Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance) | | | Line of Business for:accepted non-proportional reinsurance | | | |
|---|---|---|---|---|---|---|---|---|
| | | Marine, aviation and transport insurance | Fire and other damage to property insurance | General liability insurance | Casualty | Marine, aviation, transport | Property | Total |
| | | C0060 | C0070 | C0080 | C0140 | C0150 | C0160 | C0200 |
| | **Premiums written** | | | | | | | |
| R0110 | Gross - Direct Business | 0 | 0 | 0 | | | | 0 |
| R0120 | Gross - Proportional reinsurance accepted | 0 | 0 | 0 | | | | 0 |
| R0130 | Gross - Non-proportional reinsurance accepted | | | | 32 | 7 | 15 | 53 |
| R0140 | Reinsurers' share | 10 | 2 | 0 | 2 | 32 | 12 | 58 |
| R0200 | Net | -10 | -2 | 0 | 30 | -25 | 2 | -4 |
| | **Premiums earned** | | | | | | | |
| R0210 | Gross - Direct Business | 0 | 0 | 90 | | | | 90 |
| R0220 | Gross - Proportional reinsurance accepted | 0 | 0 | -91 | | | | -91 |
| R0230 | Gross - Non-proportional reinsurance accepted | | | | 0 | 0 | 0 | 0 |
| R0240 | Reinsurers' share | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| R0300 | Net | 0 | 0 | -1 | 0 | 0 | 0 | -1 |
| | **Claims incurred** | | | | | | | |
| R0310 | Gross - Direct Business | 1,556 | 90 | 12,767 | | | | 14,413 |
| R0320 | Gross - Proportional reinsurance accepted | 0 | 0 | 0 | | | | 0 |
| R0330 | Gross - Non-proportional reinsurance accepted | | | | 9,407 | 291 | 570 | 10,268 |
| R0340 | Reinsurers' share | -1,490 | -112 | -9,952 | 57 | -188 | 738 | -10,947 |
| R0400 | Net | 3,046 | 202 | 22,718 | 9,350 | 479 | -168 | 35,628 |
| | **Changes in other technical provisions** | | | | | | | |
| R0410 | Gross - Direct Business | 0 | 0 | 0 | | | | 0 |
| R0420 | Gross - Proportional reinsurance accepted | 0 | 0 | 0 | | | | 0 |
| R0430 | Gross - Non- proportional reinsurance accepted | | | | 0 | 0 | 0 | 0 |
| R0440 | Reinsurers'share | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| R0500 | Net | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| R0550 | **Expenses incurred** | 278 | 20 | 4,468 | 3,151 | 85 | 149 | 8,151 |
| R1200 | **Other expenses** | | | | | | | 0 |
| R1300 | **Total expenses** | | | | | | | 8,151 |

S.05.01.02.02 - Premiums, claims and expenses by line of business - Table 2

Contents

| | | Line of Business for: **life insurance obligations** | | | | | | **Life reinsurance obligations** | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Health insurance | Insurance with profit participation | Index-linked and unit-linked insurance | Other life insurance | Annuities stemming from non-life insurance contracts and relating to health insurance obligations | Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations | Health reinsurance | Life-reinsurance | **Total** |
| | | C0210 | C0220 | C0230 | C0240 | C0250 | C0260 | C0270 | C0280 | C0300 |
| | **Premiums written** | | | | | | | | | |
| R1410 | Gross | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| R1420 | Reinsurers' share | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| R1500 | Net | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | **Premiums earned** | | | | | | | | | |
| R1510 | Gross | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| R1520 | Reinsurers' share | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| R1600 | Net | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | **Claims incurred** | | | | | | | | | |
| R1610 | Gross | 0 | 0 | 0 | 0 | 0 | 6 | 0 | 0 | 6 |
| R1620 | Reinsurers' share | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| R1700 | Net | 0 | 0 | 0 | 0 | 0 | 6 | 0 | 0 | 6 |
| | **Changes in other technical provisions** | | | | | | | | | |
| R1710 | Gross | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| R1720 | Reinsurers' share | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| R1800 | Net | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| R1900 | **Expenses incurred** | 0 | 0 | 0 | 0 | 0 | 212 | 0 | 0 | 212 |
| R2500 | **Other expenses** | | | | | | | | | 0 |
| R2600 | **Total expenses** | | | | | | | | | 212 |

S.12.01.02 - Life and Health SLT Technical Provisions

Contents

Tabular

| | | Insurance with profit participation | Index-linked and unit-linked insurance | Index-linked and unit-linked insurance: Contracts without options and guarantees | Index-linked and unit-linked insurance: Contracts with options or guarantees | Other life insurance | Other life insurance: Contracts without options and guarantees | Other life insurance: Contracts with options or guarantees | Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance | Accepted reinsurance | **Total (Life other than health insurance, including Unit-Linked)** | Health insurance (direct business) | Health insurance (direct business): Contracts without options and guarantees | Health insurance (direct business): Contracts with options or guarantees | Annuities stemming from non-life insurance contracts and relating to health insurance obligations | Health reinsurance (reinsurance accepted) | **Total (Health similar to life insurance)** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | C0020 | C0030 | C0040 | C0050 | C0060 | C0070 | C0080 | C0090 | C0100 | C0150 | C0160 | C0170 | C0180 | C0190 | C0200 | C0210 |
| R0010 | **Technical provisions calculated as a whole** | 0 | 0 | | | 0 | | | 0 | 0 | 0 | 0 | | | 0 | 0 | 0 |
| R0020 | **Total Recoverables from reinsurance/SPV and Finite Re** after the adjustment for expected losses due to counterparty default associated to TP as a whole | 0 | 0 | | | 0 | | | 0 | 0 | 0 | 0 | | | 0 | 0 | 0 |
| | **Technical provisions calculated as a sum of BE and RM** | | | | | | | | | | | | | | | | |
| | **Best Estimate** | | | | | | | | | | | | | | | | |
| R0030 | **Gross Best Estimate** | 0 | | 0 | 0 | | 0 | 0 | 11,744 | 0 | 11,744 | | 0 | 0 | 0 | 0 | 0 |
| R0080 | Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | 0 | | 0 | 0 | | 0 | 0 | 10,864 | 0 | 10,864 | | 0 | 0 | 0 | 0 | 0 |
| R0090 | Best estimate minus recoverables from reinsurance/SPV and Finite Re - total | 0 | | 0 | 0 | | 0 | 0 | 881 | 0 | 881 | | 0 | 0 | 0 | 0 | 0 |
| R0100 | **Risk Margin** | 0 | 0 | | | 0 | | | 203 | 0 | 203 | 0 | | | 0 | 0 | 0 |
| | **Amount of the transitional on Technical Provisions** | | | | | | | | | | | | | | | | |
| R0110 | Technical Provisions calculated as a whole | 0 | 0 | | | 0 | | | 0 | 0 | 0 | 0 | | | 0 | 0 | 0 |
| R0120 | Best estimate | 0 | | 0 | 0 | | 0 | 0 | 0 | 0 | 0 | | 0 | 0 | 0 | 0 | 0 |
| R0130 | Risk margin | 0 | 0 | | | 0 | | | 0 | 0 | 0 | 0 | | | 0 | 0 | 0 |
| R0200 | **Technical provisions - total** | 0 | 0 | | | 0 | | | 11,947 | 0 | 11,947 | 0 | | | 0 | 0 | 0 |

S.17.01.02 - Non-Life Technical Provisions

Contents

Tabular

| | | Direct business and accepted proportional | | | Accepted non-proportional reinsurance | | | |
|---|---|---|---|---|---|---|---|---|
| | | Marine, aviation and transport insurance | Fire and other damage to property insurance | General liability insurance | Non-proportional casualty reinsurance | Non-proportional marine, aviation and transport reinsurance | Non-proportional property reinsurance | Total Non-Life obligation |
| | | C0070 | C0080 | C0090 | C0150 | C0160 | C0170 | C0180 |
| R0010 | **Technical provisions calculated as a whole** | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| R0050 | Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | **Technical provisions calculated as a sum of BE and RM** | | | | | | | |
| | **Best estimate** | | | | | | | |
| | Premium provisions | | | | | | | |
| R0060 | Gross | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| R0140 | Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| R0150 | Net Best Estimate of Premium Provisions | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | **Claims provisions** | | | | | | | |
| R0160 | Gross | 15,361 | 1,114 | 246,948 | 174,508 | 4,707 | 8,225 | 450,863 |
| R0240 | Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | 13,929 | 1,005 | 225,926 | 158,092 | 4,205 | 7,396 | 410,552 |
| R0250 | Net Best Estimate of Claims Provisions | 1,432 | 109 | 21,022 | 16,417 | 502 | 829 | 40,312 |
| R0260 | **Total Best estimate - gross** | 15,361 | 1,114 | 246,948 | 174,508 | 4,707 | 8,225 | 450,863 |
| R0270 | **Total Best estimate - net** | 1,432 | 109 | 21,022 | 16,417 | 502 | 829 | 40,312 |
| R0280 | **Risk margin** | 330 | 25 | 4,840 | 3,779 | 116 | 191 | 9,280 |
| | **Amount of the transitional on Technical Provisions** | | | | | | | |
| R0290 | Technical Provisions calculated as a whole | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| R0300 | Best estimate | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| R0310 | Risk margin | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | **Technical provisions - total** | | | | | | | |
| R0320 | Technical provisions - total | 15,691 | 1,139 | 251,788 | 178,287 | 4,823 | 8,415 | 460,143 |
| R0330 | Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total | 13,929 | 1,005 | 225,926 | 158,092 | 4,205 | 7,396 | 410,552 |
| R0340 | Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total | 1,762 | 134 | 25,862 | 20,196 | 618 | 1,020 | 49,592 |

S.19.01.21 - Non-life Insurance Claims Information (simplified template for the public disclosure)

Contents

Tabular
Microsoft Excel-based Solvency II reporting solution

**Total Non-Life Business**

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

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

Development year

| | Year | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 & + | | In Current year | Sum of years (cumulative) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | C0010 | C0020 | C0030 | C0040 | C0050 | C0060 | C0070 | C0080 | C0090 | C0100 | C0110 | | C0170 | C0180 |
| R0100 | **Prior** | | | | | | | | | | | 32,275 | | 32,275 | 31,752 |
| R0160 | **N-9** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 15 | 10,006 | 39 | | | 39 | 10,060 |
| R0170 | **N-8** | 0 | 0 | 10 | 3 | 0 | 0 | 0 | 0 | 19 | | | | 19 | 31 |
| R0180 | **N-7** | 0 | 0 | 0 | 9 | 0 | 0 | 1 | 0 | | | | | 0 | 10 |
| R0190 | **N-6** | 0 | 0 | 0 | 0 | 0 | 0 | 4,552 | | | | | | 4,552 | 4,552 |
| R0200 | **N-5** | 0 | 0 | 0 | 0 | 0 | 0 | | | | | | | 0 | 0 |
| R0210 | **N-4** | 0 | 0 | 0 | 0 | 0 | | | | | | | | 0 | 0 |
| R0220 | **N-3** | 0 | 0 | 0 | 0 | | | | | | | | | 0 | 0 |
| R0230 | **N-2** | 0 | 0 | 0 | | | | | | | | | | 0 | 0 |
| R0240 | **N-1** | 0 | 0 | | | | | | | | | | | 0 | 0 |
| R0250 | **N** | 0 | | | | | | | | | | | | 0 | 0 |
| R0260 | | | | | | | | | | | | | **Total** | 36,885 | 46,405 |

**Gross undiscounted Best Estimate Claims Provisions**
(absolute amount)

Development year

| | Year | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 & + | | Year end (discounted data) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | C0200 | C0210 | C0220 | C0230 | C0240 | C0250 | C0260 | C0270 | C0280 | C0290 | C0300 | | C0360 |
| R0100 | **Prior** | | | | | | | | | | | 510,300 | | 440,529 |
| R0160 | **N-9** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 961 | 0 | | | 0 |
| R0170 | **N-8** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 7,318 | 11,138 | | | | 9,965 |
| R0180 | **N-7** | 0 | 0 | 0 | 0 | 0 | 0 | 3,341 | 385 | | | | | 344 |
| R0190 | **N-6** | 0 | 0 | 0 | 0 | 0 | 1,457 | 7,002 | | | | | | 6,265 |
| R0200 | **N-5** | 0 | 0 | 0 | 0 | 5,687 | 3,398 | | | | | | | 0 |
| R0210 | **N-4** | 0 | 0 | 0 | 0 | 0 | | | | | | | | 3,040 |
| R0220 | **N-3** | 0 | 0 | 0 | 0 | | | | | | | | | 0 |
| R0230 | **N-2** | 0 | 0 | 0 | | | | | | | | | | 0 |
| R0240 | **N-1** | 0 | 0 | | | | | | | | | | | 0 |
| R0250 | **N** | 0 | | | | | | | | | | | | 0 |
| R0260 | | | | | | | | | | | | | **Total** | 460,143 |

S.22.01.21 - Impact of long term guarantees and transitional measures

Contents

Tabular
Microsoft Excel-based Solvency II reporting solution

| | | Amount with Long Term Guarantee measures and transitionals | Impact of transitional on technical provisions | Impact of transitional on interest rate | Impact of volatility adjustment set to zero | Impact of matching adjustment set to zero |
|---|---|---|---|---|---|---|
| | | C0010 | C0030 | C0050 | C0070 | C0090 |
| R0010 | Technical provisions | | | | | |
| R0020 | Basic own funds | | | | | |
| R0050 | Eligible own funds to meet Solvency Capital Requirement | | | | | |
| R0090 | Solvency Capital Requirement | | | | | |
| R0100 | Eligible own funds to meet Minimum Capital Requirement | | | | | |
| R0110 | **Minimum Capital Requirement** | | | | | |

S.23.01.01 - Own funds

Contents

Tabular

| | | Total | Tier 1 - unrestricted | Tier 1 - restricted | Tier 2 | Tier 3 |
|---|---|---|---|---|---|---|
| | | C0010 | C0020 | C0030 | C0040 | C0050 |
| | **Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated** | | | | | |
| R0010 | Ordinary share capital (gross of own shares) | 158,000 | 158,000 | | 0 | |
| R0030 | Share premium account related to ordinary share capital | 0 | 0 | | 0 | |
| R0040 | Iinitial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings | 0 | 0 | | 0 | |
| R0050 | Subordinated mutual member accounts | 0 | | 0 | 0 | 0 |
| R0070 | Surplus funds | 0 | 0 | | | |
| R0090 | Preference shares | 0 | | 0 | 0 | 0 |
| R0110 | Share premium account related to preference shares | 0 | | 0 | 0 | 0 |
| R0130 | Reconciliation reserve | -18,764 | -18,764 | | | |
| R0140 | Subordinated liabilities | 0 | | 0 | 0 | 0 |
| R0160 | An amount equal to the value of net deferred tax assets | 0 | | | | 0 |
| R0180 | Other own fund items approved by the supervisory authority as basic own funds not specified above | 0 | 0 | 0 | 0 | 0 |
| | **Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds** | | | | | |
| R0220 | Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds | 0 | | | | |
| | **Deductions** | | | | | |
| R0230 | Deductions for participations in financial and credit institutions | 0 | 0 | 0 | 0 | 0 |
| R0290 | **Total basic own funds after deductions** | 139,236 | 139,236 | 0 | 0 | 0 |
| | **Ancillary own funds** | | | | | |
| R0300 | Unpaid and uncalled ordinary share capital callable on demand | 0 | | | 0 | |
| R0310 | Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand | 0 | | | 0 | |
| R0320 | Unpaid and uncalled preference shares callable on demand | 0 | | | 0 | 0 |
| R0330 | A legally binding commitment to subscribe and pay for subordinated liabilities on demand | 0 | | | 0 | 0 |
| R0340 | Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC | 0 | | | 0 | |
| R0350 | Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC | 0 | | | 0 | 0 |
| R0360 | Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC | 0 | | | 0 | |
| R0370 | Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC | 0 | | | 0 | 0 |
| R0390 | Other ancillary own funds | 0 | | | 0 | 0 |
| R0400 | **Total ancillary own funds** | 0 | | | 0 | 0 |
| | **Available and eligible own funds** | | | | | |
| R0500 | Total available own funds to meet the SCR | 139,236 | 139,236 | 0 | 0 | 0 |
| R0510 | Total available own funds to meet the MCR | 139,236 | 139,236 | 0 | 0 | |
| R0540 | Total eligible own funds to meet the SCR | 139,236 | 139,236 | 0 | 0 | 0 |
| R0550 | Total eligible own funds to meet the MCR | 139,236 | 139,236 | 0 | 0 | |
| R0580 | **SCR** | 34,871 | | | | |
| R0600 | **MCR** | 8,718 | | | | |
| R0620 | **Ratio of Eligible own funds to SCR** | 3.9929 | | | | |
| R0640 | **Ratio of Eligible own funds to MCR** | 15.9716 | | | | |

| | | C0060 |
|---|---|---|
| | **Reconciliation reserve** | |
| R0700 | Excess of assets over liabilities | 139,236 |
| R0710 | Own shares (held directly and indirectly) | 0 |
| R0720 | Foreseeable dividends, distributions and charges | 0 |
| R0730 | Other basic own fund items | 158,000 |
| R0740 | Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds | 0 |
| R0760 | **Reconciliation reserve** | -18,764 |
| | **Expected profits** | |
| R0770 | Expected profits included in future premiums (EPIFP) - Life business | 0 |
| R0780 | Expected profits included in future premiums (EPIFP) - Non- life business | 0 |
| R0790 | **Total Expected profits included in future premiums (EPIFP)** | 0 |

S.25.01.21 - Solvency Capital Requirement - for undertakings on Standard Formula

Contents

Tabular

Microsoft Excel-based Solvency II reporting solution

| | | Gross solvency capital requirement | USP | Simplifications |
|---|---|---|---|---|
| | | C0110 | C0090 | C0120 |
| R0010 | Market risk | 31,702 | | |
| R0020 | Counterparty default risk | 3,118 | | |
| R0030 | Life underwriting risk | 659 | | |
| R0040 | Health underwriting risk | 0 | | |
| R0050 | Non-life underwriting risk | 1,029 | | |
| R0060 | Diversification | -3,392 | | |
| R0070 | Intangible asset risk | 0 | | |
| R0100 | **Basic Solvency Capital Requirement** | 33,116 | | |

| | | |
|---|---|---|
| | **Calculation of Solvency Capital Requirement** | C0100 |
| R0130 | Operational risk | 9,935 |
| R0140 | Loss-absorbing capacity of technical provisions | 0 |
| R0150 | Loss-absorbing capacity of deferred taxes | -8,180 |
| R0160 | Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC | 0 |
| R0200 | **Solvency capital requirement excluding capital add-on** | 34,871 |
| R0210 | Capital add-on already set | 0 |
| R0220 | **Solvency capital requirement** | 34,871 |
| | **Other information on SCR** | |
| R0400 | Capital requirement for duration-based equity risk sub-module | 0 |
| R0410 | Total amount of Notional Solvency Capital Requirement for remaining part | 0 |
| R0420 | Total amount of Notional Solvency Capital Requirements for ring fenced funds | 0 |
| R0430 | Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios | 0 |
| R0440 | Diversification effects due to RFF nSCR aggregation for article 304 | 0 |

S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

Contents

Tabular
Microsoft Excel-based Solvency II reporting solution

**Linear formula component for non-life insurance and reinsurance obligations**

| | | C0010 |
|---|---|---|
| R0010 | MCRNL Result | 5,624 |

| | | Net (of reinsurance/SPV) best estimate and TP calculated as a whole | Net (of reinsurance) written premiums in the last 12 months |
|---|---|---|---|
| | | C0020 | C0030 |
| R0070 | Marine, aviation and transport insurance and proportional reinsurance | 1,432 | 0 |
| R0080 | Fire and other damage to property insurance and proportional reinsurance | 109 | 0 |
| R0090 | General liability insurance and proportional reinsurance | 21,022 | 0 |
| R0150 | Non-proportional casualty reinsurance | 16,417 | 0 |
| R0160 | Non-proportional marine, aviation and transport reinsurance | 502 | 0 |
| R0170 | Non-proportional property reinsurance | 829 | 0 |

**Linear formula component for life insurance and reinsurance obligations**

| | | C0040 |
|---|---|---|
| R0200 | MCRL Result | 18 |

| | | Net (of reinsurance/SPV) best estimate and TP calculated as a whole | Net (of reinsurance/SPV) total capital at risk |
|---|---|---|---|
| | | C0050 | C0060 |
| R0210 | Obligations with profit participation - guaranteed benefits | 0 | |
| R0220 | Obligations with profit participation - future discretionary benefits | 0 | |
| R0230 | Index-linked and unit-linked insurance obligations | 0 | |
| R0240 | Other life (re)insurance and health (re)insurance obligations | 881 | |
| R0250 | Total capital at risk for all life (re)insurance obligations | | 0 |

| | **Overall MCR calculation** | C0070 |
|---|---|---|
| R0300 | Linear MCR | 5,643 |
| R0310 | SCR | 34,871 |
| R0320 | MCR cap | 15,692 |
| R0330 | MCR floor | 8,718 |
| R0340 | Combined MCR | 8,718 |
| R0350 | Absolute floor of the MCR | 3,251 |

| | | C0070 |
|---|---|---|
| R0400 | **Minimum Capital Requirement** | 8,718 |