Company Registration No. 08223415

Catalina Foxtrot Holdings Limited

Annual Report and Financial Statements

31 December 2019

CATALINA FOXTROT HOLDINGS LIMITED
Reg. No: 08223415

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CATALINA FOXTROT HOLDINGS LIMITED
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STRATEGIC REPORT

The directors present their strategic report on Catalina Foxtrot Holdings Limited, ("Catalina Foxtrot Holdings" or "the Company") for the year ended 31 December 2019.

The Company is an intermediate holding company within the Catalina Holdings (Bermuda) Ltd. ("CHBL") group.

The Company was incorporated in England and Wales on 20 September 2012. The Company's wholly-owned subsidiary is Catalina Insurance Ireland dac ("CII").

The principal activities of Catalina Foxtrot Holdings and its subsidiary ("the Group") comprise managing the run-off of the insurance and reinsurance business previously underwritten by CII. CII is authorised by the Central Bank of Ireland, pursuant to the European Union (Insurance and Reinsurance) Regulations 2015, to carry on non-life insurance business in classes 1 to 18 as defined in European Union (Insurance and Reinsurance) Regulations 2015 (SI No.485 of 2015), with the right to carry on business in such classes in other EU jurisdictions including the UK on a freedom of services basis.

The results for the consolidated Group, as set out on pages 8 and 9, show an after tax loss of €2.0 million (2018: profit of €0.8 million). The change in result reflects an increase in claims incurred, net of reinsurance partly offset by better investment performance. The Group shareholder's funds at 31 December 2019 are €96.0 million (2018: €86.9 million). Cash outflow of €32.7 million in the year (2018: €16.5 million inflow) predominantly reflects operating cash flows.

During the year the Company and CII received a capital contribution in line with the CII's Capital Management Plan, after CII's regulatory solvency coverage fell below the internal target ratio at the end of the first quarter of 2019. This capital contribution of €11.0 million was received in May 2019. The reduction in CII's regulatory solvency coverage was partly due to its long-term liabilities, where the valuation of these liabilities are sensitive to movements in interest rates. The long-term liabilities include Periodic Payment Orders (PPOs) on CII's UK portfolio and annuity claims on its German MedMal portfolio. In CII's Solvency II regulatory returns, it discounts its long term liabilities using the risk-free interest rate term structures published by the European Insurance and Occupational Pensions Authority (EIOPA). Interest rates trended downwards during 2019, which increased the best estimate of liabilities for the long-term liabilities, thus impacting CII's regulatory solvency coverage. CII implemented measures to reduce the impact of movements in risk-free interest rates, and reduce the volatility of its solvency coverage. These measures included amending the existing intra-group reinsurance arrangement to increase the reinsurance on the long-term liabilities from 65% to 100%, with the changes effective from 1 July 2019.

Critical accounting policies and the use of estimates

The preparation of financial statements requires the Company to select accounting policies and make estimates and assumptions that affect items reported in the consolidated income statement, consolidated statement of financial position, other primary statements and notes to the consolidated financial statements.

CII's Audit Committee reviews the reasonableness of judgements and assumptions applied and the appropriateness of significant accounting policies which are applied in CII and then reflected in the Company and the Group. The accounting policies for insurance contracts and the investment classification and valuation are considered to have the most significant impact on the amounts recognised in the financial statements. These policies are detailed in Notes 3 and 4 respectively.

The estimates that have the most significant impact on the amounts recognised in the financial statements are considered to be the insurance reserves and the investment valuation, which are detailed in Notes 13 and 18 respectively.

Principal Risks and Uncertainties

The main financial risks facing the Group are reserving risk, market risk and credit risk through its past underwriting and investment activities. These risks are controlled through the application of the Enterprise Risk Management Programmes at CII. The framework of policies, procedures and internal controls assist CII in assessing, managing and controlling these exposures.

STRATEGIC REPORT (CONTINUED)

The directors of CII are closely involved in the operations of CII and monitor results carefully. This involves reviewing the cash-flow position, including the liquidity of the investment portfolios, the recoverability of debtors and a comparison of expenses against forecasts and budgets.

The Company, through its subsidiary CII, has significant exposure to MedMal insurance risk, which carries considerable uncertainty in the estimate for technical provisions and therefore can result in a wide range of possible outcomes, above and beyond that experienced in traditional non-life insurance products. The long-tail nature of the technical provisions for MedMal products can result in larger actual to expected development of a claim and can be dependent on legislative initiatives and the ability to settle a claim outside of a court of law.

As a holding company, the Company's exposures to investment and trading risks are derived from the performance of CII. The management of investments for CII is undertaken by the Catalina Group's Chief Investment Officer and his team, subject to guidelines approved by the Board of CII. The exposure to liquidity or cash flow risk is minimal given the quality and duration of its investment portfolio.

During the year CII used derivative financial instruments to reduce exposure to foreign exchange risk movements.

Brexit

The Company's subsidiary has a portfolio of UK claims and is therefore exposed to Brexit. The uncertainties for the subsidiary associated with Brexit have been the subject of close scrutiny during the year, with a number of potential scenarios considered and appropriate mitigating actions planned. The implications continue to be assessed based on the available information. CII's UK technical provisions at 31 December 2019 were €97.1 million, 26% of total technical provisions (2018: €52.6 million, 15% of total technical provisions).

COVID-19

The outbreak of COVID-19 in China and its subsequent spread to other countries and containment measures are having a significant adverse effect on the global economy. The future effects of the outbreak of COVID-19 are unclear at this time. A significant rise in the number of COVID-19 infections, infections in a wide range of countries and regions, or a prolongation of the outbreak could significantly adversely affect economic growth, capital markets, specific industries and countries as well as affect the Company's employees and business operations. Any of these developments may adversely affect the Group or Company's business or financial results. At this time, observed volatilities in the capital markets are expected to have an impact on the investment results of CII, however, the impact of current circumstances on gross loss reserves and the run-off thereof is estimated not to be material, and CII is expected to be able to maintain its operations. The solvency and liquidity of CII are assessed to be adequate and the current circumstances are not considered to be challenging the Group or Company's ability to continue as a going concern for the foreseeable future. The Group and Company closely monitors developments and the potential impact of the spread of infection on asset valuations, insurance exposures and the overall financial and operational situation.

CII is also impacted by the recent sharp decline in oil prices. CII has a €10 million investment in an energy related company. This investment's creditworthiness deteriorated during March 2020 as a result of the OPEC+ dispute. At the time, CII directors believed it was prudent to prepare for the likelihood that this company would file for bankruptcy and the investment was written down by 90% in March 2020 which contributed to the solvency coverage reducing from 196% at the end of 2019 to 168% at the end of Q1 2020. This company has since filed for bankruptcy and a full write down of the investment would reduce CII solvency coverage by a further 3%.

Section 172 Statement

The Company, as an intermediate holding company, has no employees or suppliers and as such the directors primarily consider the interests of the sole member, and ultimate parent company, CHBL with regard to performing their duties on matters set out under Section 172. The key board decisions approved during the year were made in line with the strategic goals and objectives of both the Company and the ultimate parent

STRATEGIC REPORT (CONTINUED)

company CHBL. The manner in which these goals and objectives have complied with Section 172 has been outlined in the financial statements of the regulated subsidiaries.

By order of the Board

Graeme McAndrew

G J McAndrew

Director

27 July 2020

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements of the Group and Company for the year ended 31 December 2019.

DIRECTORS

The current directors of the Company are shown below. All directors served throughout the year.

Mr M D Dwonczyk

Mr C M Fagan

Mr C J Fleming (resigned 1 May 2020)

Mr K A Lyon (Alternate)

Mr G J McAndrew (appointed 29 May 2020)

The Company's ultimate parent company Catalina Holdings (Bermuda) Ltd. maintains indemnity insurance which covers the directors of the Company.

SECRETARY

The current secretary of the Company is shown below.

Mr R P Jackson

DIVIDENDS

A distribution of € nil was paid in the year (2018: €5.6 million).

FUTURE DEVELOPMENTS

The future developments of the Group and Company are considered in the Strategic Report on page 1.

GOING CONCERN

After making enquiries, the directors have a reasonable expectation that the Group and Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in preparing the financial statements.

DISCLOSURE OF INFORMATION TO AUDITOR

In the case of each of the persons who is a director of the Company at the date when this report is approved:

- so far as each of the directors is aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the Company's auditor is unaware; and
- each of the directors has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information (as defined) and to establish that the Company's auditor is aware of that information.

AUDITOR

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and will therefore continue in office.

DIRECTORS' REPORT (CONTINUED)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the Group and Company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102, which is the *Financial Reporting Standard applicable in the UK and Republic of Ireland.*

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use 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.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and Company and to prevent and detect fraud and other irregularities

Approved by the Board of Directors and signed on behalf of the Board:

Graeme McAndrew

G J McAndrew

Director

27 July 2020

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CATALINA FOXTROT HOLDINGS LIMITED

Opinion

We have audited the financial statements of Catalina Foxtrot Holdings Limited ("the company") for the year ended 31 December 2019 which comprise the Consolidated Profit and Loss Account and Other Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated and Company's Statement of Changes in Equity, the Consolidated Cash Flow Statement and related notes, including the accounting policies in note 3.

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2019 and of the group's loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the group or the company or to cease their operations, and as they have concluded that the group and the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the group's business model and analysed how those risks might affect the group and company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group or the company will continue in operation.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit or

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 4 and 5, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and parent 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 group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Umar Jamil (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

27 July 2020

CATALINA FOXTROT HOLDINGS LIMITED
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CONSOLIDATED PROFIT AND LOSS ACCOUNT AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2019

TECHNICAL ACCOUNT – GENERAL BUSINESS

	Notes	2019 €'000	2018 €'000
Gross premiums written	5	(16)	(54)
Outward reinsurance premiums		16	53
		-	(1)
Change in the gross provision for unearned premiums			
Gross amount		126	408
Reinsurers' share		(118)	(398)
		8	10
Earned premiums, net of reinsurance		8	9
Allocated investment return from the non-technical account		5,049	2,883
Other technical income	21	1,417	2,712
Reinsurers' share of other technical income		(921)	(171)
Other technical income, net of reinsurance		496	2,541
Total technical income		5,553	5,433
Claims incurred, net of reinsurance			
Claims paid:			
Gross amount		(56,956)	(45,722)
Reinsurers' share		(2,965)	29,937
		(59,921)	(15,785)
Change in the provision for claims:			
Gross amount	17	(16,558)	42,183
Reinsurers' share		65,840	(27,600)
		49,282	14,583
Claims incurred, net of reinsurance		(10,639)	(1,202)
Net operating expenses	7	(2,853)	(2,845)
Balance on the technical account for general business		(7,939)	1,386

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CONSOLIDATED PROFIT AND LOSS ACCOUNT AND OTHER COMPREHENISVE INCOME (CONTINUED)

Year ended 31 December 2019

NON-TECHNICAL ACCOUNT

	Notes	2019 €'000	2018 €'000
Balance on the technical account for general business		(7,939)	1,386
Investment income	9	5,681	13,012
Net realised gains/(losses) on investments		499	(5,623)
Unrealised gains/(losses) on fair value option investments and associates		5,524	(2,126)
Interest payable		(1,817)	(1,811)
Investment expenses		(108)	(346)
Total investment return		9,779	3,106
Allocated investment return transferred to the non-life insurance business technical account		(5,049)	(2,883)
Net foreign exchange gains / (losses)		1,027	(658)
(Loss) / Profit on ordinary activities before tax		(2,182)	951
Tax credit / (charge) on profit on ordinary activities	11	219	(146)
(Loss) / Profit on ordinary activities after tax		(1,963)	805

All activities derive from continuing operations.

The accounting policies and notes on pages 17 to 36 form an integral part of these consolidated financial statements.

CATALINA FOXTROT HOLDINGS LIMITED
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CONSOLIDATED BALANCE SHEET

As at 31 December 2019

	Notes	2019 €'000	2018 €'000
ASSETS			
INVESTMENTS			
Investments in group undertakings and participating interests	12	8,741	6,686
Other financial investments	13	199,517	181,746
		208,258	188,432
REINSURERS' SHARE OF TECHNICAL PROVISIONS			
Provision for unearned premiums	17	11	130
Claims outstanding	17	300,740	232,281
		300,751	232,411
DEBTORS	14	12,441	7,887
OTHER ASSETS			
Tangible assets		7	6
Cash at bank and in hand		4,804	39,231
		4,811	39,237
PREPAYMENTS AND ACCRUED INCOME			
Accrued interest		2,012	1,705
Deferred acquisition costs	15	2	101
Other prepayments and accrued income		1,247	1,532
		3,261	3,338
TOTAL ASSETS		529,522	471,305

CATALINA FOXTROT HOLDINGS LIMITED
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CONSOLIDATED BALANCE SHEET (CONTINUED)

As at 31 December 2019

	Notes	2019 €'000	2018 €'000
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Called up share capital	16	1	1
Capital reserve		83,275	72,275
Profit and loss account		12,707	14,670
EQUITY SHAREHOLDER'S FUNDS		95,983	86,946
TECHNICAL PROVISIONS			
Provision for unearned premiums	17	16	142
Claims outstanding	17	374,738	355,288
		374,754	355,430
CREDITORS			
Creditors arising out of direct insurance operations		32,245	1,528
Long term subordinated debt	19	23,429	23,358
Other creditors including taxation and social security	20	256	249
		55,930	25,135
ACCRUALS AND DEFERRED INCOME			
Accruals	21	2,853	3,693
Deferred reinsurance commissions	15	2	101
		2,855	3,794
TOTAL LIABILITIES		433,539	384,359
TOTAL EQUITY AND LIABILITIES		529,522	471,305

The accounting policies and notes on pages 17 to 36 form an integral part of these consolidated financial statements.

Approved by the Board of Directors on the 27 July 2020 and signed on its behalf by:

Graeme McAndrew

G J McAndrew

Director

27 July 2020

CATALINA FOXTROT HOLDINGS LIMITED
Reg. No: 08223415

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Notes	Share Capital	Capital Reserve	Profit and Loss Account	Total
		€'000	€'000	€'000	€'000
Balance at 1 January 2019	16	1	72,275	14,670	86,946
Profit for the year		-	-	(1,963)	(1,963)
Capital contribution			11,000		11,000
Balance at 31 December 2019		1	83,275	12,707	95,983

For the year ended 31 December 2018

	Notes	Share Capital	Capital Reserve	Profit and Loss Account	Total
		€'000	€'000	€'000	€'000
Balance at 1 January 2018	16	1	20,275	19,427	39,703
Profit for the year		-	-	805	805
Distribution to parent		-	-	(5,562)	(5,562)
Capital contribution		-	52,000	-	52,000
Balance at 31 December 2018		1	72,275	14,670	86,946

The accounting policies and notes on pages 17 to 36 form an integral part of these consolidated financial statements.

CATALINA FOXTROT HOLDINGS LIMITED
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COMPANY BALANCE SHEET

As at 31 December 2019

	Notes	2019 €'000	2018 €'000
ASSETS			
INVESTMENTS			
Shares in group undertakings	12	95,965	86,949
DEBTORS			
Debtors	14	-	-
OTHER ASSETS			
Cash at bank and in hand		23	21
TOTAL ASSETS		95,988	86,970
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Called up share capital	16	1	1
Capital reserve		83,275	72,275
Profit and loss account		12,707	14,670
EQUITY SHAREHOLDER'S FUNDS		95,983	86,946
CREDITORS			
Other creditors including taxation and social security	20	5	24
TOTAL EQUITY AND LIABILITIES		95,988	86,970

The accounting policies and notes on pages 17 to 36 form an integral part of these financial statements.

Approved by the Board of Directors and authorised for issue on the 27 July 2020 and signed on its behalf by:

Graeme McAndrew

G J McAndrew

Director

27 July 2020

CATALINA FOXTROT HOLDINGS LIMITED
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COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Notes	Share Capital	Capital Reserve	Profit and Loss Account	Total
		€'000	€'000	€'000	€'000
Balance at 1 January 2019	16	1	72,275	14,670	86,946
Loss for the year		-	-	(1,963)	(1,963)
Capital contribution		-	11,000	-	11,000
Balance at 31 December 2019		1	83,275	12,707	95,983

For the year ended 31 December 2018

	Notes	Share Capital	Capital Reserve	Profit and Loss Account	Total
		€'000	€'000	€'000	€'000
Balance at 1 January 2018	16	1	20,275	18,168	38,444
Profit for the year		-	-	2,130	2,130
Distribution to parent		-	-	(5,628)	(5,628)
Capital contribution		-	52,000	-	52,000
Balance at 31 December 2018		1	72,275	14,670	86,946

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CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2019

	2019 €'000	2018 €'000
Cash flow from operating activities		
(Loss) / Profit for the year	(1,963)	805
Adjustments for:		
Depreciation, amortisation and impairment	385	2,781
Net (gains) / losses on investments	(6,023)	7,749
Taxation	(219)	146
	(7,820)	11,481
(Increase) / Decrease in outstanding losses and loss expenses recoverable	(68,459)	(164,995)
Decrease in reinsurers' share of unearned premium	119	390
(Increase) in insurance and reinsurance balances receivable	(4,887)	(3,152)
(Increase) / Decrease in other assets	(42)	(2,830)
Increase / (Decrease) in outstanding losses and loss expenses	19,450	254,186
(Decrease) in provision for unearned premiums	(126)	(400)
Increase / (Decrease) in insurance and reinsurance balances payable	30,717	1,430
(Decrease) in other liabilities	(546)	(2,865)
	(31,594)	**93,245**
Tax received / (paid)	671	(170)
Net cash from operating activities	**(30,923)**	**93,075**
Cash flow from investing activities		
Proceeds from sales of investments	90,088	345,069
Purchases of investments	(102,041)	(467,297)
Net cash from investing activities	**(11,953)**	**(122,228)**
Cash flow from financing activities		
Capital contribution	11,000	52,000
Distributions to parent	-	(5,562)
	11,000	**46,438**
Net increase / (decrease) in cash and cash equivalents	**(31,876)**	**17,285**
Cash and cash equivalents at 1 January	39,231	25,781
Effect of exchange rate fluctuations	(2,551)	(3,835)
Cash and cash equivalents at 31 December	**4,804**	**39,231**
Cash and cash equivalents consist of:		
Cash at bank and hand	4,804	39,231
Cash and cash equivalents	**4,804**	**39,231**

The accounting policies and notes on pages 17 to 36 form an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

The principal activity of Catalina Foxtrot Holdings Limited is to act as a holding company for financial services companies which together form the "Group". No changes in the principal activity are anticipated in the foreseeable future.

The Company is a private company limited by shares and is incorporated in England and Wales and domiciled in the UK. The address of its registered office is 1 Alie Street, London, E1 8DE, England.

2. STATEMENT OF COMPLIANCE

The financial statements of Catalina Foxtrot Holdings Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102"), Financial Reporting Standard 103, "Insurance Contracts" ("FRS 103") and the Companies Act 2006.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these individual, and consolidated, financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The financial statements are prepared on the historical cost basis, except that the following assets and liabilities are stated at their fair value:

- shares and other variable yield securities;
- holdings in collective investment schemes;
- debt securities and other fixed income securities; and
- other financial investments (including derivatives and other loans).

Technical provisions are recognised at the expected ultimate cost of settlement of claim liabilities.

Where necessary, comparatives have been revised to conform to changes in presentation in the current year.

Going Concern

The Company's and Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The financial position of the Company and Group, their cash flows, and liquidity position are also described there.

The Company and Group have considerable financial resources. The directors believe that the Company and Group is well placed to manage its business risks successfully.

As part of the ongoing management review of past activity, forecasts and the key risks as outlined in note 6 the directors have a reasonable expectation that the Company, and Group, will have adequate resources to continue in operational existence for the foreseeable future. The directors have considered the impact subsequent to 31 December 2019 of the COVID-19 global pandemic, which has resulted in unprecedented risks and significant levels of volatility and reduced asset prices in global equity and bond markets. The main risks resulting from COVID-19 for the Company, and Group, are in respect of the impact on the valuation and liquidity of investments and the recoverability of amounts due from reinsurers. The directors have considered the impact on the Company, and Group of COVID-19 and continue to have a reasonable expectation that the Company, and Group, will have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Exemptions for qualifying entities under FRS102

The Company has taken advantage of the following exemptions:

i. from disclosing its individual profit and loss account (section 408 of the Companies Act 2006). The profit for the year is disclosed in the Company Statement of Changes in Equity;

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ii. from disclosing related party transactions with other wholly owned subsidiaries of the same group that the Company is part of (section 409 of the Companies Act 2006);
iii. from preparing a statement of cash flows and related notes as required by Section 7 of FRS 102 and paragraph 3.17(d), on the basis that it is a qualifying entity and the consolidated Group statement of cash flow includes the Company's cash flows; and
iv. from a reconciliation of the number of shares outstanding at the beginning and end of the period as required by FRS 102 paragraph 4.12(a) (iv)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiary.

Foreign currency

Functional and presentational currency

During 2018 the Group's functional currency, the currency of the primary economic environment in which it operates, changed from GBP Sterling to Euro. The Group determined that following the acquisition of the German MedMal portfolio by CII, the primary economic environment in which it operates changed from the United Kingdom to Germany. At year end 2018 the Company presented its financial statements in pounds Sterling. This was to maintain consistency with the CII's quarterly and annual Solvency II regulatory returns in 2018.

During 2019 CII, the Group and the Company changed its presentation currency to Euro, consistent with the functional currency. Comparison figures are re-presented in Euro. The assets and liabilities at 31 December 2018 were translated at the rate of exchange ruling at the balance sheet date. Income and expenses for each statement of comprehensive income during 2018 were translated at exchange rates at the transaction date.

Transactions and balances

In preparing the financial statements, transactions in currencies other than the functional currency of the Group and Company (foreign currencies) are recognised at the spot rate at the dates of the transactions or at an average rate where this rate approximates the actual rate at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the year end. Non-monetary items measured at cost are translated using the rate ruling at the date of the transaction and non-monetary items measured at fair value are translated using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account. Foreign exchange gains and losses resulting from the translation of subsidiary financial statements are recognised through other comprehensive income / loss.

Related party transactions

In accordance with the provisions of FRS102, the Company discloses transactions with related parties that are not wholly owned within the same group. Where appropriate, transactions of a similar nature are aggregated unless, in the opinion of the directors, separate disclosure is necessary to understand the effect of the transactions on the Company's financial statements.

Use of estimates and judgements

The preparation of financial statements in conformity with FRS 102 and FRS 103 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies. The most significant areas of uncertainty within the accounts relate to the estimations involved in calculating the technical provisions (see Note 4) and valuing investments (see Note 13).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

Basis of accounting

The annual basis of accounting has been applied to all classes of business.

Premiums

Gross premiums written represent reinstatement premiums and adjustments arising in the year to premiums receivable in respect of business written in previous years.

Earned premiums represent premiums written adjusted for the change, if any, in the provision for unearned premiums.

All premiums are shown gross of commission payable to intermediaries and are exclusive of taxes and duties levied thereon. The amount of taxes and duties due but not yet paid is included in "Other creditors including taxation and other social security" in the consolidated balance sheet.

Outwards reinsurance premiums are accounted for in the same year as the premiums for the related direct or inwards reinsurance business.

Unearned Premiums

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

Commission and deferred acquisition costs

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

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

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

Claims

Claims incurred comprise the estimated cost of all claims occurring prior to the balance sheet date, whether reported or not, including related internal and external direct and indirect claims handling costs and adjustments to claims outstanding from previous years.

The provision for claims outstanding is made on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date together with the provision for related claims handling costs and net of salvage and subrogation recoveries. The provision also includes the estimated cost of claims incurred but not reported at the balance sheet date based on statistical methods. Adjustments to the amount of the provisions are reflected in the financial statements for the year in which the adjustments are made.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reinsurance

Reinsurance assets include balances due from reinsurance companies for paid losses and the amount recoverable from the reinsurance companies for their portion of unpaid losses. Reinsurance assets are measured consistently with the amounts associated with the underlying insurance contract and in accordance with the terms of the reinsurance contract. Where there is objective evidence that a balance is unlikely to be fully recoverable, such as low credit rating along with other factors, a bad debt provision is created. Reinsurance is recorded as an asset, with no deduction for set-off.

Outwards reinsurance recoveries are accounted for on a consistent basis with the claims for the related inwards reinsurance business being reinsured.

Employee Benefits

The Group provides a range of benefits to employees, including annual performance-related bonus arrangements and defined contribution pension plans.

(i) Short term benefits

Short term benefits, including non-monetary benefits, are recognised as an expense in the year in which the service is received.

(ii) Defined contribution plan

The Group operates a contribution plan for some of its employees. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. Once contributions have been paid the Group has no further payment obligations. The contributions are recognised as an expense when they are due. The assets of the plan are held separately from the Group in independently administered funds.

Taxation

Taxation expense for the year comprises current and deferred tax recognised in the year. Taxation is recognised in the profit and loss account. Current or deferred taxation assets and liabilities are not discounted.

(i) Current taxation

Current taxation is provided for by reference to the profits and losses recognised in these financial statements, after taking into account group relief. Taxation is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the year end.

(ii) Deferred taxation

Deferred taxation is provided in full on timing differences between recognition of the taxable profits and total comprehensive income as stated in the financial statements and the recognition for taxation purposes.

Deferred taxation liabilities are provided in relation to transactions that have occurred by the balance sheet date. Deferred taxation assets are recognised to the extent that it is probable that they will be recovered.

Deferred taxation is calculated using tax rates and laws that have been enacted or substantively enacted by the year end and that are expected to apply to the reversal of the timing difference.

Operating leases

Rental costs are recognised in the profit and loss account in equal annual amounts over the periods of the leases.

Financial instruments

i) Cash at bank and in hand

Cash at bank and in hand consists of cash balances and call deposits with maturities of three months or less from the acquisition date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ii) Financial assets and liabilities

The Group has chosen to adopt the recognition and measurement provisions of IAS 39 as adopted for use in the EU together with the disclosure and presentation requirements of Sections 11 and 12 of FRS 102.

Financial assets consisting of investments in shares and other variable yield securities, holdings in collective investment schemes, debt securities, other fixed income securities, derivatives and other loans are designated to be held at their fair value on initial, and subsequent, recognition, with changes in fair value to be recognised in the profit and loss account, as they are managed on a fair value basis in accordance with the Group's investment strategy.

Deposits with credit institutions, debtors and accrued interest are classified as loans and receivables and are measured at amortised cost.

All financial liabilities consisting of creditors and accruals are initially recorded at transaction price and subsequently measured at amortised cost. As they fall due within one year, there is no significant amortisation charge.

The subordinated loan is valued at amortised cost using the effective interest method. The placement fees and directly attributable costs of issuing the subordinated loan have also been amortised. The subordinated loan notes meet the definition of a Basic Financial Instrument under FRS 102 as they meet the conditions in paragraph 11.9.

Investment return, comprising interest income and dividend income, realised and unrealised investment gains and losses, and investment expenses are included within the non-technical account. An allocation of investment return is transferred from the non-technical account to the technical account for the estimated share of investment income arising from investments and cash supporting the insurance technical provisions. This calculation is based on the ratio of net technical provisions to shareholder's equity.

Interest income is recognised using the effective interest method. Investment expenses are recognised on an accruals basis. Dividend income is recognised in the profit and loss account on the date the Company's right to receive payments is established.

For investments held at fair value, realised investment gains and losses represent the difference between net proceeds on disposal and the purchase price. For investments measured at amortised cost, realised gains and losses represent the difference between net proceeds on disposal and the latest carrying value.

Unrealised gains and losses on investments held at fair value represent the difference between the fair value at the balance sheet date and their purchase price. Movements in unrealised investments gains and losses comprise the increase/decrease in the year of the value of the investments held at the reporting date and the reversal of unrealised gains and losses recognised in earlier years in respect of investments disposed of in the current year.

For financial assets carried at amortised cost, the amount of an impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date. A bad debt provision is created when an impairment loss is recognised.

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

Investment in subsidiaries

The Company's investment in subsidiaries are held at the lower of cost and net asset value.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible liability

The Group applies an expanded presentation in accounting for portfolio transfers. When the fair value of both the contractual insurance rights acquired and insurance obligations assumed are higher than the liability measured in accordance with the Group's accounting policies, the Group records the difference as an intangible liability. The intangible liability is amortised in line with the underlying liabilities to which it relates.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each tangible fixed assets. The estimated useful lives are as follows:

Computer equipment	3 years
Fixtures & fittings	3 years

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change by which the Company expects to consume an asset's future economic benefits.

Business combinations

Business combinations are accounted for using the purchase method as at the acquisition date, which is the date on which control is transferred to the Company.

At the acquisition date, the Company recognises goodwill as:

- the fair value of the consideration (excluding contingent consideration) transferred; plus
- directly attributable transaction costs; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities and contingent liabilities assumed.

4. BASIS OF CLAIMS RESERVING

As stated in note 3, the Company's subsidiary sets its provisions for claims outstanding on an individual case basis, based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs and net of salvage and subrogation recoveries, where applicable. The provision also includes the estimated cost of claims incurred but not reported ("IBNR") at the balance sheet date based on statistical methods.

This provision is derived through extensive analysis by an in-house reserving team and is benchmarked against an external actuarial review undertaken by independent actuaries. Whilst the directors consider that the gross provisions for claims and the related recoveries are fairly stated on the basis of the information currently available to them, there is inherent uncertainty in relation to the ultimate liability. Therefore estimation techniques are employed to assist in determining the ultimate liability. This uncertainty is generated by delays in reporting claims in certain classes of business where it might take some time for the claim to crystallise or where delays are experienced in the notification and settlement of certain claims. Accordingly the ultimate cost of such claims cannot be known with certainty at the balance sheet date.

Estimation techniques for the determination of IBNR are applied to all classes of business. The estimation techniques are based on actuarial methodologies encompassing, amongst others:

- paid and incurred claim development;
- frequency/severity analysis;
- analysis of the company's exposure to underlying claim trends; and
- benchmarking.

4. BASIS OF CLAIMS RESERVING (CONTINUED)

The methods used for each business class are considered appropriate for that class. Where possible, the results of separate methods are compared in order to improve the robustness of the selected estimate.

The Company's insurance subsidiary has material exposures to its reinsurers. The directors have assessed exposure to bad debts arising from reinsurance dispute or failure and where necessary have made a provision against bad debts based on current information available. The use of reinsurance does not relieve the Company's subsidiary of its primary obligation to its policyholders.

The Group has significant exposure to MedMal insurance risk, which carries considerable uncertainty in the estimate for technical provisions and therefore can result in a wide range of possible outcomes, above and beyond that experienced in traditional non-life insurance products. The long-tail nature of the technical provisions for MedMal products can result in larger actual to expected development of a claim and can be dependent on legislative initiatives and the ability to settle a claim outside of a court of law. The carrying amount for non-life insurance contract liabilities at the balance sheet date is €374.7 million (2018: €355.3 million).

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

The provision for related claims handling costs included with the gross technical provisions, also known as unallocated loss adjustment expenses (ULAE), is based on the historic experience of internal and external direct and indirect costs incurred and any planned changes in future claims handling protocols and procedures.

Whilst the directors consider that the gross provision for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, both the ultimate gross and net liability as disclosed in note 17 of €374.7 million and €74.0 million respectively, as at 31 December 2019 (2018: €355.3 million and €123.0 million respectively) may vary as a result of subsequent information and developments and may result in significant adjustments to the amounts provided.

Discounting of Periodic Payment Orders (PPOs) and Annuities

The portfolio of the Company's subsidiary, CII, includes certain long term liabilities which are discounted. The long term liabilities include Periodic Payment Orders (PPOs) on its UK portfolio and annuity claims on its German MedMal portfolio. Both the PPOs and annuity claims are long term claims with court approved regular payments for future care costs of the claimant.

Annual cashflows are projected in accordance with the claimants' life expectancy. The cashflows are increased in line with an assumed claims inflation rate. The cashflows are then discounted to the valuation date at an assumed discount rate. CII has approval from the Central Bank of Ireland to discount its long term liabilities.

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

5. GROUP ANALYSIS OF TURNOVER

	2019 €'000	2018 €'000
Holding company		
-Investment income	-	5,562
Insurance operations		
-Gross written premiums	(16)	(54)

6. RISK AND CAPITAL MANAGEMENT

Risk Management Framework

The Board of Directors of the Company's subsidiary, CII, has overall responsibility for the establishment and oversight of their company's risk management framework. The Board acting as the Risk Management Committee has the responsibility of analysing and taking ownership of the fundamental risk management principles employed by the subsidiary.

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

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

Credit risk

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

The Company and its subsidiary have established policies and procedures in order to manage credit risk and methods to measure it.

CII 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. CII's intra-group reinsurance arrangement is protected by collateral held in a trust fund at a level equivalent to at least 110% of the technical provisions. 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.

6. RISK AND CAPITAL MANAGEMENT (CONTINUED)

	2019	2018
Assets	**€'000**	**€'000**
Shares and other variable yield securities and holdings in collective investment schemes	34,274	35,450
Investment in group undertakings	8,741	6,686
Debt securities and other fixed income securities	149,660	140,988
Loans to group undertakings	15,583	5,308
Assets arising from reinsurance contracts held	300,751	232,411
Other assets	15,700	11,102
Cash and cash equivalents	4,804	39,231
	529,513	471,176
AAA	42,849	39,225
AA	8,181	9,774
A	58,877	35,925
BBB	46,464	48,974
Below BBB or not rated	373,142	337,278
	529,513	471,176
Neither past due nor impaired	529,513	471,176

Liquidity risk

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

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

	Less than 1 year	1 – 5 years	5+ years	Total
	2019	**2019**	**2019**	**2019**
	€'000	**€'000**	**€'000**	**€'000**
Financial liabilities and claims outstanding				
Subordinated loan note	-	-	23,429	23,429
Other creditors	67	-	-	67
	67	-	23,429	23,496
Claims outstanding - undiscounted	43,210	103,064	228,464	374,738
	43,277	103,064	251,893	398,234
Financial liabilities and claims outstanding	**2018**	**2018**	**2018**	**2018**
Subordinated loan note	-	-	23,358	23,358
Other creditors	194	-	-	194
	194	-	23,358	23,552
Claims outstanding - undiscounted	62,802	143,525	215,035	421,362
	62,996	143,525	238,393	444,914

6. RISK AND CAPITAL MANAGEMENT (CONTINUED)

Market risk

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

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

The primary goal of the CII investment strategy is to maximise investment returns within the Board's 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.

CII 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.

	Profit or loss		Shareholder's Equity	
	2019	2018	2019	2018
	€'000	€'000	€'000	€'000
Interest rate risk sensitivity				
+100 basis points shift in yield curves	(9,152)	(8,385)	(8,008)	(7,336)
-100 basis points shift in yield curves	9,152	8,385	8,008	7,336

Foreign exchange risk

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. The Group 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.

The most significant currency to which the Group is exposed is the Pound Sterling (2018: Euro). At 31 December 2019, if Euro had weakened/strengthened by 20% against the Pound Sterling, with all other variables held constant, shareholder's funds would have been €1.5 million (2018: €1.0 million) higher/lower.

CII mitigates currency risk by hedging its exposure through foreign exchange derivatives. The details of all derivatives exposures at 31 December 2019 are disclosed in the subsidiary accounts.

The forward currency contracts are measured at fair value, which is determined using valuation techniques that utilise observable inputs.

Asset / liability matching is an important component of the Group's investment management philosophy. The weighted average life of investments in each entity is typically managed to be slightly shorter than the run-off profile of liabilities in that entity. The investment strategy is such that, by policy and design, investment

6. RISK AND CAPITAL MANAGEMENT (CONTINUED)

portfolio currencies generally match those of the liabilities, with any excess generally held in the functional currency of the entities.

Other price risk

CII 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 Group has no significant concentration of price risk. The risk is managed by the Group by maintaining an appropriate mix of investment instruments.

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

	2019 €'000	2018 €'000
1% increase		
Movement in fair value of share and other variable yield securities and holdings in collective investment trusts	113	174
Movement in fair value of debt securities and other fixed income securities	1,497	1,410
1% decrease		
Movement in fair value of share and other variable yield securities and holdings in collective investment trusts	(113)	(174)
Movement in fair value of debt securities and other fixed income securities	(1,497)	(1,410)

Capital Management

Within the Group, CII is a regulated undertaking authorised by the Central Bank of Ireland. Within this supervisory framework, CII is required to calculate and maintain sufficient capital to meet regulatory capital requirements and assess the internal capital adequacy of the company.

CII has a capital management plan which ensures a prudent cushion of equity to protect economic viability, finance new growth opportunities and maintain sufficient capital in order to meet regulatory requirements. CII was in compliance with capital requirements imposed by the Central Bank of Ireland throughout the year.

It is the CHBL group policy to make best use of its operating companies' excess capital. Subject to the approval of the Board of Directors and the Central Bank of Ireland, this may mean that capital is extracted from CII and put to use elsewhere within the CHBL Group, or that the excess capital is used within a company to leverage further acquisitions or it is held to maintain a high level of solvency and to enhance income as unencumbered investment assets. The financial strength of Catalina Foxtrot Holdings and its subsidiary are paramount.

7. GROUP NET OPERATING EXPENSES

	2019 €'000	2018 €'000
Gross acquisition costs	181	(27)
Changes in deferred acquisition costs (note 15)	99	335
Administrative expenses	2,986	3,146
Gross operating expenses	3,266	3,454
Acquisition costs – Reinsurers' share	(313)	(269)
Overrider commission	(1)	(5)
Changes in reinsurers' share of deferred acquisition costs (note 15)	(99)	(335)
Net operating expenses	2,853	2,845

Gross acquisition costs include profit commissions and all technical expenses.

8. EXPENSES AND AUDITOR'S REMUNERATION

Included in the consolidated profit and loss account are the following:

	2019 €'000	2018 €'000
Operating lease charges	50	46
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of these financial statements	5	9
Audit of financial statements of subsidiaries of the Company	203	156
Tax advisory services	9	11
Other assurance services	96	68
Other non-audit services	12	48

9. GROUP INVESTMENT INCOME

	2019 €'000	2018 €'000
Income on financial assets:		
- Measured at fair value through the profit and loss account	1,900	11,620
- Measured at amortised cost	3,808	1,593
- Measured at cost	(27)	(201)
	5,681	13,012

10. GROUP INFORMATION REGARDING DIRECTORS AND EMPLOYEES

Average number of persons employed by the Group during the year:

	2019 No.	2018 No.
Management	1	1
Administration	6	6
	7	7

Staff costs incurred, including directors' emoluments, during the year in respect of these employees were:

	2019 €'000	2018 €'000
Salaries and wages	804	813
Social security costs	90	90
Other staff benefits	62	57
	956	960

All the directors and employees of the Group who are receiving remuneration for services to the Group in the current and prior year are employed by either CHBL, Catalina Services UK Limited or CII. There were no direct employees of the Company (2018: Nil) and the directors received no remuneration during the year in respect of services to the Company (2018: Nil).

Pensions for employees, including Directors of CII, are funded through an independent external defined contribution scheme. The total pension cost for the year amounted to €61,510 (2018: €56,850). At the 31 December 2019, there was €Nil outstanding contributions in relation to this scheme (2018: €Nil).

11. GROUP TAXATION

Total tax expense recognised in the consolidated profit and loss account

	2019 €'000	2018 €'000
Current taxation:		
Current tax on income for the year	(238)	141
Adjustments in respect of prior years	19	5
Total current tax charge	(219)	146
Total tax (credit) / charge	(219)	146

Reconciliation of effective tax rate

	2019 €'000	2018 €'000
(Loss) / Profit excluding taxation	(2,182)	951
Tax using the UK corporation tax rate of 19 %	(415)	181
Factors affecting tax charge:		
Effect of tax rates in foreign jurisdictions	144	(66)
Non-deductible expenses	-	13
Timing differences	33	13
Adjustments in respect of prior years	19	5
Total tax charge included in profit and loss account	(219)	146

12. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS - COMPANY

The Company has the following investments in group undertakings:

	Company 2019 €'000	Company 2018 €'000
At lower of cost and net book value:		
As at 1 January	86,949	39,562
Impairment of investments	(1,984)	(4,613)
Capital contribution	11,000	52,000
As at 31 December	95,965	86,949

The Group has the following Investments in group undertakings and participating interests

	Group 2019 €'000	Group 2018 €'000
Investments in group undertakings and participating interests	8,741	6,686

Group undertakings	**Nature of business**	**Country of incorporation**	**Percentage of nominal value issued ordinary shares held 2019**	**2018**
Catalina Insurance Ireland dac	Insurance Company	Ireland	100%	100%
Catalina ORE Ltd.	Investment Company	Bermuda	46.37% (*)	46.37% (*)
Catalina Oxenwood Investments Ltd	Investment Company	Bermuda	-	0.01% (*)
Catalina Permian Ltd.	Investment Company	Bermuda	33.33%(*)	33.33% (*)

(*) Indirectly owned

12. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS – COMPANY (CONTINUED)

During the year the Company's subsidiary CII acquired a 56% share in Propco (Swansea) Limited, a company incorporated for investment purposes. During the year CII sold 2,309 shares in Catalina Oxenwood Investments Ltd. at cost. During the year, CII issued 8% preference loans to Oxenwood Partners LP and additional 8% Mezzanine loans to Oxenwood Catalina III Limited during the year.

Catalina ORE Ltd. made a loss of £0.4 million for the year ended 31 December 2019 (2018: profit of £3.2 million) and had net assets of £3.4 million (2018: £4.6 million) as of that date. Catalina Permian Ltd. made a profit of US$0.2 million for the year ended 31 December 2019 (2018: US$7.2 million) and had net assets of US$14.3 million (2018: US$14.1 million) as of that date. In the first year of trading to 31 December 2019 Propco (Swansea) Limited made a profit of £0.1 million and had net assets of £4.0 million as of that date.

The Group has the following loans to group undertakings:

Loans to group undertakings	Group 2019 €'000	Group 2018 €'000
Oxenwood Partners LP	2,466	-
Oxenwood Catalina III Limited	13,117	5,308
	15,583	5,308

13. OTHER FINANCIAL INVESTMENTS

	2019 €'000	2018 €'000
Shares and other variable yield securities and holdings in collective investment schemes	11,285	17,323
Corporate bonds	109,352	91,244
Non-U.S. government	39,934	49,744
Municipals	374	-
Debt securities and other fixed income securities	149,660	140,988
Other loans including loans to group undertakings	38,572	23,435
Total financial investments	199,517	181,746

Financial instruments measured by their classification:

	2019 €'000	2018 €'000
Financial assets measured at fair value through the profit and loss account	160,945	158,311
Financial assets measured at amortised cost	38,572	23,435
Total other financial investments	199,517	181,746

The Group classifies its financial instruments held at fair value in its balance sheet using a fair value hierarchy as follows:

- Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Since the valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these instruments and products does not entail a significant degree of judgement.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

13. OTHER FINANCIAL INVESTMENTS (CONTINUED)

- Level 3 – Valuations are based on inputs that are unobservable and significant to the overall fair value measurement. These are generally company generated inputs and are not market based inputs.

The table below analyses financial instruments held at fair value in the Group balance sheet at the reporting date by its level in the fair value hierarchy.

2019	**Level 1 €'000**	**Level 2 €'000**	**Level 3 €'000**	**Total €'000**
Shares and other variable securities and holdings in collective investment schemes	-	-	11,285	11,285
Debt securities and other fixed income securities	-	149,039	621	149,660
Total other financial investments	-	149,039	11,906	160,945
Investment in group undertakings	-	-	8,741	8,741
Total investments held at fair value	-	149,039	20,647	169,686
2018				
Shares and other variable securities and holdings in collective investment schemes	6,127	-	11,196	17,323
Debt securities and other fixed income securities	-	140,447	541	140,988
Total other financial investments	6,127	140,447	11,737	158,311
Investment in group undertakings	-	-	6,686	6,686
Total investments held at fair value	6,127	140,447	18,423	164,997

Information on the methods and assumptions used to determine fair values for each major category of financial instrument is provided below.

Shares and other variable securities and holdings in collective investment schemes

Equity instruments listed on a recognised exchange are valued using prices sourced from the primary exchange on which they are listed. Holdings in collective investment schemes are valued using the latest unit price or share price provided by the collective investment scheme managers.

Shares and other variable securities and holdings in collective investment schemes are generally categorised as Level 1 in the fair value hierarchy except where they are not actively traded, in which case they are generally measured on prices of recent transactions in the same instrument and are categorised as Level 2.

Level 3 investments include holdings for which there is no active market trading or a lack of recent transaction price. The fair value is estimated using a valuation technique, the objective being to estimate what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations.

Debt securities and other fixed income securities

Debt securities are generally valued using prices provided by external pricing vendors. 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.

Management performs an analysis of the prices obtained from pricing vendors to ensure that they are reasonable and produce a reasonable estimate of fair value. Management considers both qualitative and quantitative factors as part of this analysis. Examples of analytical procedures performed include reference to recent transactional activity for similar securities, review of pricing statistics and trends and consideration of recent relevant market events.

Debt securities and other fixed income securities are ordinarily categorised as Level 2.

13. OTHER FINANCIAL INVESTMENTS (CONTINUED)

Other financial investments

Other financial investments include holdings for which there is no active market trading or a lack of recent transaction price. The fair value is estimated using a valuation technique, the objective being to estimate what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations.

Other financial investments are ordinarily categorised as Level 3. The movement in Level 3 investments in the period is shown in the table below:

	2019 €'000	2018 €'000
Balance at 1 January	18,423	23,681
Valuation gains losses	67	1,271
Purchases	6,909	3,846
Disposals	(4,752)	(10,375)
Balance at 31 December	20,647	18,423

14. DEBTORS

	Company 2019 €'000	Company 2018 €'000	Group 2019 €'000	Group 2018 €'000
Debtors arising out of direct insurance operations	-	-	11,840	6,953
Corporation tax receivable	-	-	402	831
Sundry debtors	-	-	199	103
	-	-	12,441	7,887

15. DEFERRED ACQUISITION COSTS

	2019 €'000	2018 €'000
Gross Amount		
At 1 January	101	436
Changes in deferred acquisition costs (note 7)	(99)	(335)
At 31 December	2	101
Reinsurance Amount		
At 1 January	(101)	(436)
Changes in deferred acquisition costs (note 7)	99	335
At 31 December	(2)	(101)
Net deferred acquisition costs	-	-

16. SHARE CAPITAL – GROUP AND COMPANY

	Number of issued and fully paid ordinary shares of £1 each
As at 31 December 2019 and 2018	1,000

There is a single class of ordinary shares. There are no restrictions on the distribution of dividends and the repayment of capital.

17. TECHNICAL PROVISIONS – GROUP

2019	**Provision for unearned premium**	**Outstanding loss reserve**	**IBNR**	**Total**
Gross amount				
At beginning of year	142	374,982	(19,694)	355,430
Movement in provision	(126)	(64,670)	81,228	16,432
Foreign exchange movement	-	1,695	1,197	2,892
At 31 December 2019	16	312,007	62,731	374,754
Reinsurance amount				
At 1 January 2019	130	244,536	(12,255)	232,411
Movement in provision	(118)	(24,603)	90,443	65,722
Foreign exchange movement	(1)	1,457	1,162	2,618
At 31 December 2019	11	221,390	79,350	300,751
Net technical provision				
At 1 January 2019	12	130,446	(7,439)	123,019
At 31 December 2019	5	90,617	(16,619)	74,003

2018	**Provision for unearned premium**	**Outstanding loss reserve**	**IBNR**	**Total**
Gross amount				
At beginning of year	543	53,228	47,875	101,646
Portfolio as at date of reinsurance	-	386,265	(95,606)	290,659
Movement in provision	(408)	(71,719)	29,536	(42,591)
Foreign exchange movement	7	7,208	(1,499)	5,716
At 31 December 2018	142	374,982	(19,694)	355,430
Reinsurance amount				
At 1 January 2018	521	35,684	31,603	67,808
Portfolio as at date of reinsurance	-	251,072	(62,143)	188,929
Movement in provision	(398)	(46,855)	19,255	(27,998)
Foreign exchange movement	7	4,635	(970)	3,672
At 31 December 2018	130	244,536	(12,255)	232,411
Net technical provision				
At 1 January 2018	22	17,544	16,272	33,838
At 31 December 2018	12	130,446	(7,439)	123,019

Included within claims outstanding is a provision for future claims handling costs of €2.9 million (2018: €3.5 million).

CII's existing intra-group reinsurance arrangement was amended during the year to increase the reinsurance on its long-term liabilities (UK PPOs and German annuities) from 65% to 100%. CII received non-objection from the Central Bank of Ireland on 8 January 2020, with the changes effective from 1 July 2019. A premium of €40.7 million was required to transfer liabilities of €31.9 million, on a GAAP basis. The transferring liabilities amounted to €46 million on a Solvency II basis, discounted using the risk-free interest rate term structures published by the European Insurance and Occupational Pensions Authority (EIOPA).

18. CLAIMS DEVELOPMENT

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

	2011	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
	€000's	**€000's**	**€000's**	**€000's**	**€000's**	**€000's**	**€000's**	**€000's**	**€000's**
Gross claims development									
Reserves held at end of year	62,056	47,562	27,534	21,456	272,123	142,723	102,382	355,288	374,738
One year later	56,145	37,295	25,316	18,769	210,763	125,118	92,022	428,802	
Two years later	45,878	35,077	22,629	13,238	193,158	114,759	144,139		
Three years later	43,660	32,390	17,098	13,850	182,798	166,875			
Four years later	40,973	26,859	17,710	13,622	234,915				
Five years later	35,442	27,471	17,482	13,607					
Six years later	36,055	27,243	17,467						
Seven years later	35,826	27,228							
Eight years later	35,811								
Reserve redundancy	26,244	20,333	10,067	7,849	37,209	(24,152)	(41,757)	(73,514)	-
Cumulative payments to date	32,634	24,051	14,290	10,430	140,895	72,856	50,119	54,064	-

	2011	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
	€000's	**€000's**	**€000's**	**€000's**	**€000's**	**€000's**	**€000's**	**€000's**	**€000's**
Net claims development									
Reserves held at end of year	25,359	20,480	9,737	8,680	251,647	48,301	34,244	123,007	73,998
One year later	24,468	16,633	9,019	7,891	233,472	42,070	30,583	133,646	
Two years later	20,621	15,915	8,230	7,691	227,241	38,409	35,608		
Three years later	19,902	15,125	8,029	7,837	223,580	43,434			
Four years later	19,113	14,925	8,175	7,721	228,605				
Five years later	18,913	15,071	8,060	7,714					
Six years later	19,059	14,956	8,053						
Seven years later	18,944	14,949							
Eight years later	18,937								
Reserve redundancy	6,423	5,531	1,684	966	23,041	4,866	(1,364)	(10,639)	-
Cumulative payments to date	18,913	14,925	8,029	7,690	60,485	38,884	31,058	59,648	-

19. FINANCIAL LIABILITIES

	Company		Group	
	2019	2018	2019	2018
	€'000	€'000	€'000	€'000
Subordinated loan notes	-	-	23,429	23,358

In December 2016, CII issued €23.8 million of floating rate subordinated loan notes. The notes are due in January 2027 and are listed on the Channel Islands Stock Exchange. Interest on the notes is based on EURIBOR plus a margin of 7.2%. The margin increased to 7.95% with effect from 23 December 2019. Interest expense in connection with these notes was €1.8 million for the year ended 31 December 2019 (2018: €1.8 million).

20. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	Company		Group	
	2019	2018	2019	2018
	€'000	€'000	€'000	€'000
Derivatives	-	-	189	55
Other taxes, including insurance premium tax, and social security costs	-	-	62	170
Sundry creditors	5	24	5	24
	5	24	256	249

21. ACCRUALS

	Company		Group	
	2019	2018	2019	2018
	€'000	€'000	€'000	€'000
Intangible liability	-	-	1,823	2,209
Other accruals	-	-	1,030	1,484
	-	-	2,853	3,693

The intangible liability represents the difference between the fair value of the contractual insurance rights acquired and insurance obligations assumed and the liability measured in accordance with CII's accounting policies. The liability is amortised in line with the underlying liabilities. Further details are shown below:

	2019	2018
	€'000	€'000
Intangible liability		
Opening balance	2,209	2,433
Increase in liability resulting from portfolio transfer	-	2,471
Amortisation	(386)	(2,712)
Foreign exchange	-	17
Closing balance	1,823	2,209

22. CAPITAL COMMITMENTS – GROUP AND COMPANY

There are no capital commitments contracted for but not provided (2018 - £ nil).

23. OPERATING LEASES

Total future minimum lease payments under non-cancellable operating leases are as follows:

	2019	**2018**
	€'000	**€'000**
Annual commitments under operating leases which expire		
- within one year	50	48
- between two and five years	87	132

24. SUBSEQUENT EVENTS

Since the outbreak of COVID-19 in China and its subsequent spread to other countries and containment measures are having a significant adverse effect on the global economy. The future effects of the outbreak of COVID-19 are unclear at this time. A significant rise in the number of COVID-19 infections, infections in a wide range of countries and regions, or a prolongation of the outbreak could significantly adversely affect economic growth, capital markets, specific industries and countries as well as affect the CII's employees and business operations. Any of these developments may adversely affect the Company's and CII's business or financial results. At this time, observed volatilities in the capital markets are expected to have an impact on the Company's and CII's investment results, however, the impact of current circumstances on gross loss reserves and the run-off thereof is estimated not to be material, and the Company and CII are expected to be able to maintain its operations. CII's solvency and liquidity are assessed to be adequate and the current circumstances are not considered to be challenging its ability to continue as a going concern for the foreseeable future. The Company and CII closely monitor developments and the potential impact of the spread of infection on asset valuations, insurance exposures and the overall financial and operational situation.

CII is also impacted by the recent sharp decline in oil prices. CII has a €10 million investment in an energy related company. This investment's creditworthiness deteriorated during March 2020 as a result of the OPEC+ dispute. CII directors believed it was prudent to prepare for the likelihood that this company would file for bankruptcy and the investment was written down by 90% in March 2020 which contributed to the solvency coverage reducing from 196% at the end of 2019 to 168% at the end of Q1 2020. This company has since filed for bankruptcy and a full write down of the investment would reduce CII solvency coverage by a further 3%.

The directors have assessed both events and neither necessitate a revision of the figures included in the financial statements.

25. ULTIMATE PARENT COMPANY

The Company's ultimate parent company is Catalina Holdings (Bermuda) Ltd., a company incorporated in Bermuda and registered at 5th Floor, Andrew's Place, 51 Church Street, Hamilton, HM 12 Bermuda. Catalina Holdings (Bermuda) Ltd. is the parent of the largest group in which the Company's results are consolidated.