

**Company Registration No. 00494416**

**KX REINSURANCE COMPANY LIMITED**

**Annual Report and Financial Statements**

**31 December 2016**

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**KX REINSURANCE COMPANY LIMITED**

**Reg. No: 00494416**

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## **STRATEGIC REPORT**

The directors present their strategic report on KX Reinsurance Company Limited for the year ended 31 December 2016.

The Company recorded a profit for the year of \$2.8 million (2015: \$1.7 million) and the full results for the year are set out on pages 7 and 8. During 2016 the Company's net asset value has risen to \$43.0 million (2015: \$40.2 million) at 31 December 2016.

Gross claims and run-off expenses paid during the period were \$3.2 million (2015: \$7.8 million) and gross reserves were reduced by \$5.7 million (2015: \$11.7 million). This is due to claims paid in the normal course of business and commutations completed in the year.

Reinsurers' share of claims paid was \$0.2 million (2015: \$2.3 million) and reinsurers' share of reserves were decreased by \$0.2 million (2015: \$1.5 million).

As a result of the above, reserves net of reinsurance decreased by 17.7% to \$26.1 million as at 31 December 2016 (2015: \$31.7 million).

The net investment return for 2016 was \$2.5 million (2015: \$0.7 million). In 2016, having weathered a very difficult January and February, the broader market was very much 'risk-on' throughout the year, despite the uncertainty arising out of geo-political events such as Brexit and the US presidential elections. The portfolio was managed to ensure Solvency II compliance throughout the year, which meant cutting exposure to securitised products completely. Total returns across the invested asset classes were very good throughout the year. Major contributors included corporate financials and UK commercial real estate. Cash balances rose tactically throughout the year in anticipation of future market volatility. The asset base continued to decline over the year due to claims payments.

The standard indicators used to assess performance of participants in the insurance industry are not considered appropriate for a company in run-off. Performance indicators that are relevant to the Company's run-off strategy are listed below:

	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Reduction in Gross Liabilities	5,707	11,651
Run-Off Income	2,042	4,102
Investment Return	2,172	663
Operating Expenses	2,331	2,584

### **Ongoing Strategy**

Management will continue to seek commutations on the Company's assumed reinsurance book in order both to realise value and to reduce volatility in the Company's claims portfolio. Reinsurance claims are managed internally and a very active involvement is pursued in the day to day adjustment of claims. The Company continues to handle all insurance claims internally and maintains very close control over the activities of its Third Party Administrators and outsource providers. In their continuing attempts to deleverage its balance sheet, management will continue to negotiate commutations of the Company's remaining reinsurance assets with external counterparties. The Directors will continue to review the Company's capital requirements in line with Solvency II requirements, with the intention of releasing any excess capital.

**STRATEGIC REPORT (CONTINUED)**

The Company is currently working towards a Part VII Transfer by which the liabilities of the Company and OX Reinsurance Company Limited will transfer into Catalina London Limited. The Board of Directors of each of the companies have reviewed this proposal and concluded that there are a number of benefits to be obtained by carrying out this transfer; increased efficiencies in claims handling, reporting, management oversight, investment management, risk management and capital deployment. It is anticipated that the process will be completed during 2017.

**Principal Risks and Uncertainties**

The main financial risks facing the Company are reserving risk, market risk and credit risk through its past underwriting and investment activities. Liquidity or cash flow risk is minimal given the quality and duration of the Company's investment portfolio (average credit quality of AA2/ AA3 and average duration of 2.06 years at 31 December 2016).

Management seeks to control the Company's exposures to these risks through the application of the Company's Enterprise Risk Management programme. This framework of policies, procedures and internal controls assists management in assessing, managing and controlling these exposures. The Company successfully prepared for the start of the Solvency II regime on 1 January 2016. Work will continue during 2017 to produce the required documentation and submissions to the PRA.

**By order of the Board**

A handwritten signature in black ink, appearing to read 'MH' followed by a long, sweeping horizontal line.

**P M Hernon**  
**18<sup>th</sup> May 2017**

## **DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2016**

The directors present their annual report and the audited financial statements of the Company for the year ended 31 December 2016.

The Company is domiciled in the UK and is regulated by the Prudential Regulation Authority.

### **FUTURE DEVELOPMENTS**

The future developments of the Company are considered in the strategic report on page 1.

### **DIVIDENDS**

No dividend was paid or recommended in the year (2015: \$Nil).

### **DIRECTORS**

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

Mr T M Cox  
Mr C J Fleming  
Mr I J Grottick  
Mr P M Hernon  
Mr P D Johnson  
Mr S J Richardson

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

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The directors are responsible for preparing the annual 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 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 Company and of the profit or loss of the Company 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 accounting 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

**STATEMENT OF DIRECTORS' RESPONSIBILITIES (CONTINUED)**

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company, and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**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 he ought to have taken as a director to make himself aware of any relevant audit information (as defined) and to establish that the Company's auditors are aware of that information.

**OTHER INFORMATION**

An indication of likely future developments in the business has been included in the Strategic Report on page 1.

**AUDITOR**

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

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



**P M Hernon**

**Director**

**18<sup>th</sup> May 2017**

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KX REINSURANCE  
COMPANY LIMITED**

We have audited the financial statements of KX Reinsurance Company Limited for the year ended 31 December 2016 set out on pages 7 to 41. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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.

**Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on pages 3 and 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

**Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KX REINSURANCE  
COMPANY LIMITED (CONTINUED)**

**Opinion on other matters prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.


Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; 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**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.



**Kushan Tikkoo (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
15 Canada Square  
London  
E145GL  
18<sup>th</sup> May 2017



**KX REINSURANCE COMPANY LIMITED**  
**Reg. No. 00494416**

**PROFIT AND LOSS ACCOUNT**

**Year ended 31 December 2016**

**TECHNICAL ACCOUNT – GENERAL BUSINESS**

	<b>Note</b>	<b>2016 US\$'000</b>	<b>2015 US\$'000</b>
Gross premiums written	5	11	2
<b>Earned premiums, net of reinsurance</b>		11	2
Claims paid:			
Gross amount	16	(3,178)	(7,752)
Reinsurers' share	16	204	2,309
		(2,974)	(5,443)
Change in the provision for claims:			
Gross amount		5,199	11,005
Reinsurers' share		(183)	(1,460)
		5,016	9,545
<b>Claims incurred, net of reinsurance</b>	7	2,042	4,102
Net operating expenses		(2,331)	(2,584)
<b>Balance on the technical account for general business</b>		(278)	1,520

**PROFIT AND LOSS ACCOUNT (CONTINUED)**

**Year ended 31 December 2016**

**NON-TECHNICAL ACCOUNT**

	Note	2016 US\$'000	2015 US\$'000
<b>Balance on the technical account for general business</b>		(278)	1,520
Operating (loss)/profit		(278)	1,520
Investment income	9	1,248	1,246
Net realised gains on investments		479	848
Change in unrealised gains/(losses) on fair value option investments		818	(1,364)
Investment expenses and charges		(67)	(67)
		2,478	663
Net foreign exchange gains/(losses)		570	(440)
<b>Profit on ordinary activities before taxation</b>		2,770	1,743
Taxation	11	-	-
<b>Profit and total comprehensive income on ordinary activities after tax and for the year</b>		2,770	1,743

All activities derive from continuing operations.

The accounting policies and notes on pages 12 to 41 form an integral part of these financial statements.

**KX REINSURANCE COMPANY LIMITED**  
**Reg. No. 00494416**

**BALANCE SHEET**

**As at 31 December 2016**

**ASSETS**

	<b>Note</b>	<b>2016 US\$'000</b>	<b>2015 US\$'000</b>
<b>INVESTMENTS</b>			
Other financial investments		62,095	62,186
Deposits with ceding undertakings		1,122	1,072
	12	<u>63,217</u>	<u>63,258</u>
<b>INVESTMENT IN SUBSIDIARY</b>	13	4,953	5,117
<b>REINSURERS' SHARE OF TECHNICAL PROVISIONS</b>			
Claims outstanding	16	14,132	14,349
<b>DEBTORS</b>	14	3,307	4,960
(including \$3.3m (2014:\$4.4m) due after more than one year)			
<b>OTHER ASSETS</b>			
Cash at bank and in hand		1,212	1,288
<b>PREPAYMENTS AND ACCRUED INCOME</b>			
Accrued interest		96	316
Other prepayments and accrued income		4	13
<b>TOTAL ASSETS</b>		<u><u>86,921</u></u>	<u><u>89,301</u></u>

**KX REINSURANCE COMPANY LIMITED**  
**Reg. No. 00494416**

**BALANCE SHEET**

**As at 31 December 2016**

**TOTAL EQUITY AND LIABILITIES**

	<b>Note</b>	<b>2016 US\$'000</b>	<b>2015 US\$'000</b>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	15	53,982	53,982
Retained deficit		(10,984)	(13,754)
<b>EQUITY SHAREHOLDER'S FUNDS</b>		<u>42,998</u>	<u>40,228</u>
<b>TECHNICAL PROVISIONS</b>			
Claims outstanding	6, 16	40,312	46,019
<b>CREDITORS</b>			
Creditors arising out of reinsurance operations		1,620	2,158
Other creditors including taxation and social security	19	1,991	896
		<u>3,611</u>	<u>3,054</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><u>86,921</u></u>	<u><u>89,301</u></u>

The accounting policies and notes on pages 12 to 41 form an integral part of these financial statements.

Approved by the Board of Directors and authorised for issue on 5<sup>th</sup> April 2017 and signed on its behalf by:



**P M Hernon**  
**Director**

**18<sup>th</sup> May 2017**

**STATEMENT OF CHANGES IN EQUITY**

**As at 31 December 2016**

	<b>Share Capital US\$'000</b>	<b>Profit and Loss US\$'000</b>	<b>Total US\$'000</b>
Balance at 1 January 2016	53,982	(13,754)	40,228
Profit for the year	-	2,770	2,770
	<hr/>		
Balance at 31 December 2016	53,982	(10,984)	42,998
	<hr/>		

	<b>Share Capital US\$'000</b>	<b>Profit and Loss US\$'000</b>	<b>Total US\$'000</b>
Balance at 1 January 2015	53,982	(15,497)	38,485
Profit for the year	-	1,743	1,743
	<hr/>		
Balance at 31 December 2015	53,982	(13,754)	40,228
	<hr/>		

## **NOTES TO THE ACCOUNTS**

**Year ended 31 December 2016**

### **1. GENERAL INFORMATION**

KX Reinsurance Company Limited's principal activity is the run off of insurance business written before 1993 when the Company ceased to underwrite new business.

The Company is a private company limited by shares and is incorporated and domiciled in England. The address of its registered office is 5th Floor, 18 Mansell Street, London E1 8AA.

### **2. STATEMENT OF COMPLIANCE**

The financial statements of KX Reinsurance Company 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 financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### **Basis of Preparation**

These financial statements are prepared on a going concern basis, under the cost accounting rules, as modified by the revaluation of certain financial assets and liabilities measured at fair value through the profit and loss account.

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 Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

#### **Going concern**

The Company's 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, its cash flows and liquidity position are also described there.

The Company has considerable financial resources. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully.

**NOTES TO THE ACCOUNTS**

**Year ended 31 December 2016**

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Going concern (continued)**

After making enquiries, the directors have a reasonable expectation that the Company does 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. The directors are currently working towards a Part VII Transfer by which the liabilities of KX Reinsurance Company Limited and OX Reinsurance Company Limited will transfer into Catalina London Limited. If the Part VII Transfer is completed it would result in a cessation of the Company's business in the foreseeable future. Preparing the financial statements on a non-going concern basis would have no material impact on the presentation of the financial statements.

**Exemptions for qualifying entities under FRS102**

FRS 102 allows a qualifying entity certain disclosure exemptions, subject to certain conditions, which have been complied with, including notification of and no objection to, the use of the exemptions by the Company's shareholders.

The Company has taken advantage of the following exemptions:

- i. 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 statement of cash flow in the parent company Catalina Holdings UK Limited includes the Company's cash flows; and
- ii. from disclosing the Company key management personnel compensation, as required by FRS 102 paragraph 33.7; and
- iii. from a reconciliation of the number of shares outstanding at the beginning and end of the year as required by FRS 102 paragraph 4.12(a)(iv).

**Consolidated financial statements**

The Company is a wholly owned subsidiary of Catalina Holdings UK Limited and of its ultimate parent, Catalina Holdings (Bermuda) Ltd. It is included in the consolidated financial statements of Catalina Holdings UK Limited which are publicly available. Therefore the Company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements.

These financial statements are the Company's separate financial statements.

**Foreign currency**

**(i) Functional and presentational currency**

The Company's functional and presentational currency is the United States dollar.

**NOTES TO THE ACCOUNTS**

**Year ended 31 December 2016**

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Foreign currency (continued)**

**(ii) Transactions and balances**

In preparing the financial statements, transactions in currencies other than the functional currency of the 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.

**Revenue recognition**

**(i) Basis of accounting**

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

**(ii) Premiums**

Written premiums comprise adjustments arising in the year to premiums receivable in respect of business written in previous years.

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 balance sheet.

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

**(iii) 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.



**NOTES TO THE ACCOUNTS**

**Year ended 31 December 2016**

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Revenue Recognition (continued)**

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.

Outwards reinsurance recoveries are accounted for on a consistent basis with the claims for the related inwards reinsurance business being reinsured. The Company has material exposures to its reinsurers. Management have carefully assessed exposure to bad debts arising from reinsurance dispute or failure and have made a provision against bad debts based on current information available.

**Taxation**

Taxation expense for the year comprises current and deferred tax recognised in the year. Tax is recognised in the profit and loss account, except to the extent that it relates to items in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

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 accounts 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.

**NOTES TO THE ACCOUNTS**

**Year ended 31 December 2016**

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Financial instruments**

**(i) Cash and cash equivalents**

Cash and cash equivalents comprise of cash balances and call deposits with maturities of three months or less from the acquisition date.

**(ii) Financial assets and liabilities**

The Company 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 and financial liabilities consisting of investments in shares and other variable yield securities, holdings in collective investment schemes, and debt and other fixed income securities are designated to be held at their fair value on initial 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 Company's investment strategy.

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

Investment return, comprising interest income and dividends receivable, realised and unrealised investment gains and losses, and investment expenses are included within the non-technical account. Interest income is recognised on an accruals basis, as are investment expenses.

For investments held at fair value with changes in fair value recognised through the profit and loss, 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 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.

**NOTES TO THE ACCOUNTS**

**Year ended 31 December 2016**

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Investment in subsidiary**

Investment in subsidiary is held at the net asset value.

**4. BASIS OF CLAIMS RESERVING**

As stated in note 3, the Company sets its provision for claims outstanding 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 and market benchmarks, as appropriate.

The adequacy of the claims outstanding provision is assessed by reference to actuarial projections of the ultimate development of claims in respect of each underwriting year. In addition, in certain areas of the portfolio, exposure analysis has been performed. This provision is derived through extensive analysis by the Company's in-house actuaries. The methods used, and the estimates made, are reviewed regularly. The methodology used to project ultimate development for liability classes is reviewed annually by the Company's actuary.

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, due to the nature of the insurance industry there is inherent uncertainty in these estimates. This uncertainty is such that the ultimate liability, which will vary as a result of subsequent information and events, may result in adjustments to the amount provided. Adjustments to the amount of the provisions are reflected in the financial statements for the year in which the adjustments are made.

Significant delays occur in the notification of certain claims and a substantial measure of experience and judgement is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty at the balance sheet date. In particular, estimates of technical provisions inevitably contain inherent significant uncertainties because extensive periods of time may elapse between the occurrence of an insured loss, the claim triggering the insurance under a claims-made coverage, the reporting of that claim and the payment of the claim and the receipt of reinsurance recoveries.

**NOTES TO THE ACCOUNTS**

**Year ended 31 December 2016**

**5. SEGMENTAL INFORMATION**

	<b>Insurance Property</b>	<b>Insurance Liability</b>	<b>Insurance Accident and Health</b>	<b>Insurance Marine Aviation &amp; Transport</b>	<b>Reinsurance Business Written</b>	<b>Total</b>
<b>2016</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>
Gross premiums written	-	-	-	2	9	11
Net premiums earned	-	-	-	2	9	11
Gross claims incurred	164	(341)	-	(720)	2,918	2,021
Reinsurer share of claims incurred		(1,099)	-	147	973	21
Net operating expenses	-	(699)	-	(269)	(1,363)	(2,331)
Balance on the technical account for general business	164	(2,139)	-	(840)	2,537	(278)

	<b>Insurance Property</b>	<b>Insurance Liability</b>	<b>Insurance Accident and Health</b>	<b>Insurance Marine Aviation &amp; Transport</b>	<b>Reinsurance Business Written</b>	<b>Total</b>
<b>2015</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>
Gross premiums written	-	1	-	1	-	2
Net premiums earned	-	1	-	1		2
Gross claims incurred	(153)	(2,724)	390	2,204	3,536	3,253
Reinsurer share of claims incurred	5	734	-	(159)	269	849
Net operating expenses	(11)	(639)	-	(55)	(1,879)	(2,584)
Balance on the technical account for general business	(159)	(2,628)	390	1,991	1,926	1,520

**NOTES TO THE ACCOUNTS**

**Year ended 31 December 2016**

**5. SEGMENTAL INFORMATION (CONTINUED)**

**Analysis of Reinsurance Business Written**

	<b>Property</b>	<b>Casualty</b>	<b>Marine, Aviation &amp; Transport</b>	<b>Other</b>	<b>Total</b>
<b>2016</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>
Gross premiums written	<u>2</u>	<u>5</u>	<u>2</u>	<u>-</u>	<u>9</u>
Net premiums earned	2	5	2	-	9
Gross claims incurred	(92)	950	2,060	-	2,918
Reinsurer share of claims incurred	192	986	(205)	-	973
Net operating expenses	<u>(266)</u>	<u>(1,077)</u>	<u>(20)</u>	<u>-</u>	<u>(1,363)</u>
Balance on the technical account for general business	<u>(164)</u>	<u>864</u>	<u>1,837</u>	<u>-</u>	<u>2,537</u>
	<b>Property</b>	<b>Casualty</b>	<b>Marine, Aviation &amp; Transport</b>	<b>Other</b>	<b>Total</b>
<b>2015</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>
Gross premiums written	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net premiums earned	-	-	-	-	-
Gross claims incurred	(834)	7,412	(1,950)	(1,092)	3,536
Reinsurer share of claims incurred	936	(837)	94	76	269
Net operating expenses	<u>(199)</u>	<u>(1,410)</u>	<u>(124)</u>	<u>(146)</u>	<u>(1,879)</u>
Balance on the technical account for general business	<u>(97)</u>	<u>5,165</u>	<u>(1,980)</u>	<u>(1,162)</u>	<u>1,926</u>

Other Reinsurance Business Written consists of Motor, Financial Lines and Miscellaneous lines of business.

Net assets are maintained to meet solvency requirements of the Company as a whole and as a consequence segmental analysis of net assets has not been provided. The Company's investment portfolio is managed in such a manner that a segmental analysis of investment income is not meaningful. Therefore no segmental analysis of profit before taxation has been provided.

**NOTES TO THE ACCOUNTS**

**Year ended 31 December 2016**

**6. RISK AND CAPITAL MANAGEMENT**

**Risk Management Framework**

The Board of Directors of KX Reinsurance Company Limited has overall responsibility for the establishment and oversight of the 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 Company.

The Risk Management Committee convenes once a quarter. The objectives of the Committee are to identify major risks to which the Company is exposed to on both the asset and liability sides of the balance sheet and to ensure that the means are in place for management to monitor and manage these risks. This monitoring includes such topics as observation of counterparty credit exposures, particularly to major reinsurers and retrocessionaires, and keeping abreast of the Company's capital and solvency position, and liquidity requirements for regulatory purposes and prudential management of the Company.

The Committee is responsible for the regular review of the Company's assets and liabilities for accounting and regulatory purposes, capital adequacy, strategic asset allocation, size of operational leverage and capital management.

The quarterly key risk metrics pack includes reporting of risk tolerances and key financial metrics compared to actual data, a summary of the key risks and additional key risk indicators that may assist in the general monitoring of the business performance.

The Risk Management Committee

- i. reviews the Company's risk appetite, tolerance and strategy.
- ii. reviews the systems of risk management to identify, measure, aggregate, control and report risks.
- iii. reviews the alignment of strategy with the Company's risk appetite.
- iv. reviews the key risks and key metrics on a quarterly basis in order to assess the current risk profile and identify where the risk appetite and/or risk tolerances have been exceeded.
- v. reviews any material changes to the risk register, including where new risks are identified, or where control failures or external factors are causing the risk assessments to change.
- vi. reviews existing risks and considers if there are additional new emerging risks on a quarterly basis.

The Board receives the Risk Management Committee pack at every meeting. This provides a summary of the key risk metrics, current risk profile by risk category and other relevant information such as details of any significant control breakdowns, breaches of regulation or legislation and the results of assurance work. The risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

**NOTES TO THE ACCOUNTS**

**Year ended 31 December 2016**

**6. RISK AND CAPITAL MANAGEMENT (CONTINUED)**

**Insurance Risk**

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 and the fact that the Company is no longer exposed to losses from new events, these risks are limited to reserving risk, i.e. the risk of losses due to the adverse development of loss reserves.

**Policy**

**a) Tolerance**

Given the Company's run-off status, it does not have a pre-determined tolerance for Insurance Risk.

**b) Identification and measurement**

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. Premium 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.

**c) Monitoring**

The Company has established a Management Committee which meets formally monthly and informally each week. At the formal meetings, each department head prepares and submits a report of the material items, including progress towards planned objectives.

Monthly reports are presented to the Management Committee and large loss and contentious loss reports are prepared for the Head of Claims who in turn reports to the Large Loss/Claims Committee when any claim reaches the appropriate threshold.

**d) Controls**

The Company's policy is to establish robust systems and controls to ensure that claims settlement is performed according to Company guidelines and within the authorities as given to each adjuster.

The Company wrote business mainly in the UK and USA and based on this, management has chosen class of business to be a better indicator of insurance risk than geographical split. The following table provides an analysis of the loss reserves by class of business.

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

**NOTES TO THE ACCOUNTS**

**Year ended 31 December 2016**

**6. RISK AND CAPITAL MANAGEMENT (CONTINUED)**

**Insurance Risk (continued)**

	<b>Gross 2016</b>	<b>Gross 2015</b>	<b>Reinsurance 2016</b>	<b>Reinsurance 2015</b>	<b>Net</b>	<b>Net</b>
Property	23	189	-	-	23	189
Liability	10,549	11,376	3,176	4,339	7,373	7,037
Marine, Aviation & Transport	1,595	984	222	78	1,373	906
Reinsurance Business	28,145	33,471	10,734	9,932	17,411	23,539
	<u>40,312</u>	<u>46,019</u>	<u>14,132</u>	<u>14,349</u>	<u>26,180</u>	<u>31,671</u>

**Sensitivity to Insurance Risk**

The liabilities established could be significantly lower or higher than the ultimate cost of settling the claims arising. This level of uncertainty varies between the classes of business and the nature of the liabilities being managed and can arise from developments in case reserves, or from changes in estimates of claims incurred but not reported.. A five per cent increase or decrease in the ultimate cost of settling claims arising is considered to be reasonably possible at the reporting date. There have been no changes to the methods or assumptions used in producing this sensitivity analysis from the previous year.

The analysis below shows the effect on profit or loss and shareholder's funds, of a five percent increase or decrease in total net claims liabilities:

	<b>2016</b>		<b>2015</b>	
	<b>5% Increase US\$'000</b>	<b>5% Decrease US\$'000</b>	<b>5% Increase US\$'000</b>	<b>5% Decrease US\$'000</b>
Property	(1)	1	(9)	9
Liability	(369)	369	(352)	352
Marine, Aviation & Transport	(69)	69	(45)	45
Reinsurance	(871)	871	(1,177)	1,177
	<u>(1,309)</u>	<u>1,309</u>	<u>(1,583)</u>	<u>1,583</u>



**NOTES TO THE ACCOUNTS**

**Year ended 31 December 2016**

**6. RISK AND CAPITAL MANAGEMENT (CONTINUED)**

**Financial Risk**

The focus of financial risk management for the Company is ensuring that the proceeds from its financial assets are sufficient to fund the obligations arising from its insurance contracts. Through the Company's committees the Board review, monitor and control the Company's financial and risk matters. Key risks are documented and graded according to their likelihood and potential impact. Identified risks are assessed and mitigated or eliminated where possible, or otherwise closely monitored.

The primary goal of the investment management process is to ensure sufficient liquidity is always available to meet valid claims as due, protect invested principal from adverse credit events and to optimise the risk-adjusted total return by investing in a diversified portfolio of securities, whilst ensuring that the assets and liabilities are managed on a cash flow and duration basis. The investment management policy and guidelines are set by the Company's Board and are implemented through both internal investment management decisions and the assistance of external investment managers.

**Credit Risk**

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

The Company is also exposed to credit risk via its investment portfolio. The Company's Investment Guidelines stipulate that credit quality may not fall below a weighted average of A- across the portfolio.

Regular oversight of all investment decisions by the Chief Investment Officer, coupled with regular convening of the advisory Investment Committee ensures that Investment Guidelines are adhered to. There are specific concentration limits with regard to all sectors which can be invested in and individual counterparties. The Chief Investment Officer is responsible for credit risk compliance reporting to the Board and the Risk Management Committee.

Selected credit risk metrics including any non-compliance with the Investment Guidelines are reported at the Risk Management Committee. This is designed to ensure the Company is not exposed to excessive levels of counterparty or investment credit risk.

**NOTES TO THE ACCOUNTS**

**Year ended 31 December 2016**

**6. RISK AND CAPITAL MANAGEMENT (CONTINUED)**

**Credit risk (continued)**

<b>Year 2016</b>	<b>AAA</b>	<b>AA</b>	<b>A</b>	<b>BBB</b>	<b>Below BBB or not rated</b>	<b>Total</b>
	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>
Financial investments					16,765	16,765
Debt securities and other fixed income securities	5,553	398	7,363	1,876	160	15,350
Deposits with credit institutions	9,530	103	20,347			29,980
	15,083	501	27,710	1,876	16,925	62,095
Reinsurers' share of technical provisions		259	4,677	159	9,037	14,132
Debtors arising out of reinsurance operations		(106)	1,439	37	1,919	3,289
Deposits with ceding undertakings					1,122	1,122
Cash at bank and in hand			419	793		1,212
Other debtors and accrued interest	18	1	57	20	19	115
<b>Total</b>	<b>15,101</b>	<b>655</b>	<b>34,302</b>	<b>2,885</b>	<b>29,021</b>	<b>81,965</b>

**NOTES TO THE ACCOUNTS**

**Year ended 31 December 2016**

**6. RISK AND CAPITAL MANAGEMENT (CONTINUED)**

**Credit risk (continued)**

<b>Year 2015</b>	<b>AAA</b>	<b>AA</b>	<b>A</b>	<b>BBB</b>	<b>Below BBB or not rated</b>	<b>Total</b>
	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>
Financial investments					13,710	13,710
Debt securities and other fixed income securities	715	7,605	5,990	6,046	4,250	24,606
Deposits with credit institutions	23,870					23,870
	24,585	7,605	5,990	6,046	17,960	62,186
Reinsurers' share of technical provisions		1,732	4,633	136	7,848	14,349
Debtors arising out of reinsurance operations		65	1,268	41	3,476	4,850
Deposits with ceding undertakings					1,072	1,072
Cash at bank and in hand			1,288			1,288
Other debtors and accrued interest	0	51	56	90	229	426
<b>Total</b>	<b>24,585</b>	<b>9,453</b>	<b>13,235</b>	<b>6,313</b>	<b>30,585</b>	<b>84,171</b>

The Company has debtors arising from reinsurance operations that are past due but not impaired at the reporting date. The Company does not consider these debtors to be impaired on the basis of stage of collection of amounts owed to the Company.

The Company also has debtors arising from reinsurance operations that are impaired at the reporting date. These debtors have been individually assessed for impairment by considering information such as the occurrence of significant changes in the counterparty's financial position, patterns of historical payment information and disputes with counterparties.

**NOTES TO THE ACCOUNTS**

**Year ended 31 December 2016**

**6. RISK AND CAPITAL MANAGEMENT (CONTINUED)**

**Credit risk (continued)**

An analysis of the carrying amounts of past due or impaired debtors is presented in the table below.

	<b>2016</b>	<b>2015</b>
	<b>Debtors</b>	<b>Debtors</b>
	<b>arising out of</b>	<b>arising out of</b>
	<b>reinsurance</b>	<b>reinsurance</b>
	<b>operations</b>	<b>operations</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Past due but not impaired financial assets:		
Past due by:	-	-
1 to 30 days	-	-
31 to 90 days	-	-
91 to 180 days	-	-
More than 180 days	270	662
Past due but not impaired financial assets	270	662
Impaired financial assets		
Gross value of past due and impaired financial assets	13,424	14,971
Less: individually assessed impairment allowances	(10,405)	(10,783)
Net carrying value of past due and impaired financial assets	3,019	4,188
Neither past due nor impaired financial assets	-	-
Net carrying value	3,289	4,850

## **NOTES TO THE ACCOUNTS**

**Year ended 31 December 2016**

### **6. RISK AND CAPITAL MANAGEMENT (CONTINUED)**

#### **Liquidity Risk**

Liquidity risk relates to the possibility that the Company will encounter difficulty in funding its present and future financial obligations or that it becomes exposed to losses because its assets are not sufficiently liquid to meet its liabilities as and when they become due.

We manage our liquidity risk through the detailed analysis of asset and liability mean term and duration, cash flow matching to predicted liability payment patterns and the analysis of near term forecast of payables for the next 30-90 days.

Regular oversight of the Company's 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 required to collateralise Letter of Credit facilities or Trusts are reviewed and supplied to the Board. In addition, a quarterly analysis of estimated time to liquidate assets is presented during the Risk Management Committee.

The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses.

The Company's approach to managing its liquidity risk is as follows:

- Assets purchased by the Company are required to satisfy specified requirements;
- The Company maintains cash and liquid assets to meet daily calls on its insurance contracts;
- The Company regularly updates its contingency funding plans to ensure that adequate liquid financial resources are in place to meet obligations as they fall due in the event of reasonably foreseeable abnormal circumstances.

#### **Market Risk**

Market risk relates to the possibility that the Company becomes exposed to losses occurring as a result of decreases in the value of the assets it holds, potentially caused by fluctuations in interest rates, currency exchange rates or equity prices (via equity holdings or convertible bonds).

In relation to major sources of equity, foreign exchange, and real estate risk, the Company has allocations to publicly-traded equities in both the US and the UK, and UK real estate. The Company owns bonds in several currencies, with our holdings held in currencies for which the Company has significant insurance liabilities. Equity and currency exposures are tracked carefully in monthly reports, and are included in the VaR type analysis. Management's stress tests combine historic simulation models with forward looking analysis based on changes to both the level of rates and changes in the credit environment. The Company does not have any exposure to derivatives.

Management tracks market risk in a variety of ways mentioned above, including rate and spread durations, and historic stress tests. The metrics are all reviewed by our management and the Board through the Investment Management Committee and the Risk Management Committee.

**NOTES TO THE ACCOUNTS**

**Year ended 31 December 2016**

**6. RISK AND CAPITAL MANAGEMENT (CONTINUED)**

**Sensitivity analysis to market risks for financial instruments**

An analysis of the Company's sensitivity to interest rate and currency risk is presented in the table below. The table shows the effect on profit or loss of reasonably possible changes in the relevant risk variable, assuming that all other variables remain constant, if that change had occurred at the end of the reporting year and had been applied to the risk exposures at that date.

	<b>2016</b>	<b>2015</b>
	<b>Profit or</b>	<b>Profit or</b>
	<b>loss for</b>	<b>loss for</b>
	<b>the year</b>	<b>the year</b>
	<b>US\$'000</b>	<b>US\$'000</b>
<b>Interest rate risk sensitivity</b>		
+100 basis points shift in yield curves	(55)	(37)
-100 basis points shift in yield curves	55	37
<b>Currency risk sensitivity</b>		
10 % Increase in USD/GBP exchange rate	(210)	(887)
10 % Decrease in USD/GBP exchange rate	210	887
10 % Increase in USD/EUR exchange rate	(49)	(357)
10 % Decrease in USD/EUR exchange rate	49	357

The impact of the reasonably possible changes in the risk variables on shareholder's equity would be the same, since the Company recognises all changes in recognised assets and liabilities in the profit or loss account.

A 10% increase (or decrease) in exchange rates and a 100 basis point increase in yield curves have been selected on the basis that these are considered to be reasonably possible changes in these risk variables over the following year.

The sensitivity analysis demonstrates the effect of a change in a key variable while other assumptions remain unchanged. However, the occurrence of a change in a single market factor may lead to changes in other market factors as a result of correlations.

The sensitivity analysis does not take into consideration that the Company's investments are actively managed. Additionally, the sensitivity analysis is based on the Company's financial position at the reporting date and may vary at the time that any actual market movement occurs. As investment markets move past pre-determined trigger points, action would be taken which would alter the Company's position.

**NOTES TO THE ACCOUNTS**

**Year ended 31 December 2016**

**6. RISK AND CAPITAL MANAGEMENT (CONTINUED)**

**Interest Rate Risk**

The Company's main source of interest rate exposure is fixed-rate cash bonds of which it holds different types, primarily corporates and government bonds. The Company also owns bonds of other asset types, such as municipal bonds and several types of securitized products. Many of those held have floating-rate coupons so have little rate exposure. The Company's has no derivative exposure.

The Company's investments are managed by the Catalina Asset Management team which makes use of key rate durations, effective duration, historical duration, simulated VaR, modified duration, spread duration and deterministic stress tests to measure interest rate risk. Management also performs a VaR-like analysis of worst month performance over the last year.

Management actively monitors the Company's interest-rate risk, primarily through effective duration and key-rate durations. Limits on effective duration of the portfolio are specified in the Investment Guidelines, which are modelled using data from FactSet and Intex. The Chief Investment Officer is responsible for market risk compliance reporting to the Board.

**Currency Risk**

The Company's reserves are mainly US Dollar, Sterling and Euro. Therefore the Company is exposed to currency risk arising from fluctuations in the exchange rates of the US Dollar against Sterling and Euro.

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 matching is an important component of 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 U.S. dollars.

**NOTES TO THE ACCOUNTS**

**Year ended 31 December 2016**

**6. RISK AND CAPITAL MANAGEMENT (CONTINUED)**

**Currency Risk (continued)**

The table below summarises the carrying value of the Company's assets and liabilities, at the reporting date:

<b>2016</b>	<b>USD</b>	<b>GBP</b>	<b>EUR</b>	<b>OTHER</b>	<b>TOTAL</b>
<b>Assets</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US'\$000</b>	<b>US'\$000</b>	<b>US'\$000</b>
Other financial investments	63,013	(2,057)	1,036	103	62,095
Cash at bank and in hand	88	331	787	6	1,212
Investment in subsidiary	(601)	5,554	-	-	4,953
Reinsurers share of technical provisions	13,597	458	-	77	14,132
Debtors arising out of reinsurance operations	1,184	1,017	-	1,087	3,288
Deposits with ceding undertakings	27	476	620	(1)	1,122
Other debtors due within one year	15	4	-	-	19
Accrued interest	68	28	-	-	96
Other prepayments and accrued income	6	(2)	-	-	4
<b>Total assets</b>	<b>77,397</b>	<b>5,809</b>	<b>2,443</b>	<b>1,272</b>	<b>86,921</b>
<b>Liabilities</b>					
Reserves for losses and loss expenses	36,105	1,963	1,806	438	40,312
Insurance and reinsurance balances payable	1,451	48	148	(27)	1,620
Accounts payable and other liabilities	295	1,696	-	-	1,991
<b>Total liabilities</b>	<b>37,851</b>	<b>3,707</b>	<b>1,954</b>	<b>411</b>	<b>43,923</b>
<b>Net Assets</b>	<b>39,546</b>	<b>2,102</b>	<b>489</b>	<b>861</b>	<b>42,998</b>



**NOTES TO THE ACCOUNTS**

**Year ended 31 December 2016**

**6. RISK AND CAPITAL MANAGEMENT (CONTINUED)**

**Currency Risk (continued)**

<b>2015</b>	<b>USD</b>	<b>GBP</b>	<b>EUR</b>	<b>OTHER</b>	<b>TOTAL</b>
<b>Assets</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>
Other financial investments	52,176	5,127	4,779	104	62,186
Cash at bank and in hand	861	351	47	29	1,288
Investment in subsidiary	(437)	5,554	-	-	5,117
Reinsurers share of technical provisions	14,129	210	-	10	14,349
Debtors arising out of reinsurance operations	4,732	119	-	(1)	4,850
Deposits with ceding undertakings	(66)	552	586	-	1,072
Other debtors due within one year	3	107	-	-	110
Accrued interest	164	34	118	-	316
Other prepayments and accrued income	15	(2)	-	-	13
<b>Total assets</b>	<b>71,576</b>	<b>12,052</b>	<b>5,530</b>	<b>142</b>	<b>89,301</b>
<b>Liabilities</b>					
Reserves for losses and loss expenses	41,028	2,712	1,573	706	46,019
Insurance and reinsurance balances payable	1,952	28	212	(34)	2,158
Accounts payable and other liabilities	270	446	180	0	896
<b>Total liabilities</b>	<b>43,250</b>	<b>3,186</b>	<b>1,965</b>	<b>672</b>	<b>49,073</b>
<b>Net Assets</b>	<b>28,326</b>	<b>8,867</b>	<b>3,565</b>	<b>(530)</b>	<b>40,228</b>

**NOTES TO THE ACCOUNTS**

**Year ended 31 December 2016**

**6. RISK AND CAPITAL MANAGEMENT (CONTINUED)**

**Capital Management**

The Company is a regulated undertaking and subject to supervision by the Prudential Regulatory Authority under the Financial Services and Markets Act 2000, and in accordance with the Solvency II Framework.

Within this supervisory framework, the Company is required to calculate its Solvency Capital Requirement ("SCR") and does so using the Standard Formula as prescribed by EIOPA. This amount is sufficient to cover a 1 in 200 year loss, reflecting uncertainty over a one year time horizon for the Company to use in meeting Solvency II requirements. The SCR of the Company is subject to review by the Risk Management Committee and approval by the Board.

The Company has an Internal Capital Assessment model. This has been adapted to an Own Economic Capital Assessment model for Solvency II to provide management with a company specific capital model to assess the prospective capital needs of the Company. This has been used to comment on the appropriateness of the Standard Formula.

It is the group's policy to make best use of its operating companies' excess capital. Subject to the approval of the Board of Directors of the individual company and the Prudential Regulatory Authority, this may mean that capital is extracted from the Company and put to use elsewhere within the Group.

**7. CLAIMS**

Favourable movements of \$2.0 million (2015: favourable movement of \$4.1 million), in the past year's provision for claims outstanding, net of expected reinsurance recoveries, are included in claims incurred, net of reinsurance. These arose in respect of the following classes of business.

	<b>2016</b>	<b>2015</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Casualty	612	(1,990)
Property	-	(148)
Accident and Health	-	390
Marine, Aviation & Transport	236	2,045
Reinsurance	1,194	3,805
	<u>2,042</u>	<u>4,102</u>

**NOTES TO THE ACCOUNTS**

**Year ended 31 December 2016**

**8. EXPENSES AND AUDITOR'S REMUNERATION**

Profit on ordinary activities before tax are stated after charging:

	<b>2016</b>	<b>2015</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Group management charges	2,331	2,596
Auditor's remuneration		
- audit of these financial statements	58	64
- other services pursuant to legislation	41	14
	<u>          </u>	<u>          </u>

**9. INVESTMENT INCOME**

	<b>2016</b>	<b>2015</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Income on financial assets measured at fair value through the profit and loss account	1,248	1,246
	<u>          </u>	<u>          </u>

**10. INFORMATION REGARDING DIRECTORS AND EMPLOYEES**

All directors of the Company who are receiving remuneration for services to the Company are employed by a fellow group company. The Company has no direct employees. All staff costs are paid by Catalina Services UK Limited. Catalina Services UK Limited recharges KX Reinsurance Company Limited the employment costs of directors and employees.

The aggregate amount of directors' salary, bonus paid and the monetary value of all other benefits paid by Catalina Services UK Limited to directors of KX Reinsurance Company Limited whilst holding office is:

	<b>2016</b>	<b>2015</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Directors' remuneration	323	356
Contributions to defined contribution plan	6	11
	<u>          </u>	<u>          </u>
	<u>329</u>	<u>367</u>

**NOTES TO THE ACCOUNTS**

**Year ended 31 December 2016**

**10. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (CONTINUED)**

Details of highest paid director's emoluments:

	<b>2016</b>	<b>2015</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Director's remuneration	103	151
Contributions to defined contribution plan	3	-
	<u>106</u>	<u>151</u>

There are three directors (2015: one director) of KX Reinsurance Company Limited who served during 2016 and who had retirement benefits accruing in respect of a defined contribution pension scheme.

**11. TAXATION**

There was no tax charge for the year (2015: \$Nil).

Reconciliation of effective tax rate:

	<b>2016</b>	<b>2015</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Profit for the year	2,770	1,743
Total tax charge	-	-
Profit excluding taxation	2,770	1,743
Tax using the UK corporation tax rate of 20% (2015: 20.25%)	554	353
Factors affecting tax charge:		
Non-deductible expenses	(33)	(75)
Timing differences	(147)	95
Unrecognised tax loss	(374)	(373)
Total tax expense included in profit or loss	<u>-</u>	<u>-</u>

The standard rate of UK corporation tax in the year was 20% for the full year (2015: hybrid rate of 20.25%).

**NOTES TO THE ACCOUNTS**

**Year ended 31 December 2016**

**12. INVESTMENTS**

	<b>Current value</b>		<b>Historical cost</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>
<b>Other financial investments</b>				
Shares and other variable yield securities and holdings in collective investment schemes	16,765	13,710	15,607	13,678
Corporate	8,576	16,128	8,402	15,754
Asset-backed securities	1,824	715	1,738	726
Mortgage-backed securities	2,341	2,053	2,317	1,985
U.S. government and agency	2,572	5,710	2,834	5,715
Non-U.S. government	37	-	38	-
Debt securities and other fixed income securities	15,350	24,606	15,329	24,180
Deposits with credit institutions	29,980	23,870	29,980	23,870
<b>Deposits with ceding undertakings</b>	<u>1,122</u>	<u>1,072</u>	<u>1,122</u>	<u>1,072</u>
<b>Total investments</b>	<u>63,217</u>	<u>63,258</u>	<u>62,038</u>	<u>62,800</u>

Investments in short term deposits have an original maturity of three months or less.

In accordance with normal market practice, Citibank N.A. has issued letters of credit to collateralise outstanding losses. The collateral against these letters of credit includes a pledge to the value of \$5.6 million (2015: \$6.0 million) against part of the Company's investment portfolio.

The amount ascribable to listed investments is nil (2015: \$2.1 million).

**NOTES TO THE ACCOUNTS**

**Year ended 31 December 2016**

**12. INVESTMENTS (CONTINUED)**

Financial instruments by their measured classification.

	<b>2016</b>	<b>2015</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Financial assets measured at fair value through the profit and loss account	32,115	34,502
Financial assets measured at cost	31,102	28,756
	<hr/>	<hr/>
Total investments	<u>63,217</u>	<u>63,258</u>

The Company 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 does not entail a significant degree of judgement.
- Level 2 – Valuations based on quoted prices in active markets for similar assets or liabilities, quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly.
- 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 Company's balance sheet at the reporting date by its level in the fair value hierarchy.

<b>2016</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>
Shares and other variable securities and holdings in collective investment schemes	5,926	-	10,839	16,765
Debt securities and other fixed income securities	-	15,251	99	15,350
	<hr/>	<hr/>	<hr/>	<hr/>
Total investments	<u>5,926</u>	<u>15,251</u>	<u>10,938</u>	<u>32,115</u>

**NOTES TO THE ACCOUNTS**

**Year ended 31 December 2016**

**12. INVESTMENTS (CONTINUED)**

<b>2015</b>	<b>Level 1 US\$'000</b>	<b>Level 2 US\$'000</b>	<b>Level 3 US\$'000</b>	<b>Total US\$'000</b>
Shares and other variable securities and holdings in collective investment schemes	2,039	3,538	8,133	13,710
Debt securities and other fixed income securities	62	23,216	1,328	24,606
Total investments	<u>2,101</u>	<u>26,754</u>	<u>9,461</u>	<u>38,316</u>

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

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 based 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 Company has no exposure to hedge funds.

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.

**NOTES TO THE ACCOUNTS**

**Year ended 31 December 2016**

**13. INVESTMENT IN SUBSIDIARY**

	<b>2016</b> <b>US\$'000</b>	<b>2015</b> <b>US\$'000</b>
As at 1 January	5,117	5,160
Revaluation loss	(164)	(43)
As at 31 December	<u>4,953</u>	<u>5,117</u>

<b>Subsidiary undertaking</b>	<b>Nature of business</b>	<b>Country of incorporation</b>	<b>Percentage of nominal value of issued ordinary shares held</b>
OX Reinsurance Company Limited	Insurance and reinsurance company	United Kingdom	100%

**14. DEBTORS**

	<b>2016</b> <b>US\$'000</b>	<b>2015</b> <b>US\$'000</b>
Amounts owed by other group undertakings	18	110
Debtors arising out of reinsurance operations	3,289	4,850
	<u>3,307</u>	<u>4,960</u>
Due within one year	18	110
Due after more than one year	3,289	4,850
	<u>3,307</u>	<u>4,960</u>

Amounts owed by group undertakings are unsecured, interest free and are due within two months of the balance sheet date. Amounts owed by parent undertakings have no fixed date of repayment but are repayable on demand.



**NOTES TO THE ACCOUNTS**

**Year ended 31 December 2016**

**15. CALLED UP SHARE CAPITAL AND OTHER RESERVES**

	<b>Number of Authorised Ordinary Shares of £1 each</b>	<b>Number of Issued and fully paid Ordinary Shares of £1 each</b>
As at 31 December 2016 and 31 December 2015	<u>60,000,000</u>	<u>29,020,336</u>

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

**16. TECHNICAL PROVISIONS**

<b>2016</b>	<b>Gross provisions US\$'000</b>	<b>Reinsurance assets US\$'000</b>	<b>Net US\$'000</b>
<b>Incurred claims outstanding</b>			
Outstanding claims	23,459	(6,164)	17,295
Claims incurred but not reported	<u>22,560</u>	<u>(8,185)</u>	<u>14,375</u>
Balance at 1 January	46,019	(14,349)	31,670
Change in prior year provisions	(2,021)	(21)	(2,042)
Claims paid during the year	(3,178)	204	(2,974)
Effect of movements in exchange rates	<u>(508)</u>	<u>34</u>	<u>(474)</u>
Balance at 31 December	<u>40,312</u>	<u>(14,132)</u>	<u>26,180</u>
Outstanding claims	19,383	(5,661)	13,722
Claims incurred but not reported	<u>20,929</u>	<u>(8,471)</u>	<u>12,458</u>
	<u>40,312</u>	<u>(14,132)</u>	<u>26,180</u>

**NOTES TO THE ACCOUNTS**

**Year ended 31 December 2016**

**16. TECHNICAL PROVISIONS (CONTINUED)**

<b>2015</b>	<b>Gross provisions US\$'000</b>	<b>Reinsurance assets US\$'000</b>	<b>Net US\$'000</b>
<b>Incurred claims outstanding</b>			
Outstanding claims	28,872	(6,810)	22,062
Claims incurred but not reported	28,798	(9,017)	19,781
	<hr/>	<hr/>	<hr/>
Balance at 1 January	57,670	(15,827)	41,843
Change in prior year provisions	(3,253)	(849)	(4,102)
Claims paid during the year	(7,752)	2,309	(5,443)
Effect of movements in exchange rates	(646)	18	(628)
	<hr/>	<hr/>	<hr/>
Balance at 31 December	46,019	(14,349)	31,670
	<hr/>	<hr/>	<hr/>
Outstanding claims	23,459	(6,164)	17,295
Claims incurred but not reported	22,560	(8,185)	14,375
	<hr/>	<hr/>	<hr/>
	46,019	(14,349)	31,670
	<hr/>	<hr/>	<hr/>

**17. CLAIMS DEVELOPMENT**

Claims development triangles have not been disclosed, as in accordance with FRS 103 transitional disclosure provisions the development occurred in underwriting years earlier than five years before the end of the first year in which the Company applied the FRS.

**18. DEFERRED TAXATION**

The Company has unrecognised taxable losses giving rise to an estimated deferred tax asset of \$0.7 million (2015: \$1.1 million) that have not been provided for, measured at a non-discounted future standard corporation tax rate of 18% (2015: 18%). These tax losses have not been recognised as they are not expected to be realised in the foreseeable future based on current profit forecasts and projections.

**19. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY**

	<b>2016 US\$'000</b>	<b>2015 US\$'000</b>
Amounts owed to group undertakings	1,991	896
	<hr/>	<hr/>

Amounts owed to group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

**NOTES TO THE ACCOUNTS**

**Year ended 31 December 2016**

**20. CAPITAL COMMITMENTS**

There are no capital commitments contracted for but not provided (2015: Nil).

**21. POST BALANCE SHEET EVENTS**

On 27 February 2017 the Ministry of Justice announced that the Ogden discount rate would be changed by 3.25% from 2.5% to negative 0.75% with effect from 20 March 2017. The Ogden discount rate is a mandated assumption for how the insurance industry should value lump sum claims payments. It is based on the secure income profile generated by index linked gilts future and the lower the rate is, the higher the compensation that is paid to the claimant at the point of settlement of a large bodily injury claim.

Management has reviewed the effect of the Ogden discount rate change on the provision for claims outstanding and has concluded the impact is negligible. This solvency capital coverage on 31 December 2016 remains unaffected.

**22. ULTIMATE PARENT COMPANY**

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

The Company's immediate controlling party and the parent of the smallest group in which the Company's results are consolidated is Catalina Holdings UK Limited, a Company registered in England and Wales at 5th Floor, 18 Mansell Street, London, E1 8AA. Copies of the group accounts of Catalina Holdings UK Limited are available from Companies House, Crown Way, Maindy, Cardiff CF14 3UZ.