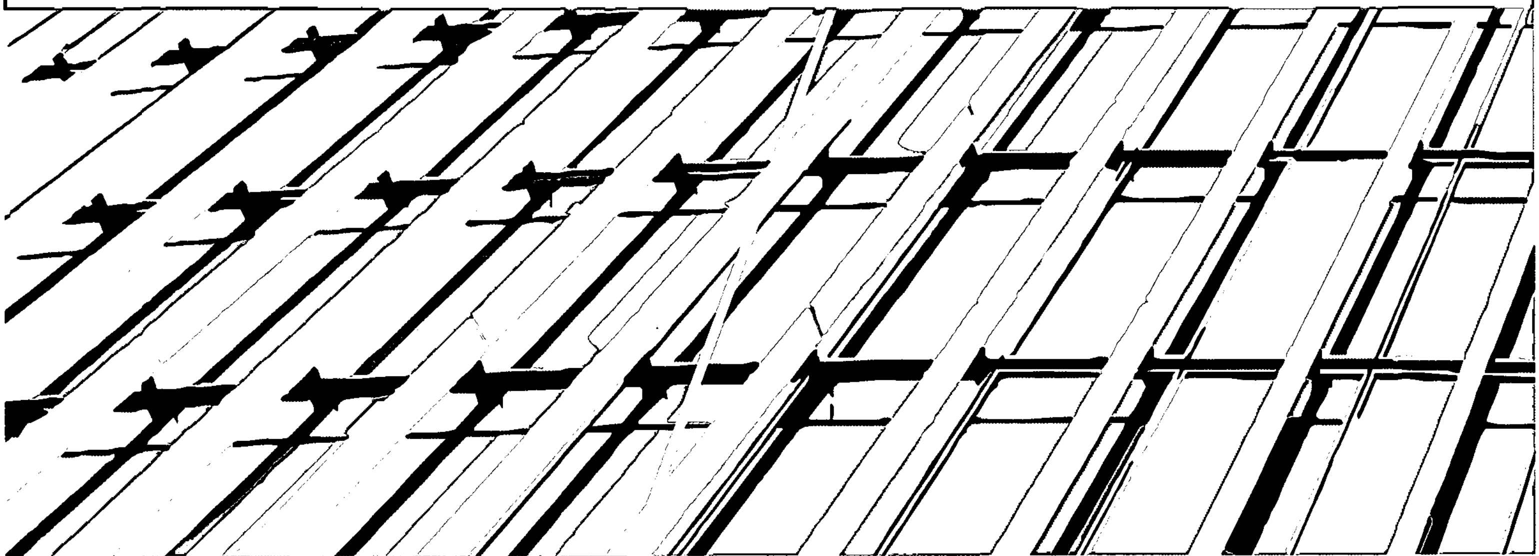
CNA

# CNA Insurance Company Limited
# 2016 Annual Report and Financial Statements





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## Contents

# Strategic report

## Introduction

The directors of CNA Insurance Company Limited ("the Company" or "CICL") present their strategic report for the year ended 31 December 2016. This report has been prepared in accordance with the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

CICL is a commercial insurer offering a range of specialist products to targeted industry segments. The Company is headquartered in London and underwrites business throughout the European Economic Area ("EEA") and Switzerland through a network of branches. Direct and facultative commercial insurance products are underwritten, which are predominantly placed through brokers.

CICL's immediate parent undertaking is CNA Europe Holdings Ltd ("CNAE") which is wholly owned by Continental Casualty Company ("CCC") and The Continental Insurance Company ("CIC"). CCC and CIC are a part of CNA Financial Corporation ("CNAF") which, in turn, is controlled by Loews Corporation. References to "CNA" in this report are to CNAF and its group undertakings including CCC and CIC.

CNA is the 8th largest U.S. commercial property and casualty insurance company. It has approximately 6,700 employees and its insurance products include commercial property and casualty coverages, including surety. CNA's products and services are primarily marketed through independent agents, brokers and managing general underwriters to a wide variety of customers, including small, medium and large businesses, insurance companies, associations, professionals and other groups.

## Overview of results

The Company reported pre-tax profits of £34.3 million for the 2016 financial year compared to pre-tax losses of £1.8 million for 2015. The Company's accounted capital base at 31 December 2016 of £403.7 million has increased by £39.8 million against the prior year position of £363.9 million driven mainly by increased investment returns, the favourable impact of foreign exchange translation and improved underwriting results.

Gross premiums written increased from £217.9 million in 2015 to £240.0 million in 2016 despite a continuation of the challenging market and economic conditions seen in recent years. The growth has been spread across the Company's major lines of business and branches consistent with a strategy of offering a balanced portfolio of specialty products.

The Company has seen continued pressure on rates in 2016, consistent with the wider insurance market. Despite this, overall positive levels of rate were achieved, and the Company has maintained a disciplined and focussed approach to pricing across its portfolios and markets. The Company has a rigorous approach to pricing across its lines of business and geographic locations with the aim of achieving appropriate levels of return. Overall retention levels were relatively stable during the year.

During 2016 the Company further expanded its branch network and product offering in the United Kingdom ("UK") regions, demonstrating its commitment to building a depth and breadth of local market expertise. In addition the Company continued to develop and expand its specialist product offerings including the launch of a new combined package product. CICL continued to make investments to strengthen underwriting talent throughout its business.

The Company made changes to its reinsurance programme during 2016. The primary focus of the changes was to protect lines of business that previously had not benefited from reinsurance protection whilst ensuring that the structures were efficient and aligned with the group's appetite. The Company places certain reinsurance arrangements externally as well as using internal arrangements when it is capital efficient to do so. The Company regularly evaluates its reinsurance programme to ensure it is appropriate given its overall risk appetite.

The Company reported an underwriting profit for the year of £0.4 million compared to an underwriting loss of £6.1 million in 2015.

The calendar year combined ratio in 2016 was 99.8% (2015: 103.3%). The Company recorded favourable prior year loss development in 2016 of £11.1 million compared to £9.6 million in the prior calendar year. The reserve releases in the current calendar year were recognised across the majority of the Company's lines of business.

# Strategic report - continued

## Overview of results - continued

The current accident year loss ratio improved over that reported in the prior calendar year. The improvement was driven primarily by a decrease in the impact of losses emanating from natural catastrophes. The catastrophe losses experienced in the previous year related largely to the UK storm events in December 2015, notably storms Desmond and Frank. No notable catastrophe losses were experienced in the 2016 accident year.

The Company shares its operating and management structure with another group company, Hardy (Underwriting Agencies) Limited ("Hardy"). Both companies operate under a consistent operating model with management and administrative services being provided by a service company, CNA Services (UK) Limited ("CNA Services"), an indirect subsidiary of CNAF. The Company pays CNA Services, which employs all UK staff, a management fee for the provision of management and administration and directly employs all staff in its Continental European branch offices. The Company expects further cost savings to be realised over the coming years as a result of the synergies and efficiencies generated from a combined operating platform.

The expense ratio for the year of 37.9% represented an increase over the prior year of 35.5%. This increase was driven primarily by fuller staffing levels and further investments made in underwriting and support capabilities. The Company expects the expense ratio to improve in the future as the returns on these investments are realised. The Company continues to rigorously manage its expense base.

The increase in pre-tax profit was driven by an improvement in the underwriting result as previously noted and by an increase in the overall investment return during the year. This increase was driven predominantly by unrealised gains and losses in 2016 due to a fall in both global government and corporate bond yields and the favourable impact of foreign exchange movements.

The Company recorded relatively low levels of foreign exchange differences within other charges as a result of its strategy of closely matching foreign currency assets and liabilities to mitigate the effects of exchange rate volatility.

After the impact of taxation, the Company recorded a profit for the financial year of £28.1 million, compared to a loss of £3.1 million in the prior year.

## Key performance indicators

The Company uses a range of key performance indicators ("KPIs") to determine how well it is performing against its objectives and overall strategy. These indicators are regularly reviewed by the Company's management team and are measured against plan and prior year data.

The following KPIs have been deemed most relevant to demonstrating the Company's performance in 2016 and its financial position at the end of the year:

| | **2016** **£m** | 2015 £m |
|---|---|---|
| Gross premiums written | **240.0** | 217.9 |
| Profit/(loss) on ordinary activities before tax | **34.3** | (1.8) |
| Profit/(loss) for the financial year | **28.1** | (3.1) |
| Loss ratio | **61.9%** | 67.8% |
| Expense ratio | **37.9%** | 35.5% |
| Combined ratio | **99.8%** | 103.3% |
| Net Assets | **403.7** | 363.9 |

# Strategic report - continued

## Financial position

### Overview of financial position

The Company's accounted capital base as at 31 December 2016 was £403.7 million (2015: £363.9 million), of which £60.0 million is ineligible for the purposes of calculating capital available to meet regulatory requirements. The amount of £60.0 million has been deposited in bonds with Lloyd's of London ("Lloyd's") as security for the underwriting activities of Hardy Underwriting Limited ("HUL"), a fellow CNAF subsidiary (see Note 27).

The increase in the capital base of £39.8 million was driven primarily by favourable investment returns of £32.7 million and currency translation adjustments of £19.0 million, partly offset by the unfavourable impact of £7.3 million due to the remeasurement of the Company's net defined benefit pension scheme assets and liabilities. Other movements in the capital base were unfavourable overall and totalled £4.3 million. The Company did not pay or recommend a dividend during the financial year. There were no changes to the Company's ownership or capital structure during the year.

### Investments

The Company continued to benefit from strong operating cash flows and, to the extent possible these were re-invested in the Company's investment portfolio. The Company has in place processes to monitor operating cash flows, which ensure that investment returns are maximised, whilst maintaining adequate cash resources to meet operating expense and claim requirements.

The Company's investment guidelines are regularly reviewed and, as a part of this process, the duration and currency profile of the investment portfolio is managed to closely match that of the Company's underlying liabilities. CICL continues to invest predominantly in high grade corporate and government bonds in accordance with its stated investment strategy and in conjunction with its external investment manager Goldman Sachs Asset Management International ("GSAM").

### Deed of guarantee and ratings

CICL benefits from a Deed of Guarantee from CCC, effective 24 January 2002. Under the terms of the Deed of Guarantee, CCC guarantees all liabilities that arise or have arisen under policies of insurance or contracts of reinsurance entered into by CICL, including policies or contracts entered into before 24 January 2002. The Deed of Guarantee enables CICL to maintain a Standard & Poor's rating at the same level as the rating assigned to CCC and provides significant additional security to policyholders. The Deed of Guarantee will remain in place until 31 December 2018 unless written notice is received from Standard & Poor's that the guarantee is no longer needed. As at 31 December 2016, CCC's Standard and Poor's financial strength rating was A (Strong) with a stable outlook. Further details are provided in note 28 to these financial statements.

### Capital and Solvency II

The Company manages its capital position in accordance to the requirements set out in the Solvency II Standard Formula, which is used as the basis of calculation. As at 31 December 2016, the Company's admissible capital was in excess of the Solvency II Standard Formula requirement.

# Strategic report - continued

## Business operations

The Company operates through branch offices that have been established in the UK regions, Belgium, Denmark, France, Germany, Italy and the Netherlands. In each of these locations domestic business is underwritten, but the Company also underwrites on a cross-border basis under Freedom of Services into other EEA countries. The Company is authorised to underwrite risks located in Switzerland through its regulated status in that country.

The Company underwrites international business on a non-admitted basis, where permitted, including in the U.S. through its inclusion on the National Association of Insurance Commissioners list of eligible surplus lines insurers. In addition, the Company has licences to underwrite reinsurance business in various South American countries.

CICL also interacts with other entities within the CNA group, both in Europe and in the United States, to develop its business. As a result of these activities and its branch network, the Company is well placed to enhance and grow its business on a multi-national basis.

Underwriting staff and certain support functions are located in the branch offices, but the main support functions are based in the United Kingdom at the Company's offices in London and Norwich.

During 2016 the Company enhanced certain aspects of its support capabilities including the establishment of a centralised support centre in Norwich to process insurance policies into underwriting systems.

## Future developments

CICL's core objectives are to be the provider of choice for our customers through the development of innovative and market leading products, to build sustainable long-term profitability, and to produce robust levels of organic growth in gross premiums written year on year. The Company aims to provide differentiated products to meet the needs of its targeted customer segments through its distribution channels.

To achieve these objectives the Company is developing new product offerings throughout its branch network. Focus is being given to further development of international capabilities across all lines of business.

The Company continues to make further improvements to its operating infrastructure with the aim of enhancing financial systems capabilities. In particular, the Company is developing management information capabilities to provide more timely, accurate and detailed information to management to aid the strategic decision making process.

The Company is closely monitoring the political and economic developments related to the vote by the United Kingdom to leave the European Union ("EU") (Brexit"). CICL's currently uses Freedom of Establishment and Freedom of Services to underwrite insurance business across the EU. A multi-disciplinary project is currently underway to develop a detailed contingency plan that can be deployed to ensure the continued ability to write CICL's European business post Brexit if Freedom of Services and Establishment are not retained. The Board is regularly updated regarding the status of the project.

# Strategic report - continued

## Corporate governance

Ultimate responsibility for the Company's affairs rests with the Board of directors. The Board is responsible for approving the Company's business plan and its strategies with regard to risk management. The Board provides leadership based on a framework of controls and risk management disciplines and sets the Company's risk appetite. The Board also seeks to ensure compliance with all relevant internal and external regulations governing CICL's activities. The Board meets quarterly.

The Board operates with three principal committees: an Audit Committee, a Risk Committee and an Underwriting Committee. Each committee has clear terms of reference for the matters for which it is responsible and is chaired by an independent non-executive director. Each committee reports to the Board. This forms the basic structure for the corporate governance framework which is reviewed and approved by the Board at least annually to ensure continued effectiveness.

The key objectives of the Audit Committee are to assist the Board to oversee: the integrity of CICL's financial statements; the adequacy and effectiveness of the internal control environment; the qualifications and independence of CICL's external auditors; and the performance of internal audit staff.

The key objectives of the Risk Committee are: to raise the level of risk awareness and accountability; to integrate an effective risk management process into the organisational structure, decision making process and CICL's culture; and to provide a mechanism for oversight of all risk management issues. It also monitors CICL's risk-based capital and is oversees the Company's compliance with Solvency II. The Risk Committee assesses compliance with CICL's risk management strategy, risk policies and risk appetite, while ensuring that the risk register is both up to date and adequate.

The Risk Committee oversees all processes that underpin the Company's Own Risk and Solvency Assessment ("ORSA"). It monitors all key risks, including emerging risks, and related mitigation and controls.

The key objectives of the Underwriting Committee are: to ensure appropriate governance and control over underwriting, claims and reinsurance operations; direction over the use of rating models and pricing tools; oversight and control of delegated underwriting and coverholder arrangements; monitoring underwriting and claims audit and review processes; to review and challenge underwriting business plans and current performance; to oversee reinsurance strategy; to oversee and monitor risk appetites and limits.

Various other sub-groups cover specific areas of responsibility. The sub-groups, which meet regularly throughout the year and report to either the Audit, Risk or Underwriting committees, include:

- Reinsurance Group;
- Internal Controls and Attestation Group;
- Investment Group;
- Legal, Regulatory and Compliance Group;
- Reserving Group;
- Delegated Underwriting and Product Oversight Group; and
- Exposure Management Group.

CICL is authorised and regulated by the PRA and regulated by the Financial Conduct Authority ("FCA"). The Company works closely with these regulatory bodies to ensure it is compliant with all legal and regulatory requirements.

CICL is committed to ensuring that its strategy, leadership, decision making and control framework are all central to the reasonable expectations of, and reflect the fair treatment of, its policyholders. CICL continues to reassess all aspects of its commitment to its customers to ensure that all these values are maintained.

# Strategic report - continued

## Principal risks and uncertainties

The CICL Board has overall responsibility and accountability for risk management. The Company's appetite for accepting and managing risk is defined by the Board. The Board has delegated to the Risk Committee the responsibility of identifying and assessing all material risks and reviewing the Company's actual risk exposure against stated risk appetite on a regular basis.

The Chief Risk Officer has responsibility for ensuring an effective risk management process is in place and is assisted by the Risk Management function. The Company has developed a risk and control framework which is built on an Enterprise Risk Management ("ERM") model with each business unit responsible and accountable for all aspects of risk management within that area.

The risk management framework includes the processes for identifying risks (including those emerging), an assessment of those risks, and the setting of tolerances for risks, as well as the modelling, monitoring and mitigating of risks. The scope of risks considered includes all internal and external risks that affect the Company whether quantifiable or not.

Set out below are the principal risks and uncertainties to which the Company is exposed. Further information on how the Company manages risk is disclosed in note 3 to these financial statements.

### Strategic risk

Strategic risk is the potential impact on earnings or capital from an incorrect strategy being set, improper business decisions, failure to execute plans or strategic ambitions, lack of responsiveness to industry changes and ill-disciplined growth in a soft market. Any event which would have an adverse impact to the Company's reputation would also rank as a strategic risk. Annual business plans are agreed by senior management and tracked against actual performance throughout the year.

### Insurance risk

Insurance risk is the risk associated directly with the Company's underwriting activities. This would include the risk associated with inaccurate or inadequate pricing of insurance policies, inappropriate or poorly controlled underwriting guidelines and authority limits, unexpectedly high frequency or severity of claims experience and inadequate or inaccurate loss reserving.

To mitigate these risks the Company has in place controls and governance processes designed to closely monitor its underwriting activities. These include, but are not limited to, the operation of the Underwriting Committee, Reserving Group and Exposure Management Group, the issuance of underwriting authority limits and guidelines, the extensive use of technical pricing models, and regular underwriting audits.

### Financial risk – Credit, Market and Liquidity

Financial risk includes the risk associated with investment activities, credit, liquidity and foreign currency exchange. This includes bond default risk (the risk that an issuer of a bond may be unable to make timely principal and interest payments) and reinsurer default risk (the risk that the Company's reinsurers would be unable or unwilling to pay their share of reinsurer liabilities). Either may result in significant financial loss to CICL.

Investment risk includes the impact of market volatility on asset values associated with interest rate volatility. The Company manages investment risk through its Investment Group. The group is responsible for establishing and maintaining an investment policy in line with the risk appetite of the Company. In addition, the group is responsible for the management of all investment asset risks, the selection of its investment managers and reviewing investment performance.

### Operational risk

Operational risk arises from the risk of losses due to inadequate or failed internal processes, people, systems, service providers or from external events. Risks include those from IT related activities (including cyber), legal and regulatory, financial reporting and financial crime as well as those from operations, outsourcing and change.

The Company has in place appropriate business processes (including business continuity plans) and relevant internal controls to substantially mitigate operational risk.

# Strategic report - continued

## Principal risks and uncertainties - continued

### Emerging risks

The Company has processes in place to monitor and manage new and emerging risks associated both directly with its insurance activities and with the wider business and economic environment. The Company also monitors potential emerging risks resulting from changes to the regulatory environment. Where appropriate, the Company proactively undertakes risk management activities to mitigate emerging risks.

## Going concern

CICL's strong capital base, together with its parental guarantee, ensures that the Company is in a stable financial position. The Company has effective risk management disciplines across its operations. In particular, the potential impacts of external conditions are continually assessed and mitigating actions are taken where appropriate. The Company operates with a broad range of brokers, customers and other business contacts in different product lines and geographic areas. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully.

After making all relevant enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements. Further details regarding the adoption of the going concern basis can be found in the statement of accounting policies in note 1 to the financial statements.

## Approval

Approved by the Board of directors and signed on its behalf by:

D J Brosnan
Director

20 Fenchurch Street,
London EC3M 3BY

13 March 2017

# Directors' report

## Directors

The directors who have held office since 1 January 2016 are as follows:

**Executive Directors**

D J Brosnan
P J Gage
C A Kearney
D J Stevens

**Non-executive Directors**

J M Anderson
A M D'Hulster
T F Motamed
G J Starling
T J Szerlong
H I Thomas
R Thomson (appointed 1 December 2016)

## Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK Generally Accepted Accounting Practice ("GAAP") (UK accounting standards and applicable law) ("UK Accounting Standards"), including Financial Reporting Standards 101, Reduced Disclosure Framework ("FRS 101"). 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.

The directors are responsible for keeping adequate accounting records that are: sufficient to show and explain the Company's transactions; 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Results and dividends

For the 2016 year the Company reported an after-tax profit of £28.1 million (2015: loss of £3.1 million). The accounted capital base of the Company as at 31 December 2016 was £403.7 million (2015: £363.9 million).

The directors have not recommended the payment of a dividend for the year ended 31 December 2016 (2015: £nil).

# Directors' report - continued

## Directors' indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

## Elective resolutions

The Company has elected to dispense with the laying of financial statements before the shareholders in general meeting, the holding of an annual general meeting, and the obligation to appoint auditors annually.

## Auditor

Each of the persons who is a director at the date of approval of this report confirms that:

1. so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
2. the director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditor of the Company.

## Information included in Strategic report

In accordance with section 414C(11) of the Companies Act, the Company has chosen to set out the following information in the strategic report which would otherwise be required to be contained in the directors' report:

- information on the financial risk management objectives and policies;
- indication of the exposures to relevant key risks; and
- indication of likely future developments in the business of the Company.

## Approval

Approved by the Board of directors and signed on its behalf by:

D J Brosnan
Director

20 Fenchurch Street,
London EC3M 3BY

13 March 2017

# Independent Auditor's report to the members of CNA Insurance Company Limited

We have audited the financial statements of CNA Insurance Company Limited for the year ended 31 December 2016 which comprise the Profit and Loss Account, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Balance Sheet and the related notes 1 to 30. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework."

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 statement of directors' responsibilities, 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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## 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 Financial Reporting Standard 101 Reduced Disclosure Framework; and
- have been prepared in accordance with the requirements of the Companies Act 2006

## 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.

# Independent Auditor's report to the members of CNA Insurance Company Limited - continued

## 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.

Colin Rawlings FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor
London, United Kingdom

13 March 2017

# Profit and loss account - Technical account - General business

| | Notes | 2016 £'000 | 2015 £'000 |
|---|---|---|---|
| Gross premiums written | 5 | **239,977** | 217,880 |
| Outward reinsurance premiums | 5 | **(28,738)** | (26,370) |
| Premiums written, net of reinsurance | | **211,239** | 191,510 |
| Change in provision for unearned premiums | | | |
| – gross amount | 5 | **(2,672)** | (10,249) |
| – reinsurers' share | 5 | **2,469** | 3,374 |
| Earned premiums, net of reinsurance | 5 | **211,036** | 184,635 |
| Claims paid | | | |
| – gross amount | | **136,194** | 105,395 |
| – reinsurers' share | | **(15,168)** | (12,003) |
| Net claims paid | 6 | **121,026** | 93,392 |
| Change in the provision for claims: | | | |
| – gross amount | 6 | **485** | 16,701 |
| – reinsurers' share | 6 | **9,065** | 15,042 |
| Claims incurred, net of reinsurance | 6 | **130,576** | 125,135 |
| Net operating expenses | 7 | **80,033** | 65,633 |
| **Balance on the technical account for general business** | | **427** | (6,133) |

All the amounts above are in respect of continuing operations.

The Notes 1 to 30 form an integral part of these financial statements.

# Profit and loss account - Non-technical account

| | Notes | 2016 £'000 | 2015 £'000 |
|---|---|---|---|
| **Balance on the technical account for general business** | | **427** | (6,133) |
| Income from investments | | **24,258** | 23,281 |
| Realised gains on investments | | **1,545** | 455 |
| Realised losses on investments | | **(5,288)** | (9,726) |
| Unrealised gains on investments | | **12,131** | 4,537 |
| Unrealised losses on investments | | **760** | (13,376) |
| Investment management expenses | | **(692)** | (521) |
| Expense interest | | **(15)** | (20) |
| Total investment return | | **32,699** | 4,630 |
| Other income/(expense) | 9 | **1,147** | (254) |
| **Profit/(loss) on ordinary activities before tax** | 10 | **34,273** | (1,757) |
| Tax on profit/(loss) on ordinary activities | 11 | **(6,157)** | (1,331) |
| **Profit/(loss) for the financial year** | | **28,116** | (3,088) |

All the amounts above are in respect of continuing operations.

The Notes 1 to 30 form an integral part of these financial statements.

# Statement of comprehensive income

| | Notes | **2016 £'000** | 2015 £'000 |
|---|---|---|---|
| **Profit/(loss) for the financial year** | | **28,116** | (3,088) |
| **Other comprehensive income:** | | | |
| *Items that will not be reclassified subsequently to profit or loss:* | | | |
| Remeasurement of the net defined benefit pension scheme asset | 21 | **(8,344)** | 980 |
| UK deferred tax attributable to remeasurement of the net defined benefit pension scheme asset | 17 | **1,047** | 25 |
| | | **(7,297)** | 1,005 |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| Currency translation differences | | **19,016** | (6,301) |
| **Other comprehensive income/(loss) for the year** | | **11,719** | (5,296) |
| **Total comprehensive income/(loss) for the year** | | **39,835** | (8,384) |

All the amounts above are in respect of continuing operations.

The Notes 1 to 30 form an integral part of these financial statements.

# Statement of changes in equity

| | Share capital 2016 £'000 | Currency translation reserve 2016 £'000 | Profit and loss account 2016 £'000 | Total shareholder's equity 2016 £'000 |
|---|---|---|---|---|
| **Balance at 1 January 2016** | **130,200** | **(26,291)** | **259,995** | **363,904** |
| **Total comprehensive income for the year** | | | | |
| Profit for the financial year | **-** | **-** | **28,116** | **28,116** |
| **Other comprehensive income** | | | | |
| Remeasurement of the net defined benefit pension scheme asset | **-** | **-** | **(8,344)** | **(8,344)** |
| UK deferred tax attributable to remeasurement of the net defined benefit pension scheme | **-** | **-** | **1,047** | **1,047** |
| Currency translation differences | **-** | **19,016** | **-** | **19,016** |
| **Total comprehensive income for the year** | **-** | **19,016** | **20,819** | **39,835** |
| **Balance at 31 December 2016** | **130,200** | **(7,275)** | **280,814** | **403,739** |

| | Share capital 2015 £'000 | Currency translation reserve 2015 £'000 | Profit and loss account 2015 £'000 | Total shareholder's equity 2015 £'000 |
|---|---|---|---|---|
| Balance at 1 January 2015 | 130,200 | (19,990) | 262,078 | 372,288 |
| Total comprehensive income for the year | | | | |
| Loss for the financial year | - | - | (3,088) | (3,088) |
| Other comprehensive income | | | | |
| Remeasurement of the net defined benefit pension scheme asset | - | - | 980 | 980 |
| UK deferred tax attributable to remeasurement of the net defined benefit pension scheme asset | - | - | 25 | 25 |
| Currency translation differences | - | (6,301) | - | (6,301) |
| Total comprehensive income for the year | - | (6,301) | (2,083) | (8,384) |
| Balance at 31 December 2015 | 130,200 | (26,291) | 259,995 | 363,904 |

The currency translation reserve relates to the impacts of translation of the functional currency financial statements of foreign branches into the presentation currency of the Company.

The Notes 1 to 30 form an integral part of these financial statements.

# Balance sheet

| Assets | Notes | 2016 £'000 | 2015 £'000 |
|---|---|---|---|
| Intangible assets | 12 | **703** | 1,360 |
| Investments - financial investments | 14 | **839,313** | 671,789 |
| Reinsurers' share of provision for unearned premiums | 15 | **24,929** | 22,252 |
| Reinsurers' share of claims outstanding | 15 | **62,126** | 62,281 |
| Reinsurers' share of technical provisions | | **87,055** | 84,533 |
| Debtors arising out of direct insurance operations | 16 | **65,580** | 45,468 |
| Debtors arising out of reinsurance operations | | **1,868** | 3,434 |
| Other debtors | 17 | **4,182** | 6,514 |
| Debtors – amounts falling due within one year | | **71,630** | 55,416 |
| Tangible assets | 18 | **630** | 807 |
| Cash at bank and in hand | 19 | **31,991** | 101,340 |
| Other assets | | **32,621** | 102,147 |
| Accrued interest | | **12,331** | 9,752 |
| Deferred acquisition costs | 20 | **17,150** | 15,453 |
| Other prepayments and accrued income | | **508** | 294 |
| Prepayments and accrued income | | **29,989** | 25,499 |
| **Total assets excluding pension asset** | | **1,061,311** | 940,744 |
| Pension asset | 21 | **1,646** | 5,730 |
| **Total assets** | | **1,062,957** | 946,474 |

The Notes 1 to 30 form an integral part of these financial statements.

# Balance sheet - continued

| Liabilities | Notes | 2016 £'000 | 2015 £'000 |
|---|---|---|---|
| Called up share capital | 22 | **130,200** | 130,200 |
| Currency translation reserve | | **(7,275)** | (26,291) |
| Profit and loss account | | **280,814** | 259,995 |
| Capital and reserves | | **403,739** | 363,904 |
| Provision for unearned premiums | 23 | **109,196** | 100,605 |
| Claims outstanding | 23 | **510,455** | 462,406 |
| Technical provisions | | **619,651** | 563,011 |
| Provisions for other risks | 24 | **525** | 413 |
| Creditors arising out of direct insurance operations | | **4,744** | 1,986 |
| Creditors arising out of reinsurance operations | | **15,840** | 5,344 |
| Other creditors including tax and social security | 25 | **12,364** | 8,333 |
| Amounts owed to credit institutions | | **1** | 1,769 |
| Creditors – amounts falling due within one year | | **32,949** | 17,432 |
| Reinsurers' share of deferred acquisition costs | | **1,498** | 1,059 |
| Other accruals and deferred income | | **1,719** | 655 |
| Accruals and deferred income | | **3,217** | 1,714 |
| Pension liability | 21 | **2,876** | - |
| **Total liabilities** | | **1,062,957** | 946,474 |

The Notes 1 to 30 form an integral part of these financial statements.

Registered in England and Wales: number 950

These financial statements were approved by the Board of directors on 13 March 2017 and signed on its behalf by:

D J Stevens
Director

# Notes to the financial statements

## 1. Accounting policies

### Corporate information

CICL is a limited company incorporated in the United Kingdom. The address of the registered office is 20 Fenchurch Street, London, EC3M 3BY, United Kingdom.

### Basis of accounting

The financial statements are prepared in accordance with FRS 101.

Since 1 January 2014 the financial statements continue to be presented in accordance with the provisions of the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulation 2008 but have been prepared in accordance with FRS 101. This UK GAAP standard allows the use of EU-adopted International Financial Reporting Standards ("IFRS") with reduced disclosures, where allowed, by the Companies Act and associated legislation. The date of transition to FRS 101 was 1 January 2014.

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

### Basis of preparation

The financial statements have been prepared on a going concern basis. In considering the appropriateness of this assumption, the Board has reviewed the Company's projections for the next twelve months and beyond, including cash flow forecasts and regulatory capital surplus.

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Therefore, they continue to adopt the going concern basis in preparing the financial statements.

Further information regarding the Company's business activities, together with the factors likely to affect its future development, performance and position, and information regarding the financial position of the Company, its cash flows and liquidity position, are set out in the strategic report on pages 3 to 9. In addition Notes 3 and 14 to the financial statements include: the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

### Measurement convention

The financial statements are prepared on the historical cost basis, as modified by the revaluation of financial instruments at fair value through the profit and loss account.

### Disclosure exemption

The Company is included in the consolidated financial statements of CNAF, a company incorporated in the United States of America, whose consolidated financial statements are publicly available. Consequently, the Company has, in compliance with FRS 101, taken advantage of the exemption from preparing the following disclosures that would otherwise have been required by IFRS:

- IAS 7 – Presentation of a cash flow statement;
- IAS 8 – Disclosures in respect of new standards and interpretations that have been issued but which are not yet effective;
- IAS 24 – Disclosure of key management personnel compensation;
- IAS 24 – Disclosure of related party transactions entered into with other wholly owned entities included within the CNAF group financial statements; and
- IAS 16 and IAS 38 – Comparative information in respect of the reconciliation of net carrying value.

# Notes to the financial statements - continued

## 1. Accounting policies - continued

### Estimates

The preparation of financial statements in conformity with FRS 101 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2 below.

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

### Foreign currencies

The Company operates through foreign branches in a number of European countries. The financial statements of the branches are maintained in their functional currency, being the currency of the primary economic environment in which the branch operates. Typically, the functional currency and the currency of the primary economic environment is the currency of the country in which the entity is located.

Foreign currency transactions are converted to functional currency using the exchange rates prevailing at the date of the transactions. Monetary assets and liabilities denominated in foreign currency are revalued to functional currency at year end exchange rates and the resultant differences are recognised as gains and losses in the profit and loss account. Non-monetary assets and liabilities denominated in foreign currency are converted to functional currency at historical rates and are not subject to revaluation.

The presentational currency of the Company's financial statements is Pounds Sterling. The functional currency financial statements of foreign branches are translated to Pounds Sterling as follows. Income and expenses are translated to Pounds Sterling using the exchange rates prevailing at the date of the underlying transactions. Assets and liabilities are translated at year end exchange rates. All resulting exchange differences are recorded as currency translation differences in the statement of comprehensive income and reflected in the currency translation reserve.

### Basis of accounting for underwriting activities

Contracts are classified at inception, for accounting purposes, as either insurance contracts or investment contracts. A contract that is classified as an insurance contract remains an insurance contract until all rights and obligations are extinguished or expire. Investment contracts can be reclassified as insurance contracts after inception if the insurance risk becomes significant.

Insurance contracts are those contracts that transfer significant insurance risk, if and only if, an insured event could cause an insurer to pay benefits that were significantly greater than the premium received. Such contracts may also transfer financial risk. Investment contracts are contracts that carry financial risk with no significant insurance risk.

### Premiums

Premiums written comprise premiums on contracts incepted during the financial year as well as adjustments made in the year to premiums on contracts incepting in prior accounting periods. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Estimates are made for pipeline premiums, representing amounts due to the Company not yet notified.

Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct inward business.

The amount due but not paid is included in insurance and reinsurance debtors in the balance sheet.

# Notes to the financial statements - continued

## 1. Accounting policies - continued

### Unearned premiums

Written premiums are recognised as earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums written that relate to the unexpired period of policies in force at the balance sheet date, calculated on the basis of established earnings patterns or time apportionment as appropriate.

### Claims incurred

Claims incurred comprise all claim payments and internal and external settlement expense payments made in the financial year, and the movement in the provisions for claims outstanding and settlement expenses, including claims incurred but not reported ("IBNR"), net of salvage and subrogation recoveries.

Outward reinsurance recoveries are accounted for in the same accounting period as the claims for the related direct or inward reinsurance business being reinsured.

### Claims outstanding and related reinsurance recoveries

Provision is made for claims outstanding and settlement expenses incurred at the balance sheet date including an estimate for the cost of claims IBNR at that date. Included in the provision is an estimate of the internal and external costs of handling the claims outstanding. Estimated salvage and other recoveries are deducted from claims outstanding if material.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where there is more available information about the claim event. In calculating IBNR the Company uses a variety of estimation techniques. These are largely based on actuarial analysis of historical experience, which assumes the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- changes in Company processes which might accelerate or slow down the development and/or recording of paid or incurred claims compared with the statistics from previous periods;
- changes in the legal environment;
- the effects of inflation;
- changes in the mix of business;
- the impact of large losses, including catastrophes; and
- movements in industry benchmarks.

Large claims are generally assessed separately by each business class, being measured on a case by case basis, to allow for the possible distortive impact of the development and incidence of the large claims.

When calculating the provision for claims outstanding, the Company selects an estimation technique taking into account the individual characteristics of each business class.

Reinsurance recoveries are based upon the provision for claims outstanding, having due regard to collectability. Reinsurance recoveries in respect of estimated IBNR are assumed to be consistent with historical patterns of such recoveries, adjusted to reflect any changes in the nature and extent to the Company's reinsurance programme over time. The recoverability of reinsurance recoveries is assessed having regard to market data on the financial strength of each reinsurer.

The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures and the directors therefore consider that its provisions for claims outstanding and related reinsurance recoveries are fairly stated. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove different from the original liability established. Any adjustment made to amounts for claims provisions in respect of prior years are included in the technical account within the financial statements of the period when such adjustment is made.

# Notes to the financial statements - continued

## 1. Accounting policies - continued

### Liability adequacy test

At each reporting date an assessment is made to determine whether recognised insurance liabilities are adequate. If that assessment shows that the carrying amount of insurance liabilities (less related acquisition costs) is inadequate in the light of estimated future cash flows, the entire deficiency is recognised in the profit and loss account as an impairment of any associated deferred acquisition costs and, where these are fully depleted, via the provision for unexpired risks. The adequacy of the provision for unexpired risks is calculated separately by reference to classes of business that are managed together, after taking into account relevant investment return.

### Deferred acquisition costs

Acquisition costs comprise the direct expenses of concluding insurance contracts underwritten during the financial year. Acquisition costs are accrued over a period equivalent to that over which the underlying business is underwritten, and are charged to the accounting periods in which the related premiums are earned. Deferred acquisition costs represent the proportion of acquisition costs incurred in respect of unearned premiums at the balance sheet date. The Company defers only those acquisition costs which are directly related to the conclusion of insurance contracts as calculated separately for each class of business.

### Leases

All lease contracts are assessed to determine whether they constitute finance leases or operating leases. The Company has no assets held under finance leases or hire purchase transactions.

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

Provisions for dilapidations are recognised on a lease by lease basis and are based on the Company's best estimate of the likely committed cash outflow.

### Employee benefits

**Defined benefit pension schemes**

For defined benefit schemes the amounts charged to the profit and loss account are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. Net interest on the net defined benefit liability (asset) is reflected in other finance costs or credits.

Remeasurements of the net defined benefit liability (asset) include: actuarial gains and losses; the return on plan assets excluding amounts included in the net interest on the net defined benefit liability (asset) in the profit and loss account; and any changes in the effect of the asset ceiling, are recognised immediately in the statement of comprehensive income.

The defined benefit schemes are funded, with the assets of the scheme held separately from those of the Company, in separate, trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of related deferred tax, is presented separately after other net assets on the face of the balance sheet.

**Defined contribution pension schemes**

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

# Notes to the financial statements - continued

## 1. Accounting policies - continued

### Investment return

All investment return is recognised in the non-technical account.

Investment income comprises interest and dividends and realised gains and losses on investments. Interest is recognised on an accrual basis and dividends are included on an ex-dividend basis.

Realised gains or losses represent the difference between the net sales proceeds and purchase price.

Interest payable and expenses incurred in the management of investments are accounted for on an accrual basis.

Unrealised gains or losses represent the difference between the valuation of investments at the balance sheet date and their purchase price. The movement in unrealised gains and losses therefore includes the reversal of previously recognised unrealised gains and losses on investments disposed of in the current year.

### Tax

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted, or substantively enacted, by the balance sheet date.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities are not discounted.

A net deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on the tax rates and laws that have been enacted or substantively enacted by the statement of balance sheet date.

### Financial assets and liabilities

The Company recognises a financial asset or a financial liability on its balance sheet when it becomes a party to the contractual provisions of the instrument. On initial recognition, the Company determines the category of financial instrument and values it accordingly. The classification depends on the purpose for which the instruments are acquired.

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Although permitted by its investment guidelines, the Company does not normally hold or issue derivative financial instruments for trading purposes or to hedge its exposure to foreign exchange risk or interest rate risk. This position is regularly reviewed by the Investment Committee. No derivative financial instruments were held or issued during the current or preceding financial year.

Purchases and sales of securities and currencies are recognised on the trade date – the date on which the Company commits to purchase or sell the asset.

### Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and all the risks and rewards of ownership of the asset to another entity.

# Notes to the financial statements - continued

## 1. Accounting policies - continued

### Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

### Impairment of financial assets

Financial assets, other than those at fair value through profit and loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

An impairment loss is reversed if there is new information which results in a change in the estimates used to determine the estimated future cash flows. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate which reflects current market assessments of the time value of money and the risks specific to the asset for which the estimate of future cash flows has not been adjusted.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets and the loss is recognised in the profit and loss account.

### Impairment (non-financial assets)

The carrying amount of the Company's assets is reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the carrying value is reduced to the estimated recoverable amount by means of a charge to the profit and loss account.

An impairment loss is reversed if there is new information which results in a change in the estimates used to determine the recoverable amount, being the higher of fair value less selling costs and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate which reflects current market assessments of the time value of money and the risks specific to the asset for which the estimate of future cash flows has not been adjusted.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

### Investment in group undertakings

Investments in group undertakings are valued at their respective net asset value. Changes in value of group undertakings are dealt with through the statement of comprehensive income.

### Intangible assets

Intangible assets are stated at cost net of amortisation and any provision for impairment. Amortisation is provided on all intangible assets at rates calculated to write off the cost of each asset on a straight-line basis over its expected useful life as follows:

| | |
|---|---|
| Purchased computer software | 3 – 5 years |
| Internally developed computer software | 3 – 5 years |

### Investments at fair value through profit and loss

The Company designates financial assets upon initial recognition as "fair value through profit and loss" on the basis that the Company manages and evaluates the performance of its investment portfolio on a fair value basis in accordance with its investment strategy.

These financial assets are initially recognised at fair value with any transaction costs being expensed through the profit and loss account. For quoted investments where there is an active market, the fair value is the quoted bid price at the balance sheet date. For quoted investments where there is no active market, the fair value is determined by reference to prices for similar assets in active markets.

Realised gains and losses and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through profit and loss are included in the profit and loss account in the period in which they arise.

# Notes to the financial statements - continued

## 1. Accounting policies - continued

### Insurance and other debtors

Insurance and other debtors are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term debtors when the recognition of interest would be immaterial.

### Tangible assets

Tangible assets are stated at cost net of depreciation and any provision for impairment. Depreciation is provided on all tangible assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life as follows:

| | |
|---|---|
| Leasehold property and improvements | over the shorter of the useful life of the asset or the life of the lease |
| Fixtures, fittings and equipment | 5 – 7 years |
| Computer equipment | 3 – 5 years |

Residual value is calculated on prices prevailing at the date of acquisition.

### Cash at bank and in hand

Cash at bank and in hand represent cash balances, money market deposits lodged with banks and other highly liquid investments with original maturity of less than three months.

### Other financial liabilities

Other financial liabilities, including payables arising from insurance contracts, investment contracts, creditors and deposits received from reinsurers, are initially measured at cost, which is equal to fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

### Provisions

A provision is recognised on the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

### Group financial statements

The Company is exempt under section 401 of the Companies Act 2006 from preparing group financial statements as it is an indirect wholly owned subsidiary of CNAF, incorporated in the United States of America, which prepares consolidated financial statements that contain the results of the Company. Accordingly, these financial statements present information about the Company as an individual undertaking and not about its group.

## 2. Critical accounting estimates and judgements

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities during the financial year. Estimates are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Estimates and judgements in applying accounting policies are regularly evaluated for appropriateness.

### Gross premiums written

Gross premiums written include estimates for pipeline premiums, together with adjustments to premiums written in prior accounting periods.

# Notes to the financial statements - continued

## 2. Critical accounting estimates and judgements - continued

### Outstanding claims provisions and related reinsurance recoveries

The Company's estimates for reported and unreported losses and the resulting provisions and related reinsurance recoverables are continually monitored, and updated based on the latest available information. Adjustments resulting from this review are reflected in the profit and loss account. The process relies upon the basic assumption that past experience, adjusted for the effect of current developments and likely trends, is an appropriate basis for predicting future events. Estimation of claims provisions is a complex process, however, and significant uncertainty exists as to the ultimate settlement of these liabilities.

The most critical gross estimate included within the Company's financial position is the estimate for gross losses incurred but not reported. The total estimate as at 31 December 2016 is £294.5 million (2015: £263.3 million) and is included within technical provisions in the balance sheet.

### Estimation of the fair value of assets and liabilities

In estimating the fair value of fixed maturity securities, fair values are generally based upon quoted market prices. Where market prices are not readily available, fair values are estimated using values obtained from quoted market prices of comparable securities.

For disclosure purposes, fair value measurements are classified as Level 1, 2 or 3 based on the degree to which fair value is observable.

### Staff pension plans

The pension asset and pension and post retirement liability are calculated in accordance with International Accounting Standard 19 (IAS 19). The assets, liabilities and profit and loss account charge, calculated in accordance with IAS 19, are sensitive to the assumptions made from time to time, including inflation, interest rate, investment return and mortality. IAS 19 compares, at a given date, the current market value of a pension fund's assets with its long-term liabilities, which are calculated using a discount rate in line with yields on 'AA' rated bonds of suitable duration and currency. As such, the financial position of a pension fund on this basis is highly sensitive to changes in bond rates and will also be impacted by changes in equity markets.

## 3. Risk management

The Company operates an extensive risk management system to manage and monitor its risks within the overall governance framework set by the Board. The narrative below describes how the principal risks of the Company are managed.

### Risk definition

Risk exists as a consequence of uncertainty and is present in all activities regardless of their size or complexity. Risk is the uncertainty associated with the delivery of the Company's objectives, resulting in either a positive or negative outcome.

The Company faces numerous risks to its business from both internal and external sources. These risks have the potential to impact the achievement of the Company's strategic and operational objectives. Successful risk management enables the Board to understand and manage the uncertainty, and associated risk and opportunity, to which the Company is exposed.

### Risk statement

The Company considers risk management to be fundamental to good management practice and a significant aspect of corporate governance. Effective management of risk provides an essential contribution towards the achievement of the Company's strategic and operational objectives and goals.

The Board is responsible for risk management within the Company, and communicates its risk strategy through a risk appetite statement.

Risk management is an integral part of the Company's decision-making and routine management, and is incorporated within the strategic and operational planning processes at all levels across the business. Employees are expected to manage risk as defined through their roles. This ensures that an assessment of risk remains central to decision-making.

# Notes to the financial statements - continued

## 3. Risk management - continued

The Risk Management Function maintains a governance framework and a risk register to support the assessment of risk within the business. This includes investigation and challenge around issues and events which may affect the Company's understanding or management of risk.

Risk assessments are conducted on new ventures and activities, including projects, processes, systems and commercial activities to ensure that these are aligned with the Company's objectives and goals. Any risks or opportunities arising from these assessments are identified, analysed and reported to the appropriate management level.

### Risk Appetites

The Company's risk appetite statement reflects the Company's risk carrying capacity, business strategy and financial goals. It describes the level and types of risk the Company is prepared to bear.

Risk appetite is set by the Board at a level that is most appropriate in the context of the Company's strategy and capital constraints. The risk appetite statement sets out the types and overall amount of risk which are acceptable to achieve the business strategy. Risk appetite is an expression of the need both to limit exposure to unacceptable risks and to assume risks for which the company is well positioned to make returns from managing risk effectively.

The strategic appetite statements provide high level guidance, under the following categories:

- Capital;
- Liquidity;
- Earnings; and
- Franchise.

Detailed appetites provide further guidance on the levels of risk acceptable in the various risk categories. The detailed appetites follow the risk register categorisation and hence provide the limits (for risks which can be controlled) and escalation points (for risks which can only be monitored) for each risk type. .

### Own Risk and Solvency Assessment ("ORSA")

The ORSA is a process for the Company to identify and assess all material risks that may impact the Company's ability to meet, over the full business planning period, its strategic objectives and obligations and to ensure sufficient capital is maintained, on a continuing basis, to meet these risks.

Assessments are forward-looking, taking into account the business plan, long term plan and projections. The assessment is performed regularly and without any delay following any significant change in the risk profile, with the outcome of the assessment informing strategic decisions.

There are seven distinct categories of risk segmented into four high level categories: Insurance risks (Underwriting and Reserving), Finance risks (Credit, Market and Liquidity), Operational risks and Strategic risks. The key mitigation activities against these risk categories are described below.

The Company operates an extensive risk management system to manage and monitor its risks within the overall governance framework set by the Board. The Notes below describe how the principal risks of the Company are managed.

# Notes to the financial statements - continued

## 3. Risk management - continued

### Business review of risk and the 'Three lines of defence' governance model

The Company deploys the three lines of defence governance model. In the first line, risk is managed and monitored by those that have a responsibility for risk taking or decision making. Second line monitoring occurs through the Risk and Compliance functions and the Risk Committee, and is evidenced through risk reporting. Third line monitoring is through Internal Audit, supported by external audit and independent experts.

The primary method for identifying, assessing and managing risk in the Company is through the first line of defence review of risk taking and/or decision making activity. Employees are expected to manage risk as defined by their role. A formal risk review takes place at least quarterly where the risk and control performance and relevance are considered. Indicators and appetites may be refreshed more regularly and will prompt ad-hoc reviews where they fall outside agreed tolerances.

The risk register is a live tool that is central to the management of risk at the Company. The Risk Management Function works with risk owners to agree the material risks to which the Company is exposed, as well as the relevant sub-risks, controls and key risk indicators against each risk. The suite of risks on the register makes up the universe of risks within the Company.

### Emerging and developing risk

Emerging risks are defined as conditions, situations or trends that could impact the financial strength, competitive position or reputation of the Company, within a defined future timescale, and for which probability of occurrence and extent of impact are in the process of being understood and quantified.

To differentiate emerging risks from material risks that are already tracked, emerging risks are those where:

- The likelihood and impact may not be fully quantified;
- The business is monitoring the risk, but is not able to actively manage it.

Emerging and developing risks are related to any potential changes in the environment, or in the understanding of the environment, which could positively or negatively impact the Company's ability to meet its short or longer term plans.

The purpose of actively researching and discussing developing risk as a business is to be able to identify and benefit from new opportunities ahead of the Company's peers, and to avoid or mitigate potential threats to the Company's business performance.

### Risk quantification and modelling

The Company's economic capital model provides a tool to quantitatively assess the material risks to which the Company is exposed. The model encompasses the processes and methodologies in place for quantifying the risks faced by the Company as well as the data, assumptions, applied expert judgements, model outputs and the systems of governance and independent validation. The economic capital model is not used to set regulatory capital.

### Capital management

The Company manages its capital position in accordance to the requirements set out in the Solvency II Standard Formula, which is used as the basis of calculation. As at 31 December 2016, the Company's admissible capital was in excess of the Solvency II Standard Formula requirement.

Supplementary to the standard requirements for measuring capital set by the PRA, the Company also assesses capital using its own economic capital model.

# Notes to the financial statements - continued

## 3. Risk management - continued

### Insurance risk

Insurance risk, in the most general sense, is the assumption of risk by an insurer from the individuals or organisations who are directly subject to the risk concerned.

There are inherent uncertainties in assuming insurance risk, some of which relate to the scope of coverage and the understanding of that scope by the insurer. The principal uncertainty, however, is associated with frequency and severity of claims and with the potential for these to be greater than expected. Insurance events must be subject to fortuity and are therefore, by their very nature, random as to number and size.

Insurers put in place strategies to manage insurance uncertainties and the framework utilised by the Company is outlined below.

**Underwriting risk**

Underwriting risk represents risk associated with the continuing acceptance of insurance policies by the Company. This relates to the uncertainty as to whether premiums received will be sufficient to cover future incurred losses, including expenses as well as risks associated with potential volatility in claims experience.

Processes used to manage underwriting risk include the setting of underwriting and pricing standards and limits on risk-taking. The Company also monitors and manages its natural catastrophe exposures and uses catastrophe modelling software in order to assess its risk. Where necessary, reinsurance is used to mitigate and transfer risk falling outside risk appetite. Additionally the Company employs a business model that achieves diversification through the spread of business across territories and sectors. The Underwriting Committee provides governance over managing underwriting risk.

**Control of aggregating exposures**

Measurement and control of exposures are the means by which volatility within the portfolio is constrained. It goes to the heart of the business' appetite for risk since exposures are contained at a level that represents the extent to which the Company is prepared to bear a net loss. Within an insurance business, aggregations of risk may arise from a single insurance contract or through a number of related contracts. Whilst some level of claims activity from these aggregations is expected on a regular basis, certain events, or a series of events, may occur that stress the business financially. Examples of such events are hurricanes and earthquakes. The extent of the impact may also be very dependent on the size and location of the insured events.

Control of aggregating exposures in vulnerable locations is clearly vital, and is the key to maximising the potential for good underwriting profit in loss free periods without, on the downside, over-exposing capital to the impact of large and costly events. Factors which would impact the assumption of risk in these circumstances include an appropriate pricing of risk, a spread of risk across geographical territories and the availability, subject to cost, of a suitable reinsurance programme. The Company determines the maximum total exposure levels to a range of events that it is prepared to accept. Beyond this level, no further exposure may be assumed. At any point in time, the current exposure position for the underwriting portfolio is available to underwriters to enable them to assess the impact of individual risk exposures on the whole account.

The Company uses a number of modelling tools for this purpose, and their main objective is to simulate catastrophe losses so as to measure the effectiveness of the reinsurance programme and to confirm that the net exposure to which the Company is exposed has not exceeded the predetermined limit. A number of stress and scenario tests are also run during the year to examine the exposure to specific types of events.

**Management of reinsurance risk**

Treaty reinsurance is purchased to proactively manage the volatility inherent in the business. The Company seeks to balance cost versus protection through outward reinsurance treaty protections.

# Notes to the financial statements - continued

## 3. Risk management - continued

### Management of reinsurance risk - continued

In addition to protecting the business against catastrophe exposure, reinsurance is also purchased to cede risks that have characteristics that the Company does not wish to retain and also to control net exposures on single risks or aggregations of risks. Both proportional and non-proportional reinsurances are employed. Facultative reinsurance may also be used in certain predetermined circumstances for individual large lines. The focus on adequacy of pricing generally means that the underwriting team is comfortable to underwrite most classes of business without significant levels of facultative reinsurance.

The erosion and ongoing adequacy of the reinsurance programme as well as the reinsurance credit risk are also actively monitored.

### Reserve risk

Reserve risk is associated with liabilities the Company has from insurance policies issued in the past. This is the risk that claims reserves and related claims handling reserves will be materially inadequate relative to the ultimate cost of settlement.

Reserves for business underwritten in the past are established through detailed actuarial studies of the Company's insurance liabilities. These studies are subject to extensive management review and discussion by the Company's Reserving Group and Audit Committee. The Company sets its reserves using a variety of established methodologies for all claims liabilities, reported and unreported. Where necessary, policies or parts of the portfolio that give rise to particular uncertainty are segmented and analysed separately as part of the reserving process. The drivers of underlying changes in estimates of reserves are identified and analysed. When setting reserves for the current accident year, additional sources of uncertainty, such as changes in pricing levels, catastrophe claims, or the mix of business underwritten, are explicitly considered. In order to monitor the adequacy of previously established reserves, claims experience is reviewed each quarter to identify any deviations against expectations.

Critical to the reserve setting process is the assumption that the past claims development experience can be used to predict the future claims development and hence the ultimate cost of claims. Triangulation statistics that show the historical development of premiums and claims for each class of business and underwriting year are used to assist in the process of determining reserves. Numerous other factors and assumptions are applied to the claims historical progression data to assist in setting these estimates. The factors include changes over time to the business mix and method of acceptance within each class of business, rating and conditions, legislation and court awards, claims inflation and economic conditions. By its nature, the process involves a significant amount of judgement, although every effort is made to ensure that the process and resultant reserves are set on a consistent basis and will be sufficient to meet the cost of claims when they are finally settled.

There is a significant amount of uncertainty in the reserve established, which may be more or less than adequate. The level of uncertainty varies between classes of business and generally increases for longer tail classes of business. Any change in the estimate of a reserve, or a settlement at a value other than the reserve provided, is recognised in the reporting period in which the change is identified. The following table quantifies the impact on the Company's profit before tax and net assets of a 1% variation in the outstanding claims reserve and combined ratio, which may be the result of one or several changes in the insurance risk variables.

| | **Gross of reinsurance 2016 £'000** | **Net of reinsurance 2016 £'000** | Gross of reinsurance 2015 £'000 | Net of reinsurance 2015 £'000 |
|---|---|---|---|---|
| Pre-tax impact of a 1% variance in: | | | | |
| Claims liability | **5,105** | **4,483** | 4,624 | 4,001 |
| Combined ratio | **2,373** | **2,110** | 2,076 | 1,846 |
| | | | | |
| Impact on net assets of a 1% variance in: | | | | |
| Claims liability | **4,084** | **3,587** | 3,699 | 3,201 |
| Combined ratio | **1,898** | **1,688** | 1,661 | 1,477 |

# Notes to the financial statements - continued

## 3. Risk management - continued

### Financial risk

Financial risks can be broken down into the following categories:

**Credit risk**

Credit risk is the risk of loss if a counterparty fails to meet its contractual obligations, resulting in a financial loss to the Company. The Company is exposed to credit risk primarily through its investment and insurance activities.

The exposure to credit risk, from its holding of debt and other fixed income securities, is managed by adherence to the Company's investment guidelines which detail minimum issuer credit quality, duration limits, and the maximum value of individual holdings. The average Standard & Poor's credit rating of the Company's debt and other fixed income securities remained high throughout the year, and at 31 December 2016 was "A" (2015: "A+").

The Company is exposed to credit risk as a result of its regular insurance and reinsurance activity. The areas of key exposure are the reinsurers' share of claims outstanding and debtors arising out of direct and reinsurance operations from both policyholders and intermediaries. Ceded reinsurance is used to mitigate risks arising from inwards business. Ceded reinsurance does not discharge the Company's liability as primary insurer. If a ceded reinsurer fails to pay a claim, the Company remains liable for the payment to the policyholder. Reinsurance coverages are normally placed with reinsurers who are included on the approved reinsurance security listing used by the Company. Generally, these reinsurers will have a Standard & Poor's credit rating of "A" or better. With regard to direct insurance and reinsurance debtors, the Company operates processes to review broker security and to monitor arrangements with managing general agents. Debtors consist of payments of premium due from a large number of policyholders, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

The Company does not have significant credit risk exposure to any single counterparty or any group of counterparties. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit ratings agencies.

The assets bearing credit risk are summarised below:

| | **2016** | 2015 |
|---|---|---|
| | **£'000** | £'000 |
| Other financial investments | **839,313** | 671,789 |
| Reinsurers' share of claims outstanding | **62,126** | 62,281 |
| Debtors arising out of direct insurance operations | **65,580** | 45,468 |
| Debtors arising out of reinsurance operations | **1,868** | 3,434 |
| Cash at bank and in hand | **31,991** | 101,340 |
| **Total assets bearing credit risk** | **1,000,878** | 884,312 |

The concentration of credit risk is substantially unchanged compared to the prior year.

The carrying amount of the above assets at the balance sheet date represents the maximum credit risk exposure. As at the year end, the Company does not hold any investments in wrapped debt or other such fixed income securities.

# Notes to the financial statements - continued

## 3. Risk management - continued

### Credit risk - continued

Other financial investments are designated as fair value through profit or loss at inception, and their performance is evaluated on a fair value basis, in accordance with a documented investment strategy. The credit rating for other financial investments is detailed below. The ratings are derived from Standard & Poor's.

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| AAA | **40,181** | 27,067 |
| AA | **207,004** | 203,800 |
| A | **373,249** | 310,242 |
| BBB | **213,718** | 121,499 |
| Below BBB or not rated | **5,161** | 9,181 |
| **Total other financial investments bearing credit risk** | **839,313** | 671,789 |

Other financial investments and cash at bank are neither past due nor impaired.

The Standard & Poor's or equivalent credit rating for reinsurers' share of claims outstanding and debtors arising out of reinsurance operations is detailed below:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| AAA | - | 4,117 |
| AA | **143** | 57,591 |
| A | **61,354** | 469 |
| BBB | - | - |
| Below BBB or not rated | **2,497** | 3,538 |
| **Total reinsurers' share of claims outstanding and debtors arising out of reinsurance operations bearing credit risk** | 63,994 | 65,715 |

Reinsurers' share of claims outstanding includes a £2.0 million (2015: £2.0 million) provision for impairment. Debtors arising out of direct and reinsurance operations includes a £2.0 million (2015: £2.1 million) provision for impairment which represents 16.8% (2015: 33.4%) of the total past due amount.

# Notes to the financial statements - continued

## 3. Risk management - continued

### Liquidity risk

Liquidity risk is the risk that cash may not be available, or that assets cannot be liquidated at a reasonable price, to pay obligations when they fall due. The Company is exposed to daily calls on its available cash resources, mainly from claims arising through insurance and reinsurance contracts.

The table below summarises the maturity profile of the Company's financial and insurance liabilities based on an analysis by estimated timing of the amounts recognised in the balance sheet for insurance liabilities, and based on remaining undiscounted contractual obligations for all other liabilities.

| | **Within 1 year 2016 £'000** | **1-2 years 2016 £'000** | **3-5 years 2016 £'000** | **Over 5 years 2016 £'000** | **Total 2016 £'000** |
|---|---|---|---|---|---|
| Claims outstanding | 139,568 | 153,464 | 100,926 | 116,497 | **510,455** |
| Creditors - amounts falling due within one year | 32,949 | - | - | - | **32,949** |
| Accruals and deferred income | 3,217 | - | - | - | **3,217** |
| **Total** | 175,734 | 153,464 | 100,926 | 116,497 | **546,621** |

| | Within 1 year 2015 £'000 | 1-2 years 2015 £'000 | 3-5 years 2015 £'000 | Over 5 years 2015 £'000 | Total 2015 £'000 |
|---|---|---|---|---|---|
| Claims outstanding | 126,430 | 139,019 | 91,426 | 105,531 | 462,406 |
| Creditors - amounts falling due within one year | 17,432 | - | - | - | 17,432 |
| Accruals and deferred income | 1,714 | - | - | - | 1,714 |
| **Total** | 145,576 | 139,019 | 91,426 | 105,531 | 481,552 |

# Notes to the financial statements - continued

## 3. Risk management - continued

### Liquidity risk - continued

The table below summarises the maturity profile of the Company's financial and insurance assets where the maturity profile is an analysis by estimated timing of the amounts recognised in the balance sheet.

| | Within 1 year 2016 £'000 | 1-2 years 2016 £'000 | 3-5 years 2016 £'000 | Over 5 years 2016 £'000 | Total 2016 £'000 |
|---|---|---|---|---|---|
| Other financial investments | 69,360 | 122,048 | 423,433 | 224,472 | **839,313** |
| Reinsurers' share of claims outstanding | 16,986 | 18,678 | 12,283 | 14,179 | **62,126** |
| Debtors – amounts falling due within one year | 71,630 | - | - | - | **71,630** |
| Accrued interest and other prepayments and accrued income | 12,839 | - | - | - | **12,839** |
| Cash at bank and in hand | 31,991 | - | - | - | **31,991** |
| **Total** | 202,806 | 140,726 | 435,716 | 238,651 | **1,017,899** |

| | Within 1 year 2015 £'000 | 1-2 years 2015 £'000 | 3-5 years 2015 £'000 | Over 5 years 2015 £'000 | Total 2015 £'000 |
|---|---|---|---|---|---|
| Other financial investments | 77,136 | 87,558 | 302,141 | 204,954 | 671,789 |
| Reinsurers' share of claims outstanding | 17,029 | 18,724 | 12,314 | 14,214 | 62,281 |
| Debtors – amounts falling due within one year | 55,416 | - | - | - | 55,416 |
| Accrued interest and other prepayments and accrued income | 10,046 | - | - | - | 10,046 |
| Cash at bank and in hand | 101,340 | - | - | - | 101,340 |
| **Total** | 260,967 | 106,282 | 314,455 | 219,168 | 900,872 |

The Board manages this risk by structuring its working capital to ensure that there are available cash resources or sufficiently liquid investments to meet expected cash flow requirements. The Company's investment guidelines are structured to ensure that investments can be liquidated at short notice to meet higher levels of demand in exceptional circumstances.

The company has no significant concentrations of liabilities that would result in a concentrated cash outflow or any significant concentration of assets that may result in restrictions in liquidating at short notice.

Liquid funds and cash flow forecasts are monitored regularly to ensure that the need for sufficient liquidity is balanced against investment return objectives.

# Notes to the financial statements - continued

## 3. Risk management - continued

### Market risk

Market risks are principally related to the Company's investment activity, notably its holding of debt and other fixed income investments. Within this area, the primary risks to which the Company is exposed are: currency risk and interest rate risk.

The Company manages these exposures through its Investment Group. The group is responsible for establishing and maintaining an investment policy in line with the risk appetite of the Company. In addition, the group is responsible for the management of all investment asset risks, the selection of its investment managers and reviewing investment performance.

The investment management function is outsourced to an external fund manager. The Investment Group has established an asset allocation policy of investing primarily in listed debt, other fixed income securities and cash. The policy also stipulates that surplus cash can only be held on deposit with highly rated credit institutions until such time as suitable investments in appropriate listed debt and other fixed income securities can be made.

An investment management agreement has been established with the company's external fund manager. The agreement includes specific guidelines for each individual portfolio in order to limit risks arising from duration, currency, liquidity, credit and concentration exposures. The agreement also limits concentration of exposures to single countries, economic sectors and individual securities and provides for minimum standards of creditworthiness. The external fund manager provides quarterly affirmation of compliance with these guidelines.

### Market risk - currency risk

The Company is primarily exposed to currency risk in respect of assets and liabilities relating to insurance policies denominated in currencies other than Pounds Sterling. The Company looks to maintain an appropriate currency match of assets and liabilities with surplus funds being held in line with the currency profile policy for surplus investments.

The accounting policy for foreign currencies is stated in note 1 to the financial statements.

The Investment Group has established a currency profile policy which defines target ranges for surplus investments. The policy cites two key functional currencies, Pounds Sterling and Euro, and stipulates a target range of between 65% and 75% for Pounds Sterling denominated net assets and a range of between 25% and 35% for Euro denominated net assets. This position is regularly reviewed by the Investment Group.

The relevant exchange rates measured in units against Pounds Sterling for the year are:

| | Profit and loss account | | Balance sheet | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| Australian Dollar | **1.83** | 2.03 | **1.71** | 2.02 |
| Danish Kroner | **9.15** | 10.27 | **8.72** | 10.12 |
| Euro | **1.23** | 1.38 | **1.17** | 1.36 |
| Swedish Kroner | **11.61** | 12.89 | **11.24** | 12.44 |
| Swiss Franc | **1.34** | 1.47 | **1.26** | 1.48 |
| United States Dollar | **1.36** | 1.53 | **1.23** | 1.47 |

# Notes to the financial statements - continued

## 3. Risk management - continued

### Market risk - currency risk - continued

Given the net asset position at year end, a 10% strengthening of Pounds Sterling against the Euro and then separately against all other currencies (primarily the Euro, Danish Kroner, US dollar and Australian dollar) would result in the following impacts:

| | Euro only | | All currencies | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **£'000** | £'000 | **£'000** | £'000 |
| **Impact on profit and loss account** | | | | |
| Foreign exchange loss | **(3,738)** | (3,461) | **(5,778)** | (4,294) |
| Tax on profit on ordinary activities | **748** | 826 | **1,156** | 1,024 |
| **Impact on statement of total recognised gains and losses:** | | | | |
| Currency translation differences | **-** | - | **(5,814)** | (6,556) |
| Total impact on capital and reserves | **(2,990)** | (2,635) | **(10,436)** | (9,826) |

### Market risk - interest rate risk

The Company's exposure to interest rate risk is mainly through its investments in debt and other fixed income securities due to instrument duration and the associated duration of the liabilities arising from insurance activities. The investment portfolio is managed based on the characteristics of the underlying liabilities and the alignment of the duration of the investment portfolio to the duration of the liabilities.

The investment portfolio is periodically analysed for changes in duration and related price change risk. The evaluation is performed by applying an instantaneous change in yield rates of varying magnitude on a static balance sheet to determine the effect such a change in rates would have on the fair value at risk and the resulting effect on shareholder's' funds.

To illustrate the down side risk within the debt and other fixed income securities portfolio of £839.3 million as at 31 December 2016 (2015: £671.8 million), the impact of an increase of 100 basis points in interest yields across all portfolios simultaneously (principally Pounds sterling, Euro, US dollars and Australian dollars) has been estimated. The Company does not hedge interest rate risk and, assuming this continues and that all other variables remain constant, such an increase would decrease the market value of the investment portfolio and lead to a decrease in the total investment return of £19.6 million (2015: £21.5 million) and accordingly decrease total shareholder's funds by £15.7 million (2015: £17.2 million).

On the basis that all other variables remain constant, a decrease of 100 basis points in interest rates at 31 December would have had an equal and opposite effect to the amounts shown above.

## Operational risk

The Company is exposed to operational risks associated with internal processes, people, systems, and external events. The Company has a well developed and tested business continuity plan and IT disaster recovery plan. The operational risk management framework also includes an operational loss reporting facility handled through the Company's broader risk management framework.

# Notes to the financial statements - continued

## 3. Risk management - continued

### Strategic and Group risk

The risk universe covers all group operations with a risk registers in place to ensure risk can be managed and monitored at the local level as well as Company and Group.

Group risk is the risk that the business units fail to consider the impact of their activities on other parts of the group, as well as the risks arising from their activities. The primary areas of focus in respect of group risk are:

**Capital**

A risk based approach is used to determine the amount of capital required to support the activities of the Group. Recognised stochastic modelling techniques are used to measure risk exposures, and capital to support business activities is allocated according to risk profile. Stress and scenario analysis is performed and the results are reviewed against Board risk appetite. Overall this is considered to be low risk, given the financial strength of the CNAF Group.

**Reputation**

Negative publicity as a result of the Group's contractual arrangements, customers, products, services and other activities could impact upon our brand and our ability to deliver against our business plan and interact as needed with the capital markets. We aim to minimise reputation risks, but where this is not possible due to business necessity of certain activities, we minimise their frequency and severity by management through public communication channels.

**Shared services**

The Company has reliance on certain group services, such as financial systems. Any issues in these services will manifest as group risk. These outsourced service risks are monitored and assessed at both the local and group level.

# Notes to the financial statements - continued

## 4. Segmental Information

Segmental results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. There is no individual policyholder that comprises greater than 10% of the Company's total gross premiums written.

Financial income, other operating income, other operating expenses, finance costs and taxation are not allocated to business segments as these items are determined by entity level factors and do not relate directly to the performance of each operating segment. The 2015 figures have been represented to ensure consistency with the 2016 segments.

Information required by the Company's Act 2006 regarding the Group's operating segments is presented below:

For the year ended 31 December 2016

| | Gross written premiums £'000 | Gross premiums earned £'000 | Gross claims incurred £'000 | Net operating expenses £'000 | Reinsurance balance £'000 |
|---|---|---|---|---|---|
| **Direct insurance** | | | | | |
| Marine, aviation and transport | 48,056 | 48,436 | (21,361) | (18,430) | (3,280) |
| Fire and other damage to property | 28,831 | 27,855 | (12,004) | (10,186) | (6,549) |
| Third party liability | 149,108 | 146,565 | (103,792) | (47,425) | (10,633) |
| Miscellaneous | 13,955 | 14,422 | (2,278) | (4,000) | 40 |
| **Total direct** | 239,950 | 237,278 | (139,435) | (80,041) | (20,422) |
| **Reinsurance accepted** | 27 | 27 | 2,756 | 8 | 258 |
| **Total** | 239,977 | 237,305 | (136,679) | (80,033) | (20,164) |

For the year ended 31 December 2015

| | Gross written premiums £'000 | Gross premiums earned £'000 | Gross claims incurred £'000 | Net operating expenses £'000 | Reinsurance balance £'000 |
|---|---|---|---|---|---|
| **Direct insurance** | | | | | |
| Marine, aviation and transport | 46,778 | 47,369 | (30,264) | (17,463) | (7,173) |
| Fire and other damage to property | 21,623 | 20,970 | (16,432) | (7,057) | (3,645) |
| Third party liability | 137,768 | 127,455 | (76,847) | (36,965) | (9,979) |
| Miscellaneous | 11,709 | 11,835 | 1,537 | (4,137) | (5,236) |
| **Total direct** | 217,878 | 207,629 | (122,006) | (65,622) | (26,033) |
| **Reinsurance accepted** | 2 | 2 | (90) | (11) | (1) |
| **Total** | 217,880 | 207,631 | (122,096) | (65,633) | (26,034) |

# Notes to the financial statements - continued

## 4. Segmental Information - continued

Analysis of geographic area (location of business written):

| | Net Assets | | Profit/(loss) on ordinary activities before tax | | Gross Premiums Written | |
|---|---|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 |
| | **£'000** | £'000 | **£'000** | £'000 | **£'000** | £'000 |
| United Kingdom | **345,604** | 298,340 | **49,875** | 238 | **155,343** | 144,096 |
| EU member states | **57,423** | 64,441 | **(14,972)** | (1,791) | **83,466** | 72,425 |
| Other EEA member states | **712** | 1,123 | **(630)** | (204) | **1,168** | 1,359 |
| **Total** | **403,739** | 363,904 | **34,273** | (1,757) | **239,977** | 217,880 |

Gross premiums written by location of risk:

| | **2016** | 2015 |
|---|---|---|
| | **£'000** | £'000 |
| United Kingdom | **110,318** | 97,406 |
| EU member states and other EEA member states | **101,475** | 95,527 |
| Other countries | **28,184** | 24,947 |
| **Total** | **239,977** | 217,880 |

## 5. Premium revenue

| | **2016** | 2015 |
|---|---|---|
| | **£'000** | £'000 |
| Gross written premiums | **239,977** | 217,880 |
| Gross change in provision for unearned premiums | **(2,672)** | (10,249) |
| Gross earned premiums | **237,305** | 207,631 |
| Premiums ceded to reinsurers | **(28,738)** | (26,370) |
| Reinsurers share of change in provision for unearned premiums | **2,469** | 3,374 |
| Ceded earned premiums | **(26,269)** | (22,996) |
| **Earned premiums, net of reinsurance** | **211,036** | 184,635 |

# Notes to the financial statements - continued

## 6. Claims incurred

| | Gross 2016 £'000 | Reinsurance 2016 £'000 | Net 2016 £'000 |
|---|---|---|---|
| Current accident year claims paid | **26,454** | **(52)** | **26,402** |
| Prior accident year claims paid | **109,740** | **(15,116)** | **94,624** |
| Change in the provision for claims | **485** | **9,065** | **9,550** |
| **Claims incurred, net of reinsurance** | **136,679** | **(6,103)** | **130,576** |

| | Gross 2015 £'000 | Reinsurance 2015 £'000 | Net 2015 £'000 |
|---|---|---|---|
| Current accident year claims paid | 17,361 | (26) | 17,335 |
| Prior accident year claims paid | 88,034 | (11,977) | 76,057 |
| Change in the provision for claims | 16,701 | 15,042 | 31,743 |
| Claims incurred, net of reinsurance | 122,096 | 3,039 | 125,135 |

Over/(under) provisions for claims at the beginning of the year as compared with net payments and provisions at the end of the year in respect of prior years' claims are as follows:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Marine, aviation and transport | **3,851** | (791) |
| Fire and other damage to property | **2,118** | (871) |
| Third party liability | **(5,925)** | 6,072 |
| Miscellaneous | **8,033** | 5,283 |
| Reinsurance accepted | **3,014** | (116) |
| Total | **11,091** | 9,577 |

# Notes to the financial statements - continued

## 7. Net operating expenses

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Acquisition costs | **37,546** | 32,769 |
| Other acquisition costs | **1,586** | 1,149 |
| Change in deferred acquisition costs | **(786)** | (1,504) |
| Change in reinsurance commissions | **(1,979)** | (2,514) |
| Change in ceded deferred acquisition costs | **435** | 232 |
| Total acquisition costs | **36,802** | 30,132 |
| Administrative expenses | **43,231** | 35,501 |
| **Total** | **80,033** | 65,633 |

Auditor's remuneration for the audit of the Company's financial statements of £211,000 (2015: £211,000) is included in the above figures.

## 8. Information on employees and directors

All UK staff are employed and remunerated by CNA Services, a fellow indirect subsidiary of CNAF. The Company pays CNA Services a management fee for the provision of staff and administration services. The Company continues to employ all staff in its Continental European branch offices.

The cost of the UK staff are included in the financial statements of CNA Services.

### Employee costs

Staff costs incurred during the year in respect of all CICL employees were:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Wages and salaries | **10,717** | 8,661 |
| Social security costs | **3,200** | 2,428 |
| Pension costs | **611** | 698 |
| Other employment costs | **677** | 630 |
| **Total** | **15,205** | 12,417 |

# Notes to the financial statements - continued

## 8. Information on employees and directors - continued

The average monthly number of employees during the year was made up as follows:

| | 2016 Number | 2015 Number |
|---|---|---|
| Continental Europe | **106** | 95 |
| **Total** | **106** | 95 |
| Management | **5** | 7 |
| Claims | **18** | 15 |
| Underwriting | **71** | 64 |
| Administration | **11** | 9 |
| **Total** | **106** | 95 |

The average numbers of staff based in the UK are included in the financial statements of CNA Services.

### Directors' remuneration

Details of the emoluments paid to the directors of CICL are disclosed in the financial statements of CNA Services. Four (2015: four) directors are members of a defined contribution pension scheme.

The following Directors of the Company who served during the year, listed below, were all employed and remunerated by CCC, part of the CNAF group (see note 29). It is not practicable to allocate these Directors' remuneration between their services across the companies of which they are executives. Therefore the remuneration and pension benefits are included in the financial statements of the individual company which employed and remunerated them, CCC:

D J Brosnan, J M Anderson, T F Motamed and T J Szerlong.

# Notes to the financial statements - continued

## 9. Other (income)/charges

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Foreign exchange difference | **435** | 265 |
| Other finance income (see note 21) | **(142)** | 160 |
| Interest income on investment contracts | **(250)** | (27) |
| Income under indemnity agreement from an associated group company | **(1,053)** | (38) |
| Income from the provision of Funds at Lloyd's | **(1,374)** | (101) |
| Other charges/(income) | **1,237** | (5) |
| **Total** | **(1,147)** | 254 |

Income under indemnity agreement from an associated company represents settlements during the financial year with CCC related to the CNA Re Management Company Limited ("CNA Re") Retirement Benefits Plan (see note 21).

## 10. Profit/(loss) on ordinary activities before tax

Profit/(loss) on ordinary activities before tax is stated after charging the following items within net operating expenses:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Amortisation of intangible assets (see note 12) | **657** | 812 |
| Depreciation of tangible assets (see note 18) | **313** | 306 |
| Operating lease rentals: | | |
| Paid by CICL | **1,195** | 1,074 |
| Recharged from CNA Services | **2,203** | 1,747 |
| Fees payable to the Company's auditor for: | | |
| The audit of the Company's annual accounts | **211** | 211 |
| Other services pursuant to legislation | **88** | 10 |

Included in Operating lease rentals above are amounts paid by CNA Services and recharged to the Company in respect of property leases on CICL's UK offices. The lease agreements in respect of these offices continue to be in the name of the Company.

# Notes to the financial statements - continued

## 11. Tax on profit on ordinary activities

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| **Current tax:** | | |
| UK Corporation tax on profit/(loss) for the year | **(6,144)** | - |
| Double tax relief | **883** | - |
| Overseas tax | **(557)** | (1,162) |
| | **(5,818)** | (1,162) |
| Adjustments in respect of previous years: | | |
| UK corporation tax | **(54)** | 463 |
| Overseas tax | **13** | (677) |
| **Total current tax charge** | **(5,859)** | (1,376) |
| **Deferred tax** (see note 17): | | |
| Origination and reversal of timing differences | **(392)** | 412 |
| Effect of change in tax rate on opening asset | **(53)** | (60) |
| Movement in post-retirement liability excluding actuarial gain | **(6)** | (170) |
| Adjustment in respect of prior years | **153** | (137) |
| **Total deferred tax (charge)/credit** | **(298)** | 45 |
| **Tax on profit/(loss) on ordinary activities** | **(6,157)** | (1,331) |

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| **Factors affecting tax charge for the year:** | | |
| Profit/(loss) on ordinary activities before tax | **34,273** | (1,757) |
| Tax at the UK rate of 20.0% (2015: 20.25%) | **(6,854)** | 356 |
| **Effects of:** | | |
| Adjustments in respect of foreign tax rates | **326** | (1,163) |
| Net pension contribution relief in excess of pension charges | **231** | 7 |
| Adjustments to tax charge in respect of previous years | **112** | (351) |
| Non-taxable income | **45** | - |
| Group relief received without payment | **21** | - |
| Overseas tax payable | **19** | 40 |
| Effect of change in tax rate | **17** | (90) |
| Expenses disallowed for tax purposes | **(74)** | (130) |
| **Tax on profit/(loss) on ordinary activities** | **(6,157)** | (1,331) |

# Notes to the financial statements - continued

## 12. Intangible assets

| | Purchased software £'000 | Internally developed software £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2016 | **519** | **5,806** | **6,325** |
| Additions | - | - | - |
| **At 31 December 2016** | **519** | **5,806** | **6,325** |
| **Accumulated amortisation** | | | |
| At 1 January 2016 | **424** | **4,541** | **4,965** |
| Charge for year | **63** | **594** | **657** |
| **At 31 December 2016** | **487** | **5,135** | **5,622** |
| **Carrying amount** | | | |
| **At 31 December 2016** | **32** | **671** | **703** |
| At 31 December 2015 | 95 | 1,265 | 1,360 |

## 13. Investments in Group undertakings

The Company owns one ordinary £1 share (2015: one), issued at par value, of Maritime Insurance Company Limited ("MICL") representing 100% of MICL's authorised share capital. MICL is incorporated in the United Kingdom and registered in England and Wales and is currently dormant.

## 14. Other financial investments

| | Cost 2016 £'000 | Cost 2015 £'000 | Fair Value 2016 £'000 | Fair Value 2015 £'000 |
|---|---|---|---|---|
| **Debt securities and other fixed income securities** | **819,404** | 670,885 | **839,313** | 671,789 |

# Notes to the financial statements - continued

## 14. Other financial investments - continued

### Fair value

Fair value is the price that would be received upon sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following fair value hierarchy is used in selecting inputs, with the highest priority given to Level 1, as these are the most transparent or reliable.

Level 1 – Quoted prices for identical instruments in active markets.

Level 2 – Quoted prices equal to the bid price in active markets; quoted prices for similar instruments in markets that are not active; and model derived valuations in which all significant inputs are observable in active markets.

Level 3 – Valuations derived from valuation techniques in which one or more significant inputs are not observable.

The Company attempts, either itself or through its external fund manager (see note 3), to establish fair value as an exit price in an orderly transaction consistent with normal settlement market conventions. The Company is responsible for the valuation process and seeks to obtain quoted market prices for all securities. When quoted market prices in active markets are not available, the Company utilises market observable information to the extent possible. As further validation of the Company's valuation process, the Company samples past fair value estimates and compares the valuations to actual transactions executed in the market on similar dates.

Other financial investments measured by the fair value hierarchy at 31 December are summarised below:

| | Level 1<br>£'000 | Level 2<br>£'000 | Level 3<br>£'000 | Total<br>£'000 |
|---|---|---|---|---|
| **2016** | | | | |
| **Debt securities and other fixed income securities** | **9,098** | **830,215** | **-** | **839,313** |
| 2015 | | | | |
| Debt securities and other fixed income securities | 7,646 | 664,143 | - | 671,789 |

During the year no significant transfers occurred between Level 1 and Level 2.

The Company held no Level 3 investments in the current or prior year.

The amounts expected to be realised before and after one year are estimated as follows:

| | **2016**<br>**£'000** | 2015<br>£'000 |
|---|---|---|
| Within one year | **69,360** | 77,136 |
| After one year | **769,953** | 594,653 |
| **Total** | **839,313** | 671,789 |

# Notes to the financial statements - continued

## 15. Reinsurers' share of technical provisions

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Reinsurers' share of claims outstanding gross of impairment provision | **64,102** | 64,257 |
| Impairment provision | **(1,976)** | (1,976) |
| Reinsurers' share of claims outstanding | **62,126** | 62,281 |
| Reinsurers' share of unearned premiums | **24,929** | 22,252 |
| **Total** | **87,055** | 84,533 |

The amounts expected to be realised before and after one year are estimated as follows:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Within one year | **41,915** | 39,281 |
| After one year | **45,140** | 45,252 |
| **Total** | **87,055** | 84,533 |

## 16. Debtors arising out of direct insurance operations

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Amounts due from intermediaries | **66,462** | 46,788 |
| Impairment provision | **(882)** | (1,320) |
| **Total** | **65,580** | 45,468 |

All amounts are expected to be recovered within one year.

# Notes to the financial statements - continued

## 17. Other debtors

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Corporation tax receivable | **3,202** | 4,998 |
| Deferred tax asset | **966** | 1,471 |
| Other | **14** | 45 |
| **Total** | **4,182** | 6,514 |

**Deferred tax asset**

**Details of the full potential asset for deferred tax are given below:**

| | Provided 2016 £'000 | Provided 2015 £'000 | Not provided 2016 £'000 | Not provided 2015 £'000 |
|---|---|---|---|---|
| Decelerated capital allowances | **394** | 420 | **-** | - |
| Short-term timing differences | **572** | 407 | **-** | - |
| Tax losses | **-** | 644 | **-** | - |
| | **966** | 1,471 | **-** | - |
| Post-retirement asset/(liability) | **589** | (665) | **-** | - |
| **Total** | **1,555** | 806 | **-** | - |

The movement in the deferred tax balance relating to the post-retirement asset of £1,254,000 comprises £1,047,000 attributable to the actuarial loss recognised in the statement of comprehensive income and £207,000 attributable to other movements recognised in the profit and loss account.

# Notes to the financial statements - continued

## 17. Other debtors - continued

### Deferred tax asset - continued

The total deferred tax asset has been recognised in the financial statements to the extent that the directors consider that it is likely to be utilised in the foreseeable future.

| | 2016<br>£'000 | 2015<br>£'000 |
|---|---|---|
| Provision at start of year | **806** | 736 |
| Amounts (charged)/credited to the profit and loss account | **(298)** | 45 |
| Amounts credited to the statement of comprehensive income | **1,047** | 25 |
| **Provision at end of year** | **1,555** | 806 |

The total deferred tax asset has been recognised in the financial statements to the extent that the Directors consider that it is likely to be utilised in the foreseeable future.

On 16 March 2016 the Chancellor of the Exchequer announced a reduction in the main rate of corporation tax to 17% from 1 April 2020, which became substantively enacted on 15 September 2016. This is further to the reduction in corporation tax to 19% from 1 April 2017 which was substantively enacted on 18 November 2015.

The Company has remeasured its deferred tax assets and liabilities accordingly at the end of the year.

# Notes to the financial statements - continued

## 18. Tangible assets

| | Leasehold property and improvements £'000 | Fixtures, fittings and equipment £'000 | Computer equipment £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2016 | 1,997 | 1,013 | 1,967 | 4,977 |
| Additions | 22 | 5 | 10 | 37 |
| Foreign exchange revaluation | 119 | 75 | 28 | 222 |
| **At 31 December 2016** | 2,138 | 1,093 | 2,005 | 5,236 |
| **Accumulated depreciation** | | | | |
| At 1 January 2016 | 1,574 | 768 | 1,828 | 4,170 |
| Charge for year | 137 | 87 | 89 | 313 |
| Foreign exchange revaluation | 66 | 37 | 20 | 123 |
| **At 31 December 2016** | 1,777 | 892 | 1,937 | 4,606 |
| **Net book value** | | | | |
| **At 31 December 2016** | 361 | 201 | 68 | 630 |
| At 31 December 2015 | 423 | 245 | 139 | 807 |

## 19. Cash at bank and in hand

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Cash at bank and in hand | 11,599 | 80,257 |
| Short-term deposits with credit institutions | 20,392 | 21,083 |
| **Total** | 31,991 | 101,340 |

£344,445 (2015: £344,545) of deposits with credit institutions are secured against letters of credit (see note 27).

# Notes to the financial statements - continued

## 20. Deferred acquisition costs

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| At 1 January | **15,453** | 14,280 |
| Net increase | **351** | 1,504 |
| Foreign exchange revaluation | **1,346** | (331) |
| **At 31 December** | **17,150** | 15,453 |

All amounts are expected to be recovered within one year.

## 21. Staff pension plans

### Retirement benefit pension scheme

The Company operates two defined benefit schemes in the United Kingdom.

### Risks associated with the Plan

The Plans expose the Company to a number of risks, the most significant of which are:

| | |
|---|---|
| Asset volatility | The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit. A significant proportion of invested assets are held in growth assets (UK and overseas equities) which, though expected to outperform corporate bonds in the long-term, create volatility and risk in the short-term. The allocation to growth assets is monitored to ensure it remains appropriate given the Plan's long term objectives. |
| Changes in bond yields | A fall in corporate bond yields will increase the value placed on the Plan's liabilities for accounting purposes, although this will be partially offset by an increase in the value of the Plan's bond holdings. |
| Inflation risk | The majority of the Plan's benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation). The majority of the assets are either unaffected by or only loosely correlated with inflation, meaning that an increase in inflation will also increase the deficit. |
| Life expectancy | The majority of the Plan's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities. |

The Trustees are responsible for the investment strategy of the Plans after consulting the sponsor.

# Notes to the financial statements - continued

**Scheme A – CNA Pension Plan for UK Employees**

**Composition of the scheme**

The Company sponsors a funded defined benefit pension plan ("the Plan") for qualifying UK employees. The Plan is administered by a separate board of Trustees which is legally separate from the Company. The Trustees are composed of representatives of both the Company and the members of the Plan. The Trustees are required by law to act in the interest of all relevant beneficiaries and are responsible for the investment policy with regard to the assets plus the day to day administration of the benefits.

Under the Plan, members are entitled to annual pensions on retirement at normal retirement age (typically age 60 or age 65) of one-sixtieth of final pensionable salary for each year of service. Pensionable salary is defined as basic salary (plus for certain members in certain circumstances any bonuses declared to be pensionable). Benefits are also payable on death and following other events such as early retirement or withdrawing from active service.

The Plan was closed to new members with effect from 1 May 2002. New employees from that date may be eligible to participate in a defined contribution pension plan.

With effect from 30 September 2014 all active members became deferred pensioners following the curtailment of the Plan and the subsequent transfer of their employment from CICL to CNA Services.

**Profile of the Plan**

The defined benefit obligation includes benefits for deferred members and current pensioners.

Broadly, about 75% of the liabilities are attributable to deferred members and 25% to current pensioners.

The Plan duration is an indicator of the weighted-average time until benefit payments are made. For the Plan as a whole, the duration is around 22 years reflecting the approximate split of the defined benefit obligation between deferred pensioners (duration of 25 years) and current pensioners (duration of 13 years).

The table below illustrates the profile of projected future benefit payments from the Plan.

| At 31 December 2016 | Less than 1 year | Between 1-2 years | Between 2-5 years | Over 5 years |
|---|---|---|---|---|
| Pension benefits | 1% | 1% | 3% | 95% |

**Funding requirements**

UK legislation requires that pension schemes are funded prudently. The last funding valuation of the Plan was carried out by a qualified actuary as at 31 March 2013 and it showed a surplus of £1.2 million.

Company contributions to the Plan ceased on 30 September 2014, following the curtailment of the Plan, but the Company remains liable to contribute to the Plan in the future depending on the Plan's funding position at future funding valuations.

The next funding valuation is being carried out with an effective date of 31 March 2017. Contributions of nil have been paid by the Company during the year ended on 31 December 2016 (2015: nil).

# Notes to the financial statements - continued

## 21. Staff pension plans - continued

The Trustees recognise that the key source of investment risk (in relation to meeting their objectives) arises from asset allocation. They therefore retain responsibility for setting asset allocation, and take expert advice as required from their professional advisers. The Trustees review their investment strategy following each formal actuarial valuation of the Plan (or more frequently should the circumstances of the Plan change in a material way).

Before the Scheme closed to future accruals, the Trustees insured certain benefits payable on death in service before retirement.

### Reporting at 31 December 2016

The results of the latest funding valuation at 31 March 2013 have been adjusted to the balance sheet date taking account of experience over the period since 31 March 2013, changes in market conditions, and differences in the financial and demographic assumptions. The present value of the defined benefit obligation and the related current service cost were measured using the Projected Unit Method.

The principal assumptions used to calculate the liabilities under IAS 19 are set out below:

**Main financial assumptions**

| | **2016** | 2015 |
|---|---|---|
| | **% pa** | % pa |
| RPI inflation | **3.3** | 3.2 |
| CPI inflation | **2.2** | 2.1 |
| Rate of general long-term increase in salaries | **n/a** | n/a |
| Pension increases in payment: | | |
| CPI inflation max 3% pa | **2.0** | 1.9 |
| RPI inflation max 5% pa; min 3% pa | **3.7** | 3.6 |
| RPI inflation max 10% pa | **3.3** | 3.2 |
| RPI inflation max 5% pa | **3.2** | 3.1 |
| RPI inflation max 3% pa | **2.6** | 2.5 |
| Pension increases (revaluation) before retirement: | | |
| CPI inflation max 5% pa | **2.2** | 2.1 |
| CPI inflation max 2.5% pa | **2.2** | 2.1 |
| Discount rate for the Plan's liabilities | **2.7** | 3.9 |

The financial assumptions reflect the nature and term of the Plan's liabilities.

**Main demographic assumptions**

Mortality table adopted:

**2016**

105% S2PxA_L CMI 2015 with 1.25% pa long term improvement

**2015**

105% S1PxA_L CMI 2014 with 1.25% pa long term improvement

# Notes to the financial statements - continued

## 21. Staff pension plans - continued

The following table sets out the estimated life expectancy after retirement:

| | **2016** | 2015 |
|---|---|---|
| Life expectancy for male currently aged 65 | **23.0** | 23.5 |
| Life expectancy for female currently aged 65 | **24.1** | 24.8 |
| Life expectancy for male currently aged 45 | **24.6** | 25.2 |
| Life expectancy for female currently aged 45 | **25.9** | 26.7 |

Cash Commutation:

**2016**

100% of members commute 25% of their pension for cash at retirement

**2015**

100% of members commute 25% of their pension for cash at retirement

The mortality assumptions are based on standard mortality tables derived from the collective mortality experience of a large number of schemes. The standard tables are adjusted to allow for socio-economic analysis of the Plan's membership and for expected future improvements in mortality rates.

The Plan assets are invested in the following asset classes:

| | **Value 2016 £'000** | **Of which not quoted in active market 2016 £'000** | Value 2015 £'000 | Of which not quoted in active market 2015 £'000 |
|---|---|---|---|---|
| Equities | **-** | **-** | 36,883 | - |
| Diversified Growth Fund | **41,953** | **-** | - | - |
| Gilts and bonds | **17,401** | **-** | 14,724 | - |
| Cash | **6** | **-** | 238 | - |
| Insured annuity asset | **61** | **61** | 51 | 51 |
| **Total** | **59,421** | **61** | 51,896 | 51 |

At 31 December 2016 £nil (2015: £nil) of the fair value of scheme assets related to self-investment.

# Notes to the financial statements - continued

## 21. Staff pension plans - continued

The amounts recognised on the balance sheets are set out below:

| | 2016<br>£'000 | 2015<br>£'000 |
|---|---|---|
| Fair value of Plan assets | **59,421** | 51,896 |
| Present value of funded defined benefit obligation | **(62,886)** | (48,200) |
| (Deficit)/surplus in the scheme | **(3,465)** | 3,696 |
| Related deferred tax asset/(liability) | **589** | (665) |
| **Net pension (liability)/asset** | **(2,876)** | 3,031 |

The amounts recognised in total comprehensive income are set out below:

| | 2016<br>£'000 | 2015<br>£'000 |
|---|---|---|
| **Operating cost** | | |
| Service costs: | | |
| Administration expenses | **115** | 189 |
| Total operating cost | **115** | 189 |
| **Financing cost:** | | |
| Interest on net pension (liability)/asset | **(142)** | (101) |
| **Pension (benefit)/expense recognised in profit and loss** | **(27)** | 88 |
| **Remeasurements in other comprehensive income:** | | |
| Return on plan assets (in excess of)/below that recognised in net interest | **(7,301)** | 997 |
| Actuarial losses/(gains) due to changes in financial assumptions | **15,321** | (2,812) |
| Actuarial (gains)/losses due to changes in demographic assumptions | **(1,797)** | 1,728 |
| Actuarial losses/(gains) arising from experience | **966** | (806) |
| **Total amount recognised in other comprehensive income** | **7,189** | (893) |
| **Total amount recognised in total comprehensive income** | **7,162** | (805) |

# Notes to the financial statements - continued

## 21. Staff pension plans - continued

Changes in the present value of the defined benefit obligation are as follows:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Opening defined benefit obligation | **48,200** | 51,081 |
| Interest expense on defined benefit obligation | **1,848** | 1,789 |
| Actuarial (gains)/losses arising from changes in demographic assumptions | **(1,797)** | 1,728 |
| Actuarial losses/(gains) arising from changes in financial assumptions | **15,321** | (2,812) |
| Actuarial losses/(gains)arising from experience | **966** | (806) |
| Benefits paid | **(1,652)** | (2,780) |
| **Closing defined benefit obligation** | **62,886** | 48,200 |

Changes in the fair value of scheme assets are as follows:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Opening fair value of plan assets | **51,896** | 53,972 |
| Interest income on plan assets | **1,990** | 1,890 |
| Remeasurement gains/(losses) on plan assets | **7,301** | (997) |
| Benefits paid | **(1,652)** | (2,780) |
| Administration costs incurred | **(114)** | (189) |
| **Closing fair value of scheme assets** | **59,421** | 51,896 |

The actual return on plan assets is as follows:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Interest income on plan assets | **1,990** | 1,890 |
| Remeasurement gains/(losses) on plan assets | **7,301** | (997) |
| **Actual return on plan assets** | **9,291** | 893 |

# Notes to the financial statements - continued

## 21. Staff pension plans - continued

**Sensitivity to key assumptions:**

The key assumptions used for IAS 19 are: discount rate, inflation and mortality. If different assumptions were used, this could have a material effect on the results disclosed. The sensitivity of the results to these assumptions is as follows:

| | | Total estimated P&L charge for 2017 £'000 | Deficit at 31 Dec 2016 £'000 |
|---|---|---|---|
| Current figures | | 211 | (3,465) |
| A 0.2% pa decrease in the discount rate: | Impact | 75 | (2,785) |
| | Amount after impact | 286 | (6,250) |
| A 0.2% pa increase in the inflation | Impact | 46 | (1,707) |
| | Amount after impact | 257 | (5,172) |
| A one year increase in life expectancy | Impact | 70 | (2,622) |
| | Amount after impact | 281 | (6,087) |

The sensitivity shown above has been prepared using the same method as adopted when adjusting the results of the latest funding valuation to the balance sheet date.

**Scheme B – The CNA Re Management Company Limited ("CNA Re") Retirement Benefits Plan**

In 2002 CCC sold its subsidiary undertaking CNA Re to Tawa Plc (formerly Tawa UK Limited). By virtue of a letter dated 3 November 2005, and pursuant to Clause 12.1 of the Share Purchase Agreement between CCC and Tawa Plc dated 15 July 2002, CCC provided an indemnity in favour of CNAE in respect of obligations which CNAE assumed as Principal Employer of the Plan.

By virtue of a Deed of Substitution of Principal Employer effective 10 July 2008, the Company replaced CNAE as Principal Employer of the Plan. CCC has agreed to provide an indemnity in favour of the Company.

**Composition of the scheme**

The Company currently operates a Defined Benefits Plan, the CNA Re Management Company Limited Retirement Benefits Plan (1977) ("the 1977 Plan"). The benefits provided by the 1977 Plan are final salary defined benefits with the contributions paid by the sponsor on a balance of cost basis. The 1977 Plan is run by the Trustees who ensure that the 1977 Plan is run in accordance with the Trust Deed & Rules of the 1977 Plan and complies with legislation. The Trustees are required by law to fund the 1977 Plan on prudent funding assumptions under the Trust Deed & Rules of the 1977 Plan. The contributions payable by the sponsor to fund the 1977 Plan are set by the Trustees after consulting the sponsor.

The 1977 Plan closed for all accruals on 31 October 2002.

The assets of the 1977 Plan are mainly invested in diversified growth funds, gilt and corporate bond managed funds with Legal & General Assurance (Pensions Management) Limited. Upon reaching retirement an annuity is purchased from a third party provider in the name of the member. No pensions are paid to pensioners directly from the fund.

# Notes to the financial statements - continued

## 21. Staff pension plans - continued

### Profile of the 1977 Plan

The defined benefit obligation includes benefits for deferred members (former employees).

The 1977 Plan duration is an indicator of the weighted-average time until benefit payments are made. The 1977 Plan's duration is around 21 years.

The table below illustrates the profile of projected future benefit payments from the 1977 Plan. Benefits are currently bought out with an insurance company on retirement of each deferred member.

| At 31 December 2016 | Less than 1 year | Between 1-2 years | Between 2-5 years | Over 5 years |
|---|---|---|---|---|
| Pension benefits | 15% | 4% | 15% | 66% |

### Funding requirements

The Trustees use the defined accrued benefit funding method. This method is suitable for funding a scheme that is closed for future accrual.

The sponsor contributions to the 1977 Plan for the year ending 31 December 2016 is £nil (2015: £0.9million).

# Notes to the financial statements - continued

## 21. Staff pension plans - continued

### Reporting at 31 December 2016

A full valuation was undertaken as at 1 January 2013 by a qualified independent Actuary. The present value of the defined benefit obligation and the related current service cost were measured using the Projected Unit Method.

The principal assumptions used to calculate the liabilities under IAS 19 are set out below:

**Main financial assumptions**

| | **2016** % pa | 2015 % pa |
|---|---|---|
| Discount rate | **2.7** | 3.8 |
| Increase in salaries | **n/a** | n/a |
| RPI inflation assumption | **3.3** | 3.2 |
| CPI inflation assumption | **2.2** | 2.1 |
| LPI pension increases | **2.2** | 3.1 |

The financial assumptions reflect the nature and term of the 1977 Plan's liabilities.

**Main demographic assumptions**

The underlying mortality assumption is based upon the standard table known as S2PA Light table on a year of birth usage, adjusted by a factor of 105%, projected using the 2015 CMI core projection model with a long term rate of future mortality improvement equal to 1.25% p.a. (2015: projected using the 2014 CMA core projection model).

The following table sets out the estimated life expectancy after retirement:

| | **2016** | 2015 |
|---|---|---|
| Life expectancy for male currently aged 65 | **23.0** | 23.1 |
| Life expectancy for female currently aged 65 | **24.1** | 24.3 |
| Life expectancy for male currently aged 45 | **24.6** | 24.8 |
| Life expectancy for female currently aged 45 | **25.9** | 26.1 |

The 1977 Plan assets are invested in the following asset classes:

| | **Value 2016 £'000** | **Of which not quoted in active market 2016 £'000** | Value 2015 £'000 | Of which not quoted in active market 2015 £'000 |
|---|---|---|---|---|
| Diversified Growth Fund | **7,905** | - | - | - |
| Equities | - | - | 6,765 | - |
| Gilts and bonds | **7,621** | - | 6,468 | - |
| Cash | **1,051** | - | 1,065 | - |
| **Total** | **16,577** | - | 14,298 | - |

At 31 December 2016 £nil (2015: £nil) of the fair value of scheme assets related to self-investment.

# Notes to the financial statements - continued

## 21. Staff pension plans - continued

The amounts recognised on the balance sheet are set out below:

| | **2016** | 2015 |
|---|---|---|
| | **£'000** | £'000 |
| Fair value of 1977 Plan assets | **16,577** | 14,298 |
| Present value of funded defined benefit obligation | **(14,931)** | (11,599) |
| Surplus in the scheme | **1,646** | 2,699 |
| Related deferred tax asset | **-** | - |
| **Net pension asset** | **1,646** | 2,699 |

The amounts recognised in total comprehensive income are set out below:

| | **2016** | 2015 |
|---|---|---|
| | **£'000** | £'000 |
| **Financing cost:** | | |
| Interest on net defined benefit asset | **102** | 73 |
| **Pension benefit recognised in profit and loss** | **102** | 73 |
| **Remeasurements in other comprehensive income:** | | |
| (Return)/reduction on 1977 Plan assets in excess of that recognised in net interest | **(1,736)** | 275 |
| Actuarial losses/(gains) due to changes in financial assumptions | **2,999** | (377) |
| Actuarial (gains)/losses arising from experience | **(108)** | 15 |
| **Total amount recognised in other comprehensive income** | **1,155** | (87) |
| **Total amount recognised in total comprehensive income** | **(1,053)** | (14) |

# Notes to the financial statements - continued

## 21. Staff pension plans - continued

Changes in the present value of the defined benefit obligation are as follows:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Opening defined benefit obligation | **11,599** | 12,443 |
| Interest expense on obligation | **441** | 432 |
| Actuarial loses/(gains) arising from changes in demographic assumptions | **1** | (212) |
| Actuarial losses/(gains) arising from changes in financial assumptions | **2,998** | (165) |
| Actuarial (gains)/losses arising from experience | **(108)** | 15 |
| Benefits paid | **-** | (914) |
| **Closing defined benefit obligation** | **14,931** | 11,599 |

Changes in the fair value of 1977 Plan assets are as follows:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Opening fair value of 1977 Plan assets | **14,298** | 13,992 |
| Expected return on 1977 Plan assets | **543** | 505 |
| Actual less expected return on 1977 Plan assets | **1,736** | (275) |
| Contributions by sponsor | **-** | 990 |
| Benefits paid | **-** | (914) |
| **Closing fair value of 1977 Plan assets** | **16,577** | 14,298 |

The actual return on 1977 Plan assets is as follows:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Interest income on 1977 Plan assets | **543** | 505 |
| Remeasurement gains/(losses) on 1977 Plan assets | **1,736** | (275) |
| **Actual return on 1977 Plan assets** | **2,279** | 230 |

# Notes to the financial statements - continued

## 21. Staff pension plans - continued

**Sensitivity to key assumptions:**

The key assumptions used for IAS 19 are: discount rate, inflation and mortality. If different assumptions were used, this could have a material effect on the results disclosed. The sensitivity of the results to these assumptions is as follows:

| | | Total estimated P&L charge for 2017 £'000 | Surplus/ (deficit) at 2016 £'000 |
|---|---|---|---|
| Current figures | | (45) | 1,646 |
| A 0.2% pa decrease in the discount rate: | Impact | 21 | (662) |
| | Amount after impact | (24) | 984 |
| A 0.2% pa increase in the inflation assumption: | Impact | 4 | (154) |
| | Amount after impact | (41) | 1,492 |
| A one year increase in life expectancy | Impact | 11 | (385) |
| | Amount after impact | (34) | 1,261 |

The sensitivity shown above has been prepared using the same method as adopted when adjusting the results of the latest funding valuation to the balance sheet date.

**Other pension schemes**

The Company also sponsors defined contribution schemes in the UK and state pension schemes for eligible full and part-time employees in continental Europe. State pensions are administered and managed at each local branch. On 1 October 2014 all UK staff contracts transferred to CNA Services, under the Transfer of Undertakings (Protection of Employment) Regulations 2006. From this date forward CNA Services are responsible for contributions in respect of the UK defined contribution schemes.

The pension cost for the period was £916,313 (2015: £698,450).

## 22. Share capital

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| **Authorised:** | | |
| 15,000,000 ordinary shares of £10 each (2015:15,000,000) | **150,000** | 150,000 |
| **Allotted, called up and fully paid:** | | |
| 13,020,000 ordinary shares of £10 each (2015:13,020,000) | **130,200** | 130,200 |

# Notes to the financial statements - continued

## 23. Technical provisions

### Process used to decide on assumptions

The risks associated with insurance contracts are complex and influenced by a range of variables that complicate quantitative sensitivity analysis. Uncertainty over the timing and amount of future claim payments necessitates the holding of significant reserves for liabilities that may emerge a number of accounting periods later.

For all classes of business, CICL uses several generally accepted actuarial methods to estimate the ultimate cost of claims. There is close communication between the actuaries involved in the estimation process and CICL's underwriters and claims team to ensure that all parties are aware of material factors relating to outstanding claims reserve liabilities. The premium rating environment, claim inflation, and several other factors are contemplated in the processes explained below. Natural catastrophe claims are separately reserved where appropriate. Large claims, as well as individual claims that have potential for significant development, are separated from smaller claims with values under £500,000 and reserved using the approach described below. Smaller claims are known as attritional claims.

First, claims with potential for significant development are identified based on specific claim characteristics and substantial input from the Claim department. The potential magnitude of adverse development, along with the likelihood of adverse development, is considered in calculating the additional reserve needed on these claims. This analysis gives the "incurred but not enough reported", provision.

Additionally, future reported large losses are addressed by using a frequency/severity methodology to calculate the additional reserve needed for unreported large claims. This analysis gives the "incurred but not enough reported" provision. The sum of these large loss provisions gives the overall bulk provision for large loss activity.

Unpaid attritional claims reserves are actuarially estimated using a variety of appropriate methods including, primarily, but not limited to the Chain Ladder and Bornhuetter-Ferguson methods applied to accident year data.

The Chain Ladder method may be applied to premiums, paid claims or incurred claims (i.e. paid claims plus case estimates). The basic technique involves the analysis of historical claim development patterns and the selection of estimated development factors based on this historical pattern. For relatively new classes of business the Company often relies on the historical experience of a related product when selecting development factors. The selected development factors are then applied to cumulative claims data for each year to produce an estimated ultimate claims cost for each year.

The Chain Ladder method is adopted for mature classes of business where sufficient claims development data is available. This methodology produces optimal estimates when a large volume of claim development history is available and the claim development patterns throughout the earliest years are stable. Chain Ladder techniques are less suitable for long-tail lines at early maturities as random fluctuations early in the life of an accident year can significantly distort the projection. In such cases greater weight is given to the Bornhuetter-Ferguson or expected loss ratio methods.

The Bornhuetter-Ferguson method is based on the Chain Ladder approach, but utilises estimated ultimate loss ratios. This method uses a combination of an expected loss ratio and an estimate based on claims experience. The former is based on a measure of exposure such as premiums; the latter is based on the paid or incurred claims to date. The two estimates are combined using a formula that gives more weight to the experience-based estimate as time passes. This technique has been used in situations in which developed claims experience was not available for the projection.

The choice of selected results for each year of each class of business depends on an assessment of the technique that has been most appropriate to observed historical developments. This often means that different techniques or combinations of techniques have been selected for individual years or within the same class of business. Estimates of ultimate claims are adjusted each reporting period to reflect emerging claims experience. Changes in expected claims may result in a reduction or an increase in the ultimate claim costs and a release or an increase in reserves in the period in which the change occurs.

# Notes to the financial statements - continued

## 23. Technical provisions - continued

### Total technical provisions

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| **Gross** | | |
| Claims reported | **205,946** | 190,821 |
| Unallocated loss adjustment expenses | **10,051** | 8,248 |
| Claims incurred but not reported | **294,458** | 263,337 |
| Unearned premiums | **109,196** | 100,605 |
| **Total gross technical provisions** | **619,651** | 563,011 |
| **Reinsurers' share of technical provisions** | | |
| Claims reported | **13,362** | 22,082 |
| Claims incurred but not reported | **48,764** | 40,199 |
| Unearned premiums | **24,929** | 22,252 |
| **Total reinsurers' share of technical provisions** | **87,055** | 84,533 |
| **Net** | | |
| Claims reported | **192,584** | 168,739 |
| Unallocated loss adjustment expenses | **10,051** | 8,248 |
| Claims incurred but not reported | **245,694** | 223,138 |
| Unearned premiums | **84,267** | 78,353 |
| **Total net technical provisions** | **532,596** | 478,478 |

The gross liabilities for claims reported, loss adjustment expenses and claims incurred but not reported are net of expected recoveries from salvage and subrogation. The amounts for salvage and subrogation at the end of the current and prior year are not material.

On 27 February 2017 the UK Government announced an update to the discount rate applicable in the Ogden tables, from 2.5% to -0.75%. The Ogden tables are used to assist in calculating claims reserves for serious personal injury claims, to which the Company has certain exposures. In the context of this change, the Company considers that it has adequate carried loss reserves at 31 December 2016.

# Notes to the financial statements - continued

## 23. Technical provisions - continued

### Movement in technical provisions

| | Provision for unearned premiums £'000 | Claims outstanding £'000 | Total £'000 |
|---|---|---|---|
| **Gross** | | | |
| At 1 January 2015 | 92,435 | 452,588 | 545,023 |
| Foreign exchange revaluation | (2,079) | (6,883) | (8,962) |
| Movement in provision | 10,249 | 16,701 | 26,950 |
| At 1 January 2016 | **100,605** | **462,406** | **563,011** |
| Foreign exchange revaluation | **5,919** | **47,564** | **53,483** |
| Movement in provision | **2,672** | **485** | **3,157** |
| At 31 December 2016 | **109,196** | **510,455** | **619,651** |
| **Reinsurance amount** | | | |
| At 1 January 2015 | 18,928 | 76,183 | 95,111 |
| Foreign exchange revaluation | (50) | 1,140 | 1,090 |
| Movement in provision | 3,374 | (15,042) | (11,668) |
| At 1 January 2016 | **22,252** | **62,281** | **84,533** |
| Foreign exchange revaluation | **208** | **8,910** | **9,118** |
| Movement in provision | **2,469** | **(9,065)** | **(6,596)** |
| At 31 December 2016 | **24,929** | **62,126** | **87,055** |
| **Net** | | | |
| **At 31 December 2016** | **84,267** | **448,329** | **532,596** |
| At 31 December 2015 | 78,353 | 400,125 | 478,478 |

# Notes to the financial statements - continued

## 23. Technical provisions - continued

### Claims development table gross of reinsurance

| Accident year | 2006 £'000 | 2007 £'000 | 2008 £'000 | 2009 £'000 | 2010 £'000 | 2011 £'000 | 2012 £'000 | 2013 £'000 | 2014 £'000 | 2015 £'000 | 2016 £'000 | **Total £'000** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| At end of first year | 68,962 | 117,484 | 119,760 | 132,348 | 125,524 | 121,558 | 125,862 | 129,581 | 119,131 | 141,470 | 150,226 | **1,351,906** |
| One year later | 1,236 | (18,901) | (8,762) | (2,241) | (1,736) | (1,378) | 604 | 4,468 | 12,321 | 22,603 | | **8,214** |
| Two years later | (1,803) | 7,679 | (1,948) | 795 | (5,181) | (2,889) | (11,446) | (3,235) | 5,650 | | | **(12,378)** |
| Three years later | (7,268) | (16,527) | (4,705) | 3,991 | (4,713) | (12,039) | 2,518 | (12,736) | | | | **(51,479)** |
| Four years later | (4,992) | (548) | (1,651) | (9,301) | (6,642) | (5,640) | 5,269 | | | | | **(23,505)** |
| Five years later | (30) | (5,389) | (1,735) | (318) | (3,570) | (6,764) | | | | | | **(17,806)** |
| Six years later | (2,612) | (2,924) | 10,325 | (4,694) | (1,877) | | | | | | | **(1,782)** |
| Seven years later | (3,355) | (1,419) | 3,990 | (3,271) | | | | | | | | **(4,055)** |
| Eight years later | (1,168) | 94 | (3,085) | | | | | | | | | **(4,159)** |
| Nine years later | (2,187) | (4,267) | | | | | | | | | | **(6,454)** |
| Ten years later | (1,275) | | | | | | | | | | | **(1,275)** |
| Current estimate of ultimate claims | 45,508 | 75,282 | 112,189 | 117,309 | 101,805 | 92,848 | 122,807 | 118,078 | 137,102 | 164,073 | 150,226 | **1,237,227** |
| Cumulative payments to date | (43,016) | (70,454) | (103,768) | (95,362) | (87,111) | (71,031) | (82,973) | (67,946) | (62,517) | (61,121) | (24,153) | **(769,452)** |
| Provision as at 31 December 2016 | 2,492 | 4,828 | 8,421 | 21,947 | 14,694 | 21,817 | 39,834 | 50,132 | 74,585 | 102,952 | 126,073 | **467,775** |
| Prior accident years | | | | | | | | | | | | **32,629** |
| Claims handling provision | | | | | | | | | | | | **10,051** |
| **Technical provisions as at 31 December 2016** | | | | | | | | | | | | **510,455** |

# Notes to the financial statements - continued

## 23. Technical provisions - continued

### Claims development table net of reinsurance

| Accident year | 2006 £'000 | 2007 £'000 | 2008 £'000 | 2009 £'000 | 2010 £'000 | 2011 £'000 | 2012 £'000 | 2013 £'000 | 2014 £'000 | 2015 £'000 | 2016 £'000 | **Total £'000** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| At end of first year | 48,513 | 95,916 | 107,699 | 119,630 | 103,563 | 113,472 | 112,624 | 119,067 | 112,325 | 139,433 | 131,528 | **1,203,770** |
| One year later | 1,797 | (10,665) | (8,150) | (3,875) | (2,126) | (3,210) | 766 | 5,078 | 10,650 | 14,414 | | **4,679** |
| Two years later | (2,621) | 4,333 | (4,919) | 2,164 | (4,467) | (2,826) | (10,124) | (3,674) | 5,444 | | | **(16,690)** |
| Three years later | (10,562) | (11,087) | (2,707) | (1,039) | (4,392) | (10,666) | 2,054 | (9,002) | | | | **(47,401)** |
| Four years later | (5,852) | (3,951) | 454 | (7,817) | (5,443) | (6,147) | 5,033 | | | | | **(23,723)** |
| Five years later | 3,890 | (6,073) | (1,916) | 50 | (3,407) | (87) | | | | | | **(7,543)** |
| Six years later | (2,115) | (1,555) | 8,549 | (4,111) | (717) | | | | | | | **51** |
| Seven years later | (1,121) | (488) | 4,051 | (1,783) | | | | | | | | **659** |
| Eight years later | (119) | 119 | (1,957) | | | | | | | | | **(1,957)** |
| Nine years later | (448) | (994) | | | | | | | | | | **(1,442)** |
| Ten years later | (925) | | | | | | | | | | | **(925)** |
| Current estimate of ultimate claims | 30,437 | 65,555 | 101,104 | 103,219 | 83,011 | 90,536 | 110,353 | 111,469 | 128,419 | 153,847 | 131,528 | **1,109,478** |
| Cumulative payments to date | (27,746) | (61,705) | (92,859) | (84,507) | (70,011) | (69,943) | (73,797) | (67,419) | (59,553) | (60,049) | (24,100) | **(691,689)** |
| Provision as at 31 December 2016 | 2,691 | 3,849 | 8,246 | 18,712 | 12,999 | 20,593 | 36,556 | 44,049 | 68,866 | 93,798 | 107,428 | **417,789** |
| Prior accident years | | | | | | | | | | | | **20,489** |
| Claims handling provision | | | | | | | | | | | | **10,051** |
| **Technical provisions as at 31 December 2016** | | | | | | | | | | | | **448,329** |

# Notes to the financial statements - continued

## 23. Technical provisions - continued

The analysis shows CICL's estimate of the ultimate cost of claims at initial assessment and annually thereafter. Data has been compiled, and analysed, on an accident year by calendar year basis. Data from all years has been restated at the 2016 closing rates of exchange to remove fluctuations caused by movements in foreign currency exchange rates.

Each table provides a reconciliation of the CICL accident year reserves to the liability provided in CICL's balance sheet.

## 24. Provisions for other risks

| | Dilapidations and refurbishment provision £'000 |
|---|---|
| At 1 January 2015 | 866 |
| Charged to the statement of profit or loss | 63 |
| Utilised | (516) |
| **At 31 December 2015** | **413** |
| Charged to the statement of profit or loss | **112** |
| Utilised | - |
| **At 31 December 2016** | **525** |

The Company has established a provision to meet the expected obligation for property leases dilapidations and refurbishment costs in respect of leased properties. The costs relating to these will be borne over the period over which the leases expire, which is up to 5 years.

The amounts expected to be settled before and after one year are estimated as follows:

| | **2016 £'000** | 2015 £'000 |
|---|---|---|
| Within one year | - | - |
| After one year | **525** | 413 |
| **Total** | **525** | 413 |

# Notes to the financial statements – continued

## 25. Other creditors including tax and social security

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Other tax and social security | **4,052** | 5,181 |
| Amounts due to group undertakings | **2,969** | 468 |
| Insurance premium tax | **2,106** | 379 |
| Financial liabilities | **356** | 111 |
| Other creditors | **2,881** | 2,194 |
| **Total** | **12,364** | 8,333 |

The carrying amounts of all items approximate fair value. All amounts are expected to be settled within one year.

## 26. Operating lease commitments

The future minimum non-cancellable lease payments on operating leases for each of the following periods are:

| | Land and buildings | | Other | |
|---|---|---|---|---|
| | 2016 £'000 | 2015 £'000 | 2016 £'000 | 2015 £'000 |
| Within one year | **983** | 1,014 | **244** | 103 |
| Within two to five years | **1,238** | 2,387 | **310** | 49 |
| After five years | **233** | 407 | - | - |
| **Total** | **2,454** | 3,808 | **554** | 152 |

# Notes to the financial statements - continued

## 27. Commitments and Contingent liabilities

### Institute of London Underwriters ("ILU")

Following the merger of the ILU and the London Insurance & Reinsurance Market Association to form the International Underwriting Association of London, the Company resigned its membership of the ILU on 31 December 1998. The Company had to establish a fund of £1,048,780 by way of an irrevocable letter of credit in order to meet the ILU's expected shortfall of income from the period 1999 until further notice. At 31 December 2016 the amount remaining on the letter of credit after draw downs was £344,445 (see note 19).

### London Underwriting Centre

In 2002 CCC sold its subsidiary undertaking CNA Re to Tawa Plc (formerly Tawa UK Limited). By virtue of a letter dated 10 February 2003 and pursuant to Clause 9.8 of the Share Purchase Agreement between CCC and Tawa UK Limited dated 15 July 2002, CCC provided an indemnity in favour of CNAE for its liabilities as the legal holder of certain shares in LUC Holdings Limited and the related guarantees ("LUC Shareholder and Guarantor").

By virtue of a Deed of Adherence dated 7 August 2008 ("Deed of Adherence"), the execution of an identical Deed of Adherence by each current member of LUC Holdings Limited, and the Deed of Release and Substitution of Guarantor effective 7 August 2008, the Company replaced CNAE as LUC Shareholder and Guarantor. CCC has agreed to provide an indemnity in favour of CICL. The possibility of any transfer in settlement by CCC of this liability is remote and it is therefore not practicable to calculate an estimate of the financial impact.

### Funds deposited with Lloyd's of London

Acting as a third party depositor under a trust deed executed on 23 December 2015, the Company deposited £59,985,000 (2015: £48,400,000) in bonds with Lloyd's as security for the underwriting activities of HUL. Fees of 3.0% per annum are attributable to this security and will be earned by the Company on a quarterly basis. The funds pledged as Funds at Lloyd's for Lloyd's are ineligible for the purposes of calculating capital available to meet regulatory requirements.

## 28. Deed of Guarantee

The Company has been granted a Deed of Guarantee by CCC (the Guarantor) effective 24 January 2002. Under the terms of the Deed of Guarantee, CCC guarantees all liabilities that arise or have arisen under policies of insurance or contracts of reinsurance entered into by the Company, including policies or contracts entered into before 24 January 2002. The Company is charged a fee by CCC for the provision of the guarantee based on an agreed formula. The calculated charge for 2016 was £nil (2015: £nil).

The Deed of Guarantee will remain in place until 31 December 2018 unless written notice is received from Standard & Poor's that the guarantee is no longer needed for the Company to maintain a Standard & Poor's rating at the same level as the rating assigned to the Guarantor, or, if the majority shareholding in the Company is transferred to a corporate entity outside the CNAF group which has a Standard & Poor's rating equal to or better than the rating assigned to the Guarantor.

# Notes to the financial statements - continued

## 29. Ultimate parent company

During the year and at the end of the year, the ultimate parent and controlling party and also the company which headed the largest group of undertakings for which group financial statements were drawn up and of which the Company was a member, was the Loews Corporation, a company incorporated in the United States of America.

The immediate parent undertaking of the Company is CNAE, a company incorporated in the United Kingdom and registered in England and Wales.

The parent undertaking which heads the smallest group of undertakings for which group financial statements were drawn up and of which the Company is a member, is CNAF, a company incorporated in the United States of America.

The consolidated financial statements of CNAF are available to the public and may be obtained from CNA Financial Corporation, 333 South Wabash Avenue, Chicago, IL 60604.

## 30. Reconciliation from FRS 101 to US GAAP

As outlined in the statement of Directors' responsibilities and note 1, the Company prepares and presents statutory financial statements in accordance UK GAAP, including FRS 101. The Directors have prepared a reconciliation to accounting principles generally accepted in the United States of America ("US GAAP") to meet relevant regulatory requirements in the United States of America. This note does not form part of the Annual Report and Financial Statements as required under FRS 101 or the Companies Act 2006.

**Reconciliation of profit/(loss) for the financial year on a FRS 101 basis to net income on a US GAAP basis**

| | **2016 £'000** | 2015 £'000 |
|---|---|---|
| Profit/(loss) for the financial year on a FRS 101 basis | **28,116** | (3,088) |
| Adjustments to reconcile to US GAAP: | | |
| Foreign exchange (loss) on financial investments included in other comprehensive income ("OCI") for US GAAP net of tax of £4,501,000 (2015: £3,132,000) - see i. below | **(18,005)** | (12,147) |
| Remeasurement of investments classified as available for sale recorded in OCI under US GAAP net of tax of £153,000 (2015: £4,791,000) - see ii. below | **1,186** | 18,616 |
| Difference in treatment of amounts in relation to defined benefit pension scheme accounting net of tax of £327,000 (2015: £1,000) - see iii. Below | **563** | 1,021 |
| **Net income on a US GAAP basis** | **11,860** | 4,402 |

# Notes to the financial statements - continued

## 30. Reconciliation from FRS 101 to US GAAP - continued

i. Under FRS 101 foreign exchange differences on the revaluation of investments still held are included in profit or loss for the financial year whereas under US GAAP the foreign exchange difference upon revaluation of investments classified as available for sale is recorded within OCI. No net asset difference arises between FRS 101 and US GAAP.

ii. Whilst the carrying value of financial investments is stated at market value under both FRS 101 and US GAAP, there are differences in the cost basis and the treatment of unrealised gains and losses. Under FRS 101 the cost basis is historic cost and both realised and unrealised gains and losses are included within profit for the financial year.

Under US GAAP, the investments are classified as available for sale. Consequently, the cost basis is amortised cost with accretion and amortisation of premiums and discounts reported within net income and changes in unrealised gains of £16,011,532 (2015: £(10,418,818)) and changes in unrealised losses of £391,815 (2015: £(1,399,980)), included within OCI. Upon disposal of the investments, the unrealised gains and losses are recycled to net income. Provisions for declines in the fair value below the amortised cost of the investments, that are other than temporary impairments, of £nil (2015: £1,106,725) are recorded in net income. As a result, no net asset difference arises between FRS 101 and US GAAP.

iii. Under US GAAP, amortisation of actuarial gains and losses are accounted for as part of the net periodic pension cost, but offset to OCI. Under FRS 101 amortisation of actuarial gains and losses are included in the statement of comprehensive income for the financial year. As a result no net asset difference arises between FRS 101 and US GAAP.

**Reconciliation of capital and reserves from FRS 101 basis to stockholders' equity per US GAAP**

| | **2016 £'000** | 2015 £'000 |
|---|---|---|
| Capital and reserves on a FRS 101 basis | **403,739** | 363,904 |
| **Stockholders' equity on a US GAAP basis** | **403,739** | 363,904 |