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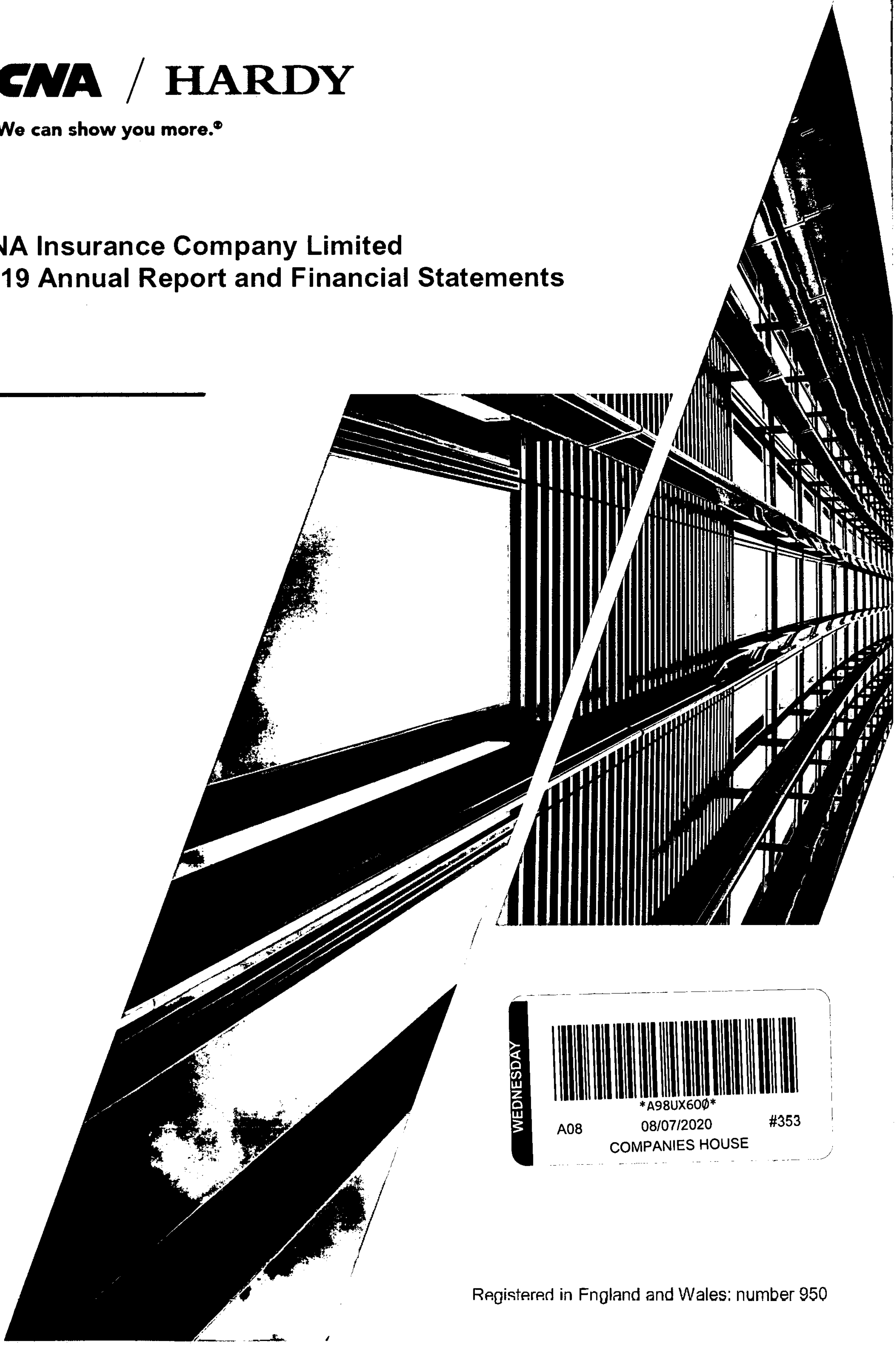
CNA Insurance Company Limited
2019 Annual Report and Financial Statements



Registered in England and Wales: number 950

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Strategic report

Introduction

The directors of CNA Insurance Company Limited ("the Company" or "CICL") present their strategic report for the year ended 31 December 2019. 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 United Kingdom ("UK") and the rest of the world outside of the European Union ("EU"). 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 one of the largest commercial property and casualty insurance companies in the United States of America ("US"). As of 31 December 2019, it has approximately 5,900 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 2018 comparatives in the profit and loss account, statement of comprehensive income and balance sheet have been revised following the Company's adoption of Financial Reporting Standard ("FRS") 102 and FRS 103. The impact of this transition is set out in note 2 to the financial statements.

The result for the 2019 financial year and financial position as at 31 December 2019 are impacted by a Part VII transfer of certain policies to the Company's subsidiary, CNA Insurance Company (Europe) Limited ("CICE"), effective on 1 January 2019. Further details and the financial impact of this transaction are set out in note 27 to the financial statements.

The Company reported a loss of £3.5 million for 2019 compared to a loss of £21.0 million for 2018. This improved result was driven primarily by positive investment returns compared to the previous financial year.

Gross written premiums reduced from £308.3 million in 2018 to £184.8 million in the current year driven primarily by the impact of the Part VII transfer to CICE set out in note 27. However, underlying growth was recorded across the majority of the Company's major lines of business, most notably in the Specialty business unit.

Overall, the Company achieved positive levels of rate in the current year as a result of improved market conditions and its strategy of maintaining a disciplined and focussed approach to pricing. The Company monitors rate change closely across all its lines of business and geographic locations. On a like for like basis, retention levels were relatively stable during the year.

The Company made changes to its reinsurance programme during 2019 as part of the continuing process to ensure that reinsurance is utilised in an effective way to control volatility in underwriting results. The Company regularly evaluates its reinsurance programme to ensure it is appropriate given its overall risk appetite. The Company increased its reinsurance expenditure on certain lines of business in order to lower retentions.

The Company reported an underwriting loss for the year of £22.6 million compared to an underwriting loss of £23.7 million in 2018. The calendar year combined ratio in 2019 was 115.6% (2018: 109.3%).

Unfavourable prior year loss development of £22.0 million was recorded in 2019 compared to favourable development of £4.7 million in the prior calendar year. The unfavourable development in the current year was driven primarily by reserve strengthening in the professional liability class of business.

Strategic report - continued

Overview of results - continued

The Company shares its operating and management structure with two other group companies, Hardy (Underwriting Agencies) Limited ("Hardy") and CICE. Both companies operate under a combined operating model with management and administrative services being provided by a related service company, CNA Services (UK) Limited ("CNA Services"), an indirect subsidiary of CNAF. The Company pays CNA Services a management fee for the provision of staff and administration services. Hardy is part of the CNAF group and CICE is 100% owned by CICL.

The expense ratio for the year of 37.1% was largely consistent with the prior year of 37.3%. This was driven by a continued focus on the rigorous management of the expense base and largely consistent levels of brokerage in the year. Expenses are allocated to the Company from CNA Services based on a detailed allocation model which is regularly reviewed and updated.

The Company recorded other charges of £2.7 million. This includes foreign exchange losses of £0.7 million driven by the impact of revaluing non-functional currency assets and liabilities into functional currencies. Overall, the Company has a strategy of closely matching foreign currency assets and liabilities to mitigate the effects of exchange rate movements. Other charges also include an impairment charge with respect to the carrying value of the Company's investment in subsidiary, CICE.

Part VII transfer

On 1 January 2019, the Company contributed all of the assets and liabilities attributable to its branch offices in Belgium, Denmark, France, Germany, Italy and the Netherlands and its EEA business written on a Freedom of Services ("FOS") basis to CICE in exchange for shares in CICE. The contribution to CICE included the transfer of all the employees of the branch operations. CICL's operations outside of the EEA are unaffected. Further details, including the financial impact of this transaction in 2019, are included in note 27.

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 Board of Directors and are measured against plan and prior year data.

The following KPIs have been deemed most relevant to demonstrating the Company's performance in 2019 and its financial position at the end of the year:

	2019	2018
	£m	£m
Gross premiums written	**184.8**	308.3
Loss on ordinary activities before tax	**(2.8)**	(22.3)
Loss for the financial year	**(3.5)**	(21.0)
Loss ratio	**78.5%**	72.0%
Expense ratio	**37.1%**	37.3%
Combined ratio	**115.6%**	109.3%
Capital and reserves	**380.4**	388.6

Strategic report – continued

Financial position

Overview of financial position

The Company's accounted capital base as at 31 December 2019 was £380.4 million (2018: £388.6 million), of which £37.0 million is ineligible to meet regulatory requirements as this amount has been deposited in bonds with Lloyd's of London ("Lloyd's") as security for the underwriting activities of Hardy Underwriting Limited ("HUL"), a CNAF group company (see note 24).

The reduction in the capital base of £8.2 million was driven by the: loss after taxation of £3.5 million; unfavourable currency translation adjustments of £0.3 million; and the remeasurement of the Company's net defined benefit pension scheme assets and liabilities of £4.5 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 benefited from strong operating cash flows and, to the extent possible, these were re-invested in the Company's investment portfolio. The Company has processes to monitor operating cash flows, which ensure that investment returns are maximised, whilst maintaining adequate cash resources to meet operating expenses and claims.

The duration and currency profile of the investment portfolio is managed to broadly 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, 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 ("S&P") rating at the same level as the rating assigned to CCC and provides significant additional security to policyholders. The Deed of Guarantee has been in place since the effective date and will remain in place until 31 December 2022 unless written notice is received from S&P that the guarantee is no longer needed. As at 31 December 2019, CCC's S&P financial strength rating was A+ (Strong) with a stable outlook. Further details are provided in note 25 to these financial statements. The Deed of guarantee is also applicable to the Company's subsidiary CICE.

Capital and Solvency II

The Company manages its capital position in accordance with the requirements of the Solvency II regime and determines its capital requirement using the Standard Formula as the basis of calculation. As at 31 December 2019, the Company's admissible capital was in excess of the Solvency II Standard Formula requirement.

Business operations

The Company operates through branch offices that have been established in the UK regions as well as from its head office in London.

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

Underwriting staff, management and certain support functions are located in branch offices and in the head office in London. Additional support services are provided from offices in the UK regions.

Strategic report – continued

Future developments

CICL's core objectives are to be the provider of choice for customers through the development of innovative and market leading products, and to build sustainable long-term profitability. 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 also being given to further development of international capabilities across all lines of business.

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 and consists of both CNA appointed directors and independent non-executive directors including an independent Chair. The Company continuously engages with CNA as its shareholder through Board and executive management meetings. As part of the Board meeting schedule, training is provided to members on their duties as directors. This training is cascaded to senior management as appropriate.

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 reports to the Board. The Board, Audit Committee and Risk Committee are chaired by an independent non-executive director. The Underwriting Committee is chaired by the Chief Executive Officer. The corporate governance framework is reviewed and approved by the Board at least annually to ensure continued effectiveness.

The Board ensures decision making is sufficiently informed through the Committee structure and regular Board meetings with comprehensive information presented by management.

CICL is authorised and regulated by the Prudential Regulatory Authority ("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. The principal regulatory risk to the Company is the loss of its regulatory approvals which would prohibit it from carrying on its business.

Section 172(1) statement

This statement describes how the directors have fulfilled their responsibility to promote the success of the Company under s172 of the Companies Act 2006. The Board has identified that its key stakeholders are staff, the shareholder, customers, broking partners and regulators.

The Company's long term strategy is to build sustainable long-term profitability in its chosen markets and segments. Key decisions taken by the Board are aimed at the achievement of that long term aim, taking into account economic, market and regulatory factors, including the aim of ensuring that CICL maintains appropriate levels of capital resources. The Company's long term plan is set out in conjunction with its Own Risk and Solvency Assessment ("ORSA") which is discussed in more detail in Note 4.

During the course of the year the Board collectively considers the wider long term impact on all of the Company's stakeholders of all significant strategic and operational decisions. An example of such a decision was the Company's establishment of its subsidiary in Luxembourg.

The Company supports, via CNA Services, chosen charitable organisations and undertakes a number of charitable fund raising events during the year. In addition, all staff are encouraged to utilise a Company funded volunteering day to support community charities. The report and financial statements of CNA Services provides further details on how the group engages with its employees.

Strategic report – continued

Section 172(1) statement – continued

The Company engages with its shareholder in a number of different ways. The Board includes CNA appointed members who engage in all key strategic and operational decisions. In addition, CNA is directly involved in other committees, groups and forums.

The Company distributes its insurance products primarily through its network of national and regional brokers. The Company regularly monitors its relationships with its broking partners and customers and aims to build successful long term relationships in this regard. CICL is committed to ensuring that it conducts its business based on values that promote a culture that places significant importance on integrity and fairness in its interactions with policyholders and business partners.

The Company engages with its key regulators with communication being facilitated through the compliance team and certain members of the executive team. Meetings and other communications with regulators are on an ad-hoc basis and when requested. All significant regulatory matters are reported to the Board.

CICL is committed to ensuring that its culture, 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 these values are maintained.

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 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 aspects of risk management within their 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. After the Part VII transfer discussed above there is no material impact to the principal risks from the UK leaving the EU ("Brexit").

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 on the Company's reputation would also rank as a strategic risk. Annual business plans are agreed by senior management and the Board and tracked against actual performance throughout the year.

Strategic report – continued

Principal risks and uncertainties – continued

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 Group, 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 risks associated with investment activities, credit, liquidity and foreign currency exchange. Investment risk includes the impact of market volatility on asset values associated with interest rate volatility. Other notable exposures are 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).

The Company manages investment risk through an Investment Group, 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 manager 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 a well developed and tested business continuity plan and IT disaster recovery plan. There are appropriate business processes and relevant internal controls in place to substantially mitigate operational risk.

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.

Climate change

The Company has reviewed and considered the requirements of the PRA supervisory statement SS3/19 with respect to managing the risks from climate change and is taking steps to incorporate and embed these requirements.

The Company expects that climate change will be an area of increasing focus in the coming years. The perceived risks around climate change are great and should not be underestimated. The management team continue to consider the potential impact of climate change on the Company. The Company has implemented a number of changes within its business in order to act more responsibly including the appointment of a director responsible for climate related activities and reducing the use of single use products.

Strategic report – continued

Going concern

CICL's strong capital base 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
5 March 2020

Directors' report

Directors

The directors who have held office since 1 January 2019 and up to the date of signing are as follows:

Executive Directors

D J Brosnan
P Hamer
C A Kearney
J Rehman
D J Stevens
A Williams

Non-executive Directors

J M Anderson (resigned 25 February 2020)
A M D'Hulster
H I Thomas
R Thomson
D Worman

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) including FRS 102: The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS102") and FRS 103: Insurance Contracts ("FRS 103"). 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 2019 year the Company reported an after-tax loss of £3.5 million (2018: loss of £21.0 million). The accounted capital base of the Company as at 31 December 2019 was £380.4 million (2018: £388.6 million).

The directors have not recommended the payment of a dividend for the year ended 31 December 2019 (2018: £nil).

Directors' report – continued

Business relationships

This is covered in the Section 172(1) statement in the Strategic report.

Employee engagement

This is covered in the Section 172(1) statement in the Strategic report.

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 an auditor 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
5 March 2020

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

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of CNA Insurance Company Limited ("the company"):

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and

the related notes 1 to 27.The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland"; (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's ("the FRC's") Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Summary of our audit approach

Key audit matter	The key audit matter that we identified in the current year was the valuation and allocation of the professional liability class IBNR provision.
Materiality	The materiality that we used in the current year was £6.0m which was determined on the basis of 2.0% of Solvency II available regulatory capital.
Scoping	Audit work to respond to the risks of material misstatement was performed the audit engagement team with actuarial specialist involvement.
Significant changes in our audit approach	There were no significant changes to our approach in the current year.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

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

We have nothing to report in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Valuation and allocation of professional liability class IBNR provisions	
Key audit matter description	CNA Insurance Company Limited recognised a provision for claims incurred but not reported ("IBNR") totalling £248 million; a provision for professional liability claims forms a subset of this balance. The accounting policies applied to IBNR can be found in note 1 on page 28. IBNR disclosure can be found in note 20 on page 68. We have determined that the key audit matter within the technical provisions is the valuation of the professional liability class of business, which requires significant judgment in the selection of key methodologies and assumptions. This assessment involved a significant level of judgement and as a result we have identified the data, methodology and assumptions applied in determining the best estimate as a key audit matter. For this reason this key audit matter also relates to a risk of fraud, due to the use of management judgements.
How the scope of our audit responded to the key audit matter	We have gained a detailed understanding of the end to end reserving process and obtained an understanding of and tested the controls over the reserving process. In order to address the audit and potential fraud risk we have utilised our in-house actuarial specialists, to assist the engagement team with assessing and challenging the appropriateness of methodology and assumptions used by management in setting the company's IBNR through independent re-projection of this line of business. This robust independent challenge of the provision included: • assessing the appropriateness of the methodology and assumptions used in estimating the provision through comparison to industry benchmarks; • assessing whether the reserving methodology has been applied consistently across the period; • tying through actuarial data to the underlying records, which has been tested through substantive procedures; and • evaluating prior year provision releases and emerging trends for consistency with management's calculations.
Key observations	We have determined that the valuation and allocation of the professional liability class of IBNR is appropriate.

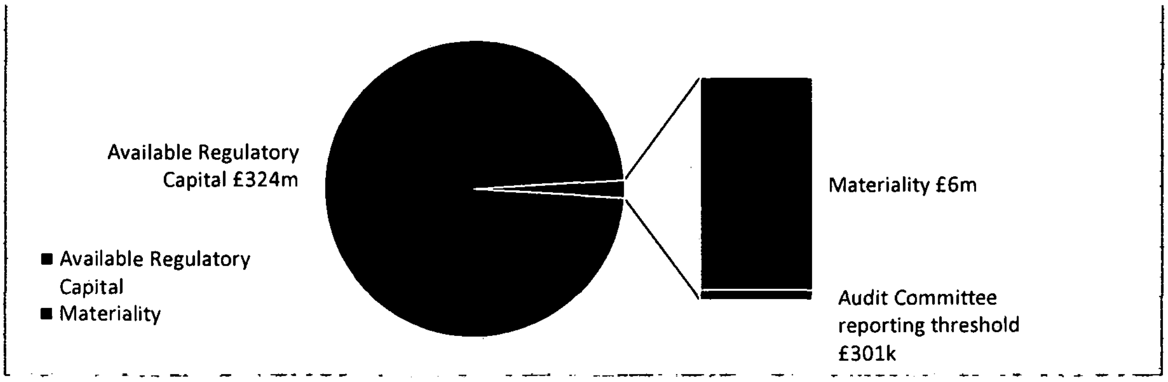
Independent Auditor's report to the members of CNA Insurance Company Limited - continued

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	£6.0 million (2018: £6.0 million)
Basis for determining materiality	2.0% of Solvency II available regulatory capital (2018: 2.0%). This is the equivalent to 1.6% of equity (2018: 1.5%)
Rationale for the benchmark applied	It was determined that available regulatory capital, which is a subset of equity would be the most appropriate measure, as the most important attribute of a long tail insurer is its ability to pay claims.



Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2019 audit (2018: 70%). In determining performance materiality, we considered the quality of the control environment and whether we were able to rely on controls; and

Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £301k (2018: £301k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

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

An overview of the scope of our audit

The scope of the audit was determined by obtaining an understanding of the entity and its environment, including internal controls.

The audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

Further we have risk assessed each balance within the financial statements considering the likely frequency and severity of material misstatements in determining the extent of audit procedures to be performed.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

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

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management, internal audit, legal counsel and the audit committee, including obtaining and reviewing supporting documentation, concerning the company's policies and procedures relating to:
    - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
    - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
    - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team and involving relevant internal specialists, including tax, pensions, IT, and actuarial specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the valuation and allocation of professional liability class IBNR provision; and
- obtaining an understanding of the legal and regulatory framework that the company operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the company. The key laws and regulations we considered in this context included the UK Companies Act, pensions legislation and tax legislation.

In addition, compliance with Prudential Regulation Authority ("PRA") and Financial Conduct Authority ("FCA") regulations are fundamental to the company's ability to continue as a going concern.

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

Audit response to risks identified

As a result of performing the above, we identified valuation and allocation of professional liability class of IBNR provision as a key audit matter. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC, PRA and FCA ; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- 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.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made

We have nothing to report in respect of this matter.

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

Other matters

Auditor tenure

Following the recommendation of the audit committee, we were appointed by Maritime Insurance Company Limited (now CNA Insurance Company Limited) on 30 June 1998 to audit the financial statements for the year ending 31 December 1998 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 22 years, covering the years ending 31 December 1998 to 31 December 2019.

Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

Use of our report

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.

Adam Ely ACA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
6 March 2020

Profit and loss account - Technical account - General business

	Notes	2019 £'000	2018 £'000
Gross premiums written	5	**184,781**	308,306
Outward reinsurance premiums	5	**(34,331)**	(50,926)
Premiums written, net of reinsurance		**150,450**	257,380
Change in provision for unearned premiums			
– gross amount	5	**(1,581)**	(12,204)
– reinsurers' share	5	**(3,910)**	9,422
Earned premiums, net of reinsurance		**144,959**	254,598
Claims paid			
– gross amount		**86,219**	151,037
– reinsurers' share		**(6,063)**	(26,264)
Net claims paid	6	**80,156**	124,773
Change in the provision for claims:			
– gross amount	6	**32,501**	59,712
– reinsurers' share	6	**1,168**	(1,166)
Claims incurred, net of reinsurance	6	**113,825**	183,319
Net operating expenses	7	**53,737**	94,954
Balance on the technical account for general business		**(22,603)**	(23,675)

All the amounts above are in respect of continuing operations.

The Notes 1 to 27 form an integral part of these financial statements.

Profit and loss account - Non-technical account

	Notes	2019 £'000	2018 £'000
Balance on the technical account for general business		**(22,603)**	(23,675)
Income from investments		**16,195**	25,126
Realised gains on investments		**514**	768
Realised losses on investments		**(4,467)**	(9,232)
Unrealised gains on investments		**4,929**	7,329
Unrealised losses on investments		**5,805**	(24,703)
Investment management expenses		**(425)**	(783)
Interest expense		**(1)**	(32)
Total investment return/(losses)		**22,550**	(1,527)
Other (charges)/income	9	**(2,708)**	2,941
Loss on ordinary activities before tax	10	**(2,761)**	(22,261)
Tax on loss on ordinary activities	11	**(700)**	1,311
Loss for the financial year		**(3,461)**	(20,950)

All the amounts above are in respect of continuing operations.

The Notes 1 to 27 form an integral part of these financial statements.

Statement of comprehensive loss

	Notes	2019 £'000	2018 £'000
Loss for the financial year		**(3,461)**	(20,950)
Remeasurement of the net defined benefit pension scheme asset	18	**(5,125)**	2,478
UK Deferred tax attributable to remeasurement of the net defined benefit pension scheme asset	15	**617**	(413)
Currency translation differences		**(298)**	3,352
Total comprehensive loss for the year		**(8,267)**	(15,533)

All the amounts above are in respect of continuing operations.

The Notes 1 to 27 form an integral part of these financial statements.

Statement of changes in equity

	Share capital £'000	Profit and loss account £'000	Total shareholder's equity £'000
Balance at 1 January 2019	**130,200**	**258,421**	**388,621**
Total comprehensive loss for the year			
Loss for the financial year	**-**	**(3,461)**	**(3,461)**
Other comprehensive loss			
Remeasurement of the net defined benefit pension scheme asset	**-**	**(5,125)**	**(5,125)**
UK deferred tax attributable to remeasurement of the net defined benefit pension scheme asset	**-**	**617**	**617**
Currency translation differences	**-**	**(298)**	**(298)**
Total comprehensive loss for the year	**-**	**(8,267)**	**(8,267)**
Balance at 31 December 2019	**130,200**	**250,154**	**380,354**

	Share capital £'000	Profit and loss account £'000	Total shareholder's equity £'000
Balance at 1 January 2018	130,200	273,954	404,154
Total comprehensive loss for the year			
Loss for the financial year	-	(20,950)	(20,950)
Other comprehensive loss			
Remeasurement of the net defined benefit pension scheme asset	-	2,478	2,478
UK Deferred tax attributable to remeasurement of the net defined benefit pension scheme asset	-	(413)	(413)
Currency translation differences	-	3,352	3,352
Total comprehensive loss for the year	-	(15,533)	(15,533)
Balance at 31 December 2018	130,200	258,421	388,621

The Notes 1 to 27 form an integral part of these financial statements.

Balance sheet

Assets	Notes	31 Dec 2019 £'000	31 Dec 2018 £'000
Shares in group undertakings	12	**173,398**	3,933
Other financial investments - debt securities and other fixed income securities	13	**509,175**	910,646
Investments		**682,573**	914,579
Reinsurers' share of provision for unearned premiums	14	**16,034**	33,447
Reinsurers' share of claims outstanding	14	**61,156**	81,224
Reinsurers' share of technical provisions		**77,190**	114,671
Debtors arising out of direct insurance operations - intermediaries		**44,223**	72,166
Debtors arising out of reinsurance operations		**1,984**	11,173
Other debtors	15	**11,688**	8,282
Debtors – amounts falling due within one year		**57,895**	91,621
Tangible assets	16	**-**	1,226
Cash at bank and in hand		**43,873**	54,542
Other assets		**43,873**	55,768
Accrued interest		**6,612**	11,265
Deferred acquisition costs	17	**13,803**	22,034
Other prepayments and accrued income		**326**	478
Prepayments and accrued income		**20,741**	33,777
Total assets excluding pension asset		**882,272**	1,210,416
Pension asset	18	**1,698**	4,866
Total assets		**883,970**	1,215,282

The Notes 1 to 27 form an integral part of these financial statements.

Balance sheet – continued

Liabilities	Notes	31 Dec 2019 £'000	31 Dec 2018 £'000
Called up share capital	19	**130,200**	130,200
Profit and loss account		**250,154**	258,421
Capital and reserves		**380,354**	388,621
Provision for unearned premiums	20	**90,232**	131,751
Claims outstanding	20	**384,457**	652,799
Technical provisions		**474,689**	784,550
Provisions for other risks	21	**186**	674
Creditors arising out of direct insurance operations		**3,704**	4,859
Creditors arising out of reinsurance operations		**17,501**	15,699
Other creditors including tax and social security	22	**5,310**	16,962
Amounts owed to credit institutions		**97**	-
Creditors – amounts falling due within one year		**26,612**	37,520
Reinsurers' share of deferred acquisition costs		**752**	1,289
Other accruals and deferred income		**1,377**	2,628
Accruals and deferred income		**2,129**	3,917
Total liabilities		**883,970**	1,215,282

The Notes 1 to 27 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 5 March 2020 and signed on its behalf by:

D J Stevens
Director

Notes to the financial statements

1. Accounting policies

Corporate information

CICL (registered number 950) is a private company limited by shares incorporated in England and Wales and is resident for tax purposes in the UK. The address of the registered office is 20 Fenchurch Street, London, EC3M 3BY, UK.

Basis of accounting

The financial statements have been prepared in accordance with FRS 102 and FRS 103 (see note 2). They continue to be produced in accordance with the Companies Act 2006. The date of transition to FRS 102 and FRS 103 was 1 January 2018, which is the comparative period. This is the first set of financial statements to be prepared under FRS 102 and FRS 103.

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year. Details of the transition are in note 2.

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.

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 US, 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.

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 102, therefore taken advantage of the disclosure exemptions available to it in relation to the presentation of a cash flow statement, remuneration of key management personnel, disclosing new standards and interpretations that have been issued but which are not yet effective, and related party transactions.

Notes to the financial statements - continued

1. Accounting policies - continued

Foreign currencies

The Company operates through foreign branches in two European countries. The financial statements of these 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. 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 other income in the profit and loss account.

The presentational currency of the Company's financial statements is Pounds Sterling which is rounded to thousands. 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. For this purpose all assets and liabilities arising from insurance contracts (including unearned premiums, deferred acquisition costs) are monetary items. Non-monetary items measured at historical cost are translated using the exchange rate at the date of transaction. 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.

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.

Notes to the financial statements - continued

1. Accounting policies - continued

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 undiscounted 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.

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 of the Company's reinsurance programme over time. The recoverability of reinsurance 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 to be different from the original liability established. Any adjustment made to amounts for claims provisions in respect of prior years is 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

Deferred acquisition costs

Acquisition costs comprise the direct expenses of concluding insurance contracts underwritten during the financial year. Acquisition costs are deferred and amortised 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.

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.

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 asset include: actuarial gains and losses, the return on plan assets excluding amounts included in the net interest on the net defined benefit 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.

Notes to the financial statements - continued

1. Accounting policies - continued

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.

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.

Notes to the financial statements – continued

1. Accounting policies - continued

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 Group. 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.

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 cost less provision for impairment. Any change in the carrying value is calculated annually and recognised in the profit and loss account.

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 software	3 – 5 years
Internally developed software	3 – 5 years

Notes to the financial statements – continued

1. Accounting policies - continued

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.

Insurance and other debtors

Insurance and other receivables are recognised at fair value less any provision for impairment. Any impairment of a receivable will be recognised if there is evidence that the syndicate will not be able to collect the amounts receivable according to the original terms of the receivable.

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 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.

Notes to the financial statements – continued

2. Adoption of new accounting standard

From 1 January 2018 the financial statements have been presented in accordance with UK Generally Accepted Accounting Practices and in accordance with the requirements of the Companies Act 2006. The financial statements have been prepared in accordance with FRS 102 and FRS 103. The date of transition to FRS 102 and FRS 103 was 1 January 2018, which is the comparative period. This is the first set of financial statements to be prepared by the Company in accordance with FRS 102 and FRS 103.

In preparing these financial statements, management has amended certain accounting and valuation methods applied under the FRS 101 to comply with FRS 102 and FRS 103, and the comparative figures have been restated on the same basis as 2019. The only change from the accounting policy under FRS 101 applicable to the Company is the requirement of FRS 103 to revalue the provision for unearned premium and deferred acquisition costs at closing foreign exchange rates compared to historical rates as required under FRS 101.

Set out below is a reconciliation of the profit and loss account as at 31 December 2017 and loss for the year ended 31 December 2018 as previously stated under FRS 101 to the balance sheet under FRS 102 and FRS 103.

Reconciliation of the profit and loss account under previous UK GAAP to that under FRS 102 and FRS 103:

	31 December 2017 £'000
Profit and loss account at 31 December 2017 as reported under previous UK GAAP	273,991
Adjusted by:	
Assets and liabilities revalued under FRS 103:	
Provison for unearned premiums	4
Deferred acquisition costs	(41)
Profit and loss account at 31 December 2017 under FRS 102 and FRS 103	273,954

Reconciliation of loss for the year ended 31 December 2018:

	2018 £'000
Loss for the year as reported under previous UK GAAP	(20,747)
Adjusted by:	
Assets and liabilities revalued under FRS 103:	
Provision for unearned premiums	(312)
Deferred acquisition costs	109
Loss for the year under FRS 102 and FRS 103	(20,950)

Notes to the financial statements – continued

3. Critical accounting estimates and judgements

The Company makes judgements, 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. Actual results may differ from these estimates.

Estimates

Estimates are regularly reviewed and any revisions to accounting estimates are recognised in the period in which the revision has occurred.

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 updated reviews 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 balance sheet is the estimate for losses incurred but not reported ("IBNR") – both gross and reinsurers' share. This estimate is critical as it outlines the current liability for future expenses expected to be incurred in relation to claims and related recoveries from reinsurers. The total estimate as at 31 December 2019 is £248.2 million (2018: £365.4 million) and is included within technical provisions in the balance sheet. The estimate for reinsurers' share of IBNR is £45.6 million (2018: £61.1 million).

The Company's estimate for unallocated loss adjustment expenses is based on an actuarial study at 31 December 2019 was £7.2 million (2018: £13.0 million).

Gross written premiums

Gross written premium is a key estimate for the Company as it includes estimates for pipeline premiums together with adjustments to premiums written in prior accounting periods. Written premiums include pipeline premiums calculated using actuarial projection techniques on the key assumption that historical development is representative of future development. Premiums are earned on a straight line basis over the life of each contract.

Fair value of assets and liabilities

In estimating the fair value of fixed income securities, fair values are generally based upon quoted market prices. This is discussed in notes 1 and 13.

Staff pension plans

The net pension asset calculated in accordance with FRS 102. The assets, liabilities and profit and loss account charge, calculated in accordance with FRS 102, are sensitive to the assumptions made from time to time, including inflation, interest rate, investment return and mortality. FRS 102 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.

Notes to the financial statements – continued

3. Critical accounting estimates and judgements

Judgements

Information about significant areas of critical judgements in applying accounting policies in the financial statements is described in note 1. The following are considered to have a significant impact on the financial statements.

Deferred tax asset

The Company has concluded the deferred tax asset of £3.7 million (2018: £3.7 million) is recoverable based on the long term corporate plan approved by the Board. The losses can be carried forward indefinitely and have no expiry date.

Insurance contracts

The Company performs an assessment of the significance of insurance risk transferred to the Company in determining whether a contract should be accounted for as an insurance contract.

Financial investments

The Company applies a fair value measurement to other financial investments and classifies each asset as Level 1, 2 or 3 based on the degree to which fair value is observable (see note 13).

4. 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. 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.

Notes to the financial statements - continued

4. Risk management - continued

Risk Appetite

The Company's risk appetite statement reflects the Company's risk profile, 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 to both 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:

- Capital;
- Liquidity;
- Earnings; and
- Reputation.

Detailed appetites statements provide further guidance on the levels of risk acceptable in the various risk categories. The detailed appetite statements 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.

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 discussion below describes how the principal risks of the Company are managed.

The risk register 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.

Notes to the financial statements – continued

4. 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.

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; and/or
- 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 with the requirements set out in the Solvency II Standard Formula, which is used as the basis of calculation. As at 31 December 2019, 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.

Insurance risk

Insurance risk 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 are 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.

Notes to the financial statements - continued

4. Risk management - continued

Insurance risk - continued

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 Group is responsible for the management of underwriting risk, reporting to the Board.

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 damage to property by fire and liability losses. 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 losses so as to measure the effectiveness of the reinsurance programme and to confirm that the Company's net exposure 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.

Notes to the financial statements - continued

4. Risk management - continued

Insurance risk - continued

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.

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 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. Given the significant uncertainty in the best estimate reserve established, the booked reserve also includes an additional management margin for prudence. This margin increases the probability that the booked claim reserves will prove adequate. The margin amount is set by the Board and reflects both the degree of uncertainty around the actuarial best estimate and the reserve risk appetite of the Company

Notes to the financial statements – continued

4. Risk management – continued

Insurance risk - continued

Reserve risk - continued

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 2019 £'000	**Net of reinsurance 2019 £'000**	Gross of reinsurance 2018 £'000	Net of reinsurance 2018 £'000
Pre-tax impact of a 1% variance in:				
Claims liability	**3,845**	**3,233**	6,528	5,716
Combined ratio	**1,832**	**1,450**	2,961	2,546
Impact on net assets of a 1% variance in:				
Claims liability	**3,191**	**2,683**	5,288	4,630
Combined ratio	**1,521**	**1,203**	2,398	2,062

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 S&P credit rating of the Company's debt and other fixed income securities remained high throughout the year, and at 31 December 2019 was "A" (2018: "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 an S&P 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.

Notes to the financial statements – continued

4. Risk management – continued

Financial risk - continued

The Company does not have significant credit risk exposure to any single external 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 rating agencies.

The assets bearing credit risk are summarised below:

	2019	2018
	£'000	£'000
Other financial investments	**509,175**	910,646
Reinsurers' share of claims outstanding	**61,156**	81,224
Debtors arising out of direct insurance operations	**44,223**	72,166
Cash at bank and in hand	**43,873**	54,542
Debtors arising out of reinsurance operations	**1,984**	11,173
Total assets bearing credit risk	**660,411**	1,129,751

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

4. Risk management - continued

Financial risk - 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 S&P.

	2019 **£'000**	2018 £'000
AAA	**45,541**	91,902
AA	**119,266**	162,007
A	**179,223**	307,061
BBB	**145,998**	288,022
Below BBB or not rated	**19,147**	61,654
Total other financial investments bearing credit risk	**509,175**	910,646

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

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

	2019 **£'000**	2018 £'000
AAA	**-**	-
AA	**160**	921
A	**56,754**	88,666
BBB	**61**	-
Below BBB or not rated	**6,165**	2,810
Total reinsurers' share of claims outstanding and debtors arising out of reinsurance operations bearing credit risk	**63,140**	92,397

Reinsurers' share of claims outstanding includes a £0.6 million (2018: £0.7 million) provision for impairment. Debtors arising out of direct and reinsurance operations includes a £1.3 million (2018: £1.1 million) provision for impairment which represents 18.7% (2018: 10.2%) of the total past due amount.

Notes to the financial statements - continued

4. Risk management - continued

Financial risk - 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 £'000	**1-2 years £'000**	**3-5 years £'000**	**Over 5 years £'000**	**Total £'000**
Claims outstanding	134,334	132,130	70,056	47,937	**384,457**
Creditors - amounts falling due within one year	26,612	-	-	-	**26,612**
Accruals and deferred income	2,129	-	-	-	**2,129**
As at 31 December 2019	163,075	132,130	70,056	47,937	**413,198**

	Within 1 year £'000	**1-2 years** £'000	**3-5 years** £'000	**Over 5 years** £'000	**Total** £'000
Claims outstanding	216,406	220,460	116,420	99,513	652,799
Creditors - amounts falling due within one year	37,520	-	-	-	37,520
Accruals and deferred income	3,917	-	-	-	3,917
As at 31 December 2018	257,843	220,460	116,420	99,513	694,236

Notes to the financial statements - continued

4. Risk management - continued

Financial risk - 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 £'000	**1-2 years £'000**	**3-5 years £'000**	**Over 5 years £'000**	**Total £'000**
Other financial investments	52,963	196,581	152,044	107,587	**509,175**
Reinsurers' share of claims outstanding	21,369	21,018	11,144	7,625	**61,156**
Debtors – amounts falling due within one year	57,895	-	-	-	**57,895**
Accrued interest and other prepayments and accrued income	6,938	-	-	-	**6,938**
Cash at bank and in hand	43,873	-	-	-	**43,873**
As at 31 December 2019	183,038	217,599	163,188	115,212	**679,037**

	Within 1 year £'000	**1-2 years** £'000	**3-5 years** £'000	**Over 5 years** £'000	**Total** £'000
Other financial investments	56,088	343,988	365,957	144,613	910,646
Reinsurers' share of claims outstanding	26,926	27,431	14,485	12,382	81,224
Debtors – amounts falling due within one year	90,955	-	-	-	90,955
Accrued interest and other prepayments and accrued income	11,743	-	-	-	11,743
Cash at bank and in hand	54,542	-	-	-	54,542
As at 31 December 2018	240,254	371,419	380,442	156,995	1,149,110

The Company 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 retum objectives.

Notes to the financial statements - continued

4. Risk management - continued

Financial risk - 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 relevant exchange rates measured in units against the Company's presentational currency, Pounds Sterling, for the year are:

	Profit and loss account		Balance sheet	
	2019	2018	**2019**	2018
Australian Dollar	**1.83**	1.78	**1.89**	1.81
Danish Kroner	**8.50**	8.42	**8.83**	8.30
Euro	**1.14**	1.13	**1.18**	1.11
Swedish Kroner	**12.03**	11.60	**12.42**	11.29
Swiss Franc	**1.27**	1.30	**1.28**	1.25
United States Dollar	**1.27**	1.34	**1.33**	1.28

Notes to the financial statements - continued

4. Risk management - continued

Financial risk - 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	
	2019	2018	**2019**	2018
	£'000	£'000	**£'000**	£'000
Impact on profit and loss account				
Foreign exchange loss	**(807)**	2,580	**2,082**	(626)
Tax on loss on ordinary activities	**153**	(490)	**(395)**	118
Total impact on capital and reserves	**(654)**	2,090	**1,687**	(508)

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, 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 £16.2 million (2018: £24.4 million) and accordingly decrease total shareholder's funds by £13.1 million (2018: £19.8million).

On the basis that all other variables remain constant, a decrease of 100 basis points in interest rates at 31 December 2019 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, service providers or external events. The Company has a well developed and tested business continuity plan and has IT disaster recovery plans. The Company arranges Corporate Insurances to help protect against financial loss. The operational risk management framework also includes an operational loss reporting facility to record incidents and near-misses from operational events.

Notes to the financial statements - continued

4. Risk management - continued

Strategic risk

The risk universe of all group operations is covered by a risk register in place to ensure risk can be managed and monitored at the local level as well as Company and group.

Group risk

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

Capital & Solvency

A risk-based approach is used to determine the amount of capital required to support the activities of the Company. 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.

Reputation

Negative publicity as a result of the CNA group's contractual arrangements, customers, products, services and other activities could impact the brand and our ability to deliver against the business plan and interact as needed with the capital markets. The Company aims to minimise reputational risks, but where reputational risk arises, it would be contained by prompt management of public communications.

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

5. 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 written premiums.

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.

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

For the year ended 31 December 2019

	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	**30,210**	**29,497**	**(18,669)**	**(10,295)**	**(1,944)**
Fire and other damage to property	**17,746**	**18,454**	**(7,094)**	**(6,619)**	**(6,286)**
Third party liability	**128,948**	**127,410**	**(89,305)**	**(34,206)**	**(23,496)**
Miscellaneous	**7,877**	**7,839**	**(3,652)**	**(2,617)**	**(1,620)**
Total	**184,781**	**183,200**	**(118,720)**	**(53,737)**	**(33,346)**

For the year ended 31 December 2018

	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	51,741	52,113	(26,165)	(20,204)	1,113
Fire and other damage to property	34,580	33,723	(51,062)	(10,451)	10,661
Third party liability	206,228	194,895	(133,259)	(62,838)	(25,880)
Miscellaneous	15,757	15,371	(263)	(1,461)	32
Total	**308,306**	**296,102**	**(210,749)**	**(94,954)**	**(14,074)**

Notes to the financial statements – continued

5. Segmental Information - *continued*

Gross written premiums by location of risk:

	2019 £'000	2018 £'000
United Kingdom	**154,556**	133,599
EU member states and other EEA member states	**8,365**	146,745
Other countries	**21,860**	27,962
Total	**184,781**	308,306

6. Claims incurred

(Under)/over 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:

	2019 £'000	2018 £'000
Commercial	**(614)**	18,565
Specialty	**(21,353)**	(13,891)
Total	**(21,967)**	4,674

Notes to the financial statements – continued

7. Net operating expenses

	2019 £'000	2018 £'000
Acquisition costs	**28,150**	48,471
Other acquisition costs	**3,731**	4,371
Change in deferred acquisition costs	**502**	(2,393)
Reinsurance commissions	**(1,771)**	(2,816)
Change in ceded deferred acquisition costs	**(491)**	200
Total acquisition costs	**30,121**	47,833
Administrative expenses	**23,616**	47,121
Total	**53,737**	94,954

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. Until 31 December 2018, the Company employed staff in its Continental European branch offices. From 1 January 2019, staff in Continental Europe branch offices were transferred to CICE (see note 27).

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:

	2019 £'000	2018 £'000
Wages and salaries	-	9,343
Social security costs	-	3,067
Pension costs	-	460
Other employment costs	-	668
Total	-	13,539

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:

	2019 Number	2018 Number
Continental Europe	-	108
Total	-	108
Management	-	6
Claims	-	20
Underwriting	-	72
Administration	-	10
Total	-	108

The average number 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. Five (2018: five) 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 their remuneration is included in the financial statements of the individual company which employed and remunerated them, CCC. These directors did not receive any emoluments from this company:

J M Anderson, D J Brosnan and D Worman.

Notes to the financial statements – continued

9. Other (charges)/income

	2019 £'000	2018 £'000
Income from the provision of Funds at Lloyd's	**1,463**	1,673
Interest income on investment contracts	**113**	302
Other finance costs (see note 18)	**21**	21
Income under indemnity agreement from associated group company	**-**	1,678
Foreign exchange movements	**(715)**	314
Change in value of investment in subsidiary undertakings	**(4,182)**	(1,153)
Other income	**592**	106
Total	**(2,708)**	2,941

Income from the provision of Funds at Lloyd's is earned at a commercially benchmarked rate of 2.5% of the funds deposited by the Company on behalf of HUL.

10. Loss on ordinary activities before tax

Loss on ordinary activities before tax is stated after charging the following items within net operating expenses:

	2019 £'000	2018 £'000
Amortisation of intangible assets	**-**	71
Depreciation of tangible assets (see note 16)	**-**	273
Operating lease rentals:		
Incurred by CICL	**-**	1,473
Recharged from CNA Services	**1,229**	2,400
Fees payable to the Company's auditor for:		
The audit of the Company's annual financial statements	**225**	225
Other services pursuant to legislation	**98**	98

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.

Notes to the financial statements – continued

11. Tax on loss on ordinary activities

	2019 £'000	2018 £'000
Current tax:		
UK Corporation tax on profits of the year	(67)	-
Double tax relief	67	-
Overseas tax	(105)	(1,942)
	(105)	(1,942)
Adjustments in respect of previous years:		
UK corporation tax	-	-
Overseas tax	(69)	199
Total current tax charge	(174)	(1,743)
Deferred tax (see note 15):		
Origination and reversal of timing differences	(564)	3,130
Adjustment in respect of prior years	158	(123)
Movement in post-retirement liability excluding actuarial gain	11	47
Deferred tax impact of transfer to CICE (see note 27)	(168)	-
Deferred tax impact of adoption of FRS 102	37	-
Total deferred tax (charge)/credit	(526)	3,054
Tax (charge)/credit on loss on ordinary activities	(700)	1,311

	2019 £'000	2018 £'000
Factors affecting tax charge for the year:		
Loss on ordinary activities before tax	(2,761)	(22,261)
Tax at the UK rate of 19% (2018: 19.25%)	570	4,191
Effects of:		
Group relief received/(surrendered) without payment	222	(592)
Adjustments to tax charge in respect of previous years	89	76
Effect of change in UK tax rate	65	(370)
Deferred tax impact of adoption of FRS 102	37	-
Net pension contribution relief in excess of/(less than) pension charges	30	(16)
Non-taxable income	23	54
Overseas tax payable	-	294
Adjustments in respect of foreign tax rates	(38)	(1,942)
Deferred tax impact of transfer to CICE (see note 27)	(168)	-
Expenses disallowed for tax purposes	(1,530)	(384)
Tax (charge)/credit on loss on ordinary activities	(700)	1,311

Notes to the financial statements - continued

12. Shares in group undertakings

On 7 March 2018 CICE issued 5.7 million €1 ordinary shares to the Company at a cost of £5.1 million. On 1 January 2019, as part of the Part VII transfer (see note 27), CICE issued a further 100.0 million €1 ordinary shares to the Company at a cost of £173.6 million, including €93.1 million of share premium. The Company owns 100% of the shares in CICE. The address of CICE is 35F, avenue J.F. Kennedy, L-1855 Luxembourg, Grand-Duchy of Luxembourg.

	Cost 2019 £'000	Cost 2018 £'000	**Reported Value 2019 £'000**	Reported Value 2018 £'000
Investment in Subsidiary	**178,707**	5,060	**173,398**	3,933

The Company owns one ordinary £1 share (2018: £1), issued at par value, of Maritime Insurance Company Limited ("MICL") representing 100% of MICL's authorised share capital. MICL is incorporated in the UK, registered in England and Wales at the same address as the Company, and is currently dormant.

13. Other financial investments

	Cost 2019 £'000	Cost 2018 £'000	**Fair Value 2019 £'000**	Fair Value 2018 £'000
Debt securities and other fixed income securities	**512,542**	919,812	**509,175**	910,646

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.

Notes to the financial statements – continued

13. Other financial investments - continued

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

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
2019				
Debt securities and other fixed income securities	**10,594**	**498,581**	**-**	**509,175**
2018				
Debt securities and other fixed income securities	10,837	899,809	-	910,646

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 within and after one year are estimated as follows:

	2019 £'000	2018 £'000
Within one year	**52,963**	56,088
After one year	**456,213**	854,558
Total	**509,175**	910,646

14. Reinsurers' share of technical provisions

	2019 £'000	2018 £'000
Reinsurers' share of claims outstanding gross of impairment provision	**61,794**	81,957
Impairment provision	**(638)**	(733)
Reinsurers' share of claims outstanding	**61,156**	81,224
Reinsurers' share of unearned premiums	**16,034**	33,447
Total	**77,190**	114,671

Notes to the financial statements – continued

15. Other debtors

	2019 £'000	2018 £'000
Amounts due from group undertakings	7,634	-
Deferred tax asset	4,054	4,315
Corporation tax receivable	-	3,667
Other	-	300
Total	11,688	8,282

The carrying amounts of all items approximate fair value. Group balances are payable on demand and reflect intra-group recharges on an arm's length basis.

Deferred tax asset

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

	Provided 2019 £'000	Provided 2018 £'000	Not provided 2019 £'000	Not provided 2018 £'000
Tax losses	3,443	3,379	-	-
Short-term timing differences	313	578	-	-
Decelerated capital allowances	298	358	-	-
	4,054	4,315	-	-
Post-retirement liability	(308)	(660)	-	-
Total	3,746	3,655	-	-

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.

	2019 £'000	2018 £'000
Provision at start of year	3,655	1,014
Amounts (charged)/credited to the profit and loss account	(526)	3,054
Amounts credited/(charged) to the statement of comprehensive income	617	(413)
Provision at end of year	3,746	3,655

Notes to the financial statements – continued

16. Tangible assets

	Leasehold property and improvements £'000	Fixtures, fittings and equipment £'000	Total £'000
Cost			
At 1 January 2019	1,732	487	2,219
Transferred to CICE (see note 27)	(1,732)	(487)	(2,219)
At 31 December 2019	-	-	-
Accumulated depreciation			
At 1 January 2019	601	392	993
Transferred to CICE (see note 27)	(601)	(392)	(993)
At 31 December 2019	-	-	-
Net book value			
At 31 December 2019	-	-	-
At 31 December 2018	1,131	95	1,226

17. Deferred acquisition costs

	2019 £'000	2018 £'000
At 1 January	22,034	19,480
Change in deferred acquisition costs	(502)	2,393
Transferred to CICE (see note 27)	(7,689)	-
Foreign exchange revaluation	(40)	161
At 31 December	13,803	22,034

All amounts are expected to be recovered within one year.

Notes to the financial statements – continued

18. Staff pension plans

Retirement benefit pension scheme

The Company sponsors two defined benefit schemes in the UK. The schemes are administered by a separate fund that is legally separated from the Company. The Trustees of the pension fund are required by law to act in the interest of the funds and of all relevant fund stakeholders.

The Trustees are responsible for the investment strategy of the Plans after consulting the sponsor and the Employer. The Trustees recognise that the key source of financial risk (in relation to meeting their objectives) arises from asset allocation. The Trustees review their investment strategy following each formal actuarial valuation of the Plans (or more frequently should the circumstances of the Plans change in a material way). The Trustees take advice from their professional advisers regarding an appropriate investment strategy to the Plan, which includes asset to liability matching, risk to reward balancing and other factors which may be relevant to ensure the suitability of the investment strategy.

Risks associated with the Plans

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 (including 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 Plans' long term objectives.
Changes in bond yields	A fall in corporate bond yields will increase the value placed on the Plans' liabilities for accounting purposes, although this will be partially offset by an increase in the value of the Plans' bond holdings.
Inflation risk	The majority of the Plans' 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 would reduce the asset.
Life expectancy	The majority of the Plans' obligations are to provide benefits for the life of the member, with the Plans' liabilities calculated by reference to the best estimate of the mortality of plan participants. Increases in life expectancy will result in an increase in the liabilities.

Notes to the financial statements - continued

18. Staff pension plans - 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. All employees now 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 67% of the liabilities are attributable to deferred members and 33% 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 20 years reflecting the approximate split of the defined benefit obligation between deferred members (duration of 24 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 2019	Less than 1 year	Between 1-2 years	Between 2-5 years	Over 5 years
Pension benefits	2%	2%	5%	91%

Notes to the financial statements - continued

18. Staff pension plans - continued

Scheme A – CNA Pension Plan for UK Employees - continued

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 2016 and it showed a deficit of £4.6 million.

As a result of the valuation the Company agreed to pay annual contributions of £1.6 million in monthly instalments from 1 April 2017 to 30 April 2020, which are expected to bring the Plan to full funding by 30 April 2020. In addition, the Company pays directly the Pension Protection Fund and other levies collected by the Pensions Regulator.

The next funding valuation will be carried out with an effective date of 31 March 2019. If the Plan is in deficit at that time, the Company will discuss any required deficit contributions with the Trustees of the Plan.

Contributions of £1.62 million per annum were made by the Company during 2019. Company contributions to the Plan in the year to 31 December 2020 are estimated to be £0.54 million.

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

Reporting at 31 December 2019

The results of the latest funding valuation at 31 March 2016 have been adjusted to the balance sheet date taking account of experience over the period since 31 March 2016, 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.

Main assumptions

The main assumptions are as follows:

	2019 **% pa**	2018 % pa
Discount rate for the Plan's liabilities	**2.0**	3.0
RPI inflation	**2.5**	3.2
CPI inflation	**2.1**	2.1
Increase in salaries	**n/a**	n/a
Life expectancy for male currently aged 65	**23.0**	22.7
Life expectancy for female currently aged 65	**24.5**	23.8
Life expectancy for male currently aged 45	**24.3**	24.0
Life expectancy for female currently aged 45	**25.9**	25.3

The mortality assumptions are based on standard mortality tables derived from the collected 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.

Notes to the financial statements – continued

18. Staff pension plans - continued

Scheme A – CNA Pension Plan for UK Employees - continued

At 31 December 2019 the Plan assets were invested in the following asset classes:

	Fair value 2019 £'000	**Of which not quoted in active market 2019 £'000**	Fair value 2018 £'000	Of which not quoted in active market 2018 £'000
Diversified Growth Fund	**46,721**	**-**	40,736	-
Gilts and bonds	**19,235**	**-**	17,651	-
Insured annuity asset	**61**	**61**	56	56
Cash	**270**	**-**	107	-
Total	**66,287**	**61**	58,550	56

At 31 December 2019 £nil (2018: £nil) of the fair value of scheme assets related to self-investment.

The amounts recognised on the balance sheet at 31 December 2019 are set out below:

	2019 £'000	2018 £'000
Fair value of Plan assets	**66,287**	58,550
Present value of funded defined benefit obligation	**(64,478)**	(54,666)
Assets recognised on the balance sheet	**1,809**	3,884
Related deferred tax asset	**(308)**	(660)
Net pension asset	**1,501**	3,224

Notes to the financial statements - continued

18. Staff pension plans - continued

Scheme A – CNA Pension Plan for UK Employees - continued

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

	2019 £'000	2018 £'000
Operating cost		
Service costs:		
Administration expenses	**201**	188
Past service cost	**-**	109
Total operating cost	**201**	297
Financing cost:		
Interest on net pension asset	**(137)**	(21)
Pension expense recognised in profit and loss	**64**	276
Remeasurements in other comprehensive income:		
Return on plan assets (in excess of)/below that recognised in net interest	**(6,128)**	3,375
Liabilitiy losses/(gains) arising during the year	**9,759**	(5,807)
Total amount recognised in other comprehensive income	**3,631**	(2,432)
Total amount recognised in profit and loss and comprehensive income	**3,695**	(2,156)

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

	2019 £'000	2018 £'000
Opening defined benefit obligation	**54,666**	61,483
Interest expense on defined benefit obligation	**1,617**	1,504
Actuarial losses arising from experience	**322**	272
Past service cost	**-**	109
Actuarial gains arising from changes in demographic assumptions	**805**	(318)
Net benefits paid out	**(1,564)**	(2,623)
Actuarial losses/(gains) arising from changes in financial assumptions	**8,632**	(5,761)
Closing defined benefit obligation	**64,478**	54,666

Notes to the financial statements – continued

18. Staff pension plans - continued

Scheme A – CNA Pension Plan for UK Employees - continued

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

	2019 £'000	2018 £'000
Opening fair value of plan assets	**58,550**	61,591
Contributions by the employer	**1,620**	1,620
Interest income on plan assets	**1,754**	1,525
Administration costs incurred	**(201)**	(188)
Net benefits paid out	**(1,564)**	(2,623)
Gains/(losses) on Plan assets	**6,128**	(3,375)
Closing fair value of scheme assets	66,287	58,550

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 provided an indemnity in favour of the Company.

Composition of the scheme

The Company 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 Employer 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 Employer to fund the 1977 Plan are set by the Trustees after consulting the Employer.

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

The assets of the Plan are mainly invested in equity, gilt and corporate bond managed funds with Legal & General Assurance (Pensions Management) Limited. When members retire their pensions are currently bought out with an insurance company in their own name. Accordingly no further pension benefits are paid from the fund.

Notes to the financial statements - continued

18. Staff pension plans - continued

Scheme B – The CNA Re Management Company Limited ("CNA Re") Retirement Benefits Plan - 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 2019	Less than 1 year	Between 1-2 years	Between 2-5 years	Over 5 years
Pension benefits	8%	4%	21%	67%

Scheme B – The CNA Re Management Company Limited ("CNA Re") Retirement Benefits Plan - Funding requirements

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

The employee contributions to the 1977 Plan for 2019 and 2018 were nil.

The Employer contributes deficit contributions as appropriate. No contributions were made in 2019.

In addition, the Employer pays directly all of the expenses and levies involved in running the 1977 Plan.

Reporting at 31 December 2019

A full valuation was undertaken as at 1 January 2018 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.

Main assumptions

The main assumptions are as follows:

	2019 % pa	2018 % pa
Discount rate	**2.0**	3.0
RPI inflation assumption	**2.5**	3.3
CPI inflation assumption	**2.0**	2.2
Increase in salaries	**n/a**	n/a
Life expectancy for male currently aged 65	**23.0**	22.7
Life expectancy for female currently aged 65	**24.5**	23.8
Life expectancy for male currently aged 45	**24.3**	24.0
Life expectancy for female currently aged 45	**25.9**	25.3

The mortality assumptions are based on standard mortality tables derived from the collected 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.

Notes to the financial statements - continued

18. Staff pension plans - continued

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

As at 31 December 2019 the 1977 Plan assets are invested in the following asset classes:

	Fair value 2019 £'000	**Of which not quoted in active market 2019 £'000**	Fair value 2018 £'000	Of which not quoted in active market 2018 £'000
Diversified Growth Fund	**7,849**	-	7,143	-
Gilts and bonds	**7,778**	-	6,874	-
Cash	**(26)**	-	54	-
Total	**15,601**	-	14,071	-

At 31 December 2019 £nil (2018: £nil) of the fair value of scheme assets related to self-investment and all assets are quoted.

The amounts recognised on the balance sheet at 31 December 2019 are set out below:

	2019 £'000	2018 £'000
Fair value of 1977 Plan assets	**15,601**	14,071
Present value of funded defined benefit obligation	**(15,404)**	(12,429)
Net pension asset	**197**	1,642

Notes to the financial statements - continued

18. Staff pension plans - continued

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

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

	2019 £'000	2018 £'000
Operating cost:		
Service costs	-	-
Total operating cost	-	-
Financing cost:		
Interest on net defined benefit asset	(49)	82
Pension benefit/(expense) recognised in profit and loss	(49)	82
Remeasurements in other comprehensive income:		
Return on plan assets (in excess of)/below that recognised in net interest	(1,511)	688
Liability losses/(gains) arising during the year	3,005	(734)
Total amount recognised in other comprehensive income	1,494	(46)
Total amount recognised in profit and loss and comprehensive income	(1,543)	128

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

	2019 £'000	2018 £'000
Opening defined benefit obligation	12,429	12,909
Interest expense on obligation	367	320
Past service cost	-	124
Actuarial losses arising from experience	184	114
Actuarial gains due to changes in demographic assumptions	160	(57)
Net benefits paid out	(397)	(190)
Actuarial losses/(gains) due to changes in financial assumptions	2,661	(791)
Closing defined benefit obligation	15,404	12,429

Notes to the financial statements – continued

18. Staff pension plans - continued

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

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

	2019 £'000	2018 £'000
Opening fair value of 1977 Plan assets	**14,071**	14,587
Expected return on 1977 Plan assets	**416**	362
Net benefits paid out	**(397)**	(190)
Gains/(losses) on Plan assets	**1,511**	(688)
Closing fair value of 1977 Plan assets	**15,601**	14,071

19. Share capital

	2019 £'000	2018 £'000
Authorised:		
15,000,000 ordinary shares of £10 each (2018:15,000,000)	**150,000**	150,000
Allotted, called up and fully paid:		
13,020,000 ordinary shares of £10 each (2018:13,020,000)	**130,200**	130,200

Notes to the financial statements - continued

20. Technical provisions

The gross liabilities for claims reported, loss adjustment expenses and claims incurred but not reported are net of expected recoveries from salvage and subrogation.

Total technical provisions

	2019 £'000	2018 £'000
Gross		
Claims reported	**129,088**	274,424
Unallocated loss adjustment expenses	**7,180**	12,964
Claims incurred but not reported	**248,189**	365,411
Unearned premiums	**90,232**	131,751
Total gross technical provisions	**474,689**	784,550
Reinsurers' share of technical provisions		
Claims reported	**15,518**	20,142
Claims incurred but not reported	**45,638**	61,082
Unearned premiums	**16,034**	33,447
Total reinsurers' share of technical provisions	**77,190**	114,671
Net		
Claims reported	**113,570**	254,282
Unallocated loss adjustment expenses	**7,180**	12,964
Claims incurred but not reported	**202,551**	304,329
Unearned premiums	**74,198**	98,304
Total net technical provisions	**397,499**	669,879

Notes to the financial statements – continued

20. Technical provisions - continued

Movement in technical provisions

	Provision for unearned premiums £'000	Claims outstanding £'000	Total £'000
Gross			
At 1 January 2018	118,504	586,062	704,566
Foreign exchange revaluation	131	7,025	7,156
Movement in provision	12,204	59,712	71,916
At 1 January 2019	**131,751**	**652,799**	**784,550**
Foreign exchange revaluation	**281**	**477**	**758**
Transferred to CICE (see note 27)	**(43,381)**	**(301,320)**	**(344,701)**
Movement in provision	**1,581**	**32,501**	**34,082**
At 31 December 2019	**90,232**	**384,457**	**474,689**
Reinsurance amount			
At 1 January 2018	23,491	76,716	100,207
Foreign exchange revaluation	(70)	3,342	3,272
Movement in provision	9,422	1,166	10,588
At 1 January 2019	**33,447**	**81,224**	**114,671**
Foreign exchange revaluation	**372**	**(1,382)**	**(1,010)**
Transferred to CICE (see note 27)	**(13,875)**	**(17,518)**	**(31,393)**
Movement in provision	**(3,910)**	**(1,168)**	**(5,078)**
At 31 December 2019	**16,034**	**61,156**	**77,190**
Net			
At 31 December 2019	**74,198**	**323,301**	**397,499**
At 31 December 2018	98,304	571,575	669,879

The claims development tables below show CICL's estimate of the ultimate gross and net 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 2019 closing rates of exchange to remove fluctuations caused by movements in foreign currency rates.

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

Notes to the financial statements - continued

20. Technical provisions - continued

Claims development table gross of reinsurance

Accident year	2009 £'000	2010 £'000	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000	2018 £'000	2019 £'000	**Total £'000**
At end of first year	51,886	81,502	75,577	79,934	84,533	77,429	91,461	89,485	108,191	142,346	107,872	**990,216**
One year later	(2,354)	(591)	(1,115)	(3,173)	(123)	5,750	13,099	8,862	24,375	6,524		**51,254**
Two years later	(523)	(3,872)	(2,089)	(8,812)	(835)	(910)	1,909	(2,306)	7,668			**(9,770)**
Three years later	9,567	1,140	(5,726)	1,664	(10,361)	(877)	(282)	(23,663)				**(28,538)**
Four years later	(3,007)	(4,275)	(4,036)	24	(144)	(3,468)	(7,964)					**(22,870)**
Five years later	1,595	(1,398)	(7,472)	(3,354)	(4,031)	(8,694)						**(23,354)**
Six years later	(2,072)	(1,967)	732	(2,983)	(8,358)							**(14,648)**
Seven years later	(2,176)	(3,150)	(3,075)	(2,360)								**(10,761)**
Eight years later	5,096	(1,403)	(1,593)									**2,100**
Nine years later	448	(296)										**152**
Ten years later	(3,326)											**(3,326)**
Current estimate of ultimate claims	55,134	65,690	51,203	60,940	60,681	69,230	98,223	72,378	140,234	148,870	107,872	**930,455**
Cumulative payments to date	(53,933)	(61,621)	(47,926)	(57,378)	(54,524)	(47,105)	(77,745)	(40,467)	(49,591)	(55,960)	(18,174)	**(564,424)**
Provision as at 31 December 2019	1,201	4,069	3,277	3,562	6,157	22,125	20,478	31,911	90,643	92,910	89,698	**366,031**
Accident years prior to 2008												**11,246**
Claims handling provision												**7,180**
Technical provisions as at 31 December 2019												**384,457**

Notes to the financial statements - continued

20. Technical provisions - continued

Claims development table net of reinsurance

Accident year	2009 £'000	2010 £'000	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000	2018 £'000	2019 £'000	**Total £'000**
At end of first year	44,664	62,516	69,440	68,463	75,455	71,351	89,967	73,246	95,416	107,735	87,544	**845,797**
One year later	(149)	(520)	(2,595)	(2,782)	288	4,381	5,355	14,625	27,384	5,903		**51,890**
Two years later	(33)	(3,476)	(2,244)	(7,774)	(1,189)	(1,438)	2,024	(4,298)	10,159			**(8,269)**
Three years later	3,689	733	(4,607)	1,359	(7,154)	(4,421)	(5,034)	(17,531)				**(32,966)**
Four years later	(3,455)	(3,310)	(4,201)	(341)	3	(1,372)	(4,276)					**(16,952)**
Five years later	1,872	(1,208)	(1,949)	(3,683)	(1,162)	(4,639)						**(10,769)**
Six years later	(1,551)	(1,109)	625	(1,229)	(6,479)							**(9,743)**
Seven years later	(1,178)	(3,105)	(2,219)	(2,244)								**(8,746)**
Eight years later	1,584	(733)	(1,384)									**(533)**
Nine years later	1,005	(142)										**863**
Ten years later	(3,789)											**(3,789)**
Current estimate of ultimate claims	42,659	49,646	50,866	51,769	59,762	63,862	88,036	66,042	132,959	113,638	87,544	**806,783**
Cumulative payments to date	(41,903)	(45,669)	(47,615)	(48,223)	(54,125)	(44,290)	(71,197)	(38,381)	(48,861)	(35,206)	(18,115)	**(493,585)**
Provision as at 31 December 2019	756	3,977	3,251	3,546	5,637	19,572	16,839	27,661	84,098	78,432	69,429	**313,198**
Accident years prior to 2008												**2,923**
Claims handling provision												**7,180**
Technical provisions as at 31 December 2019												**323,301**

Notes to the financial statements - continued

21. Provisions for other risks

	Dilapidations and refurbishment provision £'000
At 1 January 2018	579
Charged to the statement of profit or loss	95
At 31 December 2018	**674**
Transferred to CICE	**(507)**
Charged to the statement of profit or loss	**19**
At 31 December 2019	**186**

The Company has established a provision to meet the expected obligation for property lease 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 within and after one year are estimated as follows:

	2019 £'000	2018 £'000
Within one year	**-**	102
After one year	**186**	572
Total	**186**	674

Notes to the financial statements – continued

22. Other creditors including tax and social security

	2019 £'000	2018 £'000
Amounts due to group undertakings	-	9,604
Insurance premium tax	4,504	3,467
Financial liabilities	362	329
Other tax and social security	181	226
Other creditors	263	3,336
Total	**5,310**	16,962

The carrying amounts of all items approximate fair value. All amounts are expected to be settled within one year. Group balances are repayable on demand and reflect intra-group recharges on an arm's length basis.

23. Operating lease commitments

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

	Land and buildings		Other	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Within one year	167	1,472	-	-
Within two to five years	444	5,003	-	-
After five years	-	844	-	-
Total	**611**	7,319	-	-

The significant reduction from 2018 is due to the transfer to CICE as described in Note 27.

Notes to the financial statements - continued

24. 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 2019 the amount remaining on the letter of credit after draw downs was £324,545.

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 £37,012,156 (2018: £65,748,134) in bonds with Lloyd's as security for the underwriting activities of HUL. Fees of 2.5% (2018: 2.5%) per annum are attributable to this security and were 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 the Company's capital available to meet regulatory requirements.

25. Deed of Guarantee

The Company has been granted a Deed of Guarantee by CCC (the Guarantor) effective 24 January 2002 and renewed on 1 January 2019. The Deed of guarantee is also applicable to the Company's subsidiary CICE. 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 2019 was £nil (2018: £nil).

The Deed of Guarantee will remain in place until 31 December 2022 unless written notice is received from S&P that the guarantee is no longer needed for the Company to maintain an S&P 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 CNA group which has an S&P rating equal to or better than the rating assigned to the Guarantor.

Notes to the financial statements – continued

26. 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 UK 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, 151 North Franklin Street, Chicago, IL 60606.

The largest parent undertaking for which group financial statements were drawn up and of which the Company is a member is Loews Corporation, a company incorporated in the United States of America.

The consolidated financial statements of Loews Corporation are available to the public and may be obtained from Loews Corporation, 667 Madison Avenue, New York, NY 10065-8087.

27. Part VII transfer

On 1 January 2019, the Company contributed all of the assets and liabilities attributable to its branch offices in Belgium, Denmark, France, Germany, Italy and the Netherlands and its EEA business written on a FOS basis to CICE in exchange for shares in CICE. From 1 January 2019, the existing FOS business has been serviced and new FOS business has been written from the newly established UK branch of CICE. The contribution was subject to a condition precedent that the contribution of all relevant insurance policies to CICE was covered through a Part VII transfer. The contribution to CICE included the transfer of all the employees of the branch operations.

The transaction was recorded as a group reconstruction using the merger accounting method as the transfer from CICL to CICE is a transfer of a business under common control. Under the transfer, CICE issued 100,000,000 ordinary shares of 1 Euro each and share premium of Euro 93,135,000 in exchange for the assets and liabilities, recorded at carrying value, of the branches and FOS business of CICL. No goodwill was recognised in relation to the transaction. The transfer had no impact to the profit and loss account or to the total capital and reserves of CICL at the date of transfer. There are no adjusting or non-adjusting events relating to Brexit post year-end.

Notes to the financial statements – continued

27. Part VII transfer - continued

The impact of the transfer on the balance sheet of CICL at 1 January 2019 is set out below:

	Balance at 31 December 2018 £'000	Transfer on 1 January 2019 £'000	Balance after transfer £'000
Investment in subsidiary	3,993	173,587	177,580
Investments - financial investments	910,646	(445,988)	464,658
Reinsurers' share of provision for unearned premiums	33,447	(13,875)	19,572
Reinsurers' share of claims outstanding	81,224	(17,518)	63,706
Debtors arising out of direct insurance operations	72,166	(25,842)	46,324
Debtors arising out of reinsurance operations	11,173	(563)	10,610
Other debtors	8,282	(3,649)	4,633
Tangible assets	1,226	(1,226)	-
Cash at bank and in hand	54,542	(13,109)	41,433
Accrued interest	11,265	(3,830)	7,435
Deferred acquisition costs	22,034	(7,689)	14,345
Other prepayments and accrued income	478	(453)	25
Pension asset	4,866	-	4,866
Total assets	**1,215,342**	**(360,155)**	**855,187**
Provision for unearned premiums	131,751	(43,381)	88,370
Claims outstanding	652,799	(301,320)	351,479
Provisions for other risks	674	(507)	167
Creditors arising out of direct insurance operations	4,859	(1,418)	3,441
Creditors arising out of reinsurance operations	15,699	(7,453)	8,246
Other creditors including tax and social security	16,962	(4,717)	12,245
Reinsurers' share of deferred acquisition costs	1,289	(28)	1,261
Other accruals and deferred income	2,628	(1,271)	1,357
Total liabilities	**826,661**	**(360,095)**	**466,566**
Called up share capital	130,200	-	130,200
Currency translation reserve & profit and loss account	258,421	-	258,421
Capital and reserves	**388,621**	**-**	**388,621**

Notes to the financial statements - continued

28. Reconciliation from UK GAAP to US GAAP - unaudited

As outlined in the statement of Directors' responsibilities and note 1, the Company prepares and presents statutory financial statements in accordance with FRS 102 and FRS 103 ("UK GAAP"). The Directors have prepared a reconciliation to accounting principles generally accepted in the US ("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 UK GAAP or the Companies Act 2006 and is unaudited.

Reconciliation of Loss for the financial year on a UK GAAP basis to net income on a US GAAP basis

	2019	2018
	£'000	£'000
Loss for the financial year on a UK GAAP basis	**(3,461)**	(20,950)
Adjustments to reconcile to US GAAP:		
Unrealised investment gains and foreign exchange thereon included in other comprehensive income ("OCI") for US GAAP net of tax of £1,715,000 (2018: £3,501,000l) - see i. below	**(3,205)**	15,141
Remeasurement of investments classified as available for sale recorded in OCI under US GAAP net of tax of £234,000 (2018: £nil) - see ii. below	**(438)**	(244)
Difference in treatment of amounts in relation to defined benefit pension scheme accounting net of tax of £1,385,000 (2018: £144,000) - see iii. Below	**3,251**	16
Other GAAP accounting differences net of tax of £466,000 (2018:£nil) - see iv. below	**845**	203
Net loss on a US GAAP basis	**(3,008)**	(5,834)

Notes to the financial statements – continued

28. Reconciliation from UK GAAP to US GAAP- continued

i. Under UK GAAP unrealised investment gains/losses and 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 UK GAAP and US GAAP.

ii. Whilst the carrying value of financial investments is stated at market value under both UK GAAP and US GAAP, there are differences in the cost basis and the treatment of unrealised gains and losses. Under UK GAAP 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 £4,640,395 (2018: gain of £9,308,015) and changes in unrealised gains of £3,824,610 (2018: £(8,066,391)), 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 (2018: £nil) are recorded in net income. As a result, no net asset difference arises between UK GAAP 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 UK GAAP 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 UK GAAP and US GAAP.

iv. Under US GAAP, Unearned Premium ("UPR") and Deferred Acquisition Costs ("DAC") are held at their historical rate. Under UK GAAP UPR and DAC are revalued at the current month end rate.

	2019 **£'000**	2018 £'000
Capital and reserves on a UK GAAP basis	**380,354**	388,621
Impairment of investment in subsidiary	**1,824**	-
Other GAAP differences	**2,016**	240
Stockholders' equity on a US GAAP basis	**384,194**	388,861