

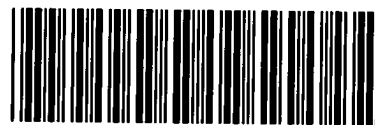
CNA / HARDY

**CNA Insurance
Company Limited**

**2023 Annual Report and
Financial Statements**

Registered in England and Wales: number 950

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Contents

| | |
|--|----|
| Strategic report | 2 |
| Directors' report | 11 |
| Independent Auditor's report | 13 |
| Profit and loss account – Technical account – General business | 22 |
| Profit and loss account – Non-technical account | 23 |
| Statement of comprehensive income | 24 |
| Statement of changes in equity | 25 |
| Balance sheet | 26 |
| Notes to the financial statements | 28 |

Strategic report

Introduction

The directors of CNA Insurance Company Limited ("the Company" or "CICL") present their strategic report for the year ended 31 December 2023. 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.

The Company shares its operating and management structure with two other group companies, Hardy (Underwriting Agencies) Limited ("Hardy") and CNA Insurance Company (Europe) S.A. ("CICE"). All three 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.

CNA is the one of the largest commercial property and casualty insurance companies in the United States of America ("US"). As of 31 December 2023, it has approximately 6,300 employees and its insurance products include commercial property and casualty coverages, including surety. CNA's products and services are primarily marketed through independent agents, brokers and managing general underwriters to a wide variety of customers, including small, medium and large businesses, insurance companies, associations, professionals and other groups.

Overview of results

The Company reported a profit of £45.8 million in 2023, compared to a loss of £38.4 million in 2022. The calendar year combined ratio was 98.2% (2022: 85.6%). The profit was driven by an underwriting profit of £4.2 million (2022: £30.4 million) and investment returns of £49.8 million (2022: loss of £48.9 million) due to portfolio growth, higher yields and the reversal of losses experienced in 2022.

Gross written premiums increased from £290.5 million in 2022 to £309.7 million in the current year with increases in the majority of the Company's lines of business but primarily in the Commercial business unit.

Unfavourable prior year loss development of £14.5 million was recorded in 2023 compared to favourable development of £7.1 million in the prior calendar year. In the current calendar year, the unfavourable loss development was driven primarily by higher emergence of claims from certain lines of business than previously anticipated.

The expense ratio for the year of 30.0% is relatively stable compared to the prior year of 29.8%.

The Company recorded other charges of £0.8 million in 2023 compared to £22.3 million in the previous financial year. The amount recorded in 2022 included an impairment charge of £24.6 million with respect to the carrying value of the Company's investment in its wholly owned subsidiary, CICE. Also included in other charges are foreign exchange gains of £2.0 million (2022: £2.8 million) driven by the revaluing foreign currency assets and liabilities. Overall, the Company aims to broadly match assets and liabilities in the same currencies in order to mitigate the risk of foreign exchange rate volatility.

Strategic report – continued

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.

The following KPIs have been deemed most relevant to demonstrating the Company's performance in 2023 and its financial position at the end of the year. The loss ratio is derived by taking claims incurred, net of reinsurance over earned premiums, net of reinsurance. The expense ratio references net operating expenses as a percentage over earned premiums, net of reinsurance.

| | 2023 £m | 2022 £m |
|---|------------|------------|
| Gross premiums written | 309.7 | 290.5 |
| Profit/(loss) on ordinary activities before tax | 53.2 | (40.8) |
| Profit/(loss) for the financial year | 45.8 | (38.4) |
| Loss ratio | 68.2% | 55.8% |
| Expense ratio | 30.0% | 29.8% |
| Combined ratio | 98.2% | 85.6% |
| Capital and reserves | 547.1 | 503.8 |

Financial position

Overview of financial position

The Company's accounted capital base as at 31 December 2023 was £547.1 million (2022: £503.8 million), of which £36,359 is ineligible to meet regulatory requirements as this amount has been deposited with Lloyd's of London ("Lloyd's") as security for the underwriting activities of Hardy Underwriting Limited ("HUL"), a CNAF group company (see Note 22).

The Company did not pay or recommend a dividend during the financial year. There were no changes in the Company's ownership or capital structure during the year.

Investments

The Company benefited from positive operating cash flows and, to the extent possible, these are 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, first effective on 24 January 2002 ("effective date"). 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 the effective date. 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 2025. As at 31 December 2023, CCC's S&P financial strength rating was A+ with a stable outlook. Further details are provided in Note 23 to these financial statements. A similar deed of guarantee is also in place for the Company's subsidiary CICE.

Strategic report – continued

Financial position - continued

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 2023, the Company's admissible capital was in excess of the Solvency II Standard Formula requirement. Refer to Note 3 for more detail.

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.

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 executive directors, CNA appointed non-executive 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.

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 its 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").

Future developments

The Company aims to provide differentiated products to meet the needs of its targeted customer segments through its distribution channels. Focus is being given to developing the business across its existing products and geographies.

Streamlined energy and carbon reporting

In 2023, the Company's UK Greenhouse gas ("GHG") emissions were 244 tonnes of CO₂e ("tCO₂e") with 196,822 kWh of total energy consumed (2022: 315,288 kWh), which equates to 1,390 kWh per employee (2022: 2,504 kWh), based on the average number of CNA Services employees in 2023. The Company calculates GHG emissions using the Department for Business, Energy and Industrial Strategy BEIS conversion factors where possible. Scope 1 emissions relate to the use of company owned vehicles. Emissions associated with energy usage from offices are reported as Scope 2. Scope 3 sources include business travel by air, rail, taxi or mileage claims from employee owned vehicles, water usage and waste removal. Data have been collated from a number of sources. Scope 1 and 3 emissions data have been sourced from our booking agent partner as well as invoices and expense claims in our accounting system. Scope 2 emissions have been sourced from utility bills and lease agreements.

Strategic report – continued

Streamlined energy and carbon reporting - continued

| | 2023 tCO ₂ e | 2022 tCO ₂ e |
|--------------------------------------|----------------------------|----------------------------|
| Scope 1 emissions | 1 | 1 |
| Scope 2 emissions | 39 | 60 |
| Scope 3 emissions | 204 | 109 |
| Total emissions | 244 | 170 |
| tCO₂e per employee | 1.7 | 1.4 |

The reduction in Scope 2 emissions is driven by a reduction of office space in our London head office premises at 20 Fenchurch Street. Increases in Scope 3 emissions are due to increased business travel by air, largely between the UK and the US.

Climate change

Governance

The Company's Board of Directors ("the Board") is responsible for understanding and assessing the financial risks from climate change that affect the firm. The Board manages the oversight of these risks through governance and review of the Company's activities led by the Risk Committee. The Risk Committee is in turn supported by an Environmental, Social and Governance ("ESG") Steering Committee which includes representatives from the senior leadership team.

Risk management

The Board considers climate risks inherently embedded within all risks managed by the Company, even if not listed explicitly in each risk category in this report. Climate risks are identified and assessed through the Company's Own Risk and Solvency Assessment ("ORSA") which is integrated into the Company's overall risk management framework. Through the ORSA the Company considers the physical, liability and transition risks of climate change and considers scenario analysis based on the PRA's Climate Biennial Exploratory Scenario. In addition, the entity explicitly considers climate change within its Internal Capital Model.

Underwriting

The most significant exposure to climate-related financial risk is within the underwriting portfolio. In response to the increased loss potential arising from climate events, natural catastrophe risk exposure is carefully managed through portfolio management actions and the purchase of reinsurance protection. The Company has also continued to develop its climate risk appetite and has implemented several actions aimed at managing the risk of climate change whilst continuing to support the needs of its policyholders as they carry out climate transition activities.

Investment Management

The Company has in place all of the components required to deliver on responsible investment strategies, including appetite, investment expertise, stewardship, ESG integration and reporting. The Company monitors the investment portfolio in the context of MSCI ESG ratings and it disposes of assets that are contrary to its sustainability strategy.

Strategic report – continued

Section 172(1) statement

Section 172 of the Companies Act 2006 requires a Director of a Company to act in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole. In doing this, section 172 requires a Director to have regard, among other matters, to:

- the likely consequences of any decision in the long term;
- the interests of the Company's employees;
- the need to foster the Company's business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and the environment;
- the desirability of the company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the Company.

The Company's long term strategy is to build sustainable long-term profitability in its chosen markets and segments. The Board of directors operate the Company in accordance with its long term plan, which takes into account economic, market, and regulatory factors and the long term consequences of significant strategic and operational decisions made by the Company. 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 3 to the Company's accounts.

The Board recognises that the long-term success of the business is dependent on maintaining a reputation for, and upholding, high standards of business conduct whilst considering the interests of its key stakeholders in the Company's wider decision making process. The directors consider maintaining a reputation for, and upholding, high standards of business conduct is Key stakeholders identified by the Company include its customers, employees, suppliers, brokers and other intermediaries, regulators, shareholders, the community, and the environment. The Board has set out how they have engaged with each of the Company's key stakeholders below:

Customers

During the year, the Board, together with the Consumer Duty ("the Duty") Steering Committee supported the implementation of the Consumer Duty rules ahead of the 31 July 2023 implementation deadline. The rules require CNA Hardy products and services to deliver good outcomes for UK Retail customers (including Micro Enterprise and SME customers); ensure that the Duty is at the heart of CNA Hardy's UK business model and strategy; to monitor, identify, and mitigate conduct risk appetite in line with CNA Hardy's Customer Conduct Policy and operational control framework. A quarterly Consumer Duty report is submitted to the CNA Hardy UK Board to ensure that the UK Board has adequate oversight of the firm's commitment to the Duty.

Employees

The Company is committed to fostering a diverse and inclusive culture grounded in equity. We prioritise talent and programs in ways that empower our organization, clients and communities to act as active allies and advocate for equality.

To this effect, the Company has put in place a diversity, equity and inclusion (DEI) framework that includes company-wide DEI initiatives, such as the Allies for Change program that delivers allyship education to all leaders and employees across the globe and all-employee sessions designed to fuel courageous conversations.

The DEI framework is led by the DEI Council, a US board appointed committee chaired by the CNA global CEO, and heavily influenced by the Employee Resource Groups (see below). In addition to the DEI Council run out of the CNA home office in the US, there is also a separate DEI Committee specifically for UK and Continental Europe activities.

Our programme of inclusion is further advanced by mentoring and reverse mentoring programs, Talent Sponsorship program, volunteer opportunities, and inclusive leadership training; by providing employees with resources to institutionalise allyship at CNA and beyond.

Strategic report – continued

Section 172(1) statement – continued

Employees - continued

Our staff are regularly informed of developments with regards to our People strategy through Board sanctioned staff briefings, email communications, and through the CNA intranet site.

To enhance our competitive position in the global marketplace and represent the clients we serve, the Company is committed to attracting, developing and retaining a diverse workforce and creating a culture of inclusion and belonging. We accomplish this by empowering our management to lead a diverse workforce, enhancing the education and awareness of our employees and building an inclusive, respectful and productive workplace.

Talent Management

Through a holistic talent management approach, we anticipate the upcoming talent needs of the business, and retain strong talent through career pathing and leadership development.

Diversity, equity and inclusion

Diversity and inclusion at CNA Hardy is driven by the Diversity Equity and Inclusion Council ("DE&I Council"), an UK and Europe wide group that includes cross functional representation from all geographies.

The DE&I council has set up a number of Employee Resource Groups ("ERGs"), open to all employees, which enable employee-lead inclusion initiatives as the business works towards a diverse, equitable and inclusive culture. During 2023, the ERGs ran virtual sessions to engage with employees in order to support and raise DE&I awareness.

In addition, CNA Hardy are sponsors of The Insurance Cultural Awareness Network ("iCAN"). iCAN is a volunteer-run network that supports multicultural inclusion across the insurance sector.

Disability

We take disability inclusion seriously and our disability and inclusion policies and programs are one of the best in the market. This is demonstrated by the fact that CNA, our global parent company, was named within the Disability Equity Index, an honour which recognizes CNA as one of the Best Places to Work for Disability Inclusion.

Our policies and programs are designed to ensure no job applicant suffers discrimination because of their disability and that all employees have equal access to training, development and promotion opportunities.

During 2023, we held various company-wide virtual education sessions in celebrating our global parent's national disability employment awareness month.

Employee Engagement

We have a two-way communication process between employees and their line managers, and employee engagement strategies are in place for the UK and Continental Europe, led by HR and senior management. We further aim to remove reduce barriers across grades to ensure a more collaborative and inclusive environment. Senior management regularly engage with their respective functions and CNA holds quarterly townhalls, where employee engagement is encouraged.

Suppliers

The Company's procurement process is closely aligned with the CNAF procurement framework. The CNAF procurement team provides services for selecting suppliers that drive value through contracting and risk mitigation, while leveraging technology to streamline invoice processes.

The CNAF Procurement team applies appropriate risk and assurance techniques to assess third party risk and provide assurance that suppliers meet CNA standards.

During the year, the Company has continued to enhance its procurement process, through the use of technology tools, to further integrate its procurement process with the global procurement strategy.

Strategic report – continued

Section 172(1) statement – continued

Brokers and intermediaries

The Company regularly engages, listens to and understands each broker, to carefully map our people and products in delivering profitable growth in accordance with our business plan. Our partnership programs build long term resilient relationships through dedicated broker relationship managers, who deliver strong service support and deep knowledge, and expertise to front-line trading teams. Our focus is to achieve excellence in our chosen industry segments, as a specialist insurer – a message reinforced by senior management and the Board.

Regulators

CNA Hardy maintains an open and transparent relationship with its regulators. The Board and senior leadership are fully engaged with the regulatory agenda, requirements and expectations set out by regulators which are delivered through CNA Hardy's governance framework and policies. This is supported by the Regulatory Affairs function, whose role is to manage and co-ordinate regulatory relations, ensure regulatory requests and reporting are responded to as well as identify, mitigate and prevent emerging and existing regulatory risks across CNA Hardy. There has been close engagement with all regulators over the last year on a range of matters.

Shareholder

We have open dialogue with our shareholder, our parent company in the US, and frequently engage on many aspects of our business, including business planning, strategy, finance, tax, treasury, and our wider insurance and reinsurance programs. Our parent company is represented on the Company's Board, and we maintain open information flows throughout our executive decision making process.

Community and environment

At CNA, our colleagues are working together to help build resilient communities through community involvement by participating in many Corporate Social Responsibility (CSR) sponsored volunteer events, but also volunteering on their own. Employees have paid leave days specifically assigned for performing volunteering work at recognised charities.

Details regarding how the Board has considered the environment are included in the climate change section of this strategic report.

Strategic report – continued

Principal risks and uncertainties

The Company's appetite for accepting and managing risk is defined by the Board.

The Chief Actuary and 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, including group risk, is disclosed in Note 3 to these financial statements.

Strategic risk

Strategic risk is the potential impact on earnings or capital from an incorrect strategy being set, improper business decisions, failure to execute plans or strategic ambitions, lack of responsiveness to industry changes and ill-disciplined growth in a soft market. Any event which would have an adverse impact on the reputation of the Company 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.

Insurance risk

Insurance risk is the risk associated directly with the Company's underwriting activities. This includes 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.

The Company has in place controls and governance processes designed to monitor its underwriting activities. These include, but are not limited to, the operation of the Underwriting Committee, Reserve Committee and Exposure Management Group, the issuance of underwriting authority limits and guidelines, the extensive use of reinsurance, 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 business continuity plan and IT disaster recovery plan. There are appropriate business processes and relevant internal controls in place to mitigate operational risk.

Strategic report – continued

Principal risks and uncertainties - continued

Emerging risks

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

Key emerging risks include geopolitical risks including, but not limited, to the events in Gaza, Israel and Ukraine, ESG and the macroeconomic outlook. The Company continues to monitor the development of these risks, and others that may emerge, and considers these in reserving picks, pricing policy, business planning, day-to-day insurance activity and investment management.

Going concern

CICL's capital base is reflective of a stable financial position. The Company has 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.

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

J. Rehman

J Rehman
Director
21 March 2024

Directors' report

The directors present their report and the audited financial statements of Company for the year ended 31 December 2023.

Directors

The directors who have held office since 1 January 2023 and up to the date of signing are as follows:

Executive Directors

P Hamer – resigned 30 November 2023
 C Kearney
 J Rehman
 L Skeels – appointed 2 February 2024
 D Stevens

Non-executive Directors

S Lindquist – appointed 30 November 2023
 S Stone
 R Thomson
 S Wood
 D Worman

Directors' responsibility statement

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 ("FRS 102") 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 2023 year the Company reported an after-tax profit of £45.8 million (2022: loss of £38.4 million). The accounted capital base of the Company as at 31 December 2023 was £547.1 million (2022: £503.8 million). The directors have not recommended the payment of a dividend for the year ended 31 December 2023 (2022: £nil).

Political donations

The Company made no contributions to UK or non-UK political parties during the year (2022:£nil).

Directors' report - continued

Business relationships

The Company engages with its shareholder in a number of different ways. The Board and its committees include members from the parent organisation.

The Company engages with its key regulators with communication being facilitated through the compliance team and 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. The directors have considered the Company's relationships with customers and broking partners in the Section 172(1) statement of the Strategic report.

Employees

The staff who manage the affairs of the Company are employed by CNA Services, as described in the strategic report.

Streamlined energy and carbon reporting

Streamlined energy and carbon reporting is presented 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.

Auditor

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

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that they 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.

Under the Statutory Auditors Regulation 2017, the Company is obligated to rotate audit firms after the 31 December 2023 year end. Consequently, Deloitte LLP will not continue in office as auditor of the Company.

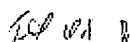
Information included in Strategic report

In accordance with section 414C(11) of the Companies Act, the Company has chosen to set out the following information, where applicable, 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.
- information on post balance sheet events

Approval

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



J Rehman
Director
21 March 2024

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

Report on the audit of the financial statements

1. 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 2023 and of its profit 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 Financial Reporting Standard 103 "Insurance Contracts"; 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 – Technical account – General business;
- the Profit and loss account – Non-technical account;
- the Statement of comprehensive income;
- the Balance sheet;
- the Statement of changes in equity; and
- the related notes 1 to 25.

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" and Financial Reporting Standard 103 "Insurance Contracts" (United Kingdom Generally Accepted Accounting Practice).

2. 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 we have not provided any non-audit services prohibited by the FRC's Ethical Standard 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

3. Summary of our audit approach

| | |
|-------------------------------------|---|
| Key audit matters | The key audit matter that we identified in the current year was the valuation of the professional liability, casualty direct & facultative, and financial institutions class of the Incurred But Not Reported ("IBNR") provision. |
| Materiality | The materiality that we used in the current year was £10.1 million which was determined on the basis of 2% of net asset value less ineligible funds deposited with Lloyd's of London as security for the underwriting activities of Hardy Underwriting Limited. |
| Scoping | Audit work to respond to the risks of material misstatement was performed by the audit engagement team. |
| Significant changes in our approach | There were no significant changes to our audit approach in the current year. |

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Assessing the company's performance, capital position and the impact of climate change, inflationary environment, and economic uncertainty on the company's operations and balances and
- Assessing accuracy of forecasts prepared by management for the next 12 months to support the going concern basis by comparing to historical results.
- Assessed the appropriateness of disclosures relating to going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. 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

5.1 Valuation of professional liability, casualty direct & facultative and financial institutions classes of the IBNR provision

| | |
|--|---|
| Key audit matter description | <p>The company recognised a provision for claims Incurred But Not Reported ('IBNR') totalling £402m (2022: £370m); a provision for professional liability, casualty direct & facultative and financial institutions claims totalling £229m (2022: £217m) forms a subset of this balance.</p> <p>The accounting policies applied to IBNR can be found in note 1 on page 30. IBNR disclosure can be found in note 18 on page 63.</p> <p>We have determined that the key audit matter within the IBNR provision is the valuation of the professional liability, casualty direct & facultative and financial institutions classes of business, which requires significant judgement in the selection of claims data utilised, spreadsheet models built, actuarial methodologies, assumptions, including selection of the Initial Expected Loss Ratios ('IELRs'), and results due to the uncertainty and limited experience in the development of the business written. This key audit matter also relates to a risk of fraud, due to the high level of uncertainty and subjectivity of judgements.</p> |
| How the scope of our audit responded to the key audit matter | <p>We obtained an understanding of internal controls around the reserving cycle by performing walkthroughs of management's controls over the data, models, methodology, assumptions and results for reserves.</p> <p>Working with our actuarial specialists, we performed the following procedures:</p> <ul style="list-style-type: none"> • Data: We reconciled the data used in the actuarial reserves to the premiums and claims breakdowns that we have used as part of our substantive testing. As part of our claims and premiums testing we have tested specific attributes such as class of business, inception and loss date. In addition, we tested the completeness and accuracy of exposures underpinning the calculation and performed a challenge of the reserves for these classes, specifically the incurred estimate through the review of a sample of claims files. • Model: We tested the accuracy of the model by assessing the output of the model against our independent projections. • Methodology and Assumptions: <ul style="list-style-type: none"> - We analysed whether the reserving methodology selected by management is appropriate by comparing the approach to standard market practice. We challenged the assumptions used, including IELRs by benchmarking against historical experience and internal and external data. We also performed assessment of the methodology and inflation assumptions applied to reserves to reflect the current inflationary environment; and - We evaluated the evidence supporting management's reserve set, considering both corroborative and contradictory elements. When considering the evidence, we had a specific focus on reserve sufficiency and management margin for certain classes, namely professional liability, casualty direct & facultative and financial institutions, and in the context of the reserve book as a whole. <p>Results: We compared the independent projections performed by our actuarial specialists to the year end trial balance.</p> |
| Key observations | <p>We determined that the valuation of the professional liability, casualty direct & facultative and financial institutions classes of IBNR is appropriate.</p> |

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

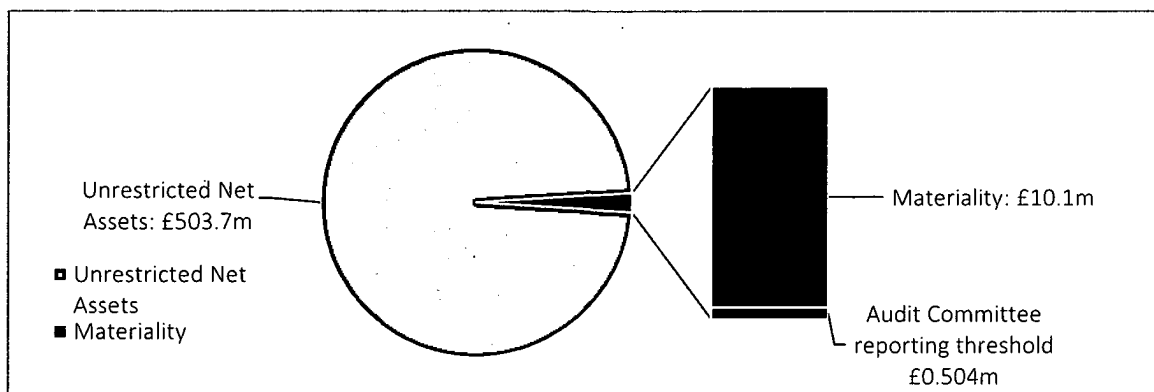
6. Our application of materiality

6.1 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 | £10.1 million (2022: £10.1 million) |
| Basis for determining materiality | 2% of net asset value less ineligible funds deposited with Lloyd's of London as security for the underwriting activities of Hardy Underwriting Limited. (2022: 2% of net asset value less ineligible funds deposited with Lloyd's of London as security for the underwriting activities of Hardy Underwriting Limited.) |
| Rationale for the benchmark applied | It was determined that net asset value less ineligible funds deposited with Lloyd's of London as security for the underwriting activities of Hardy Underwriting Limited is the most appropriate benchmark for a long established insurer focused on the strength of its balance sheet and ability to meet economic exposures arising from historical underwriting activity. The users of the financial statements are focused on the ability to maintain sufficient capital to pay claim liabilities. |



6.2 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 2023 audit (2022: 70%). In determining performance materiality, we considered the following factors:

- the low number of corrected and uncorrected misstatements identified in the previous audit; and
- there were no significant changes in the business that might affect our ability to forecast misstatements.

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

6.3 Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £504k (2022: £504k), 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.

7. An overview of the scope of our audit

7.1 Scoping

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

7.2 Our consideration of the control environment

IT Controls

In planning our audit, we identified systems that were material to the Company's financial reporting processes. These systems handle data relating to premiums, claims and reinsurance and we intended to rely on the IT and business controls associated with these systems. Having worked with our IT specialists to obtain an understanding of the relevant IT controls as well as the wider general IT controls environment across the Company, including the testing of IT control associated with the policy administration system and manual reconciliation controls, we did identify any unmitigated deficiencies in general IT controls for key systems and applications. We did not place reliance upon controls due to the business processes and control environment being transient as a result of a system migration.

Business Processes and Financial Reporting Controls

In planning our audit, we identified business processes that were material to the Company's financial reporting processes. These processes spanned the Company's material transactions and account balances including the premiums, claims, reinsurance, expenses, payroll, investments and treasury processes and the reserving process. Having obtained an understanding of the relevant controls around these business processes, we did not place reliance on controls due to the control environment being transient as a result of a system migration.

7.3 Our consideration of climate-related risks

In planning our audit, we have gained an understanding of management's process to address the climate-related risks. The Company sets out its response on the climate-related financial risk in the underwriting portfolio as disclosed on pages 4-5 of the Strategic Report and the impact of climate has been considered in their reserves as disclosed in Note 3. We have evaluated management's climate risk assessment and did not identify any additional risks of material misstatement.

Our audit work involved reading the climate related disclosures in the Strategic Report to consider whether they are consistent with the financial statements and our knowledge obtained in the audit.

7.4 Working with other auditors

We engaged the group auditor, being a Deloitte member firm in the US, to perform the IT audit work for financial reporting systems hosted in their territory on our behalf. We directed and supervised the work of the group auditors through regular phone calls, participating in video conferences and viewing key audit documentation remotely.

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

8. Other information

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

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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. 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.

10. 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.

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.

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

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1 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, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- the company's own assessment of the risks that irregularities may occur either as a result of fraud or error;
- results of our enquiries of management, internal audit and the Audit Committee about their own identification and assessment of the risks of irregularities, including those that are specific to the company's sector;
- any matters we identified having obtained and reviewed the company's documentation of their 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;
 - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including pensions, IT, and actuarial specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: valuation of the professional liability, international direct & facultative, and financial institutions classes of the IBNR provision. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework[s] that the company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Prudential Regulation Authority ("PRA"), and Financial Conduct Authority ("FCA").

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included the company's regulatory solvency requirements.

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

11.2 Audit response to risks identified

As a result of performing the above, we identified valuation of the professional liability, casualty direct & facultative and financial institutions classes of the IBNR provision as a key audit matter related to the potential risk of fraud. 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 provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- 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 PRA, FCA and HMRC; 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

12. 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.

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

13. Matters on which we are required to report by exception

13.1 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.

13.2 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.

14. Other matters which we are required to address

14.1 Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the company 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 26 years, covering the years ending 31 December 1998 to 31 December 2023. Under the Statutory Auditors Regulation 2017, the Company is obligated to rotate audit firms after the 31 December 2023 year end. Consequently, Deloitte LLP will not continue in office as auditor of the Company.

14.2 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).

15. 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.

Deloitte LLP

Mark McQueen (ACA)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
21 March 2024

Profit and loss account - Technical account - General business

| | Notes | 2023 £'000 | 2022 £'000 |
|--|-------|---------------|---------------|
| Gross premiums written | 4 | 309,690 | 290,524 |
| Outward reinsurance premiums | 4 | (58,453) | (58,845) |
| Premiums written, net of reinsurance | | 251,237 | 231,679 |
| Change in provision for unearned premiums | | | |
| – gross amount | 4 | (17,855) | (26,790) |
| – reinsurers' share | 4 | 1,237 | 5,752 |
| Earned premiums, net of reinsurance | | 234,619 | 210,641 |
| Claims paid | | | |
| – gross amount | | 131,662 | 76,519 |
| – reinsurers' share | | (14,160) | (3,936) |
| Net claims paid | 5 | 117,502 | 72,583 |
| Change in the provision for claims: | | | |
| – gross amount | 5 | 51,412 | 53,711 |
| – reinsurers' share | 5 | (9,015) | (8,766) |
| Claims incurred, net of reinsurance | 5 | 159,899 | 117,528 |
| Net operating expenses | 6 | 70,504 | 62,715 |
| Balance on the technical account for general business | | 4,216 | 30,398 |

All the amounts above are in respect of continuing operations.

The Notes 1 to 25 form an integral part of these financial statements.

Profit and loss account - Non-technical account

| | Notes | 2023 £'000 | 2022 £'000 |
|--|-------|----------------|---------------|
| Balance on the technical account for general business | | 4,216 | 30,398 |
| Income from investments | | 21,437 | 16,281 |
| Realised losses on investments | 12 | (4,215) | (5,248) |
| Unrealised gains/(losses) on investments | 12 | 33,803 | (59,556) |
| Investment management expenses | | (447) | (367) |
| Interest expense | | (761) | (1) |
| Total investment return | | 49,817 | (48,891) |
| Other charges | 8 | (793) | (22,336) |
| Profit/(loss) on ordinary activities before tax | 9 | 53,240 | (40,829) |
| Tax on (profit)/loss on ordinary activities | 10 | (7,488) | 2,473 |
| Profit/(loss) for the financial year | | 45,752 | (38,356) |

All the amounts above are in respect of continuing operations.

The Notes 1 to 25 form an integral part of these financial statements.

Statement of comprehensive income

| | Notes | 2023 £'000 | 2022 £'000 |
|---|-------|---------------|-----------------|
| Profit/(loss) for the financial year | | 45,752 | (38,356) |
| Other comprehensive income/(expense): | | | |
| <i>Items that will not be reclassified subsequently to profit or loss:</i> | | | |
| Remeasurement of the net defined benefit pension scheme asset | 16 | (3,395) | 7,419 |
| UK Deferred tax attributable to remeasurement of the net defined benefit pension scheme asset | 16 | 687 | (1,123) |
| Currency translation differences | | 274 | 693 |
| Total comprehensive profit/(expense) for the year | | 43,318 | (31,367) |

All the amounts above are in respect of continuing operations.

The Notes 1 to 25 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 2023 | 255,200 | 248,614 | 503,814 |
| Total comprehensive income for the year | | | |
| Profit for the financial year | - | 45,752 | 45,752 |
| Other comprehensive income/(expense) | | | |
| Remeasurement of the net defined benefit pension scheme asset | - | (3,395) | (3,395) |
| UK deferred tax attributable to remeasurement of the net defined benefit pension scheme asset | - | 687 | 687 |
| Currency translation differences | - | 274 | 274 |
| Total comprehensive income for the year | - | 43,318 | 43,318 |
| Balance at 31 December 2023 | 255,200 | 291,932 | 547,132 |
| | Share capital £'000 | Profit and loss account £'000 | Total shareholder's equity £'000 |
| Balance at 1 January 2022 | 130,200 | 279,981 | 410,181 |
| Issuance of Share Capital (Note 17) | 125,000 | - | 125,000 |
| Total comprehensive expense for the year | | | |
| Loss for the financial year | - | (38,356) | (38,356) |
| Other comprehensive expense | | | |
| Remeasurement of the net defined benefit pension scheme asset | - | 7,419 | 7,419 |
| UK Deferred tax attributable to remeasurement of the net defined benefit pension scheme asset | - | (1,123) | (1,123) |
| Currency translation differences | - | 693 | 693 |
| Total comprehensive (income)/expense for the year | 125,000 | (31,367) | 93,633 |
| Balance at 31 December 2022 | 255,200 | 248,614 | 503,814 |

The Notes 1 to 25 form an integral part of these financial statements.

Balance sheet

| Assets | | 31 Dec 2023 £'000 | 31 Dec 2022 £'000 |
|---|--------------|----------------------------------|----------------------------------|
| | Notes | | |
| Shares in group undertakings | 11 | 257,299 | 257,299 |
| Other financial investments - debt securities and other fixed income securities | 12 | 736,472 | 655,366 |
| Investments | | 993,771 | 912,665 |
| Reinsurers' share of provision for unearned premiums | 13 | 28,254 | 27,702 |
| Reinsurers' share of claims outstanding | 13 | 135,992 | 129,586 |
| Reinsurers' share of technical provisions | | 164,246 | 157,288 |
| Debtors arising out of direct insurance operations - intermediaries | | 73,772 | 78,325 |
| Debtors arising out of reinsurance operations | | (9) | 406 |
| Other debtors | 14 | 13,036 | 5,857 |
| Debtors – amounts falling due within one year | | 86,799 | 84,588 |
| Cash at bank and in hand | | 66,488 | 65,816 |
| Other assets | | 66,488 | 65,816 |
| Accrued interest | | 8,502 | 7,617 |
| Deferred acquisition costs | 15 | 26,704 | 20,621 |
| Other prepayments and accrued income | | 127 | 122 |
| Prepayments and accrued income | | 35,333 | 28,360 |
| Total assets excluding pension asset | | 1,346,637 | 1,248,717 |
| Pension asset | 16 | 11,264 | 13,187 |
| Total assets | | 1,357,901 | 1,261,904 |

The Notes 1 to 25 form an integral part of these financial statements.

Balance sheet – continued

| Liabilities | Notes | 31 Dec 2023 £'000 | 31 Dec 2022 £'000 |
|--|--------------|----------------------------------|----------------------------------|
| Called up share capital | 17 | 255,200 | 255,200 |
| Profit and loss account | | 291,932 | 248,614 |
| Capital and reserves | | 547,132 | 503,814 |
| Provision for unearned premiums | 18 | 163,124 | 146,770 |
| Claims outstanding | 18 | 584,768 | 537,338 |
| Technical provisions | | 747,892 | 684,108 |
| Provisions for other risks | 19 | 193 | 254 |
| Creditors arising out of direct insurance operations | | 5,424 | 3,173 |
| Creditors arising out of reinsurance operations | | 42,315 | 48,942 |
| Other creditors including tax and social security | 20 | 12,804 | 19,163 |
| Creditors – amounts falling due within one year | | 60,543 | 71,278 |
| Reinsurers' share of deferred acquisition costs | | 1,027 | 1,045 |
| Other accruals and deferred income | | 1,114 | 1,405 |
| Accruals and deferred income | | 2,141 | 2,450 |
| Total liabilities | | 1,357,901 | 1,261,904 |

The Notes 1 to 25 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 21 March 2024 and signed on its behalf by:



D 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.

Basis of accounting

The financial statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102 ("FRS 102") and Financial Reporting Standard 103 ("FRS 103") and the Companies Act 2006. The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

Basis of preparation

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

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

Further information regarding the Company's business activities, together with the factors likely to affect its future development, performance and position, and information regarding the financial position of the Company, its cash flows and liquidity position, are set out in the strategic report on pages 3 to 9. In addition, Notes 3 and 12 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.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 2.

Group financial statements

The Company is an indirect wholly owned subsidiary of CNAF which prepares consolidated financial statements and is therefore exempt under section 401 of the Companies Act 2006 from preparing consolidated financial statements.

Disclosure exemption

The Company has applied the exemptions available to it under FRS 102 in relation to the following disclosures:

- Section 7 - Statement of Cash Flows and related Notes;
- Section 33.7 - Remuneration of key management personnel; and
- Section 33 - Related Party disclosures in respect of transactions with wholly owned subsidiaries.

Foreign currencies

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 to Pounds Sterling 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.

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 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 comprise premiums on reinsurance contracts inception during the financial year as well as adjustments made to reinsurance premiums from previous accounting periods. The amount due, but not paid, is included in insurance and reinsurance debtors in the balance sheet for certain policy types.

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 and with consideration given to recoveries implied from the Company's economic capital model. 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.

Payments under operating leases are charged to the profit and loss account on a straight-line basis over the lease term. Incentives received to enter into 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.

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.

Re-measurements 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 schemes 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

Total investment return is recognised in the Profit and loss account-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

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

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 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

Intangible assets

Intangible assets are stated at cost net of amortisation and any provision for impairment. Amortisation is provided on all intangible assets, including purchased software and internally developed software, on a straight-line basis over their expected useful life of 3 to 5 years:

Investments at fair value through profit and loss

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

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

Realised and unrealised gains and losses arising from changes in the fair value of financial assets are included in the profit and loss account in the period in which they arise. The changes in value of an individual holding are classified within gains or losses on the basis of whether its current fair value reflects a gain or loss position.

Insurance and other debtors

Insurance and other debtors are recognised at fair value less any provision for impairment. Any impairment of a receivable will be recognised if there is evidence that the Company 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 | Depreciated 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. Critical accounting judgements and key sources of estimation uncertainty

There are no critical accounting judgements other than judgements in relation to key sources of estimation uncertainty. Key sources of estimation uncertainty are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Critical accounting judgements and key sources of estimation uncertainty in applying accounting policies are continually evaluated for appropriateness. Actual results may differ from these estimates.

Key sources of estimation uncertainty

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. The estimation of claims provisions is a complex process, however, and significant uncertainty exists as to the ultimate settlement of these liabilities.

The most uncertain reserve 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 2023 is £402.4 million (2022: £385.2 million) and is included within technical provisions in the balance sheet. The estimate for reinsurers' share of IBNR is £91.7 million (2022: £87.0 million).

The Company's estimate for unallocated loss adjustment expenses is based on an actuarial study at 31 December 2023 and was £11.7 million (2022: £10.0 million).

Business risk profile

A significant portion of the Company's reserves relate to long-tailed liability classes of business, being those for which claims typically take longer to be reported and settled. This increases the uncertainty of the corresponding reserve estimates. For example, such liabilities are generally impacted more materially by claims inflation, since there is a greater period of time for which such inflationary uncertainty might have an effect.

3. Risk management

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

Risk 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.

Notes to the financial statements – continued

3. Risk management - continued

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.

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

Underwriting risk

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

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

3. Risk management – continued

Insurance risk - continued

Reserve risk - continued

The concentration of insurance risk before and after reinsurance by domicile in relation to the type of insurance risk accepted is summarised below, with reference to the carrying amount of outstanding claims (gross and net of reinsurance) arising from insurance contracts:

Year ended 31 December 2023

| Risk location | Commercial | | Specialty | | Total | |
|--------------------|-------------------------------|-----------------------------|-------------------------------|-----------------------------|-------------------------------|-----------------------------|
| | Gross of reinsurance £'000 | Net of reinsurance £'000 | Gross of reinsurance £'000 | Net of reinsurance £'000 | Gross of reinsurance £'000 | Net of reinsurance £'000 |
| UK | 287,697 | 220,791 | 264,827 | 203,240 | 552,524 | 424,031 |
| Continental Europe | 6,608 | 5,071 | 8,075 | 6,197 | 14,683 | 11,268 |
| United States | 3,430 | 2,632 | 26 | 20 | 3,456 | 2,652 |
| Other | 4,322 | 3,317 | 9,783 | 7,508 | 14,105 | 10,825 |
| Total | 302,057 | 231,811 | 282,711 | 216,965 | 584,768 | 448,776 |

Year ended 31 December 2022

| Risk location | Commercial | | Specialty | | Total | |
|--------------------|-------------------------------|-----------------------------|-------------------------------|-----------------------------|-------------------------------|-----------------------------|
| | Gross of reinsurance £'000 | Net of reinsurance £'000 | Gross of reinsurance £'000 | Net of reinsurance £'000 | Gross of reinsurance £'000 | Net of reinsurance £'000 |
| UK | 254,903 | 193,429 | 244,793 | 185,758 | 499,696 | 379,187 |
| Continental Europe | 7,345 | 5,574 | 8,651 | 6,565 | 15,996 | 12,139 |
| United States | 3,704 | 2,811 | 27 | 20 | 3,731 | 2,831 |
| Other | 4,890 | 3,711 | 13,025 | 9,884 | 17,915 | 13,595 |
| Total | 270,842 | 205,525 | 266,496 | 202,227 | 537,338 | 407,752 |

Notes to the financial statements – continued

3. 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 2023 £'000 | Net of reinsurance 2023 £'000 | Gross of reinsurance 2022 £'000 | Net of reinsurance 2022 £'000 |
|---|--|--|--|--|
| Pre-tax impact of a 1% variance in: | | | | |
| Claims liability | 5,848 | 4,488 | 5,373 | 4,078 |
| Combined ratio | 2,918 | 2,346 | 2,637 | 2,106 |
| Impact on net assets of a 1% variance in: | | | | |
| Claims liability | 4,386 | 3,366 | 4,352 | 3,303 |
| Combined ratio | 2,189 | 1,760 | 2,136 | 1,706 |

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 2023 was "A" (2022: "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

3. 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:

| | 2023 £'000 | 2022 £'000 |
|--|------------------|----------------|
| Other financial investments | 736,472 | 655,366 |
| Reinsurers' share of claims outstanding | 135,992 | 129,586 |
| Debtors arising out of direct insurance operations | 73,772 | 78,325 |
| Cash at bank and in hand | 66,488 | 65,816 |
| Debtors arising out of reinsurance operations | (9) | 406 |
| Total assets bearing credit risk | 1,012,715 | 929,499 |

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.

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.

| | 2023 £'000 | 2022 £'000 |
|--|----------------|----------------|
| AAA | 38,386 | 43,078 |
| AA | 139,784 | 127,151 |
| A | 264,174 | 205,866 |
| BBB | 240,413 | 235,305 |
| Below BBB or not rated | 53,715 | 43,966 |
| Total other financial investments bearing credit risk | 736,472 | 655,366 |

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:

Notes to the financial statements – continued

3. Risk management - continued

Financial risk - continued

Credit risk – continued

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

| | 2023 £'000 | 2022 £'000 |
|--|----------------|----------------|
| AA | - | 179 |
| A | 114,318 | 125,206 |
| BBB | - | 59 |
| Below BBB or not rated | 21,665 | 4,548 |
| Total reinsurers' share of claims outstanding and debtors arising out of reinsurance operations bearing credit risk | 135,983 | 129,992 |

Reinsurers' share of claims outstanding includes a £1.0 million (2022: £0.6 million) provision for impairment. Debtors arising out of direct and reinsurance operations includes a £0.7 million (2022: £0.1 million) provision for impairment which represents 5.2% (2022: 6.4%) of the total past due amount.

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 | 189,408 | 201,175 | 101,957 | 92,228 | 584,768 |
| Creditors - amounts falling due within one year | 60,543 | - | - | - | 60,543 |
| Accruals and deferred income | 2,141 | - | - | - | 2,141 |
| As at 31 December 2023 | 252,092 | 201,175 | 101,957 | 92,228 | 647,452 |
| | Within 1 year £'000 | 1-2 years £'000 | 3-5 years £'000 | Over 5 years £'000 | Total £'000 |
| Claims outstanding | 172,095 | 186,790 | 94,197 | 84,256 | 537,338 |
| Creditors - amounts falling due within one year | 71,278 | - | - | - | 71,278 |
| Accruals and deferred income | 2,450 | - | - | - | 2,450 |
| As at 31 December 2022 | 245,823 | 186,790 | 94,197 | 84,256 | 611,066 |

Notes to the financial statements – continued

3. 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 | 87,086 | 308,948 | 253,338 | 87,100 | 736,472 |
| Reinsurers' share of claims outstanding | 44,048 | 46,785 | 23,711 | 21,448 | 135,992 |
| Debtors – amounts falling due within one year | 86,799 | - | - | - | 86,799 |
| Accrued interest and other prepayments and accrued income | 8,629 | - | - | - | 8,629 |
| Cash at bank and in hand | 66,488 | - | - | - | 66,488 |
| As at 31 December 2023 | 293,050 | 355,733 | 277,049 | 108,548 | 1,034,380 |
| | | | | | |
| | Within 1 year £'000 | 1-2 years £'000 | 3-5 years £'000 | Over 5 years £'000 | Total £'000 |
| Other financial investments | 68,160 | 209,371 | 227,665 | 150,170 | 655,366 |
| Reinsurers' share of claims outstanding | 41,503 | 45,047 | 22,717 | 20,319 | 129,586 |
| Debtors – amounts falling due within one year | 84,588 | - | - | - | 84,588 |
| Accrued interest and other prepayments and accrued income | 7,739 | - | - | - | 7,739 |
| Cash at bank and in hand | 65,816 | - | - | - | 65,816 |
| As at 31 December 2022 | 267,806 | 254,418 | 250,382 | 170,489 | 943,095 |

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 return objectives.

Notes to the financial statements – continued

3. 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.

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 seeks to mitigate the risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency 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 | |
|----------------------|-------------------------|-------|---------------|-------|
| | 2023 | 2022 | 2023 | 2022 |
| Australian Dollar | 1.87 | 1.79 | 1.87 | 1.77 |
| Danish Kroner | 8.57 | 8.74 | 8.60 | 8.39 |
| Euro | 1.15 | 1.18 | 1.15 | 1.13 |
| Swedish Kroner | 13.21 | 12.45 | 12.82 | 12.60 |
| Swiss Franc | 1.12 | 1.18 | 1.07 | 1.12 |
| United States Dollar | 1.24 | 1.24 | 1.27 | 1.21 |

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 | |
|--|-----------|-------|----------------|-------|
| | 2023 | 2022 | 2023 | 2022 |
| | £'000 | £'000 | £'000 | £'000 |
| Impact on profit and loss account | | | | |
| Foreign exchange gain/(loss) | 233 | (756) | 5,674 | 4,492 |
| Tax on profit/(loss) on ordinary activities | (58) | 144 | (1,418) | (853) |
| Impact on statement of total recognised gains and losses: | | | | |
| Currency translation differences | - | - | 662 | 722 |
| Total impact on capital and reserves | 175 | (612) | 4,918 | 4,361 |

Notes to the financial statements – continued

3. Risk management - continued

Financial risk - continued

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 £22.5 million (2022: £22.4 million) and accordingly decrease total shareholder's funds by £16.9 million (2022: £18.2 million).

On the basis that all other variables remain constant, a decrease of 100 basis points in interest rates at 31 December 2023 would have had an equal and opposite effect to the amounts shown above.

Capital & Solvency

The capital of the Company consists of equity in the form of issued share capital, and retained earnings. A risk-based approach is used to determine the amount of capital required to support the activities of the Company with due consideration of the Solvency II requirements with regards to the Standard Formula. 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.

As at 31 December 2023, the Company's admissible capital was in excess of the Solvency II Standard Formula requirement.

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

Notes to the financial statements – continued

4. Segmental Information

Segmental results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. There is no individual policyholder that comprises greater than 10% of the Company's total gross 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 2023:

| | 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 | 29,807 | 28,647 | (20,493) | (4,492) | (4,602) |
| Fire and other damage to property | 37,132 | 39,902 | (58,739) | (9,720) | (3,477) |
| Third party liability | 226,195 | 209,767 | (87,441) | (53,257) | (24,146) |
| Miscellaneous | 16,556 | 13,519 | (16,401) | (3,035) | (1,816) |
| Total | 309,690 | 291,835 | (183,074) | (70,504) | (34,041) |

For the year ended 31 December 2022:

| | 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 | 31,625 | 29,834 | (18,417) | (8,465) | (4,123) |
| Fire and other damage to property | 31,348 | 27,005 | (8,627) | (6,225) | (4,601) |
| Third party liability | 213,903 | 193,953 | (97,810) | (45,573) | (29,509) |
| Miscellaneous | 13,648 | 12,942 | (5,376) | (2,452) | (2,158) |
| Total | 290,524 | 263,734 | (130,230) | (62,715) | (40,391) |

Gross written premiums by location of risk:

| | 2023 £'000 | 2022 £'000 |
|-----------------|----------------|----------------|
| United Kingdom | 260,367 | 245,471 |
| Other countries | 49,323 | 45,053 |
| Total | 309,690 | 290,524 |

Notes to the financial statements – continued

5. 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:

| | 2023 £'000 | 2022 £'000 |
|--------------|-----------------|---------------|
| Commercial | (1,443) | 1,051 |
| Specialty | (13,072) | 6,019 |
| Total | (14,515) | 7,070 |

Unfavourable prior year loss development of £14.5 million was recorded in 2023 compared to favourable development of £7.1 million in the prior calendar year. In the current calendar year, the unfavourable loss development was driven primarily by higher emergence of claims from certain lines of business than previously anticipated.

6. Net operating expenses

| | 2023 £'000 | 2022 £'000 |
|--|---------------|---------------|
| Acquisition costs | 47,635 | 38,425 |
| Other acquisition costs | 6,692 | 5,297 |
| Change in deferred acquisition costs | (6,335) | (3,337) |
| Reinsurance commissions | (5,713) | (2,896) |
| Change in ceded deferred acquisition costs | 25 | 310 |
| Administrative expenses | 28,200 | 24,916 |
| Total | 70,504 | 62,715 |

7. Information on employees and directors

A management fee for the provision of administration services is payable to CNA Services, which employed all staff. During 2023 no staff were employed by Company and no staff costs were incurred directly by the Company during 2023 (2022: nil and £nil). Allocated staff costs for the year totalled £27.2 million (2022: £23.6 million).

Directors' remuneration

The following directors of the Company who served during the year, listed below, were all employed and remunerated by CNA Services, part of the CNAF group (see Note 24). It is not practicable to allocate these directors' remuneration between their services across the companies of which they are executives. Therefore the remuneration and pension benefits are included in the financial statements of the individual company which employed and remunerated them, CNA Services:

P Hamer, C Kearney, J Rehman, L Skeels, D Stevens, R Thomson and S Wood

Five (2022: four) directors were members of a defined contribution pension scheme.

Notes to the financial statements – continued

7. Information on employees and directors - continued

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 24). 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:

S Lindquist, S Stone and D Worman.

8. Other charges

| | 2023 £'000 | 2022 £'000 |
|--|---------------|-----------------|
| Income from the provision of Funds at Lloyd's | 1 | 1 |
| Other finance costs (see note 16) | 671 | 160 |
| Change in value of investment in subsidiary undertakings (see note 11) | - | (24,591) |
| Foreign exchange movements | (1,973) | 2,796 |
| Other (charges)/income | 508 | (702) |
| Total | (793) | (22,336) |

Income from the provision of Funds at Lloyd's is earned at a commercially benchmarked rate of 3.85% per annum of the funds deposited by the Company on behalf of HUL.

9. Profit/(loss) on ordinary activities before tax

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

| | 2023 £'000 | 2022 £'000 |
|--|---------------|---------------|
| Operating lease rentals: | | |
| Recharged from CNA Services | 909 | 1,612 |
| Fees payable to the Company's auditor for: | | |
| The audit of the Company's annual financial statements | 204 | 180 |
| Other services pursuant to legislation | 155 | 147 |

Included in Operating lease rentals above are amounts paid by CNA Services and recharged to the Company in respect of property leases on CICA's UK offices.

Notes to the financial statements – continued**10. Tax on profit/(loss) on ordinary activities**

| | 2023 £'000 | 2022 £'000 |
|--|----------------|---------------|
| Current tax: | | |
| UK Corporation tax on profits of the year | (3,818) | - |
| Overseas tax | (6) | - |
| | (3,824) | - |
| Adjustments in respect of previous years: | | |
| UK corporation tax | - | (1) |
| Overseas tax | 1 | (6) |
| Total current tax charge | (3,823) | (7) |
| Deferred tax (see note 14): | | |
| Origination and reversal of timing differences | (5,197) | 1,919 |
| Effect of change in UK tax rate | - | 528 |
| Movement in post-retirement liability excluding actuarial gain | (92) | 58 |
| Adjustment in respect of prior years | 1,624 | (25) |
| Total deferred tax credit/(charge) | (3,665) | 2,480 |
| Tax credit/(charge) on loss on ordinary activities | (7,488) | 2,473 |
| | 2023 £'000 | 2022 £'000 |
| Factors affecting tax credit/(charge) for the year: | | |
| Profit/(loss) on ordinary activities before tax | 53,240 | (40,829) |
| Tax at the UK rate of 23.52% (2022: 19%) | (12,522) | 7,757 |
| Effects of: | | |
| Group relief received without payment | 3,570 | (1,129) |
| Adjustments to tax charge in respect of previous years | 1,625 | (32) |
| Net pension contribution relief in excess of pension charges | 119 | 74 |
| Non-taxable income | 39 | (53) |
| Effect of change in UK tax rate | - | 528 |
| Impact of impairment of subsidiary | - | (4,672) |
| Adjustments in respect of foreign tax rates | (6) | - |
| Effect of uplift of deferred tax rate to 25% | (313) | - |
| Tax credit/(charge) on loss on ordinary activities | (7,488) | 2,473 |

Notes to the financial statements – continued

11. Shares in group undertakings

| | Cost 2023 £'000 | Cost 2022 £'000 | Reported Value 2023 £'000 | Reported Value 2022 £'000 |
|--------------------------|-----------------------|-----------------------|------------------------------------|------------------------------------|
| Investment in Subsidiary | 303,610 | 303,610 | 257,299 | 257,299 |

The Company owns 100% of the 250 million ordinary €1 shares in CICE issued at a €93.1 million premium. The registered address of CICE is 35F, Avenue J.F. Kennedy, L-1855 Luxembourg, Grand-Duchy of Luxembourg.

The Company owns one ordinary £1 share (2022: £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.

12. Other financial investments

| | Cost 2023 £'000 | Cost 2022 £'000 | Fair Value 2023 £'000 | Fair Value 2022 £'000 |
|--|-----------------------|-----------------------|--------------------------------|--------------------------------|
| Debt securities and other fixed income securities | 775,950 | 724,999 | 736,472 | 655,366 |

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

12. 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 |
|--|------------------|------------------|------------------|----------------|
| 2023 | | | | |
| Debt securities and other fixed income securities | 13,714 | 722,758 | - | 736,472 |

| | | | | |
|--|--------|---------|---|---------|
| 2022 | | | | |
| Debt securities and other fixed income securities | 14,569 | 640,797 | - | 655,366 |

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:

| | 2023 £'000 | 2022 £'000 |
|-----------------|----------------|----------------|
| Within one year | 87,086 | 68,160 |
| After one year | 649,386 | 587,206 |
| Total | 736,472 | 655,366 |

The prior year figures for realised and unrealised gains and losses as presented in the Profit and loss account – Non-technical account have been restated to reflect gains and losses on a net basis with no impact to total investment return or capital and reserves

13. Reinsurers' share of technical provisions

| | 2023 £'000 | 2022 £'000 |
|---|----------------|----------------|
| Reinsurers' share of claims outstanding gross of impairment provision | 136,712 | 130,190 |
| Impairment provision | (720) | (604) |
| Reinsurers' share of claims outstanding | 135,992 | 129,586 |
| Reinsurers' share of unearned premiums | 28,254 | 27,702 |
| Total | 164,246 | 157,288 |

Notes to the financial statements – continued**14. Other debtors**

| | 2023 £'000 | 2022 £'000 |
|-------------------------------------|---------------|---------------|
| Deferred tax asset | 2,160 | 5,733 |
| Amounts due from group undertakings | 9,928 | - |
| Other | 948 | 124 |
| Total | 13,036 | 5,857 |

The carrying amounts of all items approximate fair value. Group balances are payable on demand and reflect intra-group recharges.

Deferred tax asset

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

| | Provided 2023 £'000 | Provided 2022 £'000 | Not provided 2023 £'000 | Not provided 2022 £'000 |
|--------------------------------|---------------------------|---------------------------|----------------------------------|----------------------------------|
| Tax losses | 1,419 | 5,054 | - | - |
| Short-term timing differences | 540 | 439 | - | - |
| Decelerated capital allowances | 201 | 240 | - | - |
| | 2,160 | 5,733 | - | - |
| Post-retirement liability | (2,940) | (3,535) | - | - |
| Total | (780) | 2,198 | - | - |

The total deferred tax liability 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. The Company expects that the majority of the deferred tax asset will reverse during 2023.

| | 2023 £'000 | 2022 £'000 |
|---|---------------|---------------|
| Provision at start of year | 2,198 | 841 |
| Amounts charged to the profit and loss account | (3,665) | 2,480 |
| Amounts credited to the statement of comprehensive income | 687 | (1,123) |
| Provision at end of year | (780) | 2,198 |

Notes to the financial statements – continued

15. Deferred acquisition costs

| | 2023 £'000 | 2022 £'000 |
|--------------------------------------|---------------|---------------|
| At 1 January | 20,621 | 17,058 |
| Change in deferred acquisition costs | 6,335 | 3,337 |
| Foreign exchange revaluation | (252) | 226 |
| At 31 December | 26,704 | 20,621 |

All amounts are expected to be recovered within one year.

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

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. However, at the balance sheet date the plan is invested wholly in gilts and bonds which will reduce this risk. |
| Changes in bond yields | A fall in corporate bond yields will increase the value placed on the plan's liabilities for accounting purposes, although this is expected to be broadly offset by an increase in the value of the plan's gilt and bond holdings. |
| Inflation risk | Most of the plan's benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation). Such an increase in the liability value will be partially offset by an increase in the value of the inflation-linked gilt holdings. |
| Life expectancy | The majority of the plan's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities. |

Notes to the financial statements – continued

16. 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 59% of the liabilities are attributable to deferred members and 41% 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 16 years reflecting the approximate split of the defined benefit obligation between deferred members (duration of 20 years) and current pensioners (duration of 11 years).

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

| | Less than 1 year | Between 1-2 years | Between 2-5 years | Over 5 years |
|-------------------------------|------------------------|-------------------------|-------------------------|--------------------|
| As at 31 December 2023 | | | | |
| Pension benefits | 2% | 2% | 6% | 90% |

Notes to the financial statements – continued

16. 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 2022 and it showed a surplus of £3.3 million.

As a result of the valuation the Company does not pay annual contributions. However, the Company continues to pay the Pension Protection Fund and other levies.

The next funding valuation will be carried out with an effective date of 31 March 2025. 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 £nil million were made by the Company during 2023. Company contributions to the Plan in the year to 31 December 2024 are estimated to be £nil.

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

Reporting at 31 December 2023

The results of the latest funding valuation at 31 March 2022 have been adjusted to the balance sheet date taking account of experience over the period since 31 March 2022, 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:

| | 2023 % pa | 2022 % pa |
|--|--------------|--------------|
| Discount rate for the Plan's liabilities | 4.5 | 4.8 |
| RPI inflation | 2.9 | 3.1 |
| CPI inflation | 2.5 | 2.6 |
| Increase in salaries | n/a | n/a |
| Life expectancy for male currently aged 65 | 22.7 | 22.8 |
| Life expectancy for female currently aged 65 | 24.2 | 24.2 |
| Life expectancy for male currently aged 45 | 24.0 | 24.1 |
| Life expectancy for female currently aged 45 | 25.6 | 25.7 |

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

16. Staff pension plans - continued

Scheme A – CNA Pension Plan for UK Employees - continued

At 31 December 2023 the Plan assets were invested in the following asset classes:

| | Fair value 2023 £'000 | Of which not quoted in active market 2023 £'000 | Fair value 2022 £'000 | Of which not quoted in active market 2022 £'000 |
|-----------------------|--------------------------------|--|--------------------------------|--|
| Gilts and bonds | 56,993 | - | 57,654 | - |
| Insured annuity asset | 38 | 38 | 40 | 40 |
| Cash | 278 | - | 932 | - |
| Total | 57,309 | 38 | 58,626 | 40 |

At 31 December 2023 £nil (2022: £nil) of the fair value of scheme assets related to self-investment.

The amounts recognised on the balance sheet at 31 December 2023 are set out below:

| | 2023 £'000 | 2022 £'000 |
|--|---------------|---------------|
| Fair value of Plan assets | 57,309 | 58,626 |
| Present value of funded defined benefit obligation | (45,549) | (44,486) |
| Assets recognised on the balance sheet | 11,760 | 14,140 |
| Related deferred tax liability | (2,940) | (3,535) |
| Net pension asset | 8,820 | 10,605 |

Notes to the financial statements – continued

16. Staff pension plans - continued

Scheme A – CNA Pension Plan for UK Employees - continued

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

| | 2023 £'000 | 2022 £'000 |
|--|---------------|----------------|
| Operating cost | | |
| Service costs: | | |
| Administration expenses | 302 | 265 |
| Past service cost | - | 200 |
| Total operating cost | 302 | 465 |
| Financing cost: | | |
| Interest on net pension (liability)/asset | (671) | (160) |
| Pension expense recognised in profit and loss | (369) | 305 |
| Remeasurements in other comprehensive income: | | |
| Return on plan assets in excess of that recognised in net interest | 1,407 | 16,538 |
| Liability gains arising during the year | 1,342 | (22,447) |
| Total amount recognised in other comprehensive income | 2,749 | (5,909) |
| Total amount recognised in profit and loss and comprehensive income | 2,380 | (5,604) |

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

| | 2023 £'000 | 2022 £'000 |
|--|---------------|---------------|
| Opening defined benefit obligation | 44,486 | 67,258 |
| Interest expense on defined benefit obligation | 2,079 | 1,327 |
| Actuarial losses arising from experience | 1,322 | 4,425 |
| Actuarial losses/(gains) arising from changes in financial assumptions | 1,272 | (26,803) |
| Past service cost | - | 200 |
| Actuarial gains arising from changes in demographic assumptions | (1,252) | (69) |
| Net benefits paid out | (2,358) | (1,852) |
| Closing defined benefit obligation | 45,549 | 44,486 |

Notes to the financial statements – continued

16. Staff pension plans - continued

Scheme A – CNA Pension Plan for UK Employees - continued

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

| | 2023 £'000 | 2022 £'000 |
|--|---------------|---------------|
| Opening fair value of plan assets | 58,626 | 74,984 |
| Interest income on plan assets | 2,750 | 1,487 |
| Contributions by the employer | - | 810 |
| Administration costs incurred | (302) | (265) |
| Losses on Plan assets | (1,407) | (16,538) |
| Net benefits paid out | (2,358) | (1,852) |
| Closing fair value of scheme assets | 57,309 | 58,626 |

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). Pursuant to the Share Purchase Agreement between CCC and Tawa Plc, 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 invested in gilt and corporate bond managed funds with Legal & General Assurance (Pensions Management) Limited. The liabilities for pensions in payment up until mid-2022 were secured by the purchase of an annuity when a member retired. Such policies are now all in the name of the Members and are therefore excluded.

Notes to the financial statements – continued

16. 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 20 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.

| | Less than 1 year | Between 1-2 years | Between 2-5 years | Over 5 years |
|-------------------------------|------------------------|----------------------|-------------------------|--------------------|
| As at 31 December 2023 | | | | |
| Pension benefits | 5% | 2% | 10% | 83% |

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

UK legislation requires that pension schemes are funded prudently. The latest funding valuation of the CNA Re Plan was carried out by a qualified actuary as at 1 January 2023 and it showed a surplus of £1.1 million.

The Company made contributions of £0.38 million in the year to 31 December 2023. However as a result of the valuation the Company will not pay any further annual contributions. All expenses of running the CNA RE Plan and the Pension Protection Fund levies are paid directly by the Company.

The next funding valuation will be carried out with an effective date of 1 January 2026. If the CNA Re Plan is in deficit at that time, the Company will discuss potential deficit contributions with the Trustees of the CNA Re Plan.

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

Reporting at 31 December 2023

The present value of the defined benefit obligation and the related current service cost were measured using the Projected Unit Method.

Notes to the financial statements – continued

16. Staff pension plans - continued

Main assumptions

The main assumptions are as follows:

| | 2023 % pa | 2022 % pa |
|--|--------------|--------------|
| Discount rate | 4.5 | 4.8 |
| RPI inflation assumption | 2.9 | 3.1 |
| CPI inflation assumption | 2.5 | 2.6 |
| Increase in salaries | n/a | n/a |
| Life expectancy for male currently aged 65 | 22.7 | 22.8 |
| Life expectancy for female currently aged 65 | 24.2 | 24.2 |
| Life expectancy for male currently aged 45 | 24.0 | 24.1 |
| Life expectancy for female currently aged 45 | 25.6 | 25.7 |

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.

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

As at 31 December 2023 the 1977 Plan assets are invested in the following asset classes:

| | Fair value 2023 £'000 | Of which not quoted in active market 2023 £'000 | Fair value 2022 £'000 | Of which not quoted in active market 2022 £'000 |
|-----------------|--------------------------------|--|--------------------------------|--|
| Gilts and bonds | 12,370 | - | 11,765 | - |
| Cash | 73 | - | 66 | - |
| Total | 12,443 | - | 11,831 | - |

At 31 December 2023 £nil (2022: £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 2023 are set out below:

| | 2023 £'000 | 2022 £'000 |
|--|---------------|---------------|
| Fair value of 1977 Plan assets | 12,443 | 11,831 |
| Present value of funded defined benefit obligation | (9,999) | (9,249) |
| Net pension asset | 2,444 | 2,582 |

Notes to the financial statements – continued

16. 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:

| | 2023 £'000 | 2022 £'000 |
|--|---------------|----------------|
| Operating cost: | | |
| Past service cost | - | - |
| Total operating cost | - | - |
| Financing cost: | | |
| Interest on net defined benefit asset | (133) | (17) |
| Pension (expense)/benefit recognised in profit and loss | (133) | (17) |
| Remeasurements in other comprehensive income: | | |
| Return on plan assets (in excess of)/below that recognised in net interest | 253 | 3,535 |
| Liability gains arising during the year | 393 | (5,045) |
| Total amount recognised in other comprehensive income | 646 | (1,510) |
| Total amount recognised in profit and loss and comprehensive income | 513 | (1,527) |

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

| | 2023 £'000 | 2022 £'000 |
|--|---------------|---------------|
| Opening defined benefit obligation | 9,249 | 14,463 |
| Interest expense on obligation | 442 | 285 |
| Actuarial losses/(gains) due to changes in financial assumptions | 247 | (5,559) |
| Actuarial gains arising from experience | 184 | 627 |
| Actuarial gains due to changes in demographic assumptions | (38) | (113) |
| Net benefits paid out | (85) | (454) |
| Closing defined benefit obligation | 9,999 | 9,249 |

Notes to the financial statements – continued

16. 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:

| | 2023 £'000 | 2022 £'000 |
|---|---------------|---------------|
| Opening fair value of 1977 Plan assets | 11,831 | 15,143 |
| Expected return on 1977 Plan assets | 575 | 302 |
| Contributions by the employer | 375 | 375 |
| Net benefits paid out | (85) | (454) |
| Losses on Plan assets | (253) | (3,535) |
| Closing fair value of 1977 Plan assets | 12,443 | 11,831 |

17. Share capital

| | 2023 £'000 | 2022 £'000 |
|--|---------------|---------------|
| Allotted, called up and fully paid: | | |
| 25,520,000 ordinary shares of £10 each (2022:25,520,000) | 255,200 | 255,200 |

Notes to the financial statements – continued

18. 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

| | 2023 £'000 | 2022 £'000 |
|--|----------------|----------------|
| Gross | | |
| Claims reported | 158,886 | 142,145 |
| Unallocated loss adjustment expenses | 11,682 | 10,043 |
| Claims incurred but not reported | 414,200 | 385,150 |
| Unearned premiums | 163,124 | 146,770 |
| Total gross technical provisions | 747,892 | 684,108 |
| Reinsurers' share of technical provisions | | |
| Claims reported | 44,936 | 42,599 |
| Claims incurred but not reported | 91,056 | 86,987 |
| Unearned premiums | 28,254 | 27,702 |
| Total reinsurers' share of technical provisions | 164,246 | 157,288 |
| Net | | |
| Claims reported | 113,950 | 99,546 |
| Unallocated loss adjustment expenses | 11,682 | 10,043 |
| Claims incurred but not reported | 323,144 | 298,163 |
| Unearned premiums | 134,870 | 119,068 |
| Total net technical provisions | 583,646 | 526,820 |

Notes to the financial statements – continued**18. Technical provisions - continued****Movement in technical provisions**

| | Provision for unearned premiums £'000 | Claims outstanding £'000 | Total £'000 |
|------------------------------|--|--------------------------------|----------------|
| Gross | | | |
| At 1 January 2022 | 118,781 | 476,562 | 595,343 |
| Foreign exchange revaluation | 1,199 | 7,065 | 8,264 |
| Movement in provision | 26,790 | 53,711 | 80,501 |
| At 1 January 2023 | 146,770 | 537,338 | 684,108 |
| Foreign exchange revaluation | (1,501) | (3,982) | (5,483) |
| Movement in provision | 17,855 | 51,412 | 69,267 |
| At 31 December 2023 | 163,124 | 584,768 | 747,892 |
| Reinsurance amount | | | |
| At 1 January 2022 | 22,035 | 115,712 | 137,747 |
| Foreign exchange revaluation | (85) | 5,108 | 5,023 |
| Movement in provision | 5,752 | 8,766 | 14,518 |
| At 1 January 2023 | 27,702 | 129,586 | 157,288 |
| Foreign exchange revaluation | (685) | (2,609) | (3,294) |
| Movement in provision | 1,237 | 9,015 | 10,252 |
| At 31 December 2023 | 28,254 | 135,992 | 164,246 |
| Net | | | |
| At 31 December 2023 | 134,870 | 448,776 | 583,646 |
| At 31 December 2022 | 119,068 | 407,752 | 526,820 |

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 translated to the 2023 closing exchange rates 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

18. Technical provisions - continued

Claims development table gross of reinsurance

| Accident year | 2013 £'000 | 2014 £'000 | 2015 £'000 | 2016 £'000 | 2017 £'000 | 2018 £'000 | 2019 £'000 | 2020 £'000 | 2021 £'000 | 2022 £'000 | 2023 £'000 | Total £'000 |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|
| At end of first year | 86,494 | 78,670 | 93,035 | 91,335 | 110,338 | 143,846 | 105,477 | 112,991 | 117,459 | 141,394 | 167,550 | 1,248,589 |
| One year later | 173 | 6,404 | 13,847 | 8,874 | 24,335 | 4,320 | 24 | (6,597) | (8,651) | (917) | | 41,813 |
| Two years later | (715) | (888) | 1,981 | (2,248) | 4,238 | (7,638) | (3,507) | (5,571) | (6,876) | | | (21,224) |
| Three years later | (10,734) | (903) | 7 | (29,060) | 19,561 | 620 | (4,409) | (3,300) | | | | (28,218) |
| Four years later | (147) | (3,972) | (14,105) | (3,080) | 869 | 6,349 | (5,515) | | | | | (19,601) |
| Five years later | (4,251) | (14,403) | (3,243) | 4,510 | (11,724) | 4,386 | | | | | | (24,726) |
| Six years later | (14,253) | (5,543) | 1,445 | 3,640 | 24,618 | | | | | | | 9,907 |
| Seven years later | (5,192) | (2,001) | (3,445) | 2,516 | | | | | | | | (8,122) |
| Eight years later | 1,160 | (420) | (2,919) | | | | | | | | | (2,179) |
| Nine years later | 1,080 | (954) | | | | | | | | | | 125 |
| Ten years later | (1,511) | | | | | | | | | | | (1,511) |
| Current estimate of ultimate claims | 52,105 | 55,989 | 86,603 | 76,486 | 172,235 | 151,883 | 92,070 | 97,523 | 101,933 | 140,477 | 167,550 | 1,194,853 |
| Cumulative payments to date | (49,300) | (52,408) | (80,758) | (57,326) | (118,546) | (100,043) | (56,758) | (46,374) | (29,651) | (32,019) | (8,387) | (631,570) |
| Provision as at 31 December 2023 | 2,805 | 3,581 | 5,844 | 19,161 | 53,689 | 51,840 | 35,312 | 51,149 | 72,282 | 108,458 | 159,163 | 563,283 |
| Accident years prior to 2013 | | | | | | | | | | | | 9,803 |
| Claims handling provision | | | | | | | | | | | | 11,682 |
| Technical provisions as at 31 December 2023 | | | | | | | | | | | | 584,768 |

Notes to the financial statements – continued

18. Technical provisions - continued

Claims development table net of reinsurance

[illegible]

Notes to the financial statements – continued**19. Provisions for other risks**

| | Dilapidations and refurbishment provision £'000 |
|--|--|
| At 1 January 2022 | 237 |
| Charged to the statement of profit or loss | 17 |
| At 31 December 2022 | 254 |
| Charged to the statement of profit or loss | 14 |
| Utilised | (75) |
| At 31 December 2023 | 193 |

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:

| | 2023 £'000 | 2022 £'000 |
|-----------------|-----------------------|-----------------------|
| Within one year | - | - |
| After one year | 193 | 254 |
| Total | 193 | 254 |

Notes to the financial statements – continued**20. Other creditors including tax and social security**

| | 2023 | 2022 |
|-----------------------------------|---------------|--------------|
| | £'000 | £'000 |
| Insurance premium tax | 6,604 | 6,700 |
| Corporation tax payable | 3,818 | - |
| Other tax and social security | 6 | 7 |
| Amounts due to group undertakings | - | 8,735 |
| Other creditors | 2,376 | 3,721 |
| Total | 12,804 | 19,163 |

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.

21. Operating lease commitments

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

| | Land and buildings | | Other | |
|--------------------------|---------------------------|--------------|--------------|--------------|
| | 2023 | 2022 | 2023 | 2022 |
| | £'000 | £'000 | £'000 | £'000 |
| Within one year | 241 | 316 | - | - |
| Within two to five years | 1,289 | 243 | - | - |
| Total | 1,530 | 559 | - | - |

Notes to the financial statements – continued

22. 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 2023 the amount remaining on the letter of credit after draw downs was £306,692.

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 £36,359 (2022: £36,359) in bonds with Lloyd's as security for the underwriting activities of HUL. Fees of 3.85% (2022: 2.50%) 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.

23. Deed of Guarantee

The Company has been granted a Deed of Guarantee by CCC (the Guarantor) first effective 24 January 2002 and renewed on 1 January 2023. A similar deed of guarantee is also in place for 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 2023 was £nil (2022: £nil).

The Deed of Guarantee will remain in place until 31 December 2025 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

24. 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.

25. Reconciliation from UK GAAP to US GAAP

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.

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

| | 2023 £'000 | 2022 £'000 |
|--|---------------|---------------|
| Loss for the financial year on a UK GAAP basis | 45,752 | (38,356) |
| 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 £724,000 (2022: £405,000) - see i. below | 2,815 | (2,941) |
| Remeasurement of investments recorded in OCI under US GAAP net of tax of £7,240,000 (2022: £11,266,000) - see ii. below | (28,561) | 81,631 |
| Difference in treatment of amounts in relation to defined benefit pension scheme accounting net of tax of £113,000 (2022: £215,000) - see iii. Below | (440) | 1,562 |
| Other GAAP accounting differences net of tax of £140,000 (2022: £3,000) - see iv. below | (543) | (21) |
| Net profit on a US GAAP basis | 19,023 | 41,875 |

Notes to the financial statements – continued

25. Reconciliation from UK GAAP to US GAAP- continued

Reconciliation of profit/(loss) for the financial year on a UK GAAP basis to net income on a US GAAP basis - 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 Other Comprehensive Income ("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 £3,341,344 (2022: gain of £(2,443,590)) and changes in unrealised losses of £(23,434,921) (2022: loss of £54,583,176), 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 (2022: £27,857) are recorded in net income. As a result, no net asset difference arises between UK GAAP and US GAAP. Investment in subsidiary is held at the lower of cost or net book value under UKGAAP, whilst under US GAAP it is held at net book value. At year-end there is no difference in the valuation under UK GAAP or 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.

| | 2023 £'000 | 2022 £'000 |
|---|----------------|----------------|
| Capital and reserves on a UK GAAP basis | 547,132 | 503,814 |
| Difference in valuation of investment in subsidiary | 9,603 | (845) |
| Other GAAP differences | 106 | 697 |
| Stockholders' equity on a US GAAP basis | 556,841 | 503,666 |