DARAG INSURANCE UK LIMITED

formerly The Underwriter Insurance Company Limited

Annual Report and
Financial Statements
for the year ended 31 December 2019

Registered no: 3654581

Contents

Directors and Advisers

Directors

T Booth	Chief Executive Officer	Appointed 5 February 2020
S Cheal	Finance Director	Appointed 5 February 2020
S Davies	Director	Appointed 5 February 2020
A G Hines	Executive Chairman	Resigned 31 December 2019
D J Gately	Chief Executive Officer	Resigned 6 February 2020
R Katzenberg	Chief Financial Officer	Resigned 21 November 2019
S L Rogers	Non-Executive Director	Resigned 6 February 2020
S Tuvnes	Chief Financial Officer	Appointed 21 November 2019, Resigned 6 February 2020

Secretary and Registered office
With effect from 11 April 2019 the Secretary and registered office became:
Capita Commercial Insurances Services Limited
PO Box 1219, The Grange, Bishops Cleeve
Cheltenham GL50 9WS

P Box (Resigned 12 April 2019)
5th Floor
90 Fenchurch Street
London EC3M 4ST

Registered no: 3654581

Bankers
Lloyds Bank plc
PO Box 72
Bailey Drive
Gillingham Business Park
Gillingham
Kent
ME8 0LS

Solicitors
Holman Fenwick Willan LLP
Friary Court
65 Crutched Friars
London
EC3N 2AE

Auditors
Ernst & Young LLP
25 Churchill Place
Canary Wharf
London
E14 5EY

Strategic Report

The directors present their strategic report for the year ended 31 December 2019.

Review of the business

The Company's principal activities during the year were to continue to operate in line with the assumptions and projections contained in its Scheme of Operations ("SoO").

On 31 March 2017, The Underwriter Insurance Company ("TUIC") was sold to its former owner, The Underwriter Group Limited ("TUG"). On 5th February 2020 TUIC was sold by TUG to Darag Deutsche Versicherungs and Ruckversicherungs - AG ("DARAG"). DARAG has subsequently changed the name of TUIC to DARAG INSURANCE UK LIMITED ("DIUKL" or "the Company").

The directors are of the view there are no environmental matters, nor social and community issues on which to report. The Company has no employees other than its directors and with effect from 1 January 2010, management services have instead been provided by Vibe Services Management Limited ("VSML"). With effect from Q2 2019 VSML was replaced by Capita Commercial Services Limited ("CCIS").

The key financial and other performance indicators during the year were as follows:

	2019	2018	Change
	£'000	£'000	%
Net claims paid	**365**	153	139%
Technical account for general business	**(1,402)**	(236)	494%
Investment return	**441**	(136)	-424%
Loss after tax	**(957)**	(278)	244%
Shareholders' funds	**10,507**	11,463	-8%
Net technical provisions	**4,865**	4,723	3%
Number of outstanding claims	**290**	269	8%

The net paid claims, technical account for general business, net technical provisions and number of claims have all increased due to Scotland and Northern Ireland allowing asbestos claims for pleural plaques to be submitted plus increased general liability reserves mainly re a pharmaceutical potential claim. Future claims emergence will likely deviate, perhaps materially, from the estimates made. There is inherent uncertainty in any estimate of claims reserves, especially as the reserves relate predominantly to liability claims. Estimates for future claims are subject to the outcome of events yet to incur, for example the likelihood of claimants bringing suit, the size of court awards, changes in the standards of liability and the attitudes of claimants towards the settlement of their claims. Adding to this uncertainty is the collectability of future reinsurance recoveries, the future direction of investment rates and the level of operational expenses.

Investment return increased by 424%. This was due to the reversal of previous unrealised losses on the portfolio.

Strategic Report (continued)

Review of the business (continued)

Loss after tax increased by 244% largely due to the increase in claims paid and claims reserves in the balance on the technical account.

Shareholders' funds decreased by 8%, this is due to the loss after tax of £957k.

Principal risks and uncertainties

The principal risks and uncertainties facing the Company are broadly grouped as: insurance, regulatory, financial, liquidity and credit risk.

The risk management objectives and policies are driven by the need to protect the Company's regulatory capital position and to meet obligations to policyholders when they fall due.

Insurance risk

The Company issued insurance contracts that effect the transfer of risk from the insured to the Company. DIUKL wrote primary or excess direct business in the London market. It specialised in liability classes of business, notably employers' liability, general liability, professional liability and contractors all risk. Small amounts of financial institutions, accident and health, property, goods in transit and a very small amount of motor and contingency business were also written. The Company is exposed to uncertainty surrounding the timing, frequency and severity of claims under the contracts.

The Company uses several methods to assess and monitor reserve risk exposures. These include scenario analysis and stress testing. The final outcome of employers' liability claims following the establishment of The Employers' Liability Tracing Office remains a risk because occasional new claims continue to be notified.

Regulatory risk

The Company is subject to regulation by the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA"). Their rules stipulate that sufficient margins of regulatory solvency be maintained and that customers are treated fairly. The Company has procedures in place to ensure that these requirements are met.

Financial risk

The Company is exposed to financial risk through its financial assets. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts. The important components of financial risk to the Company are interest rate risk, exchange rate risk and credit risk. The Company does not hold derivatives.

The Company's approach to risk management seeks to identify risks facing the Company, assess their potential impact, manage risk through mitigation (where appropriate), and report any failures to the Board.

Strategic Report (continued)

Principal risks and uncertainties (continued)

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash. The Company's approach to managing liability is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. This is achieved by placing investable funds in short dated investments.

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

The following policies and procedures are in place to mitigate the exposure to credit risk:

- A credit risk policy setting out the assessment and determination of what constitutes credit risk for the Company. Compliance with the policy is monitored and exposures and breaches are reported to Ad Hoc Committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.
- Net exposure limits are set for each counterparty or group of counterparties (i.e. limits are set for investments and cash deposits and minimum credit ratings for investments that may be held).

The Companies Act 2006 - Section 172 statement

The directors are aware of their responsibilities to promote the success of the Company in accordance with Section 172(1) of the Companies Act 2006 and have acted in accordance with these responsibilities during the year.

The directors have had regard to wider stakeholder interests when performing their duty. The key stakeholders include suppliers, regulators, policyholders, outsource service providers. The Company's values (inter alia to conduct business with due skill, honesty, care, diligence and integrity as well as strive to achieve equity between our stakeholders), which guide the Company's decision-making processes, are followed in all decisions. This can be evidenced by the minutes of the Board meetings of the Company, including the decisions to change outsourcers as the run-off progressed to run-off specialists and to sell the Company to DARAG, a legacy specialist.

Since March 2020 the worldwide Covid-19 pandemic has affected the Company, with most UK employees being encouraged by the UK Government to work at home. All CCIS staff vacated their Cheltenham office and are now working from home. There has been no impact financially or operationally to the Company. The Directors recognises the scale of the situation and are mindful to ensure that all board members and outsource providers are working in a safe environment.

By order of the Board

Simon Cheal
Director
29 September 2020

Directors' Report

The directors present their report and financial statements of DARAG INSURANCE UK LIMITED covering the year ended 31 December 2019.

The Company wrote non-life insurance business from 1 October 1999, when regulatory approval was granted to act as a UK authorised insurer, to 11 July 2003 when it ceased effecting contracts of insurance. Operating from its head office in London and underwriting offices in Glasgow and Leeds, the Company underwrote principally liability insurance risks through insurance intermediaries, predominantly for commercial operations.

Since July 2003, the Company has operated on the basis that the run-off will be solvent. At the present time and based on information currently available, the directors remain of the view that the run-off will be solvent and as such anticipate the Company will continue to meet in full all valid claims.

The directors commissioned external actuaries, Dynamo Analytics, to undertake an independent projection of future outstanding claims reserves (including IBNR) as at 31 December 2019 which has been used in preparation of these accounts.

Results and dividends

The result for the year is a loss of £957k (2018 – loss of £278k) as set out in the income statement on pages 17 and 18. No dividends were paid in respect of the year ended 31 December 2019 (2018: nil). There have been no commutations in 2019 (2018: nil).

Going Concern

The Company's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives, details of its financial instruments and its exposure to insurance, financial and liquidity risk are described in the Strategic Report.

The Company has considerable financial resources with shareholders' funds exceeding £10m. The directors therefore believe that there are adequate resources to continue in operational existence for a period of at least 12 months from the date the financial statements are authorised for, despite any adverse impacts of Covid-19 on the wider economy. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Future Developments

The Company's new owner will continue the orderly run-off of the previous owner, to finality.

Employees

The Company has no employees other than its directors. The directors of the Company during the year ended 31 December 2019 up to the date of the approval of the financial statements were as listed on page 1.

Directors' Report (continued)

Charitable and political donations

No charitable or political donations were made during the year (2018: £nil).

Financial instruments and risk management

Information on the use of financial instruments by the Company and its management of financial risk and in particular its exposure to interest rate risk, equity price risk, currency risk, credit risk and liquidity risk is disclosed in note 14 of the financial statements.

Statement of disclosure of information to the auditors

So far as each person who was a director at the date approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware.

Having made enquiries with fellow directors and the auditor, each director has taken all steps that they are obliged to take as a director in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

External Auditor

In May 2020 Ernst & Young LLP (EY) reported a breach of the rules of the FRC Ethical Standards to the Board. The breach occurred as a result of the provision of prohibited services by EY Germany to Darag Deutsche Versicherungs Und Ruckericherungs-AG, the parent company of Darag Insurance UK Limited from 5 February 2020.

In considering the matter the Board concluded that the independence of EY was not impaired, reflecting that the services provided had no impact to the Company's financial statements, the fact that the work was undertaken by personnel who ae wholly separate to the audit team, and that no reliance was placed by the audit team on the output of those services .

In light of the above, the Board is satisfied that the non-audit services provided to Darag Deutsche Versicherungs Und Ruckericherungs-AG have not impaired the independence of EY in its role as external auditor.

By order of the Board

Simon Cheal
Director
29 September 2020

Statement of Directors' Responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to 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 year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained within the financial statements;
- 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 proper accounting records that disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board

Simon Cheal
Director
29 September 2020

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DARAG INSURANCE UK LIMITED

Opinion

We have audited the financial statements of DARAG INSURANCE UK LIMITED for the year ended 31 December 2019 which comprise the Income Statement, the Statement of Changes in Equity, the Statement of Financial Position, and the related notes 1 to 19 including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and FRS 103 "Insurance Contracts".

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DARAG INSURANCE UK LIMITED (Continued)

Overview of our audit approach

Key audit matters	• Valuation of gross provision for claims incurred but not reported (IBNR)
Materiality	► Overall materiality of £0.2m which represents 2% of net assets.

Emphasis of matter – Quantification of claims outstanding and reinsurance recoveries

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in notes 11 & 14 to the financial statements concerning the quantification of claims outstanding and related reinsurance recoveries. The directors consider that the provision for claims outstanding and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, the ultimate estimate of the claims outstanding and related reinsurance recoveries is subject to significant uncertainty and may differ materially from the estimate that is currently provided in the financial statement.

Key audit matters

Key audit matters are those matters that, in our professional judgment, 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 our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DARAG INSURANCE UK LIMITED (Continued)

Risk	Our response to the risk	Key observations communicated to Those Charged with Governance
Valuation of gross provision for claims IBNR (£22.9m, 2018: £2.8m) *Refer to; Accounting policies 1.3 (page 23; Note 11 (page 34) and Note 14 (page 35)* Claims reserves, in particular the IBNR element, are inherently uncertain and subjective by nature and therefore more susceptible to fraud or error than most other financial statement balances. There is a risk that inappropriate reserve projections are made which could lead to gross reserves falling outside a reasonable range of possible estimates and a misstatement in the financial statements. Additional uncertainty arises as a consequence of the natural run-off of reserves whereby outcomes of individual claims have a more significant impact on the result.	Consistent with the prior period, management engage actuarial specialists to perform independent projections of the gross IBNR claims reserves, which are adopted by management and recorded in the financial statements. To obtain sufficient audit evidence to conclude on the appropriateness of the gross IBNR claim reserves, we: ▶ Evaluated the competence, objectivity and independence of management's specialist. ▶ Understood and assessed the reserving process including management's review and approval of the reserves. ▶ Tested completeness and accuracy of the underlying claims data used by management's specialist. ▶ Supported by our actuarial specialists, obtained and read the Independent Reserving Report prepared by management's specialist. We evaluated the methodology used by management's specialist against standard actuarial methodologies and market practice and challenged assumptions and assessment of major sensitivities, based on our market knowledge, industry data where available, and our historical knowledge of the company's book of business. ▶ Overall, we then considered whether the gross provision for IBNR claims reserves held at the year-end was a reasonable estimate given the nature of the business.	Taken as a whole, we consider the gross provision for claims IBNR to be appropriate based on the information available as at the reporting date. However, the ultimate estimate of the claims outstanding is subject to significant uncertainty and may differ materially from the estimate that is currently provided in the financial statement, as such we have included an emphasis of matter on the quantification of claims outstanding. We consider that the disclosures made are satisfactory, and they provide information that assists in understanding the uncertainty inherent in the valuation of the gross provision for claims IBNR

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DARAG INSURANCE UK LIMITED (continued)

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

Changes from the prior year
There have been no changes in scope of the audit from the prior year.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the company to be £0.2m (2018: £0.2m), which is 2% (2018: 2%) of net assets as at the reporting date. We believe that net assets provides us with a measurement of materiality which is most closely aligned to the key focus of the entity and its users of the financial statements.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the company's overall control environment, our judgement was that performance materiality was 75% (2018: 75%) of our planning materiality, namely £0.16m (2018: £0.17m).

Reporting threshold
An amount below which identified misstatements are considered as being clearly trivial.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DARAG INSURANCE UK LIMITED (Continued)

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £11k (2018: £11k), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

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.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

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 directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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 material misstatements in the strategic report or directors' report.

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DARAG INSURANCE UK LIMITED (Continued)

- the financial statements to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 7, 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.

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.

The objectives of our audit:

- in respect to fraud, are to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management; and

in respect to irregularities, considered to be non-compliance with laws and regulations, are to obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements ('direct laws and regulations'), and perform other audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements. We are not responsible for preventing non-compliance with laws and regulations and our audit procedures cannot be expected to detect non-compliance with all laws and regulations.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DARAG INSURANCE UK LIMITED (Continued)

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant frameworks which are directly relevant to specific assertions in the financial statements are those that relate to the reporting framework (FRS 102, FRS 103 and Companies Act 2006) and the relevant tax compliance regulations in the UK. Our considerations of other laws and regulations that may have a material effect on the financial statements included permissions and supervisory requirements of the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA').

- We obtained a general understanding of how the company complies with these legal and regulatory frameworks by making enquiries of management and those responsible for legal and compliance matters. We also reviewed correspondence between the company and UK regulatory bodies; reviewed minutes of the Board; and gained an understanding of the company's approach to governance, demonstrated by the Board's approval of the company's governance framework and the Board's review of the company's risk management framework and internal control processes.

- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by meeting with management within various parts of the business to understand where they considered there was susceptibility to fraud. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.

- For direct laws and regulations, we considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.

- For both direct and other laws and regulations, our procedures involved: making enquiry of those charged with governance and senior management for their awareness of any non-compliance of laws or regulations, inquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, inquiring about the company's methods of enforcing and monitoring compliance with such policies, inspecting significant correspondence with the FCA and PRA.

- The company operates in the insurance industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DARAG INSURANCE UK LIMITED (Continued)

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

Other matters we are required to address

- We were appointed as auditors by the company to audit the financial statements for the year ending 31 December 1999 and for all subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is 21 years, covering the years ending 31 December 1999 to 31 December 2019.

- In May 2020 we identified that non-audit services which are prohibited under the FRC's Ethical Standard, had been undertaken outside of the UK during the period February 2020 to May 2020. These related to assisting the new immediate parent company, Darag Deutsche Versicherungs Und Ruckericherungs-AG, with the design and documentation of processes and controls for IFRS and local GAAP Accounting. These services were commenced prior to acquisition of the Company by Darag Deutsche Versicherungs Und Ruckericherungs-AG, and the Company's processes and controls were excluded from the scope of the services provided. Therefore, there is no impact on the financial statements or processes and controls of Darag Insurance UK Limited for the year ended 31 December 2019. We therefore consider this to be a minor breach of the Ethical Standard and we do not consider our independence to be impaired. We notified the Directors of this breach in May 2020. The Directors agreed with our conclusion that the breach is minor and that our independence is not impaired. The Director's discussion of this breach is set out on page 6. The evaluation of whether our independence was impaired included consideration of the safeguards to independence in connection with the services. We considered an appropriate safeguard is that the audit is performed by a separate UK audit team to the EY Germany team that provided the non-audit services.

- The audit opinion is consistent with the additional report to those charged with governance.

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.

Ernst & Young LLP

Vinood Ramabhai (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
06 October 2020

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DARAG INSURANCE UK LIMITED (Continued)

Notes:

1 The maintenance and integrity of DIUKL's web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

2 Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Income Statement
for the year ended 31 December 2019

Technical account – general business	Notes	2019 £'000	2019 £'000	2018 £'000	2018 £'000
Claims paid					
Gross amount		**(758)**		(286)	
Reinsurers' share		**393**		133	
Net of reinsurance		**(365)**		(153)	
Change in the provision for claims					
Gross amount		**(19,719)**		981	
Reinsurers' share		**19,494**		(289)	
Net of reinsurance		**(225)**		692	
Claims incurred, net of reinsurance	2(b)		**(590)**		539
			(590)		539
Net operating expenses	2(b) & 4		**(812)**		(775)
Balance on technical account - general business			**(1,402)**		(236)

Income Statement
for the year ended 31 December 2019

Non–technical account – general business	Notes	2019 £'000	2018 £'000
Balance on technical account – general business		**(1,402)**	(236)
Investment income	3	**268**	212
Unrealised gain/(loss) on investments	3	**254**	(262)
Investment expenses and charges	3	**(81)**	(86)
Unrealised (loss)/gain on exchange		**(7)**	24
Loss on ordinary activities before tax		**(968)**	(348)
Tax on loss on ordinary activities	7	**11**	70
Loss for the financial year attributable to members of the company		**(957)**	(278)

There is no Statement of Comprehensive Income as the Company has no recognised gains or losses other than the loss for the period.

Statement of Changes in Equity
for the year ended 31 December 2019

	2019		
	Called up share capital	*Profit and loss account*	*Share - holders' funds*
	£'000	**£'000**	**£'000**
At 1 January 2019	**5,000**	**6,464**	**11,464**
Loss for the year	-	**(957)**	**(957)**
Dividends paid	-	-	-
At 31 December 2019	**5,000**	**5,507**	**10,507**

	2018		
	Called up share capital	*Profit and loss account*	*Share-- holders' funds*
	£'000	£'000	£'000
At 1 January 2018	5,000	6,742	11,742
Loss for the year	-	(278)	(278)
Dividends paid	-	-	-
At 31 December 2018	5,000	6,464	11,464

Statement of Financial Position
as at 31 December 2019

	Notes	2019 £'000	2018 £'000
Assets			
Investments	8(a)	**14,247**	15,392
Other financial investments			
Reinsurers' share of technical provisions	11	**22,255**	3,255
Claims outstanding			
Debtors			
Debtors arising out of reinsurance operations		**117**	6
Other debtors		**7**	5
		124	11
Other assets			
Cash at bank and in hand		**1,127**	948
Prepayments and accrued income			
Prepayments		**4**	7
Taxation		**81**	70
Total assets			
		37,838	19,683

Statement of Financial Position
as at 31 December 2019

Equity and liabilities	Notes	2019 £'000	2018 £'000
Capital and reserves			
Called up share capital	9	**5,000**	5,000
Profit and loss account		**5,507**	6,464
Shareholders' funds attributable to equity interests		**10,507**	11,464
Technical provisions			
Provision for claims outstanding	11	**27,120**	7,978
Creditors			
Creditors arising out of reinsurance operations	13	**25**	47
Other creditors	13	**6**	84
		31	131
Accruals and deferred income			
Accrued expenditure		**181**	110
Total liabilities		**27,332**	8,219
Total equity and liabilities		**37,839**	19,683

These financial statements and accompanying notes on pages 22 to 46 were approved by the Board of Directors on 13 July 2020 and were signed on its behalf by:

Simon Cheal
Director
29 September 2020

Notes to the Financial Statements

1 Accounting policies

1.1 Statement of compliance

DARAG INSURANCE UK LIMITED is a limited liability company incorporated in England. The Registered Office is Capita Commercial Insurances Services Limited, PO Box 1219, The Grange, Bishops Cleeve, Cheltenham GL50 9WS. The financial statements cover those of the individual entity and are prepared as at 31 December 2019 and for the year ended 31 December 2019.

The financial statements have been prepared in compliance with FRS 102 and FRS 103, being applicable UK GAAP accounting standards, and in accordance with the provisions of Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 relating to insurance companies.

The Company has applied FRS 102 and FRS 103, both as issued in March 2018, which reflects the amendments made as part of the Triennial Review 2017. The Triennial Review amendments have had no material impact on the financial statements.

The financial statements are prepared under the historical cost convention except certain financial instruments which are measured at fair value.

1.2 Basis of preparation

The financial statements for the year ended 31 December 2019 were approved for issue by the Board of Directors 13 July 2020.

The financial statements are prepared in sterling which is the presentation and functional currency of the Company and rounded to the nearest £'000.

The financial statements are prepared using the going concern basis of accounting.

Due to the advanced run-off nature of the Company, it has not been affected materially by the worldwide Covid-19 pandemic. The directors recognise the scale of the situation and are mindful to ensure that all board members and outsource providers are working in a safe environment. All outsourced staff provided by CCIS vacated their Cheltenham office and are now working from home. There has been no material impact financially or operationally to the Company.

As permitted by FRS 103 the Company continues to apply the existing accounting policies that were applied prior to this standard, for its insurance contracts.

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

Cash flow statement and reduced disclosure exemptions

The Company has taken advantage of the reduced disclosures available for qualifying entities under paragraph 1.12 of FRS 102, including the exemption from preparing a cash flow statement. The Company is included in the consolidated financial statements of Diamond Underwriting Limited, a limited liability company incorporated in UK. The Company has also taken advantage of the exemption permitted by FRS 102 section 33, Related Party Disclosures, not to disclose amounts involved in contracts between members of a group where a party to the transaction is a wholly-owned subsidiary.

1.3 Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year.

However, the nature of estimation means that actual outcomes could differ from those estimates. The following are the Company's key sources of estimation uncertainty:

Insurance contract technical provisions

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred, but not yet reported ("IBNR"), at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the liability in the statement of financial position.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder and Bornheutter-Ferguson methods.

The main assumption underlying these techniques is that past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years, but can also be further analysed by geographical area, as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in future, (e.g. to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

Further details are given in notes 11 and 14 .

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

1.4 Significant accounting policies

Financial investments

The Company has elected to use the recognition and measurement provisions of IAS 39 for financial investments instead of the recognition and measurement provisions of IFRS 9 or Sections 11 and 12 of FRS 102.

The Company classifies its financial investments as either financial assets at fair value through profit or loss, loans and receivables. The Company determines the classification of its financial assets at initial recognition. Financial assets are initially recognised at fair value plus, in the case of instruments not at fair value through profit or loss, directly attributable transaction costs.

The classification depends on the purpose for which the investments were acquired or originated. In general, financial assets are classified as fair value through profit or loss as the Company's documented investment strategy is to manage financial investments acquired on fair value basis.

All regular way purchases and sales of financial assets are recognised on the trade date i.e., the date the Company Commits to purchase or sell the asset. Regular way purchases or sales of financial assets require delivery of assets within the time frame generally established by regulation or convention in the market place.

Financial assets at fair value through profit or loss has two sub categories namely financial assets held for trading and those designated at fair value through profit or loss at inception. All of the Company's assets are held for trading. These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are re-measured at fair value at each reporting date. Fair value adjustments and realised gains and losses are recognised in the income statement.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at banks and in hand and short term deposits with an original maturity date of three months or less.

Fair value of financial assets

The Company uses the following hierarchy for determining the fair value of financial instruments by valuation technique (see Note 8):

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

1.4 Significant accounting policies (continued)

Investment return

Dividends are recognised when the investments to which they relate are declared 'ex-dividend'. Interest income is recognised on a time apportionment basis taking into account effective interest yield.

Movements in unrealised gains and losses on investments represent the difference between the fair value at the reporting date and their purchase price or their fair value at the last reporting date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period. The company earns interest on fixed income instruments, cash and cash equivalents as well as gains on fixed income instruments. Interest is accrued up to the reporting date.

Investment return has been wholly attributed to the non-technical account.

Insurance contracts

Production classification

Insurance contracts are those contracts when the Company has accepted significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

Gross premiums

Gross written premiums comprise the total premiums receivable for the whole period of cover provided by the contracts entered into prior to the cessation of underwriting on 11 July 2003, regardless of whether these are wholly due for payment in the reporting period, together with any adjustments arising in the reporting period to such premiums receivable in respect of business written in prior reporting periods. Additional or return premiums are treated as a re-measurement of the initial premium. Gross written premiums are stated gross of commission.

Under some policies, written premiums are adjusted retrospectively in the light of claims experience or where the risk covered cannot be assessed accurately at the commencement of cover. Where written premiums are subject to an increase retrospectively, recognition of any potential increase is deferred until the additional amount can be ascertained with reasonable certainty. Where written premiums are subject to a reduction, a re-measurement taking account of such a reduction is made as soon as there is an obligation to the policyholder.

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

1.4 Significant accounting policies (continued)

Claims

Claims include all claims occurring during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

Technical provisions

Technical provisions comprise claims outstanding and incurred but not reported ("IBNR") claims.

Claims outstanding

The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money.

Reinsurance assets

The Company ceded insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer. The impairment loss is recorded in the statement of profit or loss.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The run-off provision has been established which consists of all estimated costs incurred in the administration of the run-off less projected investment returns.

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

1.4 Significant accounting policies (continued)

Foreign currencies

The Company's functional currency and presentational currency is Sterling.

Transactions denominated in currencies other than the functional currency are initially recorded in the functional currency at the exchange rate ruling at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the exchange rate ruling on the reporting date. Non-monetary items denominated in a foreign currency, measured at fair value are translated into the functional currency using the exchange rate ruling at the date when the fair value was determined.

Exchange differences are recorded in the non-technical account.

Taxation

Current tax

Current tax liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the profit and loss account.

Deferred tax

Deferred tax is recognised in respect of all timing differences, which are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date. Deferred tax is recognised only to the extent that it is more likely than not, that future taxable profits will be available against which the asset can be utilised.

Notes to the Financial Statements (continued)

2 Analysis by class of business

a) The underwriting result is analysed as follows:

2019	**Gross premium**	**Gross claims incurred**	**Gross operating expenses**	**Re-insurance balance**	**Total**	**Net technical provisions**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Liability	-	**20,476**	**812**	**(19,887)**	**1,401**	**4,841**
Property	-	**1**	-	-	**1**	**24**
Total	-	**20,477**	**812**	**(19,887)**	**1,402**	**4,865**

2018	Gross premium	Gross claims incurred	Gross operating expenses	Re-insurance balance	Total	Net technical provisions
	£'000	£'000	£'000	£'000	£'000	£'000
Liability	-	691	(770)	(156)	(235)	4,697
Property	-	4	(5)	-	(1)	26
Total	-	695	(775)	(156)	(236)	4,723

Gross operating expenses are the same as net operating expenses shown in the profit and loss account.

Notes to the Financial Statements (continued)

2 Analysis by class of business (continued)

b) Geographical analysis:

2019	**Gross written premiums £'000**	**Net incurred claims £'000**	**Gross operating expenses £'000**
Risks located in the UK	-	**218**	**300**
Risks located in Europe	-	**(119)**	**(164)**
Risks located elsewhere	-	**491**	**676**
	-	**590**	**812**

2018	Gross written premiums £'000	Net incurred claims £'000	Gross operating expenses £'000
Risks located in the UK	-	257	369
Risks located in Europe	-	118	170
Risks located elsewhere	-	164	236
	-	539	775

3 Investment return

	2019 £'000	2018 £'000
Income from other financial investments	**211**	212
Net gains on realisation of investments	**57**	-
Total investment income	**268**	212
Net unrealised gains/(losses) on investments	**254**	(262)
Investment expenses and charges	**(81)**	(86)
Total investment return	**441**	(136)

Notes to the Financial Statements (continued)

4 Net operating expenses

	2019	2018
	£'000	£'000
Administrative expenses	**812**	775
Included in administrative expenses are:		
Staff costs	**97**	62
Run-off costs (including salaries & wages)	**345**	526
Professional costs	**299**	86
Other costs	**71**	96

5 Staff costs and directors' remuneration

(a) Staff costs

Apart from 5 directors whose emoluments are disclosed in note 5(b), all services were provided by Vibe Services Management Limited for the first quarter of the year and the costs recharged for salaries and wages were £191k (2018 Full Year: £407k). All services were provided by Capita Commercial Insurances Services Limited from second quarter 2020 and the fees were £154k (2018: Nil).

(b) Directors' emoluments

	2019	2018
	£'000	£'000
Aggregate remuneration in respect of qualifying services	**97**	62

There are no contributions to pension schemes, no share options and no long term incentive plans.

6 Auditors' remuneration

	2019	2018
	£'000	£'000
Statutory audit of the Company	**60**	33

Auditors' remuneration is included as part of the administrative expenses in note 4 to the financial statements.

Notes to the Financial Statements (continued)

7 Taxation

(a) Tax on loss on ordinary activities

The tax charge is made up as follows:

	2019	2018
	£'000	£'000
Current taxation:		
UK corporation tax	-	(70)
Adjustment relating to prior year	(11)	-
Total current taxation	(11)	(70)

(b) Factors affecting the tax charge

	2019	2018
	£'000	£'000
Loss on ordinary activities before tax	(968)	(347)
Loss on ordinary activities multiplied by standard rate of UK corporation tax of 19% (2018: 19%)	(184)	(66)
Deferred tax not recognised	184	(4)
Adjustment relating to prior year	(11)	-
Total tax	(11)	(70)

UK corporation tax rate in 2018 and 2019 were 19.00%.

On 11 March 2020 it was announced (and substantively enacted on 17 March 2020) that the UK corporation tax rate would remain at 19% and not reduce to 17% (the previously enacted rate) from 1 April 2020. The unrecognised deferred tax balances included within the accounts have been calculated with reference to the rate of 17%, as required under FRS 102. However, following the substantive enactment of the rate of 19%, it is anticipated that the reversal of timing differences will occur at this rate and that the maximum impact on the quantum of the net unrecognised deferred tax asset will be £26k

(c) Deferred tax

The Company has an unrecognised deferred tax asset of £225k (2018: £75k) which is calculated on the enacted UK corporation tax rate of 17% (2018: 19%) in respect of fixed asset timing differences and other timing differences. The deferred tax asset has not been recognised due to the uncertainty of the Company having sufficient taxable profits in the foreseeable future to utilise these allowances. Tax losses of £1,041k (2018: nil) are available to offset against taxable profit in future periods.

Factors affecting future tax charges (tax effect at enacted rate of tax)

	2019	2018
	£'000	£'000
Capital allowances carried forward	48	73
General provisions carried forward	-	2
Tax losses available	177	-
Total unrecognised deferred tax asset	225	75

Notes to the Financial Statements (continued)

8 Investments

Other financial investments

	2019		
	Carrying	**Purchase**	**Listed**
	£'000	**£'000**	**£'000**
Collective investment schemes	**13,596**	**13,249**	**13,596**
Deposits with credit institutions held at amortised cost	**651**	**651**	**-**
	14,247	**13,900**	**13,596**

	2018		
	Carrying	Purchase	Listed
	£'000	£'000	£'000
Collective investment schemes	14,080	13,987	14,080
Deposits with credit institutions held at amortised cost	1,312	1,312	-
	15,392	15,299	14,080

The following table shows financial investments recorded at fair value analysed between the three levels in the fair value hierarchy:

	2019			
	Level 1	**Level 2**	**Level 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Collective investment schemes	**7,314**	**6,282**	**-**	**13,596**

	2018			
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Collective investment schemes	7,608	6,472	-	14,080

Notes to the Financial Statements (continued)

8 Investments (continued)

Included in the level 1 category are financial assets that are measured by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Included in the level 2 category are financial assets measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions. For example, assets for which pricing is obtained via pricing services but where prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in private equity funds with fair values obtained via fund managers and assets that are valued using the Company's own models whereby the significant inputs into the assumptions are market observable.

Collective investment schemes mainly comprise Government Bonds, Corporate Bonds, and UK Equities.

9 Share capital

	2019	2018
	£'000	£'000
Allotted, called up and fully paid:		
5 million ordinary shares of £1 each (2018: 5 million)	**5,000**	5,000
	======	======

10 Dividends

No dividends were paid in respect of the year ended 31 December 2019 (2018: nil).

Notes to the Financial Statements (continued)

11 Claims outstanding

	2019			2018		
	Gross	**Re-insurance**	**Net**	Gross	Re-insurance	Net
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
Notified outstanding claims	**3,897**	**2,229**	**1,668**	4,849	2,953	1,896
Provision for claims incurred but not reported	**22,899**	**20,026**	**2,873**	2,805	302	2,503
	26,796	**22,255**	**4,541**	7,654	3,255	4,399
Claims handling expenses	**324**	**-**	**324**	324	-	324
	27,120	**22,255**	**4,865**	7,978	3,255	4,723

	2019			2018		
	Gross	**Re-insurance**	**Net**	Gross	Re-insurance	Net
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
Risks located in the UK	**5,135**	**2,197**	**2,938**	5,722	2,674	3,048
Risks located in Europe	**459**	**52**	**407**	472	-	472
Risks located elsewhere	**21,202**	**20,006**	**1,196**	1,460	581	879
	26,796	**22,255**	**4,541**	7,654	3,255	4,399

The large increase in gross and reinsurance reserves of £19,142k and £19,000k respectively (2018 decrease: (£1,002k) and (£304k)) relate predominantly to a general liability pharmaceutical claim and related recovery. As this is one claim, the claims handing expenses provision has been maintained at its 2018 level.

In order to assess the appropriate level of technical provisions to hold for future claims, the Company has commissioned an external actuarial review to conduct an independent review and make a best estimate assessment of future IBNR. The directors consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, there are long term casualty and liability accounts with international exposures. The principal uncertain accounts are the financial and professional indemnity books of business where claims take many years to resolve and can be influenced by changes in legislation and precedent. As the business has been in run off for some time, the number of open claims and the reserve amounts are generally declining, movements on individuals large losses can have a materially more significant impact on the level of reserves reported, and related reinsurance recoveries. The ultimate estimate of the gross claims outstanding liabilities, and related reinsurance recoveries, are subject to significant uncertainty and may differ materially from the estimate that is currently provided in the financial statement.

Notes to the Financial Statements (continued)

12 Other provisions

Run-off provision	**2019** **£'000**	2018 £'000
Total projected expenditure costs	**(2,399)**	(1,916)
Total projected investment income	**2,951**	3,194
	552	1,278

The run-off provision is required for all estimated costs less projected investment returns. The investment returns are deemed to exceed these costs; hence no run-off provision was booked.

These costs and income have been estimated based on prior year financial performance.

13 Creditors

Amounts due within one year	**2019** **£'000**	2018 £'000
Arising out of reinsurance operations		
Due within one year		
Amounts due to reinsurers	**25**	47
	25	47
Other creditors including taxation		
Amounts due to related companies	**-**	84
Sundry Creditors	**6**	-
	6	84

Amounts due to related companies are detailed in Note 16.

14 Risk management

(a) Governance framework

The primary objective of the Company's risk and financial management framework is to protect the Company's shareholders from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Management recognises the critical importance of having efficient and effective risk management systems in place.

Notes to the Financial Statements (continued)

14 Risk management

(a) Governance framework (continued)

The Company has, given its size and involvement of directors on a day to day basis, consolidated the governance (including risk management) into two committees; the Executive Committee and the Ad Hoc Committee.

The Company has articulated its risk appetite in a series of statements which have been agreed by the board of directors. A range of supporting metrics has been developed in order to review actual performance compared with the stated appetite. Performance and risk exposure against tolerance levels is monitored regularly by the Company's management and on an aggregate basis by the Executive Committee and reported to the board of directors.

(b) Capital management objectives, policies and approach

The Company considers its own funds, as determined on a Solvency II basis, to represent what it manages as capital. The own funds effectively represent the share capital of the company plus the surplus of assets over liabilities, as determined on a Solvency II basis. The company's own funds are primarily invested in debt securities and other fixed income securities.

The Company seeks to optimise the structure of capital to ensure policyholders' protection for the duration of the run-off.

The Company's approach to managing capital involves managing assets, liabilities and risks in a coordinated way, assessing shortfalls between reported and required capital on a regular basis and taking appropriate actions to influence the capital position of the Company in the light of changes in economic conditions and risk characteristics.

The Company is required to hold capital at the greater of two measures, namely the Solvency Capital Requirement (SCR) and the Minimum Capital Requirement (MCR). Each of these measures is further described below:

- SCR: The quantity of capital that is intended to provide protection against unexpected losses, over the following year, up to the statistical level of a '1 in 200-year event'. This is a robust requirement that is designed so that insurers should be able to withstand all but the most severe of shocks. The Company uses the 'Standard Formula' to calculate its SCR.

- MCR: Denotes a level below which policyholders would be exposed to an unacceptable level of risk. If a regulated firm breaches its MCR, regulatory action is taken and the firm must submit a plan for approval, explaining how it will restore capital above the MCR within three months.

The Company has complied with all regulatory solvency capital requirements throughout the period.

Notes to the Financial Statements (continued)

14 Risk Management (continued)

(c) Insurance risk

The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long–term claims. Therefore, the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

The risk exposure is mitigated by using methods to assess and monitor reserve risk exposures; these include scenario analysis and stress testing. The Company also purchased reinsurance as part of its risk mitigation programme. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The Company's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations substantially dependent upon any single reinsurance contract .

The table below sets out the concentration of outstanding claims liabilities by class (excluding claims handling costs):

	2019			2018		
	Gross	Re-insurance	Net	Gross	Re-insurance	Net
	£'000	£'000	£'000	£'000	£'000	£'000
Contractors All Risks	24	-	24	25	-	25
Employers' Liability	4,388	1,958	2,430	4,588	2,157	2,431
Financial Institutions	49	-	49	51	-	51
Professional Indemnity	529	240	289	694	390	304
General Liability	21,806	20,057	1,749	2,296	708	1,588
Total excluding claims handling expenses	26,796	22,255	4,541	7,654	3,255	4,399

Notes to the Financial Statements (continued)

14 Risk Management (continued)

(c) Insurance risk (continued)

Key assumptions

The principal assumption underlying the liability estimates is that the future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each accident year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example: once–off occurrence; changes in market factors such as public attitude to claiming: economic conditions: as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

Other key circumstances affecting the reliability of assumptions include variation in interest rates, delays in settlement and changes in foreign currency rates.

The table below provides information regarding the concentration of reinsurance. The number of reinsurers and total amount receivable from all reinsurers are grouped into ranges of amount receivable.

2019	**Greater than £500k**	**Less than £500k**	**Total**
Number of reinsurers	**2**	**7**	**9**
Reinsurers' share of claims outstanding	**20,735**	**1,520**	**22,255**

2018	Greater than £500k	Less than £500k	Total
Number of reinsurers	4	4	8
Reinsurers' share of claims outstanding	2,718	538	3,256

Sensitivities

The claims liabilities are sensitive to the key assumptions that follow. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

As part of the actuarial reserve review, in order to estimate the volatility in reserves, various analyses were carried out and results produced which illustrate the increase in gross and net IBNR at various percentiles calculated.

Notes to the Financial Statements (continued)

14 Risk Management (continued)

(c) Insurance risk (continued).

2019	Change in assumptions	Impact on gross liabilities £'000	Impact on net liabilities £'000	Impact on profit before tax £'000	Impact on equity £'000
IBNR at 65th percentile	Increase from 60th to 65th percentile	683	118	(118)	(95)
IBNR at 75th percentile	Increase from 60th to 75th percentile	2,374	409	(409)	(331)

2018	Change in assumptions	Impact on gross liabilities £'000	Impact on net liabilities £'000	Impact on profit before tax £'000	Impact on equity £'000
IBNR at 65th percentile	Increase from 60th to 65th percentile	634	112	(112)	(91)
IBNR at 75th percentile	Increase from 60th to 75th percentile	2,211	389	(389)	(315)

Claims development table

FRS 103 requires the disclosure of historical claims development. The Company's claims arose from policies written over ten years ago and to a large extent are fully developed. Consequently, the Company believes that the production of a claims development table covering the last five years is not meaningful or useful and that sensitivity analysis of reserving risk is more relevant. Accordingly, the Company has not disclosed a claims development table.

(d) Financial risk

(1) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

Notes to the Financial Statements (continued)

14 Risk Management (continued)

(d) Financial risk (continued)

(1) Credit risk (continued)

The following policies and procedures are in place to mitigate the exposure to credit risk:

- A credit risk policy setting out the assessment and determination of what constitutes credit risk for the Company. Compliance with the policy is monitored and exposures and breaches are reported to Ad Hoc Committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.
- Net exposure limits are set for each counterparty or group of counterparties (i.e. limits are set for investments and cash deposits and minimum credit ratings for investments that may be held).

The tables below show the maximum exposure to credit risk (including an analysis of financial assets exposed to credit risk) for the components of the statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through collateral agreements and the use of credit derivatives.

2019	**Neither past due nor impaired**	**Past due**	**Impaired**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Collective investment schemes	**13,596**	-	-	**13,596**
Deposits with credit institutions	**651**	-	-	**651**
Reinsurers' share of claims outstanding	**22,255**	-	-	**22,255**
Debtors arising out of reinsurance operations	**117**	-	-	**117**
Other debtors	**7**	-	-	**7**
Cash at bank and in hand	**1,127**	-	-	**1,127**
	37,753	-	-	**37,753**

2018	Neither past due nor impaired	Past due	Impaired	Total
	£'000	£'000	£'000	£'000
Collective investment schemes	14,080	-	-	14,080
Deposits with credit institutions	1,312	-	-	1,312
Reinsurers' share of claims outstanding	3,255	-	-	3,255
Debtors arising out of reinsurance operations	6	-	-	6
Other debtors	11	-	-	11
Cash at bank and in hand	948	-	-	948
	19,612	-	-	19,612

Notes to the Financial Statements (continued)

14 Risk Management (continued)

(d) Financial risk (continued)

(1) Credit risk (continued)

The table below provides information regarding the credit risk exposure of the Company at 31 December 2019 by classifying assets according to Standard & Poor's credit ratings of the counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as speculative grade and have not been rated. Debtors, other than amounts due from reinsurers, have been excluded from the table as these are not rated.

2019	**AAA £'000**	**AA £'000**	**A £'000**	**BBB £'000**	**BB £'000**	**Not rated £'000**	**Total £'000**
Collective investment schemes	**467**	**6,375**	**2,505**	**1,783**	**77**	**2,388**	**13,595**
Deposits with credit institutions	-	-	**651**	-	-	-	**651**
Reinsurers share of claims outstanding	-	**9,161**	**13,071**	-	-	**24**	**22,255**
Other Debtors	-	-	**7**	-	-	-	**7**
Debtors arising out of reinsurance operations	-	-	**117**	-	-	-	**117**
Cash at bank	-	-	**1,076**	**51**	-	-	**1,127**
	467	**15,536**	**17,427**	**1,834**	**77**	**2,412**	**37,752**

2018	AAA £'000	AA £'000	A £'000	BBB £'000	BB £'000	Not rated £'000	Total £'000
Collective investment schemes	154	7,429	2,391	3,373	41	692	14,080
Deposits with credit institutions	-	-	1,312	-	-	-	1,312
Reinsurers share of claims outstanding	-	791	1,809	-	-	655	3,255
Other Debtors	-	-	11	-	-	-	11
Debtors arising out of reinsurance operations	-	-	6	-	-	-	6
Cash at bank	868	-	-	-	-	80	948
	1,022	8,220	5,529	3,373	41	1,427	19,612

Notes to the Financial Statements (continued)

14 Risk Management (continued)

(d) Financial risk (continued)

(2) Liquidity risk

Liquidity risk is the risk that an insurance company will encounter difficulty in meeting obligations associated with financial instruments. In respect of catastrophic events there is also a liquidity risk associated with the timing differences between gross cash out-flows and expected reinsurance recoveries.

The following policies and procedures are in place to mitigate the Company's exposure to liquidity risk:

- A liquidity risk policy exists that sets out the assessment and determination of what constitutes liquidity risk. Compliance with the policy is monitored and exposures and breaches are reported to the Ad Hoc Committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.

- Guidelines on asset allocation, portfolio limit structures and maturity profiles of assets are set, in order to ensure that sufficient funding is available to meet insurance and investment contracts obligations.

- In the event of a large demand on funds, cashcalls would be made on the reinsurers in advance of any settlement of claims.

Maturity profiles

The table below summarises the maturity profile of the Company's financial liabilities based on remaining undiscounted contractual obligations, including outstanding claim liabilities based on the estimated timing of claim payments resulting from recognised insurance liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately.

2019	Up to a year	1-2 years	3-5 years	6-9 years	10 years and more	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Outstanding claims	23,339	949	455	735	1,642	27,120
Deposits received from	25	-	-	-	-	25
Creditors	6	-	-	-	-	6
	23,370	949	455	735	1,642	27,151

Notes to the Financial Statements (continued)

14 Risk Management (continued)

(2) Liquidity risk (continued)

Maturity profiles

2018	Up to a year	1-2 years	3-5 years	6-9 years	Over 10 years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Outstanding claims liabilities	2,906	1,872	488	736	1,977	7,978
Deposits received from reinsurers	47	-	-	-	-	47
Creditors	109	-	-	-	-	109
	3,062	1,872	488	736	1,977	8,135

(3) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk:

(i) Currency risk
(ii) Interest rate risk
(iii) Equity price risk

To mitigate the exposure to market risk, for assets backing outstanding claims provisions, market risk is managed by matching the duration and profile of assets to the technical provisions they are backing.

(i) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company is exposed to currency risk in respect of certain liabilities under policies of insurance. The Company seeks to mitigate the risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency.

Notes to the Financial Statements (continued)

14 Risk Management (continued)

(d) Financial risk (continued)

(3) Market risk (continued)

(i) Currency risk (continued)

The table below summarises the exposure of the financial assets and liabilities to foreign currency exchange risk at the reporting date, as follows:

	2019 AUD '000	**2019 USD '000**	**2019 EUR '000**	2018 AUD '000	2018 USD '000	2018 EUR '000
Financial investments	**-**	**486**	**622**	1,212	478	599
Cash at bank	**1,110**	**503**	**93**	463	506	137
	1,110	**989**	**715**	1,675	984	736
Creditors and insurance reserves	**125**	**1,539**	**352**	1,208	266	528

(ii) Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Insurance liabilities are not discounted and therefore not exposed to interest rate risk.

The analysis below is performed for reasonably possible movement in interest rates with all other variables held constant, showing the impact on profit before tax and equity of the effects of changes in interest rates on the investment return.

	2019		2018	
	Impact on profit before tax £'000	**Impact on equity £'000**	Impact on profit before tax £'000	Impact on equity £'000
Changes in variables:	**(72)**	**(58)**	(77)	(62)

The method used for deriving sensitivity information and significant variables did not change from the previous period.

Notes to the Financial Statements (continued)

(d) Financial risk (continued)

(3) Market risk (continued)

(iii) Equity price risk

Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Currently there are no direct investments in equities.

15 Contingent Liabilities

The Company transferred by group relief for payment the majority of its tax losses that arose in the period ending 31 December 2006 to its current ultimate shareholders. HMRC disallowed the group relief and DIUKL appealed the decision. HMRC and DIUKL agreed that the appeal by DIUKL could follow a similar case. The judgement in that appeal in 2014 was in favour of the appellant and HMRC agreed not to appeal the judgement. The proceeds from the sale of group relief had been held in escrow. The escrow monies were released by the escrow agent on the instructions of all the consortium members except for one company that had been liquidated. The escrow agent released the funds in respect of the liquidated company on the receipt of a deed of indemnity from DIUKL. Consequently, a contingent liability exists that DIUKL will have to refund £353,301 to the escrow agent.

16 Related party transactions

As the Company was a wholly owned subsidiary at the year end, advantage has been taken of the exemptions under FRS 102 Section 33 'Related party disclosures', not to disclose related party transactions within the group.

The parent company at the year end, The Underwriter Group Limited, supplied the services of one of its Directors during the year at a cost of £80k (2018:£nil).

The amount owing to TUG at year end was £9k (2018: £5k).

17 Capital commitments

There were no capital commitments at the end of the year (2018: £nil).

18 Ultimate and immediate parent company

On 31 March 2017, The Underwriter Group Limited, DIUKL's former owner, reacquired all the shares of DIUKL from Ship (2006) Limited. On 5th February 2020 DIUKL was sold by TUG to Darag Deutsche Versicherungs and Ruckversicherungs - AG ("DARAG"). Copies of the Company's annual report and accounts, and the consolidated financial statements of Diamond Underwriting Limited, the former ultimate parent company, may be obtained from Capita Commercial Insurances Services Limited, PO Box 1219, The Grange, Bishops Cleeve. Cheltenham GL50 9WS

Notes to the Financial Statements (continued)

19 Post balance sheet events

On 5th February 2020 TUIC was sold by TUG to Darag Deutsche Versicherungs and Ruckversicherungs - AG ("DARAG"). DARAG has subsequently changed the name of TUIC to DARAG INSURANCE UK LIMITED. The new owner is continuing the orderly run-off of the previous owner.

Since March 2020 the worldwide Covid-19 pandemic has affected the Company, with most UK employees being encouraged by the UK Government to work at home. All CCIS staff vacated their Cheltenham office and are now working from home. There has been no material impact financially or operationally to the Company. The Board of Directors recognise the scale of the situation and are mindful to ensure that all board members and outsource providers are working in a safe environment.