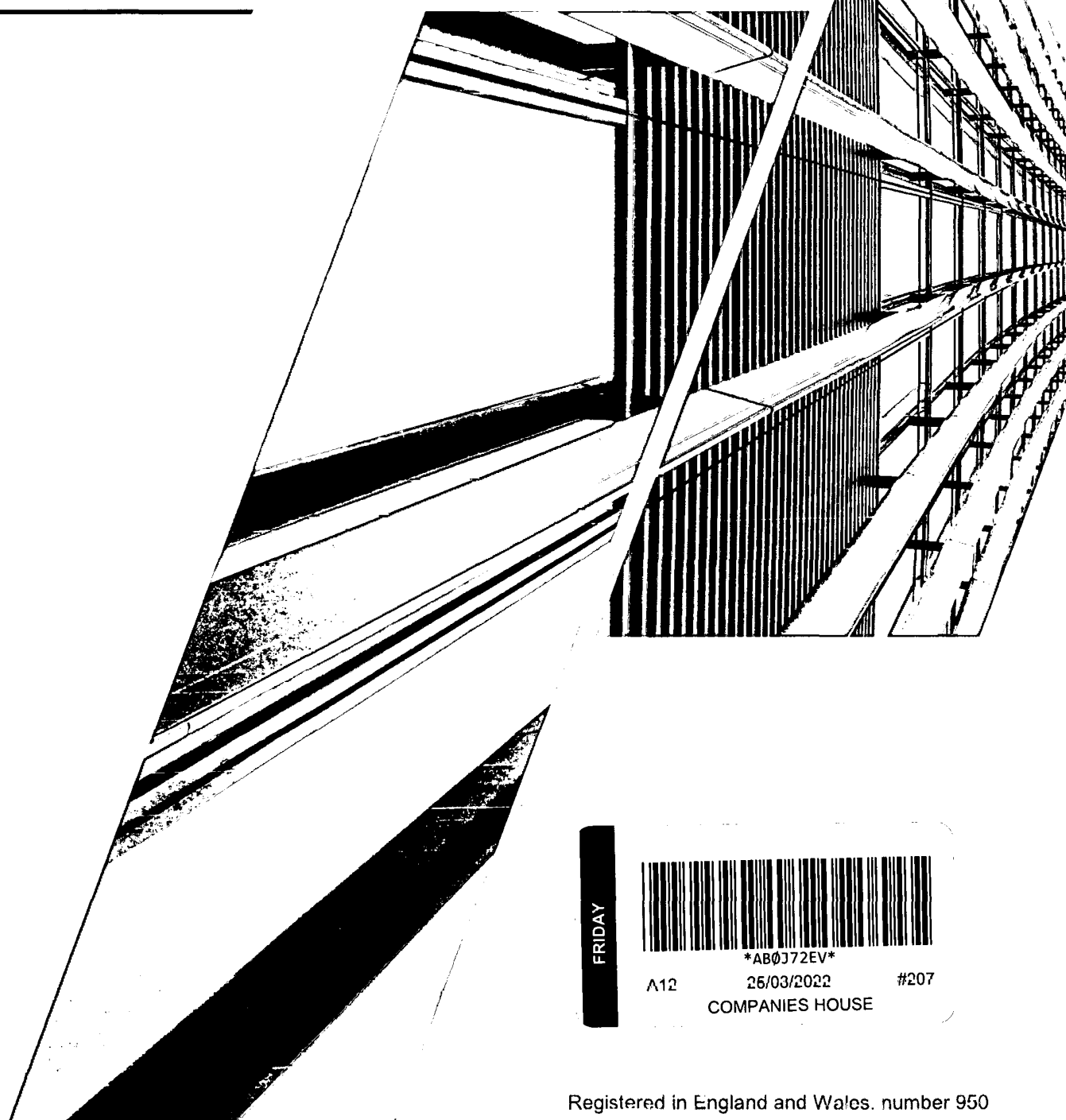


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CNA Insurance Company Limited 2021 Annual Report and Financial Statements



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Strategic report

Introduction

The directors of CNA Insurance Company Limited ("the Company" or "CICL") present their strategic report for the year ended 31 December 2021. This report has been prepared in accordance with the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

CICL is a commercial insurer offering a range of specialist products to targeted industry segments. The Company is headquartered in London and underwrites business throughout the United Kingdom ("UK") and the rest of the world outside of the European Union ("EU"). Direct and facultative commercial insurance products are underwritten, which are predominantly placed through brokers.

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

CNA is the one of the largest commercial property and casualty insurance companies in the United States of America ("US"). As of 31 December 2021, it has approximately 5,600 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 loss of £12.3 million in 2021 compared to a profit of £38.8 million for 2020. This loss was driven primarily by unrealised losses on the Company's investment portfolio compared to the previous financial year. The calendar year combined ratio in 2021 was 93.6% (2020: 85.3%).

Gross written premiums increased from £221.1 million in 2020 to £234.5 million in the current year with increases in the majority of the Company's lines of business but primarily in the Specialty business unit.

The Company made further enhancements to its reinsurance programme during 2021 as part of the continuing process to ensure that reinsurance is utilised in an effective way to control volatility in underwriting results. The Company regularly evaluates its reinsurance programme to ensure it is appropriate given its overall risk appetite.

Unfavourable prior year loss development of £9.6 million was recorded in 2021 compared to favourable development of £17.3 million in the prior calendar year. In the current calendar year, the unfavourable loss development was driven primarily by higher emergence of claims of certain lines business than previously anticipated.

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.

The expense ratio for the year of 32.0% reflected an improvement over the prior year of 34.1%. This was driven mainly by a reduction in levels of brokerage and higher earned premium compared to the prior year.

Strategic report – continued

Overview of results - continued

The Company recorded other charges of £13.8 million in 2021 compared to £1.8 million in the previous financial year. The amount recorded in 2021 includes an impairment charge of £16.1 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 driven by the impact of revaluing foreign currency assets and liabilities into functional currencies. 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.

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 2021 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.

	2021 £m	2020 £m
Gross premiums written	234.5	221.1
(Loss)/profit on ordinary activities before tax	(11.8)	41.4
(Loss)/profit for the financial year	(12.3)	38.8
Loss ratio	61.6%	51.3%
Expense ratio	32.0%	34.1%
Combined ratio	93.6%	85.3%
Capital and reserves	410.2	414.8

Financial position

Overview of financial position

The Company's accounted capital base as at 31 December 2021 was £410.2 million (2020: £414.8 million), of which £36,359 is ineligible to meet regulatory requirements as this amount has been deposited in bonds with Lloyd's of London ("Lloyd's") as security for the underwriting activities of Hardy Underwriting Limited ("HUL"), a CNAF group company (see note 22).

The reduction in the capital base of £4.6 million was driven by a £19.0 million unrealised investment loss and the £16.1 million impairment in the carrying value of CICE. The Company did not pay or recommend a dividend during the financial year. There were no changes to the Company's ownership or capital structure during the year.

Investments

The Company benefited from 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").

Strategic report – continued

Financial position - continued

Deed of guarantee and ratings

CICL benefits from a Deed of Guarantee from CCC, effective 24 January 2002. Under the terms of the deed, CCC guarantees all liabilities that arise or have arisen under policies of insurance or contracts of reinsurance entered into by CICL, including policies or contracts entered into before 24 January 2002. The Deed of Guarantee enables CICL to maintain a Standard & Poor's ("S&P") rating at the same level as the rating assigned to CCC and provides significant additional security to policyholders. The Deed of Guarantee has been in place since the effective date and will remain in place until 31 December 2022 unless written notice is received from S&P that the guarantee is no longer needed. As at 31 December 2021, CCC's S&P financial strength rating was A+ (Strong) with a stable outlook. Further details are provided in note 23 to these financial statements. The Deed of guarantee is also applicable to the Company's subsidiary CICE.

Capital and Solvency II

The Company manages its capital position in accordance with the requirements of the Solvency II regime and determines its capital requirement using the Standard Formula as the basis of calculation. As at 31 December 2021, the Company's admissible capital was in excess of the Solvency II Standard Formula requirement.

Business operations

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

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

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

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").

Strategic report – continued

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.

We are aware of the developing events in Ukraine which we continue to monitor. At this stage, we do not believe they will have a material impact to the Company's operations.

Streamlined energy and carbon reporting

In 2021, the Company's UK Greenhouse gas ("GHG") emissions were 116 tonnes of CO₂e ("tCO₂e") with 521,417 kWh of total energy consumed, which equates to 4,191 kWh per employee, based on the average number of CNA Services employees in 2021. 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.

	2021 tCO ₂ e	2020 tCO ₂ e
Scope 1 emissions	2	3
Scope 2 emissions	106	140
Scope 3 emissions	8	29
Total emissions	116	172
tCO₂e per employee	0.9	1.4

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 Board recognises that the long-term success of the business is dependent on the way it works with its key stakeholders, including employees, shareholders, customers, broking partners and regulators.

Strategic report – continued**Section 172(1) statement - continued**

The Directors have taken into account the requirements of section 172 (1) of the Companies Act 2006 as summarised in the following table:

the likely consequences of any decision in the long term	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 interests of the company's employees	The Company does not have any direct employees. The interests of employees are considered and disclosed in the annual accounts of CNA Services.
the need to foster the company's business relationships with suppliers, customers and others	The Company distributes its insurance products to customers primarily through its network of national and regional brokers. The Company regularly monitors its relationships with its broking partners and customers and aims to build successful long term relationships in this regard.
the impact of the company's operations on the community and the environment	<p>The Company supports the community, via CNA Services, by donating to chosen charitable organisations. In addition, all staff are encouraged to utilise a Company funded volunteering day to support their local communities.</p> <p>The Company's regulator expects all UK Insurers to embed consideration of financial risks from climate change in their governance arrangements, incorporate it into their existing risk management framework and use long term scenario analysis to inform strategy setting and risk assessment and identification.</p> <p>As a result the Company considered a climate change scenario within its ORSA, which is discussed in more detail in note 3.</p>
the desirability of the company maintaining a reputation for high standards of business conduct	The Directors consider maintaining a reputation for, and upholding, high standards of business conduct is vital to the ongoing success of the Company.
the need to act fairly as between members of the Company	The Company is committed to ensuring that its culture, strategy, leadership, decision making and control framework are all central to the reasonable expectations of, and reflect the fair treatment of, its policyholders. The Company continues to reassess all aspects of its commitment to its customers to ensure that these values are maintained.

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

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

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

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 to the regulatory environment. Where appropriate, the Company undertakes risk management activities to mitigate emerging risks.

Climate change

The Company has reviewed and considered the requirements of the PRA supervisory statement SS3/19 with respect to managing climate-related financial risks. In accordance with SS3/19, the Company conducted an initial scenario analysis and qualitative risk assessment to inform strategy setting and risk assessment and identification. The Company continues to embed updated guidance and regulations (including the Lloyd's ESG report) within their risk management framework.

The Company's Board of Directors (the Board) is responsible for understanding and assessing the financial risks from climate change that affect the firm. Whilst the Board has allocated responsibility for identifying and managing financial risks from climate change to the SMF4, it retains oversight of these risks from within the firm's overall business strategy and risk appetite. For example, the Board is responsible for approving the ORSA which considers the firm's material exposures to climate-related risks.

The Company's most significant exposure to climate-related financial risk is transition risk and liability risk. In response to the increased loss environment arising from climate events, the Company has taken steps to reduce and/or mitigate its catastrophe exposure. In addition, the Company continues to adapt its underwriting appetite and investment guidelines in recognition of climate change risks.

COVID-19

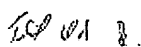
During 2021, the global spread of COVID-19 continued to have a significant impact on the insurance industry, the global economy, financial markets and society as a whole. The Company continues to actively manage the impact of this situation to ensure that its day-to-day operations are continuing effectively. The business has remained fully operational and able to support the needs of customers and other stakeholders throughout the COVID-19 pandemic. In addition, the Company continued to review its potential exposures to COVID-19 related losses in 2021 and considers that provisions established against such exposures are appropriate.

Going concern

CICL's capital base ensures that the Company is in 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
Director
2 March 2021

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

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2021 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;
- 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" (United Kingdom Generally Accepted Accounting Practice) and Financial Reporting Standard 103 "Insurance Contracts".

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

Summary of our audit approach

Key audit matter	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 IBNR provision.
Materiality	The materiality that we used in the current year was £8.2 million which was determined on the basis of 2% of net asset value less ineligible funds.
Scoping	Audit work to respond to the risks of material misstatement was performed by the audit engagement team with actuarial specialist involvement.
Significant changes in our audit approach	There were no significant changes to our audit approach in the current year.

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 management's paper summarising the key points considered, including the company's performance, capital position and the impact of Covid-19 and climate change on the company's operations and balances, in concluding the going concern basis is appropriate. Our assessment included comparing data presented by management against tested balances and our own assessment of the impact of Covid-19 and climate change on the operations and loss reserves specifically;
- Assessing the net asset position of the company as at 31 December 2021 by comparing the net asset position to the Solvency Capital Requirements ("SCR") in order to understand the company's capital position; and
- Assessing whether forecasts prepared by management for the next 12 months support the going concern basis, taking in to account the historical accuracy of such forecasts in relation to prior years' performance.

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.

Key audit matters

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

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

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

Valuation 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 £327m (2020: £261m); a provision for professional liability, casualty direct & facultative and financial institutions claims totalling £193m (2020: £171m) forms a subset of this balance.</p> <p>The accounting policies applied to IBNR can be found in note 1 on page 28. IBNR disclosure can be found in note 18 on page 60.</p> <p>We have determined that the key audit matter within the technical provisions is the valuation of the professional liability, casualty direct & facultative and financial institutions classes of business, which requires significant judgment in the selection of claims data utilised, spreadsheet models built, actuarial methodologies and assumptions, including selection of the Initial Expected Loss Ratios ('IELRs'), 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 management 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 and assumptions used to determine the reserves.</p> <p>Working with our in-house actuarial specialists, we performed the following procedures in line with the ISA 540 'Auditing Accounting Estimates and Related Disclosures' standard on auditing complex estimates:</p> <ul style="list-style-type: none"> • Data: We have reconciled the data which has been 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, specifically the incurred estimate through the review of a sample of claims files. • Model: To test the accuracy of the spreadsheet models used by management, we performed some limited replication of management's modelling using our own modelling tool. • Methodology & Assumptions: <ul style="list-style-type: none"> - We analysed whether the reserving methodology selected by management is appropriate. We used the company's development data and our own internal benchmarks to assess the assumptions used. This included comparing the IELRs selected by management against historical experience and internal/external benchmarks. - We assessed other evidence corroborative to management's booked estimate, such as 2021 incurred claims development and settlement negotiations; and - We evaluated a balance of contradictory and corroborative evidence supporting management's reserve set, including 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.
Key observations	<p>We have 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

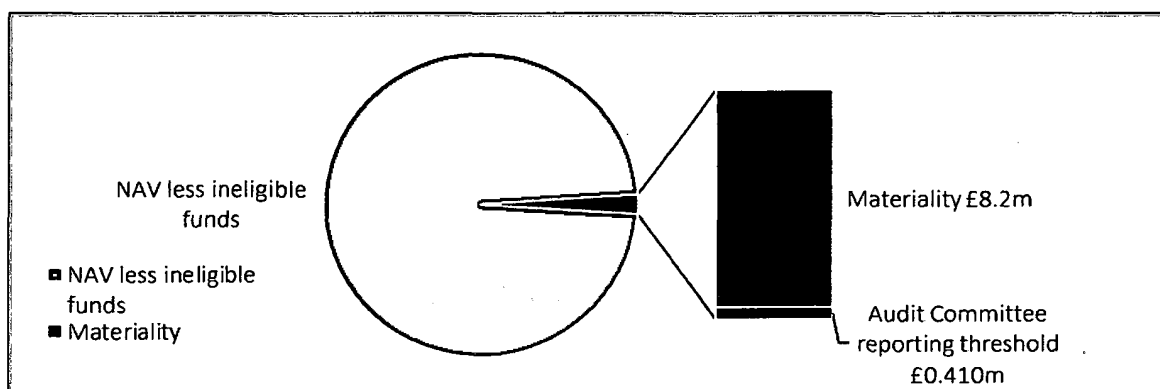
Our application of materiality

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	£8.2 million (2020: £8.3 million)
Basis for determining materiality	2.0% of net asset value less ineligible funds. (2020: 2.0% of net asset value less ineligible funds)
Rationale for the benchmark applied	It was determined that net asset value less ineligible funds would be 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.



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 2021 audit (2020: 67.5%). In determining performance materiality, we considered the following factors:

- the lower number of corrected and uncorrected misstatements identified in the previous audit;
- the quality of the control environment and whether we were able to rely on controls; and
- the reduced uncertainties created by COVID-19.

Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £410k (2020: £414k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

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

An overview of the scope of our audit

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

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

Further we have 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.

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.

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.

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

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.

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;
- 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;
- 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 IT, pensions 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 area: valuation of the professional liability, casualty 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 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") regulations, HRMC legislation and pension legislation.

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

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

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

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

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

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

We have nothing to report in respect of this matter.

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

Other matters which we are required to address

Auditor tenure

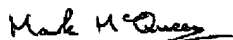
Following the recommendation of the audit committee, we were appointed by the company on 30 June 1998 to audit the financial statements for the year ending 31 December 1998 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 24 years, covering the years ending 31 December 1998 to 31 December 2021.

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

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

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Mark McQueen (ACA)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
2 March 2022

Profit and loss account - Technical account - General business

	Notes	2021 £'000	2020 £'000
Gross premiums written	4	234,481	221,092
Outward reinsurance premiums	4	(52,783)	(53,627)
Premiums written, net of reinsurance		181,698	167,465
Change in provision for unearned premiums			
– gross amount	4	(9,232)	(19,930)
– reinsurers' share	4	571	5,598
Earned premiums, net of reinsurance		173,037	153,133
Claims paid			
– gross amount		76,002	79,204
– reinsurers' share		(2,633)	(4,056)
Net claims paid	5	73,369	75,148
Change in the provision for claims:			
– gross amount	5	52,880	40,389
– reinsurers' share	5	(19,671)	(37,054)
Claims incurred, net of reinsurance	5	106,578	78,483
Net operating expenses	6	55,417	52,181
Balance on the technical account for general business		11,042	22,469

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	2021 £'000	2020 £'000
Balance on the technical account for general business		11,042	22,469
Income from investments		15,004	15,385
Realised losses on investments (restated)	12	(4,695)	(3,800)
Unrealised (losses)/gains on investments (restated)	12	(19,000)	9,622
Investment management expenses		(406)	(456)
Interest expense		-	(23)
Total investment return		(9,097)	20,728
Other charges	8	(13,761)	(1,802)
(Loss)/profit on ordinary activities before tax	9	(11,816)	41,395
Tax on (loss)/profit on ordinary activities	10	(519)	(2,561)
(Loss)/profit for the financial year		(12,335)	38,834

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	2021 £'000	2020 £'000
(Loss)/profit for the financial year		(12,335)	38,834
Other comprehensive income:			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Remeasurement of the net defined benefit pension scheme asset	16	9,250	(5,594)
UK Deferred tax attributable to remeasurement of the net defined benefit pension scheme asset	16	(1,440)	855
Currency translation differences		(127)	384
Total comprehensive (expense)/income for the year		(4,652)	34,479

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 2021	130,200	284,633	414,833
Total comprehensive expense for the year			
Loss for the financial year	-	(12,335)	(12,335)
Other comprehensive income			
Remeasurement of the net defined benefit pension scheme asset	-	9,250	9,250
UK deferred tax attributable to remeasurement of the net defined benefit pension scheme asset	-	(1,440)	(1,440)
Currency translation differences	-	(127)	(127)
Total comprehensive expense for the year	-	(4,652)	(4,652)
Balance at 31 December 2021	130,200	279,981	410,181

	Share capital £'000	Profit and loss account £'000	Total shareholder's equity £'000
Balance at 1 January 2020	130,200	250,154	380,354
Total comprehensive income for the year			
Profit for the financial year	-	38,834	38,834
Other comprehensive expense			
Remeasurement of the net defined benefit pension scheme asset	-	(5,594)	(5,594)
UK Deferred tax attributable to remeasurement of the net defined benefit pension scheme asset	-	855	855
Currency translation differences	-	384	384
Total comprehensive income for the year	-	34,479	34,479
Balance at 31 December 2020	130,200	284,633	414,833

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

Balance sheet

Assets	Notes	31 Dec 2021 £'000	31 Dec 2020 £'000
Shares in group undertakings	11	210,814	192,735
Other financial investments - debt securities and other fixed income securities	12	560,215	548,178
Investments		771,029	740,913
Reinsurers' share of provision for unearned premiums	13	22,035	21,417
Reinsurers' share of claims outstanding	13	115,712	96,165
Reinsurers' share of technical provisions		137,747	117,582
Debtors arising out of direct insurance operations - intermediaries		63,112	57,682
Debtors arising out of reinsurance operations		2,228	871
Other debtors	14	6,207	3,525
Debtors – amounts falling due within one year		71,547	62,078
Cash at bank and in hand		52,056	54,238
Accrued interest		5,693	6,199
Deferred acquisition costs	15	17,058	15,709
Other prepayments and accrued income		104	207
Prepayments and accrued income		22,855	22,115
Total assets excluding pension asset		1,055,234	996,926
Pension asset	16	6,938	-
Total assets		1,062,172	996,926

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

Balance sheet – continued

Liabilities	Notes	31 Dec 2021 £'000	31 Dec 2020 £'000
Called up share capital	17	130,200	130,200
Profit and loss account		279,981	284,633
Capital and reserves		410,181	414,833
Provision for unearned premiums	18	118,781	109,755
Claims outstanding	18	476,562	424,251
Technical provisions		595,343	534,006
Provisions for other risks	19	237	219
Creditors arising out of direct insurance operations		3,221	2,582
Creditors arising out of reinsurance operations		31,793	21,358
Other creditors including tax and social security	20	19,084	19,501
Creditors – amounts falling due within one year		54,098	43,441
Reinsurers' share of deferred acquisition costs		761	1,000
Other accruals and deferred income		1,552	1,497
Accruals and deferred income		2,313	2,497
Total liabilities excluding pension liability		1,062,172	994,996
Pension liability	16	-	1,930
Total liabilities		1,062,172	996,926

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 2 March 2022 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.

Notes to the financial statements – continued

1. Accounting policies - continued

Foreign currencies

During the year, the Company maintained one branch in Europe. Both branches are in run-off and no new business was underwritten in the year. The financial statements of these branches are maintained in their functional currency, being the currency of the primary economic environment in which the branch operates. Typically, the functional currency and the currency of the primary economic environment is the currency of the country in which the entity is located.

Foreign currency transactions are converted to functional currency using the exchange rates prevailing at the date of the transactions. Assets and liabilities denominated in foreign currency are revalued to functional currency at year end exchange rates and the resultant differences are recognised as gains and losses in other income in the profit and loss account.

The presentational currency of the Company's financial statements is Pounds Sterling which is rounded to thousands. The functional currency financial statements of foreign branches are translated to Pounds Sterling as follows. Income and expenses are translated to Pounds Sterling using the exchange rates prevailing at the date of the underlying transactions. Assets and liabilities are translated at year end exchange rates. For this purpose all assets and liabilities arising from insurance contracts (including unearned premiums, deferred acquisition costs) are monetary items. Non-monetary items measured at historical cost are translated using the exchange rate at the date of transaction. All resulting exchange differences are recorded as currency translation differences in the statement of comprehensive income and reflected in the currency translation reserve.

Basis of accounting for underwriting activities

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

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

Premiums

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

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

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

Unearned premiums

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

Notes to the financial statements – continued

1. Accounting policies - continued

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 statement of balance sheet date.

Financial assets and liabilities

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

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

Notes to the financial statements – continued

1. Accounting policies - continued

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

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

Derecognition of financial assets

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

Derecognition of financial liabilities

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

Impairment of financial assets

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

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

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

Impairment (non-financial assets)

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

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

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

Investment in group undertakings

Investments in group undertakings are valued at cost less provision for impairment. Any change in the carrying value is calculated annually with reference to each subsidiary's UK GAAP net book value and recognised in the profit and loss account.

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

Insurance and other debtors

Insurance and other 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	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

The Company makes critical accounting judgements that affect the reported amounts of assets and liabilities during the financial year. 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. Estimation of claims provisions is a complex process, however, and significant uncertainty exists as to the ultimate settlement of these liabilities.

The most critical gross estimate included within the Company's balance sheet is the estimate for losses incurred but not reported ("IBNR") – both gross and reinsurers' share. This estimate is critical as it outlines the current liability for future expenses expected to be incurred in relation to claims and related recoveries from reinsurers. The total estimate as at 31 December 2021 is £327.3million (2020: £261.0 million) and is included within technical provisions in the balance sheet. The estimate for reinsurers' share of IBNR is £75.6 million (2020: £62.8 million).

The Company's estimate for unallocated loss adjustment expenses is based on an actuarial study at 31 December 2021 was £8.0 million (2020: £8.8 million).

Critical accounting judgements

There are no critical accounting judgements other than judgements in relation to key sources of estimation uncertainty.

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 - continued

Management of reinsurance risk

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

In addition to protecting the business against catastrophe exposure, reinsurance is also purchased to cede risks that have characteristics that the Company does not wish to retain and also to control net exposures on single risks or aggregations of risks. Both proportional and non-proportional reinsurances are employed. Facultative reinsurance may also be used in certain predetermined circumstances for individual large lines.

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

Reserve risk

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

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

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

There is a significant amount of uncertainty in the reserve established, which may be more or less than adequate. The level of uncertainty varies between classes of business and generally increases for longer tail classes of business. Any change in the estimate of a reserve, or a settlement at a value other than the reserve provided, is recognised in the reporting period in which the change is identified. Given the significant uncertainty in the best estimate reserve established, the booked reserve also includes an additional management margin for prudence. This margin increases the probability that the booked claim reserves will prove adequate. The margin amount is set by the Board and reflects both the degree of uncertainty around the actuarial best estimate and the reserve risk appetite of the Company.

Notes to the financial statements – continued

3. Risk management – continued

Insurance risk - continued

Reserve risk - continued

The concentration of insurance risk before and after reinsurance by risk location 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 2021

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	255,280	193,296	163,446	123,760	418,726	317,056
Continental Europe	4,423	3,349	10,278	7,783	14,701	11,132
United States	3,881	2,939	-	-	3,881	2,939
Other	-	-	39,254	29,723	39,254	29,723
Total	263,584	199,584	212,978	161,266	476,562	360,850

Year ended 31 December 2020

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	212,490	167,741	148,802	112,672	361,292	280,413
Continental Europe	4,348	3,292	12,003	9,089	16,351	12,381
United States	3,414	2,585	206	156	3,620	2,741
Other	1,220	924	41,768	31,627	42,988	32,551
Total	221,472	174,542	202,779	153,544	424,251	328,086

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	Net of reinsurance	Gross of reinsurance	Net of reinsurance
	2021	2021	2020	2020
	£'000	£'000	£'000	£'000
Pre-tax impact of a 1% variance in:				
Claims liability	4,766	3,609	4,243	3,281
Combined ratio	2,252	1,730	2,012	1,531
Impact on net assets of a 1% variance in:				
Claims liability	3,860	2,923	3,436	2,657
Combined ratio	1,825	1,402	1,629	1,240

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 2021 was "A" (2020: "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:

	2021 £'000	2020 £'000
Other financial investments	560,215	548,178
Reinsurers' share of claims outstanding	115,712	96,165
Debtors arising out of direct insurance operations	63,112	57,682
Cash at bank and in hand	52,056	54,238
Debtors arising out of reinsurance operations	2,228	871
Total assets bearing credit risk	793,323	757,134

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.

	2021 £'000	2020 £'000
AAA	41,636	54,776
AA	130,325	122,613
A	163,507	175,148
BBB	198,497	171,127
Below BBB or not rated	26,250	24,514
Total other financial investments bearing credit risk	560,215	548,178

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

	2021 £'000	2020 £'000
AA	162	161
A	113,597	92,358
BBB	54	105
Below BBB or not rated	4,127	4,412
Total reinsurers' share of claims outstanding and debtors arising out of reinsurance operations bearing credit risk	117,940	97,036

Reinsurers' share of claims outstanding includes a £0.5 million (2020: £0.6 million) provision for impairment. Debtors arising out of direct and reinsurance operations includes a £0.1 million (2020: £0.6 million) provision for impairment which represents 17.2% (2020: 11.9%) 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	177,046	163,998	81,530	53,988	476,562
Creditors - amounts falling due within one year	54,098	-	-	-	54,098
Accruals and deferred income	2,313	-	-	-	2,313
As at 31 December 2021	233,457	163,998	81,530	53,988	532,973
	Within 1 year £'000	1-2 years £'000	3-5 years £'000	Over 5 years £'000	Total £'000
Claims outstanding	140,570	96,608	105,047	82,026	424,251
Creditors - amounts falling due within one year	43,441	-	-	-	43,441
Accruals and deferred income	2,497	-	-	-	2,497
As at 31 December 2020	186,508	96,608	105,047	82,026	470,189

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	108,196	177,320	188,095	86,604	560,215
Reinsurers' share of claims outstanding	42,987	39,820	19,796	13,109	115,712
Debtors – amounts falling due within one year	71,547	-	-	-	71,547
Accrued interest and other prepayments and accrued income	5,797	-	-	-	5,797
Cash at bank and in hand	52,056	-	-	-	52,056
As at 31 December 2021	280,583	217,140	207,891	99,713	805,327
	Within 1 year £'000	1-2 years £'000	3-5 years £'000	Over 5 years £'000	Total £'000
Other financial investments	55,532	218,370	162,178	112,098	548,178
Reinsurers' share of claims outstanding	31,863	21,898	23,811	18,593	96,165
Debtors – amounts falling due within one year	62,078	-	-	-	62,078
Accrued interest and other prepayments and accrued income	6,406	-	-	-	6,406
Cash at bank and in hand	54,238	-	-	-	54,238
As at 31 December 2020	210,117	240,268	185,989	130,691	767,065

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 - interest rate risk

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

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

To illustrate the down side risk within the debt and other fixed income securities portfolio, the impact of an increase of 100 basis points in interest yields across all portfolios simultaneously (principally Pounds sterling, Euro, US dollars and Australian dollars) has been estimated. The Company does not hedge interest rate risk and, assuming this continues and that all other variables remain constant, such an increase would decrease the market value of the investment portfolio and lead to a decrease in the total investment return of £16.9 million (2020: £9.3 million) and accordingly decrease total shareholder's funds by £13.7million (2020: £7.6 million).

On the basis that all other variables remain constant, a decrease of 100 basis points in interest rates at 31 December 2021 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 requirements set out in the Solvency II 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 2021, 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 2021

	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	27,517	26,221	(15,150)	(7,946)	1,955
Fire and other damage to property	21,299	20,486	(7,175)	(4,980)	(3,430)
Third party liability	174,344	167,926	(101,819)	(40,448)	(25,527)
Miscellaneous	11,321	10,616	(4,738)	(2,043)	(2,906)
Total	234,481	225,249	(128,882)	(55,417)	(29,908)

For the year ended 31 December 2020

	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	37,831	35,743	(19,512)	(11,185)	(1,283)
Fire and other damage to property	18,937	19,425	(9,445)	(6,096)	(4,691)
Third party liability	154,208	136,186	(86,643)	(32,207)	735
Miscellaneous	10,116	9,808	(3,993)	(2,693)	(1,680)
Total	221,092	201,162	(119,593)	(52,181)	(6,919)

Notes to the financial statements – continued

4. Segmental Information - continued

Gross written premiums by location of risk:

	2021 £'000	2020 £'000
United Kingdom	197,856	175,774
EU member states and other EEA member states	(358)	9,938
Other countries	36,983	35,380
Total	234,481	221,092

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:

	2021 £'000	2020 £'000
Commercial	2,174	7,456
Specialty	(11,822)	9,829
Total	(9,648)	17,285

Unfavourable prior year loss development of £9.6 million was recorded in 2021 compared to favourable development of £17.3 million in 2020. In the current calendar year, the unfavourable loss development was driven primarily by lower emergence of claims of certain lines business than previously anticipated. The favourable development in the prior year was driven primarily by reserve strengthening in the professional liability class of business.

6. Net operating expenses

	2021 £'000	2020 £'000
Acquisition costs	31,464	30,627
Other acquisition costs	3,944	3,666
Change in deferred acquisition costs	(1,355)	(1,911)
Reinsurance commissions	(2,230)	(3,150)
Change in ceded deferred acquisition costs	(222)	276
Total acquisition costs	31,601	29,508
Administrative expenses	23,816	22,673
Total	55,417	52,181

Notes to the financial statements – continued

7. Information on employees and directors

All UK staff are employed and remunerated by CNA Services, a fellow indirect subsidiary of CNAF. The Company pays CNA Services a management fee for the provision of staff and administration services.

Directors' remuneration

Details of the emoluments paid to the directors of CICL are disclosed in the financial statements of CNA Services. Five (2020: five) directors were members of a defined contribution pension scheme.

The following Directors of the Company who served during the year, listed below, were all employed and remunerated by CCC, part of the CNAF group (see note 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. These directors did not receive any emoluments from this company:

D Worman, A D'Hulster, J Gonzalez, S Stone, H Thomas, R Thomson

8. Other (charges)/income

	2021 £'000	2020 £'000
Income from the provision of Funds at Lloyd's	110	252
Other finance costs (see note 16)	(7)	51
Change in value of investment in subsidiary undertakings (see note 11)	(16,124)	(287)
Foreign exchange movements	1,999	(2,259)
Other income	261	441
Total	(13,761)	(1,802)

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

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

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

	2021 £'000	2020 £'000
Operating lease rentals:		
Recharged from CNA Services	1,706	1,303
Fees payable to the Company's auditor for:		
The audit of the Company's annual financial statements	163	150
Other services pursuant to legislation	137	129

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

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

	2021	2020
	£'000	£'000
Current tax:		
UK Corporation tax on profits of the year	-	(814)
Double tax relief	-	74
Overseas tax	2	(74)
	2	(814)
Adjustments in respect of previous years:		
UK corporation tax	(41)	-
Overseas tax	(7)	100
Total current tax charge	(46)	(714)
Deferred tax (see note 14):		
Origination and reversal of timing differences	(435)	(2,175)
Effect of change in UK tax rate	-	441
Movement in post-retirement liability excluding actuarial gain	56	22
Adjustment in respect of prior years	(94)	(135)
Total deferred tax charge	(473)	(1,847)
Tax charge on (loss)/profit on ordinary activities	(519)	(2,561)
	2021	2020
	£'000	£'000
Factors affecting tax charge for the year:		
(Loss)/profit on ordinary activities before tax	(11,816)	41,395
Tax at the UK rate of 19.0% (2020: 19.0%)	2,245	(7,865)
Effects of:		
Group relief received without payment	417	4,831
Non-taxable income	25	75
Adjustments in respect of foreign tax rates	2	-
Effect of change in UK tax rate	-	441
Net pension contribution relief in excess of pension charges	(3)	46
Adjustments to tax charge in respect of previous years	(142)	(35)
Impact of impairment of subsidiary	(3,063)	(54)
Tax charge on (loss)/profit on ordinary activities	(519)	(2,561)

Notes to the financial statements – continued

11. Shares in group undertakings

	Cost 2021 £'000	Cost 2020 £'000	Reported Value 2021 £'000	Reported Value 2020 £'000
Investment in Subsidiary	232,534	198,331	210,814	192,735

The Company owns 100% of the 167.7 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.

During the year, the Company purchased 40 million ordinary shares in CICE with a par value of €1 each for £34.2m.

Included in the loss for the year is an impairment charge of £16.1m with respect to the carrying value of the Company's investment in CICE.

The Company owns one ordinary £1 share (2020: £1), issued at par value, of Maritime Insurance Company Limited ("MIDL") representing 100% of MIDL's authorised share capital. MIDL 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 2021 £'000	Cost 2020 £'000	Fair Value 2021 £'000	Fair Value 2020 £'000
Debt securities and other fixed income securities	573,744	542,939	560,215	548,178

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
2021				
Debt securities and other fixed income securities	10,947	549,268	-	560,215
2020				
Debt securities and other fixed income securities	10,647	537,531	-	548,178

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:

	2021 £'000	2020 £'000
Within one year	108,196	55,532
After one year	452,019	492,646
Total	560,215	548,178

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

	2021 £'000	2020 £'000
Reinsurers' share of claims outstanding gross of impairment provision	116,199	96,800
Impairment provision	(487)	(635)
Reinsurers' share of claims outstanding	115,712	96,165
Reinsurers' share of unearned premiums	22,035	21,417
Total	137,747	117,582

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

	2021	2020
	£'000	£'000
Deferred tax asset	2,309	2,531
Other	3,898	994
Total	6,207	3,525

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	Provided	Not	Not
	2021	2020	provided	provided
	£'000	£'000	2021	2020
			£'000	£'000
Tax losses	1,753	1,840	-	-
Short-term timing differences	338	415	-	-
Decelerated capital allowances	218	276	-	-
	2,309	2,531	-	-
Post-retirement (liability)/asset	(1,468)	223	-	-
Total	841	2,754	-	-

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

	2021	2020
	£'000	£'000
Provision at start of year	2,754	3,746
Amounts charged to the profit and loss account	(473)	(1,847)
Amounts credited to the statement of comprehensive income	(1,440)	855
Provision at end of year	841	2,754

Notes to the financial statements – continued

15. Deferred acquisition costs

	2021 £'000	2020 £'000
At 1 January	15,709	13,803
Change in deferred acquisition costs	1,355	1,911
Foreign exchange revaluation	(6)	(5)
At 31 December	17,058	15,709

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. A significant proportion of invested assets are held in growth assets (e.g. diversified growth funds) which, though expected to outperform corporate bonds in the long-term, create volatility and risk in the short-term. The allocation to growth assets is monitored to ensure it remains appropriate given the plan's long-term objectives.
Changes in bond yields	A fall in corporate bond yields will increase the value placed on the plan's liabilities for accounting purposes, although this will be partially offset by an increase in the value of the plan's 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. The post-2030 alignment of the calculation of RPI inflation with CPIH inflation announced in November 2020 is expected to result in lower pension increases for plan members and has been allowed for in setting the RPI inflation assumption as at 31 December 2021.
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 62% of the liabilities are attributable to deferred members and 38% 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 19 years reflecting the approximate split of the defined benefit obligation between deferred members (duration of 23 years) and current pensioners (duration of 13 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 2021				
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 2019 and it showed a deficit of £1.6 million.

As a result of the valuation the Company agreed to pay annual contributions of £1.6 million in monthly instalments from 1 April 2020 to 30 June 2025, which are expected to bring the Plan to full funding by 30 June 2025. In addition, the Company pays directly the Pension Protection Fund and other levies collected by the Pensions Regulator.

The next funding valuation will be carried out with an effective date of 31 March 2022. If the Plan is in deficit at that time, the Company will discuss any required deficit contributions with the Trustees of the Plan.

Contributions of £1.62 million were made by the Company during 2021. Company contributions to the Plan in the year to 31 December 2022 are estimated to be £1.62 million.

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

Reporting at 31 December 2021

The results of the latest funding valuation at 31 March 2019 have been adjusted to the balance sheet date taking account of experience over the period since 31 March 2019, 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:

	2021 % pa	2020 % pa
Discount rate for the Plan's liabilities	2.0	1.4
RPI inflation	3.1	2.7
CPI inflation	2.4	2.0
Increase in salaries	n/a	n/a
Life expectancy for male currently aged 65	23.2	23.2
Life expectancy for female currently aged 65	24.8	24.7
Life expectancy for male currently aged 45	24.5	24.4
Life expectancy for female currently aged 45	26.1	26.1

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 2021 the Plan assets were invested in the following asset classes:

	Fair value 2021 £'000	Of which not quoted in active market 2021 £'000	Fair value 2020 £'000	Of which not quoted in active market 2020 £'000
Diversified Growth Fund	53,713	-	49,286	-
Gilts and bonds	21,099	-	20,665	-
Insured annuity asset	57	57	63	63
Cash	115	-	272	-
Total	74,984	57	70,286	63

At 31 December 2021 £nil (2020: £nil) of the fair value of scheme assets related to self-investment.

The amounts recognised on the balance sheet at 31 December 2021 are set out below:

	2021 £'000	2020 £'000
Fair value of Plan assets	74,984	70,286
Present value of funded defined benefit obligation	(67,258)	(71,463)
Assets/(liabilities) recognised on the balance sheet	7,726	(1,177)
Related deferred tax (liability)/asset	(1,468)	223
Net pension (liability)/asset	6,258	(954)

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:

	2021 £'000	2020 £'000
Operating cost		
Service costs:		
Administration expenses	290	168
Total operating cost	290	168
Financing cost:		
Interest on net pension asset/(liability)	7	(51)
Pension expense recognised in profit and loss	297	117
Remeasurements in other comprehensive income:		
Return on plan assets in excess of that recognised in net interest	(3,742)	(3,500)
Liability losses (gains) arising during the year	(3,838)	7,989
Total amount recognised in other comprehensive income	(7,580)	4,489
Total amount recognised in profit and loss and comprehensive income	(7,283)	4,606

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

	2021 £'000	2020 £'000
Opening defined benefit obligation	71,463	64,478
Actuarial (gains)/losses arising from changes in financial assumptions	(4,329)	8,561
Interest expense on defined benefit obligation	991	1,267
Actuarial losses/(gains) arising from experience	532	(853)
Actuarial (gains)/losses arising from changes in demographic	(41)	281
Net benefits paid out	(1,358)	(2,271)
Closing defined benefit obligation	67,258	71,463

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:

	2021 £'000	2020 £'000
Opening fair value of plan assets	70,286	66,287
Gains on Plan assets	3,742	3,500
Contributions by the employer	1,620	1,620
Interest income on plan assets	984	1,318
Administration costs incurred	(290)	(168)
Net benefits paid out	(1,358)	(2,271)
Closing fair value of scheme assets	74,984	70,286

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

Notes to the financial statements – continued

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.

As at 31 December 2021	Less than 1 year	Between 1-2 years	Between 2-5 years	Over 5 years
Pension benefits	10%	7%	19%	64%

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 Plan was carried out by a qualified actuary as at 1 January 2021 and it showed a deficit of £1.77 million.

As a result of the valuation the Company agreed to pay annual contributions of £0.375 million annually which are expected to bring the Plan to full funding by 2026. In addition, the Company pays directly the Pension Protection Fund and other levies collected by the Pensions Regulator.

The next funding valuation will be carried out with an effective date of 1 January 2024. If the Plan is in deficit at that time, the Company will discuss any required deficit contributions with the Trustees of the Plan.

No contributions were made by the Company during 2021. Company contributions to the Plan in the year to 31 December 2022 will be £0.375 million.

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

The employee contributions to the 1977 Plan for 2021 and 2020 were nil.

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

Reporting at 31 December 2021

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:

	2021 % pa	2020 % pa
Discount rate	2.0	1.4
RPI inflation assumption	3.1	2.7
CPI inflation assumption	2.4	2.0
Increase in salaries	n/a	n/a
Life expectancy for male currently aged 65	23.2	23.2
Life expectancy for female currently aged 65	24.8	24.7
Life expectancy for male currently aged 45	24.5	24.4
Life expectancy for female currently aged 45	26.1	26.1

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 2021 the 1977 Plan assets are invested in the following asset classes:

	Fair value 2021 £'000	Of which not quoted in active market 2021 £'000	Fair value 2020 £'000	Of which not quoted in active market 2020 £'000
Diversified Growth Fund	8,031	-	7,806	-
Gilts and bonds	7,070	-	7,428	-
Cash	42	-	265	-
Total	15,143	-	15,499	-

At 31 December 2021 £nil (2020: £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 2021 are set out below:

	2021 £'000	2020 £'000
Fair value of 1977 Plan assets	15,143	15,499
Present value of funded defined benefit obligation	(14,463)	(16,475)
Net pension asset/(liability)	680	(976)

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:

	2021 £'000	2020 £'000
Operating cost:		
Past service cost	-	72
Total operating cost	-	72
Financing cost:		
Interest on net defined benefit asset	14	(4)
Pension benefit/(expense) recognised in profit and loss	14	68
Remeasurements in other comprehensive income:		
Return on plan assets (in excess of)/below that recognised in net interest	(82)	(1,145)
Liability (gains)/losses arising during the year	(1,588)	2,250
Total amount recognised in other comprehensive income	(1,670)	1,105
Total amount recognised in profit and loss and comprehensive income	1,684	(1,037)

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

	2021 £'000	2020 £'000
Opening defined benefit obligation	16,475	15,404
Interest expense on obligation	226	293
Actuarial losses arising from experience	8	310
Past service cost	-	72
Actuarial gains due to changes in demographic assumptions	(12)	51
Net benefits paid out	(650)	(1,544)
Actuarial losses due to changes in financial assumptions	(1,584)	1,889
Closing defined benefit obligation	14,463	16,475

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:

	2021 £'000	2020 £'000
Opening fair value of 1977 Plan assets	15,499	15,601
Gains on Plan assets	82	1,145
Expected return on 1977 Plan assets	212	297
Net benefits paid out	(650)	(1,544)
Closing fair value of 1977 Plan assets	15,143	15,499

17. Share capital

	2021 £'000	2020 £'000
Authorised:		
15,000,000 ordinary shares of £10 each (2020: 15,000,000)	150,000	150,000
Allotted, called up and fully paid:		
13,020,000 ordinary shares of £10 each (2020: 13,020,000)	130,200	130,200

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

	2021 £'000	2020 £'000
Gross		
Claims reported	141,242	154,413
Unallocated loss adjustment expenses	8,019	8,826
Claims incurred but not reported	327,301	261,012
Unearned premiums	118,781	109,755
Total gross technical provisions	595,343	534,006
Reinsurers' share of technical provisions		
Claims reported	40,077	33,363
Claims incurred but not reported	75,635	62,802
Unearned premiums	22,035	21,417
Total reinsurers' share of technical provisions	137,747	117,582
Net		
Claims reported	101,165	121,050
Unallocated loss adjustment expenses	8,019	8,826
Claims incurred but not reported	251,666	198,210
Unearned premiums	96,746	88,338
Total net technical provisions	457,596	416,424

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 2020	90,232	384,457	474,689
Foreign exchange revaluation	(407)	(595)	(1,002)
Movement in provision	19,930	40,389	60,319
At 1 January 2021	109,755	424,251	534,006
Foreign exchange revaluation	(206)	(569)	(775)
Movement in provision	9,232	52,880	62,112
At 31 December 2021	118,781	476,562	595,343
Reinsurance amount			
At 1 January 2020	16,034	61,156	77,190
Foreign exchange revaluation	(215)	(2,045)	(2,260)
Movement in provision	5,598	37,054	42,652
At 1 January 2021	21,417	96,165	117,582
Foreign exchange revaluation	47	(124)	(77)
Movement in provision	571	19,671	20,242
At 31 December 2021	22,035	115,712	137,747
Net			
At 31 December 2021	96,746	360,850	457,596
At 31 December 2020	88,338	328,086	416,424

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 2021 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	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000	2018 £'000	2019 £'000	2020 £'000	2021 £'000	Total £'000
At end of first year	74,076	79,568	84,146	77,134	91,091	89,076	107,715	142,228	107,596	112,150	115,845	1,080,625
One year later	(284)	(3,221)	(268)	5,577	12,957	8,854	24,396	6,569	(3,926)	(6,566)		44,088
Two years later	(1,859)	(8,809)	(815)	(900)	1,892	(2,340)	7,714	(6,644)	(2,601)			(14,362)
Three years later	(5,695)	1,652	(10,299)	(870)	(346)	(23,508)	20,913	1,626				(16,527)
Four years later	(4,020)	12	(155)	(3,415)	(7,993)	(3,212)	1,031					(17,752)
Five years later	(7,358)	(3,341)	(3,984)	(8,653)	(695)	4,518						(19,513)
Six years later	730	(2,867)	(8,320)	(3,297)	1,432							(12,322)
Seven years later	(3,056)	(2,341)	(2,602)	(1,956)								(9,955)
Eight years later	(1,576)	(182)	1,159									(599)
Nine years later	(824)	7,558										6,734
Ten years later	(481)											(481)
Current estimate of ultimate claims	49,653	68,029	58,862	63,620	98,338	73,388	161,769	143,779	101,069	105,584	115,845	1,039,936
Cumulative payments to date	(48,411)	(57,595)	(55,479)	(57,882)	(83,832)	(54,263)	(66,765)	(80,495)	(41,965)	(22,490)	(11,139)	(580,316)
Provision as at 31 December 2021	1,242	10,434	3,383	5,738	14,506	19,125	95,004	63,284	59,104	83,094	104,706	459,620
Accident years prior to 2011												8,923
Claims handling provision												8,019
Technical provisions as at 31 December 2021												476,562

Notes to the financial statements – continued

18. Technical provisions - continued

Claims development table net of reinsurance

Accident year	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000	2018 £'000	2019 £'000	2020 £'000	2021 £'000	Total £'000
At end of first year	66,583	68,239	75,186	71,118	89,608	72,965	95,093	107,864	87,409	88,506	90,716	913,287
One year later	(304)	(2,803)	147	4,251	5,281	14,606	27,352	6,009	(2,579)	(5,666)		46,294
Two years later	(1,992)	(7,776)	(1,171)	(1,409)	2,006	(4,315)	10,182	(5,029)	(3,223)			(12,727)
Three years later	(4,581)	1,348	(7,142)	(4,415)	(5,047)	(17,424)	2,177	2,593				(32,491)
Four years later	(4,186)	(368)	(8)	(1,353)	(4,328)	(5,345)	935					(14,653)
Five years later	(1,939)	(3,670)	(1,162)	(4,634)	1,676	4,146						(5,583)
Six years later	622	(1,208)	(6,453)	(4,478)	1,313							(10,204)
Seven years later	(2,212)	(2,206)	(2,690)	(1,257)								(8,365)
Eight years later	(1,373)	117	1,080									(176)
Nine years later	(841)	7,119										6,278
Ten years later	(483)											(483)
Current estimate of ultimate claims	49,294	58,792	57,787	57,823	90,509	64,633	135,739	111,437	81,607	82,840	90,716	881,177
Cumulative payments to date	(48,101)	(48,514)	(55,059)	(54,291)	(77,220)	(49,798)	(65,797)	(58,743)	(41,656)	(21,976)	(11,126)	(532,281)
Provision as at 31 December 2021	1,193	10,278	2,728	3,532	13,289	14,835	69,942	52,694	39,951	60,864	79,590	348,896
Accident years prior to 2011												3,935
Claims handling provision												8,019
Technical provisions as at 31 December 2021												360,850

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

	Dilapidations and refurbishment provision £'000
At 1 January 2020	186
Charged to the statement of profit or loss	33
At 31 December 2020	219
Charged to the statement of profit or loss	18
At 31 December 2021	237

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:

	2021 £'000	2020 £'000
Within one year	-	-
After one year	237	219
Total	237	219

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

	2021	2020
	£'000	£'000
Amounts due to group undertakings	1,284	6,425
Insurance premium tax	6,462	4,872
Corporation tax payable	(2)	817
Financial liabilities	203	362
Other tax and social security	8	20
Other creditors	11,129	7,005
Total	19,084	19,501

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	
	2021	2020	2021	2020
	£'000	£'000	£'000	£'000
Within one year	275	316	-	-
Within two to five years	404	680	-	-
Total	679	996	-	-

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 2021 the amount remaining on the letter of credit after draw downs was £311,212.

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 CIGL. 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 (2020: £1,085,006) in bonds with Lloyd's as security for the underwriting activities of HUL. Fees of 2.5% (2020: 2.5%) per annum are attributable to this security and were earned by the Company on a quarterly basis. The funds pledged as Funds at Lloyd's for Lloyd's are ineligible for the purposes of calculating the Company's capital available to meet regulatory requirements.

23. Deed of Guarantee

The Company has been granted a Deed of Guarantee by CCC (the Guarantor) effective 24 January 2002 and renewed on 1 January 2019. The Deed of guarantee is also applicable to the Company's subsidiary CICE. Under the terms of the Deed of Guarantee, CCC guarantees all liabilities that arise or have arisen under policies of insurance or contracts of reinsurance entered into by the Company, including policies or contracts entered into before 24 January 2002. The Company is charged a fee by CCC for the provision of the guarantee based on an agreed formula. The calculated charge for 2021 was £nil (2020: £nil).

The Deed of Guarantee will remain in place until 31 December 2022 unless written notice is received from S&P that the guarantee is no longer needed for the Company to maintain an S&P rating at the same level as the rating assigned to the Guarantor, or, if the majority shareholding in the Company is transferred to a corporate entity outside the CNA group which has an S&P rating equal to or better than the rating assigned to the Guarantor.

Notes to the financial statements – continued

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 - unaudited

As outlined in the statement of Directors' responsibilities and note 1, the Company prepares and presents statutory financial statements in accordance with FRS 102 and FRS 103 ("UK GAAP"). The Directors have prepared a reconciliation to accounting principles generally accepted in the US ("US GAAP") to meet relevant regulatory requirements in the United States of America. This note does not form part of the Annual Report and Financial Statements as required under UK GAAP or the Companies Act 2006 and is unaudited.

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

	2021 £'000	2020 £'000
Profit/(loss) for the financial year on a UK GAAP basis	(12,335)	38,834
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 £24,000 (2020: £204,000) - see i. below	(242)	1,005
Remeasurement of investments classified as available for sale recorded in OCI under US GAAP net of tax of £2,494,000 (2020: £649,000) - see ii. below	24,613	(19,248)
Difference in treatment of amounts in relation to defined benefit pension scheme accounting net of tax of £2,216,000 (2020: £521,000) - see iii. Below	3,876	1,111
Other GAAP accounting differences net of tax of £38,000 (2020: £505,000) - see iv. below	66	(1,078)
Net profit/(loss) on a US GAAP basis	15,978	20,624

Notes to the financial statements – continued

25. Reconciliation from UK GAAP to US GAAP- continued

- i. Under UK GAAP unrealised investment gains/losses and foreign exchange differences on the revaluation of investments still held are included in profit or loss for the financial year whereas under US GAAP the foreign exchange difference upon revaluation of investments classified as available for sale is recorded within 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 £(14,923,915) (2020: gain of £9,087,766) and changes in unrealised losses of £3,403,503 (2020: loss of £132,376), 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 (2020: £17,873) are recorded in net income. As a result, no net asset difference arises between UK GAAP and US GAAP.

- iii. Under US GAAP, amortisation of actuarial gains and losses are accounted for as part of the net periodic pension cost, but offset to OCI. Under UK GAAP amortisation of actuarial gains and losses are included in the statement of comprehensive income for the financial year. As a result, no net asset difference arises between UK GAAP and US GAAP.
- iv. Under US GAAP, Unearned Premium ("UPR") and Deferred Acquisition Costs ("DAC") are held at their historical rate. Under UK GAAP UPR and DAC are revalued at the current month end rate.

	2021 £'000	2020 £'000
Capital and reserves on a UK GAAP basis	410,181	414,833
Impairment of investment in subsidiary	1,177	6,109
Other GAAP differences	893	1,131
Stockholders' equity on a US GAAP basis	412,251	422,073