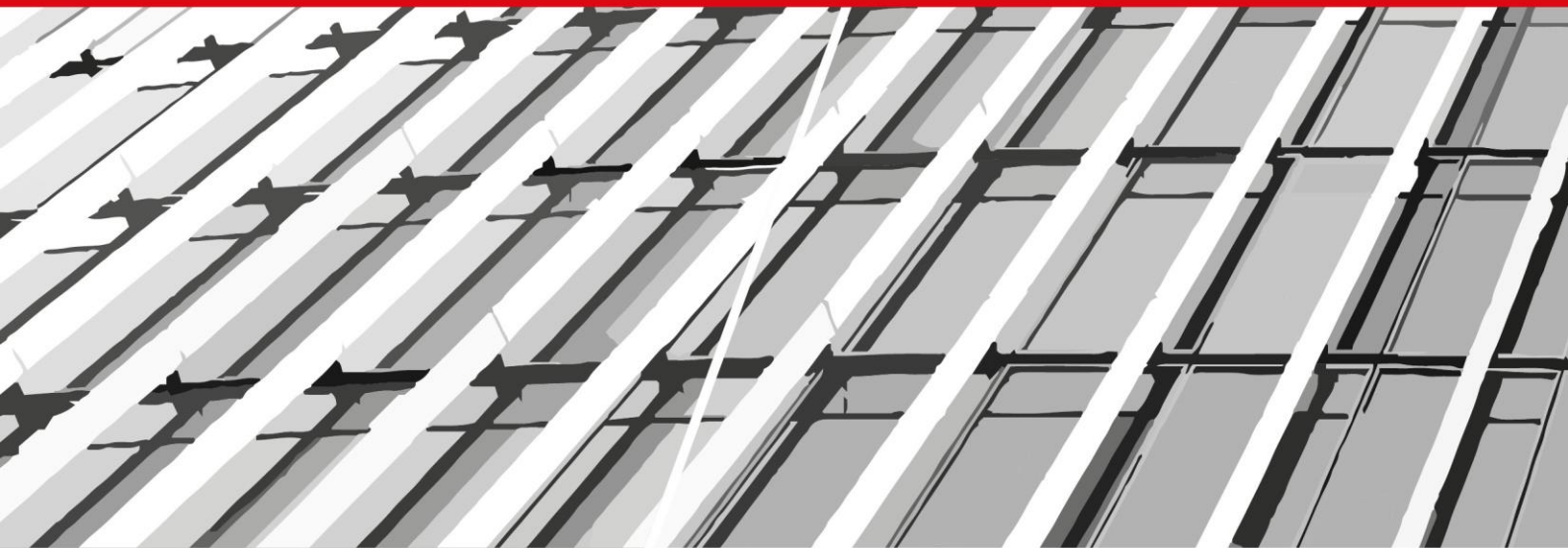




**CNA Insurance Company Limited
2015 Annual Report and Financial Statements**



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Registered in England and Wales: number 950

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Strategic report

Introduction

The directors of CNA Insurance Company Limited ("the Company" or "CICL") present their Strategic report for the year ended 31 December 2015. These have been prepared in accordance with the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

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

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

CNA is the 8th largest U.S. commercial property and casualty insurance company. It has approximately 6,900 employees and its insurance products include commercial property and casualty coverages, including surety. CNA's products and services are primarily marketed through independent agents, brokers and managing general underwriters to a wide variety of customers, including small, medium and large businesses, insurance companies, associations, professionals and other groups.

Overview of results

The Company reported pre-tax losses of £1.8 million for the 2015 financial year compared to pre-tax profits of £56.5 million for 2014. The Company's accounted capital base at 31 December 2015 of £363.9 million has reduced against the prior year capital position of £372.3 million driven primarily by underwriting losses, reduced investment returns and other recognised gains and losses. Despite this reduction, the Company's capital base remains strong and stable.

In 2015, the Company recorded an increase in gross premiums written to £217.9 million over the prior year of £210.9 million despite continued challenging market and economic conditions. The growth has been balanced across the Company's lines of business and branches consistent with a strategy of offering a balanced portfolio of specialty products.

The rate environment remained challenging throughout 2015. Despite this, overall positive levels of rate were achieved, and the Company has maintained a disciplined and focused approach to pricing across its portfolios and markets. Focussed and rigorous pricing strategies are applied across the Company's lines of business and geographic locations with the aim of achieving appropriate levels of return. In addition, the Company has achieved planned levels of retention on much of its existing business and has recorded an increase in levels of new business written.

During 2015 the Company expanded its branch network and underwriting capability in the United Kingdom ("UK") regions, demonstrating its commitment to building a depth and breadth of local market expertise. In addition, CICL has continued to develop specialist product offerings and recruit new underwriting talent throughout its other operations in London and Continental Europe. Notably, the Company launched a newly developed Technology product, NetProtect, across the majority of its branch network. These activities reflect the Company's clear strategy of offering a highly specialised portfolio of innovative products across the European market place to better serve its customers.

The Company made certain changes to its reinsurance programme during 2015. These changes were aimed at ensuring that maximum efficiency is gained from the Company's group relationships in Europe and the United States. The Company places certain reinsurance arrangements externally and also utilises reinsurance protection from the CNA group where appropriate. The Company regularly evaluates its reinsurance programme to ensure it is appropriate given its overall risk appetite.

The Company reported an underwriting loss for the year of £6.1 million compared to an underwriting profit of £24.9 million in 2014.

Strategic report - continued

Overview of results - continued

The calendar year combined ratio in 2015 was 103.3% (2014: 86.5%). There were several drivers of this increase. Whilst still favourable, the development of prior year loss reserves in the 2015 calendar year was significantly lower than that reported in 2014. The Company recorded favourable loss development in 2015 of £9.6 million compared to £19.1 million in the prior calendar year. The most significant reserve releases in the current calendar year were recognised in the Company's longer tail lines of business.

The current accident year loss ratio deteriorated over that reported in the prior calendar year. The increase was driven primarily by several large losses as well as an increase in losses emanating from natural catastrophes. The catastrophe losses related primarily to the UK storm events in December 2015, notably storms Desmond and Frank. Despite these events, the Company's underlying current accident loss ratios remained stable in many lines as a result of continued disciplined portfolio management strategies.

During 2015 the Company continued to integrate its operating and management structure with another group company, Hardy (Underwriting Agencies) Limited ("Hardy"). Both companies now operate under a consistent operating model with management and administrative services being provided by a service company, CNA Services (UK) Limited ("CNA Services"), an indirect subsidiary of CNAF. The Company pays CNA Services, which employs all UK staff, a management fee for the provision of management and administration and directly employs all staff in its Continental European branch offices. During the year, further efficiency savings were realised as a result of the integration with Hardy and the Company expects further cost savings to be realised over the coming years as a result of the synergies and efficiencies generated from creating a combined operating platform.

The expense ratio for the year of 35.5% represented a marginal increase over the prior year of 35.1%. This increase was driven primarily by investments made in underwriting and support capabilities. The Company expects the expense ratio to improve in the future as the synergies gained from the new management and operating structure are realised.

The pre-tax loss for the year was £1.8 million compared to a pre-tax profit of £56.5 million in 2014. This decrease was driven by the unfavourable underwriting result as previously noted and by a reduction in the investment return during the year, driven primarily by market declines. Unrealised losses increased in 2015 due to a rise in both global government and corporate bond yields.

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

After the impact of taxation, the Company recorded a loss for the financial year of £3.1 million, compared to a profit of £42.7 million in the prior year.

Key performance indicators

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

Strategic report - continued

Key performance indicators - continued

The following KPIs have been deemed most relevant to demonstrating the Company's performance in 2015 and its financial position at the end of the year:

	2015 £m	2014 £m
Gross premiums written	217.9	210.9
(Loss)/profit on ordinary activities before tax	(1.8)	56.5
(Loss)/profit for the financial year	(3.1)	42.7
Loss ratio	67.8%	51.3%
Expense ratio	35.5%	35.1%
Combined ratio	103.3%	86.5%
Net Assets	363.9	372.3

Financial position

Overview of financial position

The Company's accounted capital base as at 31 December 2015 was £363.9 million (2014: £372.3 million), of which £48.4 million is ineligible for the purposes of calculating capital available to meet regulatory requirements. The amount of £48.4 million has been deposited in bonds with Lloyd's of London ("Lloyd's") as security for the underwriting activities of Hardy Underwriting Limited ("HUL"), a fellow CNAF subsidiary (see Note 27).

The decrease in the capital base to £363.9 million was driven by the after tax losses of £3.1 million and other recognised losses of £5.3 million. These recognised losses related to unfavourable currency translation differences of £6.3 million offset by actuarial gains on the Company's defined benefit pension scheme of £1.0 million. The Company did not pay or recommend a dividend during the financial year. There were no changes to the Company's ownership or capital structure during the year.

Investments

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

The Company's investment guidelines are regularly reviewed and, as a part of this process, the duration of the investment portfolio is managed to closely match the duration of the Company's underlying liabilities. CICL continues to invest primarily in high grade corporate and government bonds in accordance with its stated investment strategy.

During 2015, the Company changed its investment portfolio manager to Goldman Sachs Asset Management International ("GSAM"). This change was implemented after appropriate due diligence.

Deed of guarantee and ratings

CICL benefits from a Deed of Guarantee from CCC, effective 24 January 2002. Under the terms of the Deed of Guarantee, CCC guarantees all liabilities that arise or have arisen under policies of insurance or contracts of reinsurance entered into by CICL, including policies or contracts entered into before 24 January 2002. The Deed of Guarantee enables CICL to maintain a Standard & Poor's rating at the same level as the rating assigned to CCC and provides significant additional security to policyholders. The Deed of Guarantee will remain in place until 31 December 2018 unless written notice is received from Standard & Poor's that the guarantee is no longer needed. As at 31 December 2015, CCC's Standard and Poor's financial strength rating was A (Strong) with a stable outlook. Further details are provided in note 28 to these financial statements.

Strategic report - continued

Financial position - continued

Capital and Solvency II

The Company manages its capital position in accordance with its own risk based assessment and in line with the relevant regulatory requirements of the Prudential Regulation Authority ("PRA"). Capital requirements are also assessed in the light of prospective business growth and portfolio mix. As at 31 December 2015, the Company's admissible capital was in excess of the Enhanced Capital Requirement; the Individual Capital Assessment and the ICAS+ process (Individual Capital Assessment on a Solvency II basis).

The Company also assesses capital requirements using the Solvency II Standard Formula model which will be used to meet the requirements of the Solvency II regime which came into effect on 1 January 2016.

Business operations

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

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

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

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

Future developments

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

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

The development of broker relationship remains a key area of focus. The Company values its relationships with its broking partners and continues to align these relationships with its product and segment specialisms.

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

The Company is continuing to explore with Hardy the maximisation of the opportunities across their respective platforms.

Strategic report - continued

Corporate governance

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

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

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

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

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

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

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

- Reinsurance Group
- Internal Controls and Attestation Group
- Investment Group
- Legal, Regulatory and Compliance Group
- Reserving Group
- Solvency II Steering Group
- Delegated Underwriting and Product Oversight Group
- Exposure Management Group

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

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

Strategic report - continued

Principal risks and uncertainties

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

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

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

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

Strategic risk

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

Insurance risk

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

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

Financial risk – Credit, Market and Liquidity

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

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

Operational risk

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

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

Strategic report - continued

Principal risks and uncertainties - continued

Emerging risks

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

Going concern

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

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

Approval

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



D J Brosnan
Director

20 Fenchurch Street,
London EC3M 3BY

3 March 2016

Directors' report

Directors

The directors who have held office since 1 January 2015 are as follows:

Executive Directors

D J Brosnan
P J Gage (appointed 28 May 2015)
C A Kearney
D J Stevens

Non-executive Directors

J M Anderson (appointed 10 September 2015)
R W Forrest (resigned 21 October 2015)
A M d'Hulster (appointed 19 October 2015)
M I Herman (resigned 10 September 2015)
T F Motamed
G J Starling (appointed 24 September 2015)
T J Szerlong
H I Thomas

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK Generally Accepted Accounting Practice ("GAAP") (UK accounting standards and applicable law) ("UK Accounting Standards"), including Financial Reporting Standards 101, Reduced Disclosure Framework ("FRS 101"). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are: sufficient to show and explain the Company's transactions; disclose with reasonable accuracy at any time the financial position of the Company; and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Results and dividends

For the 2015 year the Company reported an after-tax loss of £3.1 million (2014: profit of £42.7 million). The accounted capital base of the Company as at 31 December 2015 was £363.9 million (2014: £372.3 million).

The directors have not recommended the payment of a dividend for the year ended 31 December 2015 (2014: £nil).

Directors' report - continued

Directors' indemnities

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

Elective resolutions

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

Auditor

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

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

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

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

Information included in Strategic report

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

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

Approval

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



D J Brosnan

Director

20 Fenchurch Street,
London EC3M 3BY

3 March 2016

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

We have audited the financial statements of CNA Insurance Company Limited for the year ended 31 December 2015 which comprise the Profit and Loss Account, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Balance Sheet and the related notes 1 to 30. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework."

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

Respective responsibilities of directors and auditor

As explained more fully in the 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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2015 and of its loss for the year then ended;
- have been properly prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework; and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



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

Chartered Accountants and Statutory Auditor
London, United Kingdom

3 March 2016

Profit and loss account - Technical account - General business

	Notes	2015 £'000	2014 £'000
Gross premiums written	5	217,880	210,912
Outward reinsurance premiums	5	(26,370)	(26,585)
Premiums written, net of reinsurance		191,510	184,327
Change in provision for unearned premiums			
– gross amount	5	(10,249)	(889)
– reinsurers' share	5	3,374	68
Earned premiums, net of reinsurance	5	184,635	183,506
Claims paid			
– gross amount		105,395	98,432
– reinsurers' share		(12,003)	(4,643)
Net claims paid	6	93,392	93,789
Change in the provision for claims:			
– gross amount	6	16,701	(8,231)
– reinsurers' share	6	15,042	8,632
Claims incurred, net of reinsurance	6	125,135	94,190
Net operating expenses	7	65,633	64,455
Balance on the technical account for general business		(6,133)	24,861

All the amounts above are in respect of continuing operations.

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

Profit and loss account - Non-technical account

	Notes	2015 £'000	2014 £'000
Balance on the technical account for general business		(6,133)	24,861
Income from investments		23,281	25,258
Realised gains on investments		455	524
Realised losses on investments		(9,726)	(10,207)
Unrealised gains on investments		4,537	24,888
Unrealised losses on investments		(13,376)	(6,494)
Investment management expenses		(521)	(561)
Overdraft interest		(20)	(3)
Total investment return		4,630	33,405
Other charges	9	(254)	(1,731)
(Loss)/profit on ordinary activities before tax	10	(1,757)	56,535
Tax on (loss)/profit on ordinary activities	11	(1,331)	(13,803)
(Loss)/profit for the financial year		(3,088)	42,732

All the amounts above are in respect of continuing operations.

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

Statement of comprehensive income

	Notes	2015 £'000	2014 £'000
(Loss)/profit for the financial year		(3,088)	42,732
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	21	980	(3,887)
UK deferred tax attributable to remeasurement of the net defined benefit pension scheme asset	17	25	611
		1,005	(3,276)
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Currency translation differences		(6,301)	(4,338)
Other comprehensive income for the year		(5,296)	(7,614)
Total comprehensive income for the year		(8,384)	35,118

All the amounts above are in respect of continuing operations.

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

Statement of changes in equity

	Share capital	Currency translation reserve	Profit and loss account	Total shareholders' equity
	2015	2015	2015	2015
	£'000	£'000	£'000	£'000
Balance at 31 December 2014	130,200	(19,990)	262,078	372,288
Total comprehensive income for the year				
Loss for the financial year	-	-	(3,088)	(3,088)
Other comprehensive income				
Remeasurement of the net defined benefit asset	-	-	980	980
UK deferred tax attributable to remeasurement of the net defined benefit asset	-	-	25	25
Currency translation differences	-	(6,301)	-	(6,301)
Total comprehensive income for the year	-	(6,301)	(2,083)	(8,384)
Balance at 31 December 2015	130,200	(26,291)	259,995	363,904
	Share capital	Currency translation reserve	Profit and loss account	Total shareholders' equity
	2014	2014	2014	2014
	£'000	£'000	£'000	£'000
Balance at 31 December 2013	130,200	(15,652)	222,622	337,170
Total comprehensive income for the year				
Profit for the financial year	-	-	42,732	42,732
Other comprehensive income				
Remeasurement of the net defined benefit asset	-	-	(3,887)	(3,887)
UK deferred tax attributable to remeasurement of the net defined benefit asset	-	-	611	611
Currency translation differences	-	(4,338)	-	(4,338)
Total comprehensive income for the year	-	(4,338)	39,456	35,118
Balance at 31 December 2014	130,200	(19,990)	262,078	372,288

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

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

Balance sheet

Assets	Notes	2015 £'000	2014 £'000
Intangible assets	12	1,360	2,138
Investments - other financial investments	14	671,789	727,997
Provision for unearned premiums	15	22,252	18,928
Claims outstanding	15	62,281	76,183
Reinsurers' share of technical provisions		84,533	95,111
Debtors arising out of direct insurance operations	16	45,468	46,122
Debtors arising out of reinsurance operations		3,434	7,051
Other debtors	17	6,514	3,871
Debtors – amounts falling due within one year		55,416	57,044
Tangible assets	18	807	1,019
Cash at bank and in hand	19	101,340	38,408
Other assets		102,147	39,427
Accrued interest		9,752	9,398
Deferred acquisition costs	20	15,453	14,280
Other prepayments and accrued income		294	131
Prepayments and accrued income		25,499	23,809
Total assets excluding pension asset		940,744	945,526
Net pension asset	21	5,730	3,862
Total assets		946,474	949,388

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


Balance sheet - continued


Liabilities	Notes	2015 £'000	2014 £'000
Called up share capital	22	130,200	130,200
Currency translation reserve		(26,291)	(19,990)
Profit and loss account		259,995	262,078
Capital and reserves		363,904	372,288
Provision for unearned premiums	23	100,605	92,435
Claims outstanding	23	462,406	452,588
Technical provisions		563,011	545,023
Provisions for other risks	24	413	866
Creditors arising out of direct insurance operations		1,986	1,971
Creditors arising out of reinsurance operations		5,344	13,036
Amounts owed to credit institutions		1,769	-
Other creditors including tax and social security	25	8,333	13,654
Creditors – amounts falling due within one year		17,432	28,661
Reinsurers' share of deferred acquisition costs		1,059	828
Other accruals and deferred income		655	1,722
Accruals and deferred income		1,714	2,550
Total liabilities		946,474	949,388

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

Registered in England and Wales: number 950

These financial statements were approved by the Board of directors on 3 March 2016 and signed on its behalf by:


D J Brosnan
Director


D J Stevens
Director

Notes to the financial statements

1. Accounting policies

Corporate information

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

Basis of accounting

The financial statements are prepared in accordance FRS 101.

From 1 January 2014 the financial statements continue to be presented in accordance with the provisions of the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulation 2008 but have been prepared in accordance with FRS 101. This UK GAAP standard allows the use of EU-adopted International Financial Reporting Standards ("IFRS") with reduced disclosures, where allowed, by the Companies Act and associated legislation. The date of transition to FRS 101 was 1 January 2013.

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 2 to 8. In addition Notes 3 and 14 to the financial statements include: the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

Measurement convention

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

Disclosure exemption

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

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

Notes to the financial statements - continued

1. Accounting policies - continued

Estimates

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

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

Foreign currencies

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

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

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

Basis of accounting for underwriting activities

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

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

Premiums

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

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

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

Notes to the financial statements - continued

1. Accounting policies - continued

Unearned premiums

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

Claims incurred

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

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

Claims outstanding and related reinsurance recoveries

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

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

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

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

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

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

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

Notes to the financial statements - continued

1. Accounting policies - continued

Liability adequacy test

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

Deferred acquisition costs

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

Leases

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

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

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

Employee benefits

Defined benefit pension schemes

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

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

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

Defined contribution pension schemes

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

Notes to the financial statements - continued

1. Accounting policies - continued

Investment return

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

Investment income comprises interest and dividends, exclusive of the tax credit and realised gains and losses on investments. Interest is recognised on an accrual basis and dividends are included on an ex-dividend basis.

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

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

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

Tax

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

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

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

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

Financial assets and liabilities

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

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

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

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

Derecognition of financial assets

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

Notes to the financial statements - continued

1. Accounting policies - continued

Derecognition of financial liabilities

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

Impairment of financial assets

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

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

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

Impairment (non-financial assets)

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

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

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

Investment in group undertakings

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

Intangible assets

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

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

Investments at fair value through profit and loss

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

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

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

Notes to the financial statements - continued

1. Accounting policies - continued

Insurance and other debtors

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

Tangible assets

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

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

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

Cash at bank and in hand

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

Other financial liabilities

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

Provisions

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

Group accounts

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

2. Critical accounting estimates and judgements

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

Gross premiums written

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

Notes to the financial statements - continued

2. Critical accounting estimates and judgements - continued

Outstanding claims provisions and related reinsurance recoveries

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

The most critical gross estimate included within the Company's financial position is the estimate for gross losses incurred but not reported. The total estimate as at 31 December 2015 is £258.6 million (2014: £232.9 million) and is included within technical provisions in the balance sheet.

Estimation of the fair value of assets and liabilities

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

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

Staff pension plans

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

3. Risk management

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

Risk definition

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

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

Risk statement

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

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

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

Notes to the financial statements - continued

3. Risk management - continued

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

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

Risk Appetites

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

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

Strategic appetites provide high level guidance, including metrics, and cover the following categories:

- Risk preference;
- Return objective;
- Volatility constraint; and
- Capital constraint

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

Own Risk and Solvency Assessment ("ORSA")

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

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

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

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

Notes to the financial statements - continued

3. Risk management - continued

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

The Company deploys the three lines of defence governance model. In the first line, risk is managed and monitored by the business teams in line with their set objectives, appetites and limits. Second line monitoring occurs through the Risk and Compliance functions and the Risk Committee, and is evidenced through risk reporting. Third line monitoring is through Internal Audit, supported by external audit and independent experts.

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

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

Emerging and developing risk

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

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

Risk quantification and modelling

The Company's Economic Capital model provides a tool to quantitatively assess the material risks to which the Company is exposed. The model encompasses the processes and methodologies in place for quantifying the risks faced by the Company as well as the data, assumptions, applied expert judgements, model outputs and the systems of governance and independent validation.

Capital management

The Company manages its capital position in accordance with the relevant regulatory requirements of the PRA. During 2015 the requirement was based on the PRA Individual Capital Assessment process, calculated using the Company's Economic Capital model. From 2016 the Company's regulatory capital will be assessed using the Solvency II Standard Formula. Capital requirements are also assessed in the light of prospective business growth and portfolio mix. As at 31 December 2015, the Company's admissible capital was in excess of the PRA's Enhanced Capital Requirement and Individual Capital Assessment as well as the incoming Solvency II Standard Formula requirement.

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

Notes to the financial statements - continued

3. Risk management - continued

Insurance risk

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

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

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

Underwriting risk

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

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

Control of aggregating exposures

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

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

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

Management of reinsurance risk

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

Notes to the financial statements - continued

3. Risk management - continued

Management of reinsurance risk - continued

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

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

Reserve risk

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

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

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

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

	Gross of reinsurance 2015 £'000	Net of reinsurance 2015 £'000	Gross of reinsurance 2014 £'000	Net of reinsurance 2014 £'000
Pre-tax impact of a 1% variance in:				
Claims liability	4,624	4,001	4,526	3,764
Combined ratio	2,076	1,846	2,100	1,835
Impact on net assets of a 1% variance in:				
Claims liability	3,699	3,201	3,621	3,011
Combined ratio	1,661	1,477	1,680	1,468

Notes to the financial statements - continued

3. Risk management - continued

Financial risk

Financial risks can be broken down into the following categories:

Credit risk

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

The exposure to credit risk, from its holding of debt and other fixed income securities, is managed by adherence to the Company's investment guidelines which detail minimum issuer credit quality, duration limits, and the maximum value of individual holdings. The average Standard & Poor's credit rating of the Company's debt and other fixed income securities remained high throughout the year, and at 31 December 2015 was "A+" (2014: "A+").

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

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

The assets bearing credit risk are summarised below:

	2015 £'000	2014 £'000
Other financial investments	671,789	727,997
Reinsurers' share of claims outstanding	62,281	76,183
Debtors arising out of direct insurance operations	45,468	46,122
Debtors arising out of reinsurance operations	3,434	7,051
Cash at bank and in hand	101,340	38,408
Total assets bearing credit risk	884,312	895,761

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

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

Notes to the financial statements - continued

3. Risk management - continued

Credit risk - continued

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

	2015 £'000	2014 £'000
AAA	27,067	117,350
AA	203,800	196,199
A	310,242	318,823
BBB	121,499	48,703
Below BBB or not rated	9,181	46,922
Total other financial investments bearing credit risk	671,789	727,997

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

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

	2015 £'000	2014 £'000
AAA	4,117	3,947
AA	57,591	74,598
A	469	-
BBB	-	-
Below BBB or not rated	3,538	4,689
Total reinsurers' share of claims outstanding and debtors arising out of reinsurance operations bearing credit risk	65,715	83,234

Reinsurers' share of claims outstanding includes a £2.0 million (2014: £3.2 million) provision for impairment. Debtors arising out of direct and reinsurance operations includes a £2.1 million (2014: £2.8 million) provision for impairment which represents 33.4% (2014: 55.1%) of the total past due amount.

Notes to the financial statements - continued

3. Risk management - continued

Liquidity risk

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

The table below summarises the maturity profile of the Company's financial and insurance liabilities (including interest payments) 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 2015 £'000	1-2 years 2015 £'000	3-5 years 2015 £'000	Over 5 years 2015 £'000	Total 2015 £'000
Claims outstanding	126,430	139,019	91,426	105,531	462,406
Creditors - amounts falling due within one year	17,432	-	-	-	17,432
Accruals and deferred income	1,714	-	-	-	1,714
Total	145,576	139,019	91,426	105,531	481,552

	Within 1 year 2014 £'000	1-2 years 2014 £'000	3-5 years 2014 £'000	Over 5 years 2014 £'000	Total 2014 £'000
Claims outstanding	126,725	72,414	144,828	108,621	452,588
Creditors - amounts falling due within one year	28,661	-	-	-	28,661
Accruals and deferred income	2,550	-	-	-	2,550
Total	157,936	72,414	144,828	108,621	483,799

Notes to the financial statements - continued

3. Risk management - continued

Liquidity risk - continued

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

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

	Within 1 year 2014 £'000	1-2 years 2014 £'000	3-5 years 2014 £'000	Over 5 years 2014 £'000	Total 2014 £'000
Other financial investments	161,584	76,560	236,277	253,576	727,997
Reinsurers' share of claims outstanding	21,331	12,189	24,379	18,284	76,183
Debtors – amounts falling due within one year	57,044	-	-	-	57,044
Accrued interest and other prepayments and accrued income	9,529	-	-	-	9,529
Cash at bank and in hand	38,408	-	-	-	38,408
Total	287,896	88,749	260,656	271,860	909,161

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

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

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

Notes to the financial statements - continued

3. Risk management - continued

Market risk

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

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

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

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

Market risk - currency risk

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

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

The Investment Group has established a currency profile policy which defines target ranges for surplus investments. The policy cites two key functional currencies, Pounds Sterling and Euro, and stipulates a target range of between 70% and 80% for Pounds Sterling denominated net assets and a range of between 20% and 30% for Euro denominated net assets. This position is regularly reviewed by the Investment Group.

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

	Profit and loss		Balance sheet	
	2015	2014	2015	2014
Australian Dollar	2.03	1.83	2.02	1.91
Danish Kroner	10.27	9.24	10.12	9.59
Euro	1.38	1.24	1.36	1.29
Swedish Kroner	12.89	11.28	12.44	12.16
Swiss Franc	1.47	1.51	1.48	1.55
United States Dollar	1.53	1.65	1.47	1.56

Notes to the financial statements - continued

3. Risk management - continued

Market risk - currency risk - continued

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

	Euro only		All currencies	
	2015	2014	2015	2014
	£'000	£'000	£'000	£'000
Impact on profit and loss account				
Foreign exchange loss	(3,461)	(626)	(4,294)	(2,446)
Tax on profit on ordinary activities	826	149	1,024	583
Impact on statement of total recognised gains and losses:				
Currency translation differences	-	-	(6,556)	(7,716)
Total impact on capital and reserves	(2,636)	(477)	(9,826)	(9,579)

Market risk - interest rate risk

The Company's exposure to interest rate risk is primarily 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 shareholders' funds.

To illustrate the down side risk within the debt and other fixed income securities portfolio of £671.8 million as at 31 December 2015 (2014: £728.0 million), the impact of an increase of 100 basis points in interest yields across all portfolios simultaneously (principally Pounds Sterling, Euro, US Dollars and Australian Dollars) has been estimated. The Company does not hedge interest rate risk and, assuming this continues and that all other variables remain constant, such an increase would decrease the market value of the investment portfolio and lead to a decrease in the total investment return of £21.5 million (2014: £23.4 million) and accordingly decrease total shareholders' funds by £17.2 million (2014: £16.9 million).

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

Operational risk

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

Notes to the financial statements - continued

3. Risk management - continued

Strategic and Group risk

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

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

Capital

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

Reputation

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

Shared services

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

Notes to the financial statements - continued

4. Segmental Information

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

Financial income, other operating income, other operating expenses, finance costs and taxation are not allocated to business segments as these items are determined by entity level factors and do not relate directly to the performance of each operating segment.

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

For the year ended 31 December 2015

	Commercial Lines £'000	Specialty Lines £'000	Total £'000
Gross premiums written	119,275	98,605	217,880
Earned premiums, net of reinsurance	91,739	92,896	184,635
Net claims incurred	71,195	53,940	125,135
Expenses incurred in insurance activities	36,530	29,103	65,633
Total expenses	107,725	83,043	190,768
Underwriting return before investment return	(15,986)	9,853	(6,133)
Investment return			4,630
Other operating expenses			(254)
Loss before tax			(1,757)
Tax charge on loss on ordinary activities			(1,331)
Loss for the financial year			(3,088)
Claims ratio	77.6%	58.1%	67.8%
Expense ratio	39.8%	31.3%	35.5%
Combined ratio	117.4%	89.4%	103.3%

Notes to the financial statements - continued**4. Segmental Information - continued**

For the year ended 31 December 2014

	Commercial Lines £'000	Specialty Lines £'000	Total £'000
Gross premiums written	114,180	96,732	210,912
Earned premiums, net of reinsurance	89,719	93,787	183,506
Net claims incurred	46,642	47,548	94,190
Expenses incurred in insurance activities	35,305	29,150	64,455
Total expenses	81,947	76,698	158,645
Underwriting return before investment return	7,772	17,089	24,861
Investment return			33,405
Other Operating expenses			(1,731)
Profit before tax			56,535
Tax charge on profit on ordinary activities			(13,803)
Profit for the financial year			42,732
Claims ratio	52.0%	50.7%	51.3%
Expense ratio	39.4%	31.1%	35.1%
Combined ratio	91.3%	81.8%	86.5%

Notes to the financial statements - continued

4. Segmental Information - continued

Analysis of geographic area (location of business written):

	Net Assets		(Loss)/profit on ordinary activities before tax		Gross Premiums Written	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000	2015 £'000	2014 £'000
United Kingdom	298,340	295,126	238	32,663	144,096	137,868
EU member states	64,441	75,848	(1,791)	23,773	72,425	71,670
Other EEA member states	1,123	1,314	(204)	99	1,359	1,374
Total	363,904	372,288	(1,757)	56,535	217,880	210,912

Gross premiums written by location of risk:

	2015 £'000	2014 £'000
United Kingdom	97,406	100,668
EU member states and other EEA member states	95,527	89,854
Other countries	24,947	20,390
Total	217,880	210,912

5. Premium revenue

	2015 £'000	2014 £'000
Gross written premiums	217,880	210,912
Gross change in provision for unearned premiums	(10,249)	(889)
Gross earned premiums	207,631	210,023
Premiums ceded to reinsurers	(26,370)	(26,585)
Reinsurers share of change in provision for unearned premiums	3,374	68
Ceded earned premiums	(22,996)	(26,517)
Earned premiums, net of reinsurance	184,635	183,506

Notes to the financial statements - continued**6. Claims incurred**

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

	Gross 2014 £'000	Reinsurance 2014 £'000	Net 2014 £'000
Current accident year claims paid	20,032	(43)	19,989
Prior accident year claims paid	78,400	(4,600)	73,800
Change in the provision for claims	(8,231)	8,632	401
Claims incurred, net of reinsurance	90,201	3,989	94,190

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:

	2015 £'000	2014 £'000
Commercial Lines	882	9,704
Specialty Lines	8,695	9,364
Total	9,577	19,068

Notes to the financial statements - continued

7. Net operating expenses

	2015 £'000	2014 £'000
Acquisition costs	31,636	34,152
Change in deferred acquisition costs	(1,504)	258
Total acquisition costs	30,132	34,410
Administrative expenses	35,501	30,045
Total	65,633	64,455

Auditor's remuneration for the audit of the Company's accounts of £276,000 (2014: £274,500) is included in the above figures.

8. Information on employees and directors

On 1 October 2014 all UK staff contracts transferred to CNA Services, a fellow indirect subsidiary of CNAF, under the Transfer of Undertakings (Protection of Employment) Regulations 2006. From this date the Company paid CNA Services a management fee for the provision of administration services. The Company continues to employ all staff in its Continental European branch offices.

From 1 October 2014, the costs of the UK staff are included in the financial statements of CNA Services.

Employee costs

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

	2015 £'000	2014 £'000
Wages and salaries	8,661	16,130
Social security costs	2,428	3,332
Pension costs (see note 21)		
Defined benefit pension schemes	-	259
Other pension schemes	698	1,395
Other employment costs	630	894
Total	12,417	22,010

Notes to the financial statements - continued**8. Information on employees and directors - continued**

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

	2015 Number	2014 Number
United Kingdom	-	187
Continental Europe	95	89
Total	95	276
Management	7	25
Claims	15	37
Underwriting	64	136
Administration	9	78
Total	95	276

From 1 October 2014, the numbers of the UK staff are included in the financial statements of CNA Services.

Notes to the financial statements - continued**8. Information on employees and directors - continued**

Directors' remuneration

The employment contracts of P J Gage, C A Kearney and D J Stevens were transferred to CNA Services on 1 October 2014. The amounts below represent the emoluments paid up to that date. Details of the emoluments paid to the directors after this date are disclosed in the financial statements of that company.

	2015 £'000	2014 £'000
The total remuneration comprised:		
Emoluments	-	1,020
Amounts receivable under long-term incentive schemes	-	-
Company contributions to defined contribution pension scheme	-	27
Company contributions to defined benefit pension scheme	-	27
Total	-	1,074
	2015 Number	2014 Number
The number of directors who:		
Were members of a defined contribution pension scheme	4	2
Were members of a defined benefit pension scheme	-	1
Total	4	3
	2015 £'000	2014 £'000
Remuneration of the highest paid director:		
Emoluments	-	574
Amounts receivable under long-term incentive schemes	-	-
Company contributions to defined contribution pension scheme	-	11
Total	-	585

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

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

Notes to the financial statements - continued

9. Other charges

	2015 £'000	2014 £'000
Foreign exchange difference	265	2,673
Amounts settled with an associated group company	160	(760)
Income from the provision of Funds at Lloyd's	(27)	-
Interest income on investment contracts	(38)	(74)
Other finance income (see note 21)	(101)	(154)
Sundry other (income)/charges	(5)	46
Total	254	1,731

The amounts settled with an associated group company represents settlements during the financial year with CCC.

10. (Loss)/profit on ordinary activities before tax

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

	2015 £'000	2014 £'000
Amortisation of intangible assets (see note 12)	812	861
Depreciation of tangible assets (see note 18)	306	687
Operating lease rentals:		
Paid by CICL	1,074	1,681
Recharged from CNA Services	1,747	246
Fees payable to the Company's auditor for:		
The audit of the Company's annual accounts	276	275
Other services pursuant to legislation	10	10

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

Notes to the financial statements - continued**11. Tax on profit on ordinary activities**

	2015	2014
	£'000	£'000
Current tax:		
UK Corporation tax on (losses)/profits of the year	-	(11,659)
Double tax relief	-	3,979
Overseas tax	(1,162)	(5,779)
	(1,162)	(13,459)
Adjustments in respect of previous years:		
UK corporation tax	463	360
Overseas tax	(677)	(385)
Total current tax charge	(1,376)	(13,484)
Deferred tax (see note 17):		
Origination and reversal of timing differences	412	137
Effect of change in tax rate on opening asset	(60)	-
Adjustment in respect of prior years	(137)	(19)
Movement in post-retirement liability excluding actuarial gain	(170)	(437)
Total deferred tax credit/(charge)	45	(319)
Tax on (loss)/profit on ordinary activities	(1,331)	(13,803)
	2015	2014
	£'000	£'000
Factors affecting tax charge for the year:		
(Loss)/profit on ordinary activities before tax	(1,757)	56,535
Tax at the UK rate of 20.25% (2014: 21.49%)	356	(12,152)
Effects of:		
Net pension contribution relief in excess of pension charges	7	470
Overseas tax payable	40	27
Add back profit on disposal of tangible assets	-	(1)
Group relief received without payment	-	28
Movement in post-retirement liability excluding actuarial loss	-	(437)
Effect of change in tax rate	(90)	(10)
Expenses disallowed for tax purposes	(130)	97
Adjustments to tax charge in respect of previous years	(351)	(44)
Adjustments in respect of foreign tax rates	(1,163)	(1,781)
Tax on (loss)/profit on ordinary activities	(1,331)	(13,803)

Notes to the financial statements - continued**12. Intangible assets**

	Purchased software £'000	Internally developed software £'000	Total £'000
Cost			
At 1 January 2015	519	5,772	6,291
Additions	-	34	34
At 31 December 2015	519	5,806	6,325
Accumulated amortisation			
At 1 January 2015	363	3,790	4,153
Charge for year	61	751	812
At 31 December 2015	424	4,541	4,965
Carrying amount			
At 31 December 2015	95	1,265	1,360
At 31 December 2014	156	1,982	2,138

13. Investments in Group undertakings

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

14. Other financial investments

	Cost 2015 £'000	Cost 2014 £'000	Fair Value 2015 £'000	Fair Value 2014 £'000
Debt securities and other fixed income securities	670,885	720,863	671,789	727,997

Notes to the financial statements - continued

14. Other financial investments - continued

Fair value

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

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

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

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

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

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

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
2015				
Debt securities and other fixed income securities	7,646	664,143	-	671,789

2014

Debt securities and other fixed income securities	19,663	708,334	-	727,997
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During the year no significant transfers occurred between Level 1 and Level 2.

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

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

	2015 £'000	2014 £'000
Within one year	77,136	161,584
After one year	594,653	566,413
Total	671,789	727,997

Notes to the financial statements - continued**15. Reinsurers' share of technical provisions**

	2015 £'000	2014 £'000
Reinsurers' share of claims outstanding gross of impairment provision	64,257	79,028
Impairment provision	(1,976)	(2,845)
Reinsurers' share of claims outstanding	62,281	76,183
Reinsurers' share of unearned premiums	22,252	18,928
Total	84,533	95,111

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

	2015 £'000	2014 £'000
Reinsurers' share of claims outstanding gross of impairment provision	64,257	79,028
Impairment provision	(1,976)	(2,845)
Reinsurers' share of claims outstanding	62,281	76,183
Reinsurers' share of unearned premiums	22,252	18,928
Total	84,533	95,111

16. Debtors arising out of direct insurance operations

	2015 £'000	2014 £'000
Amounts due from intermediaries	46,788	48,041
Impairment provision	(1,320)	(1,919)
Total	45,468	46,122

All amounts are expected to be recovered within one year.

Notes to the financial statements - continued**17. Other debtors**

	2015	2014
	£'000	£'000
Corporation tax receivable	4,998	593
Deferred tax asset	1,471	1,314
Amounts due from group undertakings	-	1,713
Other	45	251
Total	6,514	3,871

All amounts are expected to be recovered within one year.

Deferred tax asset

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

	Provided	Provided	Not	Not
	2015	2014	provided	provided
	£'000	£'000	2015	2014
			£'000	£'000
Decelerated /(accelerated) capital allowances	420	502	-	-
Short-term timing differences	407	812	-	-
Tax losses	644	-	-	-
	1,471	1,314	-	-
Post-retirement asset	(665)	(578)	-	-
Total	806	736	-	-

The movement in the deferred tax balance relating to the post-retirement asset of (£87,000) comprises £25,000 attributable to the actuarial loss recognised in the statement of comprehensive income and £(112,000) attributable to other movements recognised in the profit and loss account.

Notes to the financial statements - continued

17. Other debtors - continued

Deferred tax asset - continued

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

	2015 £'000	2014 £'000
Provision at start of period	736	444
Amounts charged to the profit and loss account	45	(319)
Amounts charged to the statement of comprehensive income	25	611
Provision at end of period	806	736

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

On 8 July 2015, the Chancellor of the Exchequer announced the main rate of corporation tax would reduce from 20% to 19% from 1 April 2017, and to 18% from 1 April 2020, which became substantively enacted on 18 November 2015.

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

Notes to the financial statements - continued**18. Tangible assets**

	Leasehold property and improvements £'000	Fixtures, fittings and equipment £'000	Computer equipment £'000	Total £'000
Cost				
At 1 January 2015	1,958	996	1,957	4,911
Additions	76	41	18	135
Foreign exchange revaluation	(37)	(24)	(8)	(69)
At 31 December 2015	1,997	1,013	1,967	4,977
Accumulated depreciation				
At 1 January 2015	1,494	701	1,697	3,892
Charge for year	99	76	131	306
Foreign exchange revaluation	(19)	(9)	-	(28)
At 31 December 2015	1,574	768	1,828	4,170
Net book value				
At 31 December 2015	423	245	139	807
At 31 December 2014	464	295	260	1,019

19. Cash at bank and in hand

	2015 £'000	2014 £'000
Cash at bank and in hand	80,257	10,251
Short-term deposits with credit	21,083	28,157
Total	101,340	38,408

£344,545 (2014: £334,544) of deposits with credit institutions are secured against letters of credit (see note 27).

Notes to the financial statements - continued

20. Deferred acquisition costs

	2015 £'000	2014 £'000
At 1 January	14,280	14,844
Net increase/(decrease) in the year	1,504	(258)
Exchange adjustments	(331)	(306)
At 31 December	15,453	14,280

All amounts are expected to be recovered within one year.

21. Staff pension plans

Retirement benefit pension scheme

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

Scheme A – CNA Pension Plan for UK Employees

Composition of the scheme

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

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

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

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

Profile of the Plan

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

Broadly, about 70% of the liabilities are attributable to deferred members and 30% 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 21 years reflecting the approximate split of the defined benefit obligation between deferred pensioners (duration of 24 years) and current pensioners (duration of 12 years).

Notes to the financial statements - continued

21. Staff pension plans - continued

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
At 31 December 2015				
Pension benefits	1%	1%	3%	95%

Funding requirements

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

As a result of that valuation, the Company had paid contributions of 24.7% of pensionable salaries in respect of the cost of benefit accrual by active members, administration expenses and the cost of insured death in service benefits for active members.

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

The next funding valuation is being carried out with an effective date of 31 March 2016. The Company expects the results of this valuation to show that the Plan remains fully funded. Contributions of nil have been paid by the Company during the year ended on 31 December 2015.

Risks associated with the Plan

The Plan exposes the Company to a number of risks, the most significant of which are:

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

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

Notes to the financial statements - continued

21. Staff pension plans - continued

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

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

Reporting at 31 December 2015

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

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

Main financial assumptions

	2015 % pa	2014 % pa
RPI inflation	3.2	3.1
CPI inflation	2.1	2.1
Rate of general long-term increase in salaries	n/a	n/a
Pension increases in payment:		
CPI inflation max 3% pa	1.9	1.9
RPI inflation max 5% pa; min 3% pa	3.6	3.6
RPI inflation max 10% pa	3.2	3.1
RPI inflation max 5% pa	3.1	3.0
RPI inflation max 3% pa	2.5	2.4
Pension increases (revaluation) before retirement:		
CPI inflation max 5% pa	2.1	2.1
CPI inflation max 2.5% pa	2.1	2.1
Discount rate for the Plan's liabilities	3.9	3.6

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

Main demographic assumptions

Mortality table adopted:

2015

105% S1Px_A_L CMI 2014 with 1.25% pa long term improvement

2014

105% S1Px_A_L CMI 2014 with 1.25% pa long term improvement

Notes to the financial statements - continued

21. Staff pension plans - continued

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

	2015	2014
Life expectancy for male currently aged 65	23.5	23.4
Life expectancy for female currently aged 65	24.8	24.7
Life expectancy for male currently aged 45	25.2	25.1
Life expectancy for female currently aged 45	26.7	26.6

Cash Commutation:

2015

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

2014

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

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

The Plan assets are invested in the following asset classes:

	Value 2015 £'000	Of which not quoted in active market 2015 £'000	Value 2014 £'000	Of which not quoted in active market 2014 £'000
Equities	36,883	-	37,919	-
Gilts and bonds	14,724	-	15,939	-
Cash	238	-	60	-
Insured annuity asset	51	51	54	54
Total	51,896	51	53,972	54

At 31 December 2015 £nil (2014: £nil) of the fair value of scheme assets related to self-investment.

Notes to the financial statements - continued

21. Staff pension plans - continued

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

	2015 £'000	2014 £'000
Fair value of Plan assets	51,896	53,972
Present value of funded defined benefit obligation	48,200	51,081
Surplus in the scheme	3,696	2,891
Related deferred tax liability	(665)	(578)
Net pension asset	3,031	2,313

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

	2015 £'000	2014 £'000
Operating cost		
Service costs:		
Current service cost	-	259
Administration expenses	189	211
Past service cost (incl. curtailments)	-	(2,244)
Total operating cost/(benefit)	189	(1,774)
Financing cost:		
Interest on net defined benefit asset	(101)	(154)
Pension expense/(benefit) recognised in profit and loss	88	(1,928)
Remeasurements in other comprehensive income:		
Return on plan assets below/(in excess of) that recognised in net interest	997	(2,477)
Actuarial (gains)/losses due to changes in financial assumptions	(2,812)	6,171
Actuarial losses/(gains) due to changes in demographic assumptions	1,728	(116)
Actuarial (gains)/losses arising from experience	(806)	(525)
Pension (benefit)/expense recognised in other comprehensive income	(893)	3,053
Total amount recognised in total comprehensive income	(805)	1,125

Notes to the financial statements - continued**21. Staff pension plans - continued**

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

	2015 £'000	2014 £'000
Opening defined benefit obligation	51,081	46,927
Current service cost	-	259
Interest expense on defined benefit obligation	1,789	2,037
Contributions by members	-	63
Actuarial losses/(gains) arising from changes in demographic assumptions	1,728	(116)
Actuarial (gains)/losses arising from changes in financial assumptions	(2,812)	6,171
Actuarial gains arising from experience	(806)	(525)
Benefits paid	(2,780)	(1,491)
Past service cost (including curtailments)	-	(2,244)
Closing defined benefit obligation	48,200	51,081

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

	2015 £'000	2014 £'000
Opening fair value of plan assets	53,972	50,685
Interest income on plan assets	1,890	2,191
Remeasurement (losses)/gains on plan assets	(997)	2,477
Contributions by sponsor	-	258
Contributions by members	-	63
Benefits paid	(2,780)	(1,491)
Administration costs incurred	(189)	(211)
Closing fair value of scheme assets	51,896	53,972

The actual return on plan assets is as follows:

	2015 £'000	2014 £'000
Interest income on plan assets	1,890	2,191
Remeasurement gains on plan assets	(997)	2,477
Actual return on plan assets	893	4,668

Notes to the financial statements - continued

21. Staff pension plans - continued

Sensitivity to key assumptions:

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

		Total estimated P&L charge for 2016 £'000	Surplus at 2015 £'000
Current figures		49	3,696
A 0.2% pa decrease in the discount rate:	Impact	80	(1,988)
	Amount after impact	129	1,708
A 0.2% pa increase in the inflation assumption:	Impact	63	(1,636)
	Amount after impact	112	2,060
A one year increase in life expectancy	Impact	63	(1,634)
	Amount after impact	112	2,062

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

Scheme B – The CNA Re Management Company Limited (“CNA Re”) Retirement Benefits Plan (1977)

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

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

Composition of the scheme

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

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

The assets of the 1977 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. No pensions in payment are current paid from the fund.

Notes to the financial statements - continued

21. Staff pension plans - continued

Profile of the 1977 Plan

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

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

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

	Less than 1 year	Between 1-2 years	Between 2-5 years	Over 5 years
At 31 December 2015				
Pension benefits	3%	13%	10%	74%

Funding requirements

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

The expected sponsor contributions to the 1977 Plan for the year ending 31 December 2016 is £nil.

Risks associated with the 1977 Plan

The 1977 Plan exposes the Company to a number of risks, the most significant of which are:

Investment matching risk	The 1977 Plan invests significantly in equity type assets, whereas the solvency target is closely related to the return on bonds. If equity type assets have fallen in value relative to the matching assets of bonds additional contributions may be required.
Investment return risk	If the assets under-perform the returns assumed in setting the funding target then additional contributions may be required at subsequent valuations.
Life expectancy	The majority of the 1977 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.
Legislative risk:	The Government may introduce overriding legislation which leads to an increase in the value of 1977 Plan benefits.
Solvency risk	As the funding target is not a solvency target, and the investment strategy in the past has not followed that required for a solvency target, the assets of the 1977 Plan may not be sufficient to provide all members with the full value of their benefits on a 1977 Plan wind-up.

Some of the risks can be reduced by adjusting the funding strategy with the help of the Trustees, for example investment matching risk. Other risks cannot easily be removed, for example longevity risk. The sponsor, being aware of these risks, must ask the Trustees to monitor them closely.

Notes to the financial statements - continued

21. Staff pension plans - continued

Reporting at 31 December 2015

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

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

Main financial assumptions

	2015 % pa	2014 % pa
Discount rate	3.8	3.6
Increase in salaries	n/a	n/a
RPI inflation assumption	3.2	3.1
CPI inflation assumption	2.1	2.1
LPI pension increases	3.1	3.0

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

Main demographic assumptions

The underlying mortality assumption is based upon the standard table known as S2PA Light table on a year of birth usage, adjusted by a factor of 105%, projected using the 2013 CMI core projection model with a long term rate of future mortality improvement equal to 1.25% p.a. (2014: same).

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

	2015	2014
Life expectancy for male currently aged 65	23.1	23.6
Life expectancy for female currently aged 65	24.3	24.9
Life expectancy for male currently aged 45	24.8	25.4
Life expectancy for female currently aged 45	26.1	26.7

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

	Value 2015 £'000	Of which not quoted in active market 2015 £'000	Value 2014 £'000	Of which not quoted in active market 2014 £'000
Equities	6,765	-	6,525	-
Gilts and bonds	6,468	-	6,471	-
Cash	1,065	-	996	-
Total	14,298	-	13,992	-

At 31 December 2015 £nil (2014: £nil) of the fair value of scheme assets related to self-investment.

Notes to the financial statements - continued**21. Staff pension plans - continued**

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

	2015 £'000	2014 £'000
Fair value of 1977 Plan assets	14,298	13,992
Present value of funded defined benefit obligation	11,599	12,443
Surplus in the scheme	2,699	1,549
Related deferred tax asset	-	-
Net pension asset	2,699	1,549

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

	2015 £'000	2014 £'000
Operating cost:		
Service costs	-	-
Total operating cost	-	-
Financing cost:		
Interest on net defined benefit asset	73	74
Pension benefit recognised in profit and loss	73	74
Remeasurements in other comprehensive income:		
Reduction/(return) on 1977 Plan assets in excess of that recognised in net interest	275	(917)
Actuarial (gains)/losses due to changes in financial assumptions	(377)	1,669
Actuarial losses arising from experience	15	82
Pension (gain)/expense recognised in other comprehensive income	(87)	834
Total amount recognised in total comprehensive income	(14)	908

Notes to the financial statements - continued

21. Staff pension plans - continued

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

	2015 £'000	2014 £'000
Opening defined benefit obligation	12,443	10,899
Interest expense on obligation	432	475
Actuarial gains arising from changes in demographic assumptions	(165)	-
Actuarial (gains)/losses arising from changes in financial assumptions	(212)	1,669
Actuarial losses arising from experience	15	82
Benefits paid	(914)	(682)
Closing defined benefit obligation	11,599	12,443

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

	2015 £'000	2014 £'000
Opening fair value of 1977 Plan assets	13,992	11,888
Expected return on 1977 Plan assets	505	549
Actual less expected return on 1977 Plan assets	(275)	917
Contributions by sponsor	990	1,320
Benefits paid	(914)	(682)
Closing fair value of 1977 Plan assets	14,298	13,992

The actual return on 1977 Plan assets is as follows:

	2015 £'000	2014 £'000
Interest income on 1977 Plan assets	505	549
Remeasurement (losses)/gains on 1977 Plan	(275)	917
Actual return on 1977 Plan assets	230	1,466

Notes to the financial statements - continued

21. Staff pension plans - continued

Sensitivity to key assumptions:

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

		Total estimated P&L charge for 2016 £'000	Surplus/ (deficit) at 2015 £'000
Current figures		(103)	2,699
A 0.2% pa decrease in the discount rate:	Impact	23	(495)
	Amount after impact	(80)	2,204
A 0.2% pa increase in the inflation assumption:	Impact	5	(124)
	Amount after impact	(98)	2,575
A one year increase in life expectancy	Impact	10	(241)
	Amount after impact	(93)	2,458

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

Other pension schemes

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

The pension cost for the period was £698,450 (2014: £1,394,569).

22. Share capital

	2015 £'000	2014 £'000
Authorised:		
15,000,000 ordinary shares of £10 each (2014:15,000,000)	150,000	150,000
Allotted, called up and fully paid:		
13,020,000 ordinary shares of £10 each (2014:13,020,000)	130,200	130,200

Notes to the financial statements - continued

23. Technical provisions

Process used to decide on assumptions

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

For all classes of business, CICL uses several generally accepted actuarial methods to estimate the ultimate cost of claims. There is close communication between the actuaries involved in the estimation process and CICL's underwriters and claims team to ensure that all parties are aware of material factors relating to outstanding claims reserve liabilities. Note that the premium rating environment, claim inflation, and several other factors are contemplated in the processes explained below. Large claims (claims with a current incurred value over £500,000), as well as individual claims that have potential for significant development, are separated from attritional claims (the remaining claims with a current incurred value under £500,000) and reserved using the following approach.

First, claims with potential for significant development are identified based on specific claim characteristics and substantial input from the Claim department. The potential magnitude of adverse development, along with the likelihood of adverse development, is considered in calculating the additional reserve needed on these claims. This is the "Incurred But Not Enough Reported", or IBNER provision.

Additionally, future reported large losses are addressed by using a frequency/severity methodology to calculate the additional reserve needed for unreported large claims. This is the "Incurred But Not Reported", or IBNR provision. The sum of the large loss IBNER and IBNR components, explained above, results in the estimate of large loss bulk reserve provision.

Unpaid attritional claims reserves are actuarially estimated, primarily using the Chain Ladder and Bornhuetter-Ferguson methods applied to accident year data.

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

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

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

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

Notes to the financial statements - continued**23. Technical provisions - continued****Total technical provisions**

	2015	2014
	£'000	£'000
Gross		
Claims reported	190,821	210,179
Loss adjustment expenses	8,248	9,546
Claims incurred but not reported	263,337	232,863
Unearned premiums	100,605	92,435
Total gross technical provisions	563,011	545,023
Reinsurers' share of technical provisions		
Claims reported	22,082	40,352
Claims incurred but not reported	40,199	35,831
Unearned premiums	22,252	18,928
Total reinsurers' share of technical provisions	84,533	95,111
Net		
Claims reported	168,739	169,827
Loss adjustment expenses	8,248	9,546
Claims incurred but not reported	223,138	197,032
Unearned premiums	78,353	73,507
Total net technical provisions	478,478	449,912

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

Notes to the financial statements - continued**23. Technical provisions - continued**

	Provision for unearned premiums £'000	Claims outstanding £'000	Total £'000
Gross			
At 1 January 2014	93,487	471,093	564,580
Foreign currency exchange adjustments	(1,941)	(10,274)	(12,215)
Movement in provision	889	(8,231)	(7,342)
At 1 January 2015	92,435	452,588	545,023
Foreign currency exchange adjustments	(2,079)	(6,883)	(8,962)
Movement in provision	10,249	16,701	26,950
At 31 December 2015	100,605	462,406	563,011
Reinsurance amount			
At 1 January 2014	18,936	84,133	103,069
Foreign currency exchange adjustments	(76)	682	606
Movement in provision	68	(8,632)	(8,564)
At 1 January 2015	18,928	76,183	95,111
Foreign currency exchange adjustments	(50)	1,140	1,090
Movement in provision	3,374	(15,042)	(11,668)
At 31 December 2015	22,252	62,281	84,533
Net			
At 31 December 2015	78,353	400,125	478,478
At 31 December 2014	73,507	376,405	449,912

Notes to the financial statements - continued

23. Technical provisions - continued

Claims development table gross of reinsurance

GROSS												
Accident year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At end of first year	52,556	71,826	117,704	125,502	130,951	122,561	116,462	118,619	122,684	111,509	130,660	1,221,034
One year later	(2,500)	2,048	(25,976)	(16,746)	(5,647)	(5,071)	(4,717)	86	506	8,191		(49,826)
Two years later	(1,483)	(2,987)	10,553	(6,086)	(917)	(5,335)	(3,489)	(13,562)	(4,228)			(27,534)
Three years later	(2,140)	(12,037)	(17,796)	(5,293)	3,621	(4,200)	(12,683)	1,212				(49,316)
Four years later	(3,905)	(6,021)	(709)	(2,361)	(10,032)	(7,724)	(5,825)					(36,577)
Five years later	(2,407)	(486)	(5,488)	(1,140)	(2,241)	(3,857)						(15,619)
Six years later	(1,364)	(3,020)	(3,138)	8,384	(5,809)							(4,947)
Seven years later	(3,603)	(3,127)	(1,733)	2,784								(5,679)
Eight years later	(1,873)	(1,486)	(148)									(3,507)
Nine years later	(852)	(2,189)										(3,041)
Ten years later	(186)											(186)
Current estimate of ultimate claims	32,243	42,521	73,269	105,044	109,926	96,374	89,748	106,355	118,962	119,700	130,660	1,024,800
Cumulative payments to date	(29,391)	(38,587)	(64,562)	(82,197)	(78,277)	(79,925)	(60,164)	(62,353)	(55,797)	(44,074)	(15,363)	(610,690)
Provision as at 31 December 2015	2,852	3,934	8,706	22,847	31,649	16,448	29,585	44,002	63,164	75,626	115,297	414,110
Prior accident years												40,048
Claims handling provision												8,248
Technical provisions as at 31 December 2015												462,406

Notes to the financial statements - continued

23. Technical provisions - continued

Claims development table net of reinsurance

NET												
Accident year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At end of first year	29,284	50,251	95,217	112,747	118,187	104,128	109,819	107,255	113,843	105,485	128,800	1,075,016
One year later	(1,909)	1,457	(13,107)	(15,402)	(6,603)	(6,018)	(6,058)	589	934	8,764		(37,353)
Two years later	(1,132)	(2,126)	3,602	(8,504)	356	(4,489)	(3,343)	(12,551)	(4,900)			(33,087)
Three years later	(1,634)	(14,639)	(12,121)	(3,409)	(1,440)	(3,964)	(11,583)	501				(48,289)
Four years later	(3,138)	(6,116)	(4,042)	(65)	(8,225)	(6,494)	(6,736)					(34,816)
Five years later	(1,924)	3,720	(5,997)	(1,421)	(1,153)	(3,740)						(10,515)
Six years later	(1,346)	(2,015)	(1,834)	6,835	(5,110)							(3,470)
Seven years later	(2,687)	(1,007)	(727)	2,950								(1,471)
Eight years later	(1,611)	(311)	(201)									(2,123)
Nine years later	(853)	(857)										(1,710)
Ten years later	(226)											(226)
Current estimate of ultimate claims	12,824	28,357	60,790	93,731	96,012	79,423	82,099	95,794	109,877	114,249	128,800	901,954
Cumulative payments to date	(10,259)	(24,866)	(56,235)	(74,214)	(70,757)	(65,531)	(59,336)	(60,460)	(55,363)	(41,514)	(15,337)	(533,874)
Provision as at 31 December 2015	2,565	3,490	4,556	19,517	25,254	13,892	22,763	35,333	54,514	72,735	113,463	368,080
Prior accident years												23,797
Claims handling provision												8,248
Technical provisions as at 31 December 2015												400,125

Notes to the financial statements - continued

23. Technical provisions - continued

The analysis shows CICL's estimate of the ultimate cost of claims at initial assessment the oldest assessment where the initial assessment is not available, and annually thereafter. Data has been compiled, and analysed, on an accident year by calendar year basis. Data from all years has been restated at the 2015 closing rates of exchange to remove fluctuations caused by movements in foreign currency rates.

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

24. Provisions for other risks

	Dilapidations and refurbishment provision £'000
At 1 January 2014	703
Charged to the statement of profit or loss	163
Utilised	-
At 31 December 2014	866
Charged to the statement of profit or loss	63
Utilised	(516)
At 31 December 2015	413
	2015 £'000
Within one year	-
After one year	413
Total	413

Notes to the financial statements – continued

23. Provisions for other risks - continued

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

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

	2015 £'000	2014 £'000
Within one year	-	621
After one year	413	245
Total	413	866

25. Other creditors including tax and social security

	2015 £'000	2014 £'000
Amounts due to group undertakings	5,181	4,135
Financial liabilities	468	729
Insurance premium tax	379	943
Other tax and social security	111	7,118
Other creditors	2,194	729
Total	8,333	13,654

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

26. Operating lease commitments

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

	Land and buildings		Other	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Within one year	1,014	837	103	137
Within two to five years	2,387	2,045	49	141
After five years	407	411	-	-
Total	3,808	3,293	152	278

Notes to the financial statements - continued

27. Commitments and Contingent liabilities

Institute of London Underwriters (“ILU”)

Following the merger of the ILU and the London Insurance & Reinsurance Market Association to form the International Underwriting Association of London, the Company resigned its membership of the ILU on 31 December 1998. The Company had to establish a fund of £1,048,780 by way of an irrevocable letter of credit in order to meet the ILU’s expected shortfall of income from the period 1999 until further notice. At 31 December 2015 the amount remaining on the letter of credit after draw downs was £344,545 (see note 19).

London Underwriting Centre

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

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

Funds deposited with Lloyd’s

Acting as a third party depositor under a trust deed executed on 23 December 2015, the Company deposited £48,400,000 in bonds with Lloyd’s as security for the underwriting activities of HUL. Fees attached to this security will be earned by the Company on a quarterly basis. The funds pledged as FAL for Lloyd’s are ineligible for the purposes of calculating capital available to meet regulatory requirements.

28. Deed of Guarantee

The Company has been granted a Deed of Guarantee by CCC (the Guarantor) effective 24 January 2002. Under the terms of the Deed of Guarantee, CCC guarantees all liabilities that arise or have arisen under policies of insurance or contracts of reinsurance entered into by the Company, including policies or contracts entered into before 24 January 2002. The Company is charged a fee by CCC for the provision of the guarantee based on an agreed formula. The calculated charge for 2015 was £nil (2014: £nil).

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

Notes to the financial statements - continued

29. Ultimate parent company

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

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

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

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

30. Reconciliation from FRS 101 to US GAAP

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

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

	2015 £'000	2014 £'000
(Loss)/profit for the financial year on a FRS 101 basis	(3,088)	42,732
Adjustments to reconcile to US GAAP:		
Foreign exchange income (loss) on financial investments included in other comprehensive income ("OCI") for US GAAP net of tax of £3,132,000 (2014: £(438,000)) - see i. below	(12,147)	(1,599)
Remeasurement of investments classified as available for sale recorded in OCI under US GAAP net of tax of £4,791,000 (2014: £3,665,000) - see ii. below	18,616	(13,385)
Difference in treatment of amounts in relation to defined benefit pension scheme accounting net of tax of £1,000 (2014: £276,000) - see iii. below	1,021	(1,073)
Equalisation provision tax of £nil (2014: £97,000) - see iv. below	-	97
Net income on a US GAAP basis	4,402	26,772

Notes to the financial statements - continued

30. Reconciliation from FRS 101 to US GAAP - continued

- i. Under FRS 101 foreign exchange differences on the revaluation of investments are included in profit for the financial year whereas under US GAAP the foreign exchange difference upon revaluation of investments classified as available for sale is recorded within OCI. As a result no net asset difference arises between FRS 101 and US GAAP.
- ii. Whilst the carrying value of financial investments is stated at market value under both FRS 101 and US GAAP, there are differences in the cost basis and the treatment of unrealised gains and losses. Under FRS 101 the cost basis is historic cost and both realised and unrealised gains and losses are included within profit for the financial year.

Under US GAAP, the investments are classified as available for sale. Consequently, the cost basis is amortised cost with accretion and amortisation of premiums and discounts reported within net income and changes in unrealised gains of £10,418,818 (2014: £13,631,232) and changes in unrealised losses of £1,399,980 (2014: £3,141,640), 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 £1,106,725 (2014: £1,102,288) are recorded in net income. As a result, no net asset difference arises between FRS 101 and US GAAP.

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

The company previously recognised an equalisation provision under UK GAAP, but no longer does so under FRS101. This has resulted in a difference in the tax impact between US GAAP and FRS 101 of £nil (2014: £97,000). At the end of 2015 there is no net impact on the net assets between FRS 101 and US GAAP.

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

	2015 £'000	2014 £'000
Capital and reserves on a FRS 101 basis	363,904	372,288
Stockholders' equity on a US GAAP basis	363,904	372,288