

Company Registration No. 01766035

**China Taiping Insurance (UK)
Co Ltd**

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

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China Taiping Insurance (UK) Co Ltd

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

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China Taiping Insurance (UK) Co Ltd

Officers and professional advisers

Directors

Hong Bo - Chairman
Yu Xiaodong - Chief Executive (Appointed on 8 November 2019)
Geng Jin Hai - Chief Executive (Resigned on 10 May 2019)
Hugh Edward Graham - Director (Appointed on 26 June 2020)
Zhang Zhongyi - Director (Appointed on 18 February 2020)
Kerr Alistair Graham - Director
Wang Gan - Director (Resigned on 11 October 2019)
Zhang Jinlei - Director (Appointed on 10 May 2019 and resigned on 20 September 2019)
Derek Wayne Cribb - Director (Appointed on 27 February 2020)
Cornelis Schrauwens - Director (Appointed on 21 February 2019 and resigned on 2 October 2019)

Company Secretary

Zheng Wei Min - Secretary

Registered Office

2 Finch Lane
London
EC3V 3NA

Principal Bankers

HSBC Bank plc
16 King Street
Covent Garden
London
WC2E 8JF

Bank of China (UK) Limited
1 Lothbury
London
EC2R 7DB

Fund Managers

Taiping Assets Management (HK) Company Limited
10/F China Taiping Tower, Phase II
8 Sunning Road
Hong Kong

Investec Wealth & Investment Limited
2 Gresham Street
London
EC2V 7Q

China Taiping Insurance (UK) Co Ltd

Officers and professional advisers (continued)

Independent Auditors

PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

Other Information

China Taiping Insurance (UK) Co Ltd ('the Company' or 'the CTIUK') is a member of the Association of British Insurers and is authorised by the Prudential Regulation Authority ('PRA') and regulated by the PRA and the Financial Conduct Authority ('FCA'). Its activities are covered by the Financial Ombudsman Services.

The Company is a member of the China Taiping Insurance Group Limited group of companies ('the Group').

China Taiping Insurance (UK) Co Ltd

Strategic report (continued)

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

Review of the Company's business

The Company is authorised to underwrite general insurance business and has operated in the UK for 36 years. The Company specialises mainly in the small to medium size retail and catering businesses written through brokers, agents and directly with our customers. The Company continues to operate a branch in Rotterdam, The Netherlands, and through a representative office in Manchester.

The Company continues to write inward treaty business mainly from fellow subsidiaries within the Group, though has limited exposure to proportional property cessions from mainland China and Hong Kong.

Results and Performance

The results of the Company for the year, as set out on pages 20 to 21, show a loss on ordinary activities after tax of £11.9m (2018: loss after tax £5.3m). The shareholder's fund of the Company total £47.8m (2018: £29.7m).

Gross written premium ('GWP') for the year-ended 31 December 2019 is £86m (2018: £78.9m) with a total technical income of £47.9m (2018: £41.7m) after reinsurance ceded. The increased in GWP is due to continued growth in our existing products and diversified strategy.

The Company has a European branch in Rotterdam, the Netherlands. Many of the activities are directly controlled from the London office together with a small marketing and underwriting representative office in Manchester. In 2019 our Rotterdam office generated gross written premium of £22.4m (2018: £17.3m).

Necessary steps have been taken to ensure positive investment results by realising some profits during the year. The Company continue to maintain a medium to low risk investment strategy. The investment portfolio produced an investment profit of £2.9m (2018: loss of £0.2m). The value of financial investment as at year end is £55.3m (2018: £38.6m).

During the year 2019, the Company has received 2 stages of capital injection from the Group. On 3 April 2019, 10,000,000 ordinary shares of £1 each were issued and on 12 December 2019, 20,000,000 ordinary shares of £1 each were issued, these shares were issued to China Taiping International Company Limited. There is only a single class of ordinary shares.

Future development

The Company is facing pressure on insurance rates as well as increasing competition in the saturated market. The directors are exploring new classes of business while enhancing the combined ratio for the existing books of business at the current level.

The Company has strengthened the risk control environment to cope with the substantial growth of the business via additional human resources employed by the risk control department.

Principal risks and uncertainties

The Board of Directors (the 'Board') take overall responsibility for risk management, while different committees are assigned to manage the respective risks. The principal risks of the Company are set out below:

Insurance risk

Insurance risk includes the risks that a policy will be written for too low a premium or provide inappropriate cover (underwriting risk), that the frequency or severity of insured events will be higher than expected (claims risk) or that estimates of claims subsequently prove to be insufficient (reserving risk). The Underwriting Committee monitors performance against business plan monthly through the year. The Claims Committee monitors maximum probable

China Taiping Insurance (UK) Co Ltd

Strategic report (continued)

losses from the exposed business. Reserve adequacy is monitored through review by both the Group and Company's actuary.

Credit risk

Credit risk refers to the risk that a counterparty will default on any type of debt by failing to make the required payments. The risk is primarily that of the Company's debt securities, premium receivable, reinsurance receivables and other receivables. The Company manages the risk by setting the minimum acceptable credit rating of bonds issuers and reinsurers, monitoring ageing of receivables and requiring deposits in advance from insurance brokers.

Market risk

The key aspect of market risk comprises of foreign exchange risk and interest rate risk. For foreign exchange risk, the Company controls the risk by restricting the net risk exposure of the net assets dominated in foreign currencies. Interest rate risk is the risk that arises for interest-bearing assets from fluctuations of interest rates. Such assets include time deposits, bonds, loan and receivables. The Company obtains advice from investment managers to ensure the risk is reduced to an acceptable exposure.

Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due. The Company aims to hold sufficient cash and cash equivalents to meet the necessary obligations. The Company also manages liquidity risk via duration matching of investment portfolio against its insurance liabilities.

Operational risk

This is the risk of loss resulting from inadequate or failed internal processes and systems, or from external events. The Group Head Office's internal audit function provides independent assurance that key operational risks have been identified and that the associated controls are designed and operating effectively.

Impact of 'Brexit'

Our existing businesses in Europe are affected by Brexit. Our Denmark business has been in run off and there will be no ongoing live exposures after the Brexit date, remaining claims will be handled via delegated authority agreement. For Ireland, we are ceasing entering into any new or renewal business post Brexit and will utilise pending legislation in Ireland to run off the account over the next 3 years. For the Netherlands branch, the Company has notified the regulator of the intention to run-off the Netherlands branch.

Solvency II

The Company has fully embedded the Pillar 1 quantitative requirements and Pillar 2 qualitative requirements into the operations. The directors monitor the approach to meeting the Pillar 1 capital requirements and at present have decided that the standard formula adequately reflects our risk profile. The directors are confident that the Company will continue to meet its regulatory capital requirements in the future. On an annual basis, the Company publish quantitative and qualitative information on Solvency II in a Solvency and Financial Condition Report ('SFCR').

Coronavirus

In January 2020, a newly infectious disease named "COVID-19" was identified. The outbreak was then declared a global pandemic by the World Health Organization (WHO) on 11 March 2020. COVID-19 became a global health issue and according to the UK government, spread of the virus is very likely to continue. During the period of outbreak, there might be adverse impact to the core business of the Company as some of our policyholders, particularly in catering and hospitality industries are facing more challenges, this might result in declining premium income and increasing claim reporting to the Company. The investment portfolio may

China Taiping Insurance (UK) Co Ltd

Strategic report (continued)

also suffer in both realised and unrealised losses as the global financial markets have been experiencing greater volatility. The directors will keep monitoring the issue and continue assessing the impact of this incident to the Company. The impact of COVID-19 on CTIUK's underwriting performance is assessed in Note 30.

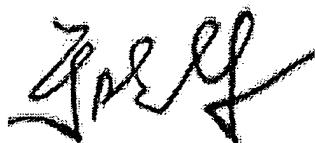
Key Performance Indicators ('KPIs')

The Board monitors the performance and financial position of the Company by reference to the following KPIs:

	2019	2018	
Net premiums written	£49.7m	£44.3m	Gross premiums written less outward reinsurance contracts
Combined ratio	126.8%	113.7%	Net claims incurred and expenses to net earned premiums
Underwriting result	£(12.8)m	£(5.7)m	Balance on technical account for general business
Return on capital employed	(30.8)%	(16.5)%	Loss for the year after tax in relation to average equity shareholder's fund

During the year, the Company experienced a high loss ratio in trader business leading to an increase in the combined ratio to 126.8% (2018: 113.7%), certain classes of trader business contributed high loss for the year. Other than net premiums written and the balance on the technical account, the KPIs above are not defined under United Kingdom Generally Accepted Accounting Practice ('UK GAAP') and so are non-GAAP measures.

By order of the board



Yu Xiaodong

Director

22nd October 2020

China Taiping Insurance (UK) Co Ltd

Directors' report (continued)

The Directors have pleasure in presenting their report and audited financial statements of the Company for the year ended 31 December 2019.

Directors

The current directors, except as noted, and those in office during the year and to the date of approving the 'Annual Report and Financial Statements', are as followed.

Hong Bo	- Chairman
Yu Xiaodong	- Chief Executive (Appointed on 8 November 2019)
Geng Jin Hai	- Chief Executive (Resigned on 10 May 2019)
Graham, Hugh Edward	- Director (Appointed on 26 June 2020)
Zhang Zhongyi	- Director (Appointed on 18 February 2020)
Kerr Alistair Graham	- Director
Derek Wayne Cribb	- Director (Appointed on 27 February 2020)
Cornelis Schrauwers	- Director (Appointed on 21 February 2019 and resigned on 2 October 2019)
Wang Gan	- Director (Appointed on 1 March 2019 and resigned on 11 October 2019)
Zhang Jinlei	- Director (Appointed on 10 May 2019 and resigned on 20 September 2019)

None of the directors hold any interests in any shares of the Company.

Company Secretary

Zheng Wei Min - Secretary

Future outlook

Likely future developments in the business of the Company are discussed in the strategic report.

Dividends

The directors do not recommend the payment of a dividend for the year ended 31 December 2019 and the accumulated retained results will continue to be carried forward in the financial statements.

Going concern

The Company has net current assets and a solvency coverage ratio of 157.4% (2018: 129.5%) as at the balance sheet date 31 December 2019. The Directors have made an assessment of the Company's ability to continue as a going concern taking into account all available information about the future, which is twelve months from the date when the financial statements are authorised for issue. There is undeniably significant uncertainty surrounding the impact of COVID-19 on the business and the global economy. To support the Company's operational and financial risks, the parent company within the Group (China Taiping Insurance Holdings Company Limited) will continue to provide sufficient capital to ensure the Company's solvency maintains above regulatory requirements and there is liquidity to support operations. The Company received a letter of support from China Taiping Insurance Holdings Company Limited to ensure that the Company is able to continue to meet its financial obligations as they fall due. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

The Board will continue to monitor the situation closely and take appropriate action as necessary.

China Taiping Insurance (UK) Co Ltd

Directors' report (continued)

Financial instruments and financial risk management

The business of the Company includes the use of financial instruments. Details of the Company's risk management objectives and policies and exposures to risk relating to financial instruments are set out in note 5 to the financial statements.

Branches outside the UK

The company has a branch in the Netherlands.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 and 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.

The directors 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.

Disclosure of information to auditors

The report must contain a statement to the effect that, in case of each of the persons who are directors at the time when the report is approved, the following applies:

- As far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- The director has taken all steps that he/she ought to have taken as a director in order to make him/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

China Taiping Insurance (UK) Company Limited

Directors' Report (continued)

Change in independent auditors

Pursuant to Section 487 of the Companies Act 2006, KPMG LLP will be appointed as auditors for the financial year end 2020.

Duty to promote the success of the company

Under Section 172 of the Companies Act, the Board of Directors of the Company must act in the way he/she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

a. Long Term - the likely consequences of any decision in the long term

The Company operates within the UK Financial Services regulatory regime and is subject to the provisions and requirements of Solvency II regulations. These are designed to ensure the longer-term financial planning and stability of such companies, therefore helping to ensure that policyholders and customers can depend on our products and services.

In taking key decisions therefore, we consider that the longer-term interests of both the Company and its various stakeholders (policyholders, intermediaries and regulators) are almost always aligned. Our parent company and sole shareholder, demand of us strategic planning and goals that build a long-term sustainable future that will assist the group to become one of the most pre-eminent global financial services entities over the course of the next two decades and beyond.

During the course of 2019, we have invested significantly into improving and enhancing our Corporate Governance structure; including appointing new directors to the Board and the establishment of additional decision making committees. Further enhancements are planned during 2020. These will all add significant additional experience to the Board and therefore the future stewardship of the Company; whilst at the same time, provide greater transparency and independence to the Executive.

Investment into our IT capabilities has been increased, utilising the advantages of our Group's superior resources in this area. We are also investigating the various advantages of utilising third party software programs to achieve certain enhancements more rapidly. It is evident that these will lead to a rapid advancement in our ability to transact business with many of our key intermediaries in a much more efficient and cost effective way; to the benefit of all parties.

It is with regret that after almost 21 years of operation, that we have decided to put our Branch operation in the Netherlands into run off. Regrettably, we were unable to reach agreement with the Dutch regulators about the corporate structure for our post Brexit operations in that territory. Our Group will now set up a new EU27 entity in a different jurisdiction and it is anticipated that this will, in time, supporting underwriting business in Netherlands.

China Taiping Insurance (UK) Company Limited

Directors' Report (continued)

b. Stakeholders - the interests of the company's employees

The Company aims to be a friendly and professional firm with a strong ethic, and fundamental belief in quality service and good working atmosphere throughout the organisation. With open company culture, policies and practices are in place to keep employees informed on matters relevant to them as employees through regular intranet reports, training & fact-sheets. This includes published company internal code of conduct, policies and procedures being made available to everyone on matters such as discrimination, harassment, ethics, whistle-blowing, anti-money laundering, behavioural standards and other key topics. Staff are regularly reminded of their responsibilities.

c. Business decisions - the need to foster the company's business relationships with suppliers, customers and others

The company utilises both direct and intermediary channels to distribute its products. The direct (to customer) channel capitalises on its close affinity to the Chinese community (both private and public) in Europe and unique position as the only Chinese insurer operating in the UK.

In the intermediated channel the Company transacts business with a broad cross section of general insurance intermediaries and delegates authority to a small selection of established and trusted business partners who provide additional or unique benefits to our policyholders.

Throughout the various processes involved in transacting business the Company undertakes several measures to monitor the integrity of its checks and controls on customers and our intermediaries. These are designed to ensure compliance with current regulatory requirements, including mitigating conduct risk and that our customers are treated appropriately; and their data, where retained is stored in accordance with current General Data Protection Regulations.

All customers and third party payments are screened against relevant sanctions protocols and anti money laundering training and procedures are in place to spot suspicious transactions. The company continues to evaluate the current approach to new and existing customers to ensure that the way in which all our customer are treated is fair minded. This includes the pricing structures and scope of our products and alignment of approach to new and existing business. All complaints are monitored and reviewed to inform any evolution of our products and procedures.

Our intermediary relationships are governed by formal Terms of Business Agreements and only entered into with FCA authorised and regulated entities.

Where the Company decide to delegate authority in respect of either underwriting or claims processes, this is governed by the terms of our outsourcing procedures. These ensure formal contractual agreements exist between all parties, with clear allocation and alignment of responsibilities between respective parties. This allows us to ensure that our customers receive the same quality of care and treatment, as if the process was not delegated. Use of core reporting data, combined with auditing of our delegated authority partners.

Currently the Company is developing our on-line product distribution capabilities which in the near future will improve the mechanism and possibilities for customers to purchase our products, whilst ensuring that modern rigours of systemised controls will maintain the current controls.

China Taiping Insurance (UK) Company Limited

Directors' Report (continued)

d. Community & environment - the impact of the company's operations on the community and the environment

The Company's offices in the United Kingdom have traditionally been located very close to the local "China Town", and although our London office relocated to the City of London to be closer to the heart of the financial district, we remain in close proximity to London's China town. This is important to the company ensuring that we remain easily accessible to our direct client base and allows us to provide relevant and necessary support to this close knit community.

As a company we sponsor and support both financially and otherwise a number of projects and initiatives that flourish in communities local to our offices.

Our impact on the environment is something that we are increasingly reducing our environmental impact by reducing our reliance on paper-based records and provision of products and services. We have significantly reduced our business travel during the past two years and utilised video conferencing facilities wherever possible. Ongoing review and assessment of our investment portfolio means we are actively looking into ESG (Environmental, Social, Governance) investments both from a corporate responsibility perspective and from an investment return perspective.

The decision of the UK to exit the EU was of significant note and risk to our Insurance business, which utilised the passporting regime to cover our EU clients and customers. This regime is due to end on 31 December 2020. Given the 11 months of the transitional period of UK government discussion with the EU to establish an orderly exit from the EU, this was a significant area of focus for the business in the year, and continues to be in 2020. For the Company, this has meant a small increase in gross written premium in this financial year, and will result in a gradual reduction in the year ending December 2020.

China Taiping Insurance (UK) Company Limited

Directors' Report (continued)


e. Culture - the need to act fairly as between members of the company

The Company aims to be a friendly and professional company with a strong work ethic, and a fundamental belief in quality and good performance throughout the organisation. The Company always endeavours to keep employees informed on matters relevant to them as employees through regular meetings, intranet reports and newsletters. That includes Company policies and procedures being made available to all employees on matters such as harassment, ethics, discrimination behavioural standards, whistleblowing and other key topics. Other issues such as products and services, quality at work, leadership, office work environment, morale, recognition, training and performance reviews.

The Company:

- gives full and fair consideration to applications for employment made by disabled persons, having regard to their particular aptitude and abilities.
- Continues the employment of, and arranges appropriate training for, employees who have become disabled person during the period when they were employed by the Company; and
- Provides for the training, career development and promotion of disabled persons.

By order of the board



Xiaodong Yu

Director

22nd October 2020

China Taiping Insurance (UK) Co Ltd

Modern slavery statement

Modern slavery statement for financial year 2019

This statement is made in pursuant to Section 54 of the Modern Slavery Act 2015 and sets out the steps that the Company has taken and is continuing to take to ensure that modern slavery or human trafficking is not in our supply chains or in any part of our business.

Modern slavery encompasses slavery, services, human trafficking and forced labour. The Company operates a zero tolerance approach to any form of slavery. The Company is committed to acting ethically and with integrity and transparency in all business dealings and to implement effective systems and controls in place to safeguard against any form of modern slavery taking place within the business or our supply chain.

Our business approach

We are a regulated general insurance company in UK. We always work to the highest professional standards and comply with all laws and regulations applicable to our business. We expect the same high standards from those parties we engage with and are committed to ensuring that there is no modern slavery or human trafficking in our supply chain.

Our policies

We operate a number of internal policies to ensure that we are conducting business in an ethical and transparent manner. These include:

- We work to embed throughout our operations a robust risk management framework to ensure we effectively analyse and manage the risks to our business. This includes analysing the risk of inadvertently working with suppliers who do not share our commitment to anti-slavery and human trafficking.
- Anti-slavery policy. This policy sets out the Company's stance on modern slavery and explains how employees can identify any instances of this and where they can go for help.
- Recruitment policy. We operate a robust recruitment policy, including conducting eligibility to work in the UK checks for all employees to safeguard against human trafficking or individuals being forced to work against their will.
- Whistleblowing policy. We operate a whistleblowing policy so that all employees know that they can raise concerns about how colleagues are being treated, or practices within our business or supply chain, without fear of reprisals.
- Code of business conduct. This code explains the manner in which we behave as an organisation and how we expect our employees and suppliers to act.

Our suppliers

The Company operates a supplier policy and maintains a preferred supplier list. We conduct due diligence on all suppliers before allowing them to become a preferred supplier. This due diligence includes an online search to ensure that the particular organisation has never been convicted of offenses relating to modern slavery. Our anti-slavery policy forms part of our contract with all suppliers and they are required to confirm that no part of their business operations contradicts this policy.

China Taiping Insurance (UK) Company Limited

Directors' Report (continued)

In addition to the above, as part of our contract with suppliers, we require that they confirm to us that:

- They have taken steps to eradicate modern slavery within their business
- They hold their own suppliers to account over modern slavery
- They pay their employees at least the national minimum wage / national living wage. (For UK based suppliers)
- They pay their employees any prevailing minimum wage applicable within their country of operations. (For international suppliers)
- We may terminate the contract at any time should any instances of modern slavery come to light.

Training

We ensure that all employees who have responsibility for procurement within our Company receive appropriate training to identify issues related to slavery and human trafficking, and review standard terms with suppliers as a means of ensuring disclosure and compliance.

Our performance indicators

We will know the effectiveness of the steps that we are taking to ensure that slavery and/or human trafficking is not taking place within our business or supply chain. We encourage anyone (including employees, sub-contractors, suppliers and clients) to report in good faith any issues or concerns about potential violation of human rights, legal or regulatory requirements, and improper or unethical business practices such as fraud or bribery.

Approval for this statement

By order of the board



Xiaodong Yu

Director

22nd October 2020

Independent auditors' report to the members of China Taiping Insurance (UK) Co Ltd

Report on the audit of the financial statements

Opinion

In our opinion, China Taiping Insurance (UK) Co Ltd's financial statements:

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

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance sheet as at 31 December 2019; the Profit and loss account, the Statement of comprehensive income, the Statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Board of Directors.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

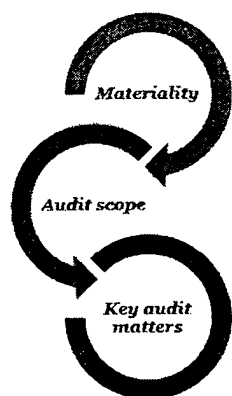
We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company.

We have provided no non-audit services to the Company in the period from 1 January 2019 to 31 December 2019.

Our audit approach

Overview



- Overall materiality: £381,161 (2018: £369,898), which represents the amount that would change the Combined Operating Ratio ('COR') by 1%.
 - Using the output of our risk assessment, we scoped our audit based on materiality over each financial statement line item.
 - Valuation of gross claims incurred but not reported ('IBNR') within the provision for outstanding claims.
 - Impact of the Coronavirus ("COVID-19") subsequent event.
-

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006, Prudential Regulation Authority and Financial Conduct Authority, and UK tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to management bias in accounting estimates and judgemental areas of the financial statements such as the valuation of the provision for outstanding claims. Audit procedures performed by the engagement team included:

- Discussions with the Board of Directors, management, and senior management involved in the risk and compliance functions and the Company's legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Reading key correspondence with the Prudential Regulation Authority and the Financial Conduct Authority in relation to compliance with laws and regulations;
- Reviewing relevant meeting minutes including those of the Board of Directors;
- Procedures relating to the valuation of claims incurred but not reported within the provision for outstanding claims described in the related key audit matter below;
- Identifying and testing journal entries, in particular journal entries posted by users that the engagement team would not expect to be posting journals; and
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p><i>Valuation of gross claims incurred but not reported ('IBNR') within the provision for outstanding claims</i></p> <p>The provision for claims IBNR is a significant accounting estimate in the financial statements of the Company and its valuation involves a significant degree of judgement.</p> <p>Key areas of focus this year were:</p> <ul style="list-style-type: none">• The underlying volatility attached to estimates for the larger classes of business, such as Liability (excluding Professional Indemnity) and Property Damage, where small changes in assumptions can	<p>In performing our audit over the provision for claims IBNR, we have used actuarial specialists as part of our team to conduct some of the testing. Our procedures included:</p> <ul style="list-style-type: none">• Developing independent point estimates for classes of business considered to be higher risk, particularly focusing on the largest and most uncertain estimates, as at 31 December 2019. For these classes, we compared our re-projected estimates to those booked by the directors to form part of our determination as to whether the overall provision for outstanding claims represented a reasonable estimate.

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p>lead to large changes in the level of the estimate held.</p> <ul style="list-style-type: none"> The risk of inappropriate methodologies or assumptions being used in determining current year estimates for the Company. Given that limited data is available for some classes of business, there is greater reliance on expert judgement in their estimation. The consistency of the directors' approach to estimating the provision for claims IBNR and adjustments recognised to reflect uncertainty for specific claims. <p>Refer to Accounting policy 3.9 (page 28) and 4 (page 34) for disclosure of related accounting policies, judgements and estimates.</p>	<ul style="list-style-type: none"> Testing, for the other classes of business, the methodology and assumptions used by the directors to derive the provision for claims IBNR and assessing whether these produced reasonable estimates based on underlying facts and circumstances. Performing analytical audit procedures over the remaining classes of business, such as the appropriateness of ultimate loss ratios, to ascertain the reasonableness of the provision for claims IBNR. <p>In performing the above, we have also considered and tested the following:</p> <ul style="list-style-type: none"> The underlying relevant data (including but not limited to claims case estimates and paid claims) to relevant audit evidence. The directors' assessment of estimation uncertainty. Considered whether any of our audit procedures gave rise to an indication of management bias. <p>Based on the work performed we found that the provision for claims IBNR was supported by the evidence we obtained.</p>
<p><i>Impact of COVID-19 subsequent event</i></p> <p>As disclosed in note 30, 2020 has begun with the outbreak of a new strain of Coronavirus ("COVID-19") in China resulting in a global pandemic causing significant economic disruption. The situation at 31 December 2019 was that a limited number of cases of an unknown virus had been reported to the World Health Organisation. The subsequent spread of the virus and its identification as a new coronavirus does not provide additional evidence about the situation that existed at 31 December 2019, and it is therefore a non-adjusting event.</p> <p>Management have ensured that the measurement of assets and liabilities reflects only the conditions that existed at the reporting date.</p> <p>Subsequent to the year-end management have performed procedures to assess the financial and operational impacts of COVID-19 which include:</p> <ul style="list-style-type: none"> Measures to limit the operational impact of being able to deliver key customer and reporting activities; Operation of a risk management framework to ensure sufficient capital surplus is maintained to meet liabilities, even under stress scenarios and having robust plans in place for certain management actions if the Company falls outside its approved risk appetite; Monitoring of the Company's solvency coverage ratio through regular meetings of the management team; Managing the Company's capital and liquidity position including monitoring asset credit quality, interest rate risks and actively managing liquidity on a fund by fund basis; Obtaining a letter of support from China Taiping Insurance Holdings Company Limited, to ensure that the Company is able to continue to meet its financial liabilities as they fall due, and minimum solvency requirements; and 	<p>We assessed management's approach to the impact of COVID-19 on the Company and the financial statements by performing the following procedures:</p> <ul style="list-style-type: none"> Evaluated management's stress and scenario testing and key assumptions. Read correspondence with the PRA in relation to COVID-19. Assessed the disclosures made by management in the financial statements and checked the consistency of the disclosures with our knowledge of the Company based on our audit. Obtained and evaluated management's assessments of the potential impact on claims levels for individual classes of business and agreed to supporting information and analysis. Obtained and reviewed relevant reinsurance contracts. Obtained the letter of support issued to the Company by China Taiping Insurance Holdings Company Limited, and assessed whether this parent entity within the Group has the financial ability to support the Company. <p>Based on the work performed and the evidence obtained, we consider the financial statements being prepared on a going concern basis, and the disclosure of the impact of COVID-19 in financial statements, to be appropriate.</p>

Key audit matter**How our audit addressed the key audit matter**

- Frequent communications with the PRA by management.

Management have concluded the Company will continue to meet its capital requirements, operate through this pandemic, and that the Company continues to be a going concern.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which it operates.

Using the output of our risk assessment, we scoped our audit based on materiality over each financial statement line item.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

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

Overall materiality	£381,161 (2018: £369,898).
How we determined it	The amount that would change the Combined Operating Ratio ('COR') by 1%.
Rationale for benchmark applied	We consider the COR to be a key profit related benchmark used by the directors and is central to the Company's communications to the public on the performance of this business.

We agreed with the Board of Directors that we would report to them misstatements identified during our audit above £19,058 (2018: £18,495) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page 7, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

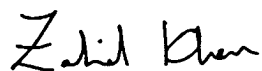
Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Appointment

We were appointed by the Board of Directors on 12 August 2014 to audit the financial statements for the year ended 31 December 2014 and subsequent financial periods. The period of total uninterrupted engagement is 6 years, covering the years ended 31 December 2014 to 31 December 2019.



Zahid Khan (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
22 October 2020

China Taiping Insurance (UK) Co Ltd

Financial statements for the year ended 31 December 2019

Profit and loss account

For the year ended 31 December 2019

	Note	2019 £	2018 £
Technical account – general business			
Earned premiums, net of reinsurance			
Gross premiums written	6	86,014,166	78,896,900
Outward reinsurance premiums		(36,320,372)	(34,551,088)
		<u>49,693,794</u>	<u>44,345,812</u>
Change in the gross provision for unearned premiums	6	478,950	(12,672,439)
Change in the provision for unearned premiums, Reinsurer's share		(2,212,758)	10,008,062
		<u>(1,733,808)</u>	<u>(2,664,377)</u>
Total technical income		<u>47,959,986</u>	<u>41,681,435</u>
Claims incurred, net of reinsurance			
Claims paid	7,8		
Gross amounts		43,200,731	32,468,134
Reinsurers' share		(14,999,722)	(10,947,487)
		<u>28,201,009</u>	<u>21,520,647</u>
Change in the provision for outstanding claims	7		
Gross amounts		18,369,854	12,745,337
Reinsurers' share		(7,963,310)	(7,324,114)
		<u>10,406,544</u>	<u>5,421,223</u>
Claims incurred, net of reinsurance		<u>38,607,553</u>	<u>26,941,870</u>
Net operating expenses	9	22,218,176	20,442,419
Total technical charges		<u>60,825,729</u>	<u>47,384,289</u>
Balance on the technical account for general business		<u>(12,865,743)</u>	<u>(5,702,854)</u>

The accounting policies and the notes on pages 26 to 58 form an integral part of these financial statements.

China Taiping Insurance (UK) Co Ltd

Financial statements for the year ended 31 December 2019

Profit and loss account

For year ended 31 December 2019

	Note	2019 £	2018 £
Non-technical account			
Balance on the general business technical account		(12,865,743)	(5,702,854)
Investment income	10	1,837,930	1,331,463
Realised gains on investments		534,843	362,858
Unrealised gains/(losses) on investments		659,167	(1,712,386)
Investment management expenses		<u>(166,913)</u>	<u>(172,405)</u>
Total investment return/(loss)		2,865,027	(190,470)
		<hr/>	<hr/>
Exchange (losses)/ gains		(601,165)	304,673
Other charges	15	(3,806,452)	(1,295,898)
Loss on ordinary activities before tax		(14,408,333)	(6,884,549)
Tax on loss on ordinary activities	14	<u>2,458,428</u>	<u>1,549,715</u>
Loss for the financial year		<u>(11,949,905)</u>	<u>(5,334,834)</u>

The accounting policies and the notes on pages 26 to 58 form an integral part of these financial statements.

China Taiping Insurance (UK) Co Ltd

Statement of comprehensive income For the year ended 31 December 2019

	2019	2018
	£	£
Loss for the financial year	(11,949,905)	(5,334,834)
Other comprehensive (expense)/ income		
Currency translation differences	90,062	(52,408)
Available for sale revaluation reserve	(48,057)	96,123
Total comprehensive loss for the year	<u>(11,907,900)</u>	<u>(5,291,119)</u>

All results are from continuing operations.

The accounting policies and the notes on pages 26 to 58 form an integral part of these financial statements.

China Taiping Insurance (UK) Co Ltd

Balance sheet As at 31 December 2019

	Note	2019 £	2018 £
Assets			
Fixed assets			
Tangible assets	16	5,823,205	5,999,229
Investment in subsidiary	27	-	-
		<u>5,823,205</u>	<u>5,999,229</u>
Investments			
Financial investments	5	55,343,884	38,624,835
		<u>55,343,884</u>	<u>38,624,835</u>
Reinsurers' share of technical provisions			
Provision for unearned premiums	8	14,817,743	17,008,433
Provision for outstanding claims	8	28,004,873	20,197,544
		<u>42,822,616</u>	<u>37,205,977</u>
Current Assets			
Debtors arising out of direct insurance operations:			
-Policyholders		1,541,342	1,611,327
-Intermediaries		19,999,801	15,130,288
Debtors arising out of reinsurance operations	22	6,760,656	6,774,356
Other debtors	23	3,548,821	3,593,973
Accrued interest and prepayments	23	907,337	798,753
Cash at bank and in hand	24	27,144,894	17,659,371
Deferred tax assets	19	3,744,623	1,343,291
Deferred acquisition costs	9	11,829,071	9,467,640
		<u>75,476,545</u>	<u>56,378,999</u>
Total assets		<u>179,466,250</u>	<u>138,209,040</u>

The accounting policies and the notes on pages 26 to 58 form an integral part of these financial statements

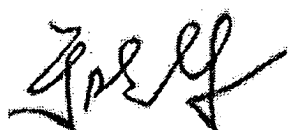
China Taiping Insurance (UK) Co Ltd

Balance Sheet (continued) As at 31 December 2019

	Note	2019 £	2018 £
Liabilities			
Creditors: amounts due within one year			
Creditors arising out of direct insurance operations		11,289,852	6,733,271
Creditors arising out of reinsurance operations		12,566,250	13,414,754
Other creditors including taxation and social security	26	3,213,613	1,827,791
		<u>27,069,715</u>	<u>21,975,816</u>
Accruals and deferred income			
Deferred reinsurance commissions	9	4,589,454	3,077,092
Other accruals	25	866,363	1,348,363
Deferred tax liabilities	19	171,285	228,380
		<u>5,627,102</u>	<u>4,653,835</u>
Provisions for liabilities			
Provision for unearned premiums	8	34,754,913	35,523,622
Provision for outstanding claims	8	64,172,524	46,305,870
		<u>98,927,437</u>	<u>81,829,492</u>
Capital and reserves			
Share capital	17	55,000,000	25,000,000
Exchange reserve account		(32,393)	(122,455)
Profit and loss account		(6,914,368)	5,035,537
Available for sale revaluation reserve		(211,243)	(163,186)
Total Equity		<u>47,841,996</u>	<u>29,749,896</u>
Total Liabilities and Equity		<u>179,466,250</u>	<u>138,209,040</u>

The accounting policies and the notes on pages 26 to 58 form an integral part of these financial statements.

The financial statements on pages 20 to 58 were approved by the Board of Directors on 22nd October 2020 and were signed on its behalf by:



Xiaodong Yu

Director

China Taiping Insurance (UK) Co Ltd
Registered no. 01766035

China Taiping Insurance (UK) Co Ltd

**Statement of changes in equity
For the year ended 31 December 2019**

Note	Share capital	Profit and loss account	Exchange reserve account	Available for sale revaluation reserve	Total equity
	£	£	£	£	£
Balance as at 1 January 2018	25,000,000	10,370,371	(70,047)	(259,309)	35,041,015
Loss for the year and total comprehensive expense for the year	-	(5,334,834)	(52,408)	-	(5,387,242)
Other revaluation reserve	-	-	-	96,123	96,123
Balance as at 31 December 2018	25,000,000	5,035,537	(122,455)	(163,186)	29,749,896
And Balance as at 1 January 2019					
Loss for the year and total comprehensive income for the year	-	(11,949,905)	90,062	-	(11,859,843)
Other revaluation reserve	-	-	-	(48,057)	(48,057)
Issued Share Capital	30,000,000	-	-	-	30,000,000
Balance as at 31 December 2019	55,000,000	(6,914,368)	(32,393)	(211,243)	47,841,996

All results are from continuing operations.

The accounting policies and the notes on pages 26 to 58 form an integral part of these financial statements.

China Taiping Insurance (UK) Co Ltd

Notes to the financial statements Year ended 31 December 2019

1. General Information

China Taiping Insurance (UK) Co Ltd is authorised to underwrite general insurance business. The Company has a branch in Rotterdam, the Netherlands.

The Company is a private company limited by shares and is incorporated in the United Kingdom and registered in England. The address of its registered office is 2 Finch Lane, London, EC3V 3NA.

2. Statement of compliance

The financial statements of the Company have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, “The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland” (“FRS 102”), Financial Reporting Standard 103, “Insurance Contracts” (“FRS 103”) and the Companies Act 2006.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of this financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.1 Basis of preparation

These financial statements are prepared on a going concern basis, under the historical cost convention. The preparation of financial statements in conformity with FRS 102 and FRS 103 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

3.2 Going concern

The Directors have made an assessment of the Company’s ability to continue as a going concern taking into account all available information about the future, which is twelve months from the date when the financial statements are authorised for issue. There is undeniably significant uncertainty surrounding the impact of COVID-19 on the business and the global economy. To support the Company’s operational and financial risks, the parent company within the Group (China Taiping Insurance Holdings Company Limited) will continue to provide sufficient capital to ensure the Company’s solvency maintains above regulatory requirements and there is liquidity to support operations. The Company received a letter of support from China Taiping Insurance Holdings Company Limited to ensure that the Company is able to continue to meet its financial obligations as they fall due. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

3.3 Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions, subject to certain conditions, which have been complied with, including notification of and no objection to, the use of exemptions by the Company’s shareholder.

The Company has taken advantage of the following exemptions:

- from preparing a statement of cash flows, on the basis that it is a qualifying entity and its ultimate parent company includes the consolidated statement of cash flows in its own financial statements;
- from disclosing the company key management personnel compensation in total;

China Taiping Insurance (UK) Co Ltd

Notes to the financial statements (continued) Year ended 31 December 2019

3. Summary of significant accounting policies (continued)

- from preparing a reconciliation of the number of shares outstanding at the beginning and end of the period; and
- from disclosing other related party transactions as they are with other companies that are wholly owned within the Group.

3.4 Consolidated financial statements

The Company is a wholly owned subsidiary of China Taiping International Company Limited (a company incorporated in Hong Kong) and of its intermediate parent, China Taiping Insurance Holdings Company Limited (a company incorporated and listed in the Hong Kong Stock Exchange). It is included in the consolidated financial statements of China Taiping Insurance Holdings Company Limited which are publicly available. Therefore, the Company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements.

This financial statements are the Company's separate financial statements.

3.5 Foreign currency

(a) Functional and presentation currency

The Company's functional and presentation currency is the pound sterling.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency at the dates of the transactions.

At each period end, foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

3.6 Premiums

Premiums written relate to business incepted during the year and include estimates of premiums due but not yet receivable or notified to the Company, less an allowance for cancellations.

Premiums are stated gross of commissions payable to intermediaries, but exclude insurance premium tax and other duties. Insurance premium tax due by the Company, which has not been paid over to HM Revenue & Customs at the year end, has been included in the balance sheet as a liability under the heading 'Other creditors including taxation and social security'.

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards reinsurance business being reinsured.

3.7 Unearned premiums

A provision for unearned premiums is made which represents that part of gross premiums written, and reinsurers' share thereof, that is estimated to be earned in the following or subsequent financial years. It is

China Taiping Insurance (UK) Co Ltd

Notes to the financial statements (continued) Year ended 31 December 2019

3. Summary of significant accounting policies (continued)

calculated separately for each insurance contract on the 1/365 basis where the incidence of risk is the same throughout the contract. Where the incidence of risk varies during the term of the contract, the provision is based on the estimated risk profile of business written.

3.8 Claims incurred

Claims incurred comprise all claim payments made in the financial year, and the attributable internal and external claims handling costs, movements in the outstanding claims provision, together with estimates of attributable claims handling costs, movements in the provision for incurred but not reported claims, after netting off all salvage and subrogation recoveries.

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

3.9 Claims outstanding

The provision for claims outstanding is made on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, of claims incurred but not reported by that date, and of related internal and external claims handling expenses.

The outstanding claims provision is based on information available at the balance sheet date. Subsequent information and events may result in the ultimate liability being less than, or greater than, the amount provided. Any differences between provisions and subsequent settlements are dealt with in the profit and loss technical account on general business of later years.

The incurred but not reported claims ('IBNR') is calculated by the Company's actuaries who provide an indication of ultimate losses together with an assessment of risks and possible favourable or adverse developments that may not have been fully considered in calculating these indications. At the financial year end these risks and developments included: changes having retrospective effect on open claims; changes in claims settlement procedures potentially leading to future claims payment patterns differing from historical experience; general uncertainty in the claims environment; failure to recover reinsurance and unanticipated changes in claims inflation.

Consideration is also made of the views of other parties including underwriters and claims managers and also on how previous actuarial indications have developed.

3.10 Deferred acquisition costs

Acquisition costs comprise commissions and other costs which vary with, and are primarily related to, the acquisition of new insurance contracts and the renewal of existing insurance contracts. These costs are accrued over an equivalent period to that over which the underlying business is written and are charged to the accounting periods in which the related premiums are earned.

Acquisition costs are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

3.11 Unexpired risk provisions

Provision is made for unexpired risks when, after taking account of investment income, it is anticipated - on the basis of information available at the year end - that unearned premiums will be insufficient to meet the expected claims and related expenses of business in force at the end of the year.

China Taiping Insurance (UK) Co Ltd

Notes to the financial statements (continued) Year ended 31 December 2019

3. Summary of significant accounting policies (continued)

3.12 Unexpired risk provisions (continued)

This provision, where created, is included as a liability within 'Other technical provisions' in the balance sheet. No unexpired risk provision has been recognised during the year.

3.13 Financial Instruments

The Company has chosen to apply the recognition and measurement provisions of IAS 39 (as adopted for use in the EU) and the disclosure requirements of FRS 102 in respect of financial instruments:

(a) Financial assets

i) Shares and other variable-yield securities and units in unit trusts – at fair value through profit or loss

A financial asset is classified into this category at inception if they are acquired principally for the purpose of selling in the short term, if they form part of portfolio of financial assets in which there is evidence of short-term profit taking, or if so designated by management to minimise any measurement or recognition inconsistency with associated liabilities.

Financial assets designated as at fair value through profit and loss at inception are those that are managed and whose performance is evaluated on a fair value basis.

The fair values of financial instruments trading in active markets are based on quoted bid prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The fair values of financial instruments that are not traded in an active market are established by the directors using valuation techniques which seek to arrive at the price at which an orderly transaction would take place between market participants.

Net gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are presented in the profit and loss account within 'Unrealised gains on investments' or 'Unrealised losses on investments' in the period in which they arise.

ii) Debt securities and other fixed-income securities – held to maturity

Redeemable fixed interest securities, in respect of which there is a positive intention to hold to maturity, are valued at amortised cost. The amortisation is calculated so as to write off the difference between the purchase price and the maturity value over the life of the security, using the effective interest method.

iii) Deposits with credit institutions – Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Company intends to sell in the short term or that it has designated as at fair value through profit or loss. Loans and receivables are subsequently measured at amortised cost using the effective interest method.

iv) Receivables

Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables. This basis of valuation is viewed by the directors as having prudent regard to the likely realisable value.

China Taiping Insurance (UK) Co Ltd

Notes to the financial statements (continued) Year ended 31 December 2019

3. Summary of significant accounting policies (continued)

3.13 Financial Instruments (continued)

iv) Available for sale securities

Available for sale ('AFS') financial assets held by the Company are stated at fair value. Fair value is determined in the manner described in note 5.4 Gains and losses arising from changes in fair value are recognised in comprehensive income and accumulated in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is reclassified to profit or loss.

Dividends on AFS equity instruments are recognised in profit or loss when the Company's right to receive the dividends is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet date. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

Impairment of financial assets

For financial assets not recognised at fair value through profit or loss, the Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Company about the following events:

- significant financial difficulty of the issuer or debtor;
- a breach of contract, such as a default or delinquency in payments;
- it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Company, including:
 - adverse changes in the payment status of issuers or debtors in the Company; or
 - national or local economic conditions that correlate with defaults on the assets in the Company.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred on loans and receivables or held-to-maturity investments carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses

China Taiping Insurance (UK) Co Ltd

Notes to the financial statements (continued) Year ended 31 December 2019

3. Summary of significant accounting policies (continued)

3.13 Financial Instruments (continued)

that have been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the profit and loss account for the period. If a held-to-maturity investment or a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Company's grading process that considers asset type, industry, geographical location, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for the group of such assets by being indicative of the issuer's ability to pay all amounts due under the contractual terms of the debt instrument being evaluated.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed through the profit and loss account for the period.

(b) Financial liabilities

Creditors arising out of direct insurance and reinsurance operations are classified as current liabilities if payment is due within one year or less. When a financial liability is recognised initially it is measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial liability.

(c) Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and the liability simultaneously.

3.14 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term liquid deposits with original maturities of three months or less.

3.15 Investment in subsidiary

Investment in subsidiary is measured at cost less accumulated impairment losses.

3.16 Fixed assets

Tangible assets are stated at cost (or deemed cost) less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price, costs directly attributable to bringing the asset to its working condition for its intended use, dismantling and restoration costs.

China Taiping Insurance (UK) Co Ltd

Notes to the financial statements (continued) Year ended 31 December 2019

3. Summary of significant accounting policies (continued)

3.16 Fixed assets (continued)

Depreciation and residual values

Depreciation is provided at rates calculated to write off the costs, less estimated residual values, on a straight-line basis over the estimated useful economic lives of tangible fixed assets – at the following rates per annum:

Office furniture and office equipment	15%
Computer equipment	33%
Motor vehicles	25%
Land and buildings	2%
Building improvements	10%

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each reporting period. The effect of any change is accounted for prospectively.

3.17 Impairment of non-financial assets

At each balance sheet date, non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset may be impaired. If there is such an indication the recoverable amount of the asset is compared to the carrying amount of the asset.

The recoverable amount of the asset is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of the future cash flows before interest and tax obtainable as a result of the asset's continued use. These cash flows are discounted using a pre-tax discount rate that represents the current market risk-free rate and the risks inherent in the asset.

If the recoverable amount of the asset is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the profit and loss account, unless the asset has been revalued when the amount is recognised in other comprehensive income to the extent of any previously recognised valuation. Thereafter any excess is recognised in profit or loss.

If an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the profit and loss account.

3.18 Taxation

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

Current or deferred taxation assets and liabilities are not discounted.

(a) Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

China Taiping Insurance (UK) Co Ltd

Notes to the financial statements (continued) Year ended 31 December 2019

3. Summary of significant accounting policies (continued)

3.18 Taxation (continued)

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

3.19 Operating leases

Rentals under operating leases are charged to the profit and loss non-technical account in equal annual instalments over the period of the lease.

3.20 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

3.21 Revaluation reserve

The revaluation reserve represents the revaluation of the cumulative net change in the fair value of available-for-sale securities held at the end of the reporting year.

3.22 Distribution to shareholder

Dividends and other distributions to the shareholder are recognised as a liability in the financial statements in the period in which the dividends and other distributions are approved by the shareholder. These amounts are recognised in the statement of changes in equity.

China Taiping Insurance (UK) Co Ltd

Notes to the financial statements (continued) Year ended 31 December 2019

4. Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a) Significant judgements in applying the accounting policies

i) Significant insurance risk

Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, the Company defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

b) Sources of estimation uncertainty

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

i) The ultimate liability arising from claims made under insurance contracts

The Company's insurance liabilities are comprised of unearned premium provisions of £34.8m (2018: £35.5m) and provision for outstanding claims of £62.2m (2018: £44.9m).

The provision for outstanding claims includes outstanding claims reported; claims incurred but not reported (IBNR); and estimated claims handling costs. The Company makes a reasonable estimate of the payments which the Company is required to make in fulfilling its obligations under the insurance contracts, based on information currently available at the end of the reporting period. The estimation of the cost of settling notified claims and IBNR is inherently uncertain, due to changes in claims patterns, changes in the legal environment, and social, economic and environment changes. In the course of conducting insurance business, the company may receive liability claims, and become involved in actual or threatened related litigation. In the opinion of the directors, adequate provisions have been established for such claims and no material loss will arise in this respect.

The Company makes an estimate of assumptions used in the measurement of insurance contract liabilities, such assumptions including but not limited to expenses, claim development factors, claims inflation and expected claim ratios. The directors continually review the estimates and make adjustments as necessary, but actual results could differ significantly from what is envisioned when these estimates are made.

ii) Held to maturity investments

The Company classifies non-derivative financial assets with fixed or determinable payments and fixed maturity and where the Company has a positive intention and ability to hold the assets to maturity as held-to-maturity investments. In making this judgement, the Company evaluates its intention and ability to hold such investments until maturity.

If the Company fails to hold these investments to maturity other than for certain specific circumstances, the Company would have to reclassify the entire portfolio of held-to-maturity investments as available-for-sale investments, as such portfolio of investments would be deemed to have been tainted. This would result in the held-to-maturity investments being measured at fair value instead of at amortised cost.

iii) Fair value of financial Instruments

China Taiping Insurance (UK) Co Ltd

Notes to the financial statements (continued) Year ended 31 December 2019

4. Critical accounting judgements and estimation uncertainty (continued)

The fair values of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those that sourced them.

5. Management of Insurance and financial risks

The Company issues contracts that transfer insurance risk or financial risk or both. This section summarises these risks and the way the Company manages them.

5.1 Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random, and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio. The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

(a) Underwriting strategy

General Insurance risks

The Company is engaged in the underwriting of general insurance business in the UK, Ireland and Netherlands. The Company focuses its general insurance business by offering a different range of insurance products covering different types of property insurance, liability insurance, credit insurance, guarantee insurance business and short-term accident and health insurance and the related reinsurance business. The Company has formulated strict operational procedures on underwriting and claims settlement to control risks on insurance underwriting.

China Taiping Insurance (UK) Co Ltd

Notes to the financial statements (continued) Year ended 31 December 2019

5. Management of Insurance and financial risks (continued)

5.1 Insurance risk (continued)

Reinsurance business

The Company's reinsurance portfolio is made up of a mix of business spreading across different geographic regions, covering property damage, marine cargo and hull and miscellaneous non-marine classes.

(b) Reinsurance strategy

The Company purchases reinsurance protection from other reinsurers in the normal course of business in order to limit the potential for losses arising from unexpected and concentrated exposures. In assessing the credit worthiness of reinsurers, the Company takes into account, among other factors, ratings and evaluation performed by recognised credit rating agencies, their claims-paying and underwriting track record, as well as the Company's past experience with them.

(c) Concentration of insurance risks

The concentration and mitigation of insurance risk in each business line is set out below:

Within the insurance process, concentration of risk may arise where a particular event or series of events could impact heavily upon the Company's liabilities. Such concentrations may arise from a single insurance contract or through a small number of related contracts, and relate to circumstances where significant liabilities could arise.

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

Balance as at 31 December 2019	Medical expense insurance	Other motor insurance	Fire and other damage to property	General liability insurance	Credit and suretyship insurance	Miscellaneous financial loss	Marine, Aviation and Transport (MAT)	Total direct	Reinsurance accepted	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Gross	2,845	336	38,421	5,628	7,559	3,517	900	59,206	4,967	64,173
Net	3,010	369	22,967	3,419	680	3,478	(5)	33,918	2,250	36,168

(d) Management of risks

The Company delegates underwriting authority to experienced underwriters. The underwriting manual specifies the authority of underwriters at each level. Each underwriting manual clearly states the insurable risk, risks that can be insured on a limited scale and uninsurable risk as well as the probable maximum loss which underwriters at each level can underwrite. Risks that exceed the underwriting authority of the head of the underwriting department have to be reviewed and approved by Directors. For claims handling, there is a procedures manual that lays down the operational procedures and controls required to mitigate the insurance risk.

China Taiping Insurance (UK) Co Ltd

Notes to the financial statements (continued) Year ended 31 December 2019

5. Management of Insurance and financial risks (continued)

5.1 Insurance risk (continued)

The Company also arranges both treaty reinsurance and facultative reinsurance in accordance with industry practice. Treaty reinsurance provides automatic reinsurance cover under specific reinsurance contract terms and conditions. Facultative reinsurance is reinsurance of an individual risk. Each contract is arranged separately. The choice of reinsurance contract depends on market conditions, market practice and the nature of business. Facultative reinsurance is arranged when an individual risk is not covered by treaty reinsurance or exceeds treaty reinsurance capacity and exceeds its own underwriting capacity.

(e) Sensitivity analysis

The following tables present the sensitivity of the value of insurance liabilities disclosed in this note to movements in the assumptions used in the estimation of insurance liabilities. The sensitivities to economic movements relate mainly to business in the UK given that this is the Company's exposure.

General insurance sensitivities as at 31 December 2019

	Loss Ratio
	+/- 1%
2019 Impact on loss after tax and equity (£ 000)	
Gross of reinsurance	(698)
Net of reinsurance	(387)

General insurance sensitivities as at 31 December 2018

	Loss Ratio
	+/- 1%
2018 Impact on loss after tax and equity (£ 000)	
Gross of reinsurance	(535)
Net of reinsurance	(337)

(f) Claims development

Claims development information for the general insurance business and reinsurance business is disclosed below in order to illustrate the insurance risk inherent in the Company. The tables provide a review of current estimates of the cumulative claims and demonstrate how the estimated claims have changed at subsequent reporting or underwriting year-ends. The estimates increased or decreased as losses are paid and more information becomes known about the frequency and severity of unpaid claims.

The key assumption underlying the estimates of provision for outstanding claims is the ultimate claims expenses. A respective percentage change in the ultimate claims expenses alone results in a similar percentage change in provision for outstanding claims.

China Taiping Insurance (UK) Co Ltd

Notes to the financial statements (continued) Year ended 31 December 2019

5. Management of Insurance and financial risks (continued)

5.1 Insurance risk (continued)

(f) Claims development (continued)

Analysis of claims development – gross of reinsurance (accident year)

(in thousand)	2015 £	2016 £	2017 £	2018 £	2019 £	Total £
Estimate of cumulative claims						
At the end of accident year	13,980	16,424	23,055	41,646	51,945	
One year later	14,679	15,322	23,655	46,403		
Two years later	14,589	15,381	25,088			
Three years later	15,066	19,567				
Four years later	14,821					
Estimate of cumulative claims	14,821	19,567	25,088	46,403	51,945	157,824
Cumulative payments to date	(13,764)	(14,746)	(16,876)	(32,285)	(18,890)	(96,561)
Liabilities recognised in the balance sheet	1,057	4,821	8,212	14,118	33,055	61,263
Liabilities in respect of accident years 2014 and earlier, and inward reinsurance business						2,910
Total liabilities included in the balance sheet	1,057	4,821	8,212	14,118	33,055	64,173

Analysis of claims development – net of reinsurance (accident year)

(in thousand)	2015 £	2016 £	2017 £	2018 £	2019 £	Total £
Estimate of cumulative claims						
At the end of accident year	10,826	14,022	17,003	24,257	32,073	
One year later	11,624	13,385	17,320	27,751		
Two years later	11,625	13,224	17,015			
Three years later	11,873	14,463				
Four years later	11,995					
Estimate of cumulative claims	11,995	14,463	17,015	27,751	32,073	103,297
Cumulative payments to date	(11,192)	(12,032)	(12,358)	(20,122)	(12,348)	(68,052)
Liabilities recognised in the balance sheet	803	2,431	4,657	7,629	19,725	35,245
Liabilities in respect of accident years 2014 and earlier, and inward reinsurance business						910
Total liabilities included in the balance sheet	803	2,431	4,657	7,629	19,725	36,155

China Taiping Insurance (UK) Co Ltd

Notes to the financial statements (continued) Year ended 31 December 2019

5. Management of Insurance and financial risks (continued)

5.1 Insurance risk (continued)

(g) Prior years' claims provisions

Over/ (under) provisions for claims at the beginning of the year compared to payments and provisions at the end of the year in respect of prior years' claims for direct business was -£4.8m (2018: £1.2m). CTIUK's reserving function is reformed in 2019 as a qualified actuary and an experienced reserving analyst joined the company's actuarial team. The new team is of the opinion that the company's net reserve adequacy has been shifting towards the lower end. As a consequence, the Company has gradually increased its net IBNR reserves at a faster speed in relative to the case reserve increases through four consecutive quarter-ends in 2019. This is particular the case for some longer-tail classes such as General Liability.

5.2 Financial risk

The carrying amounts of the Company's assets and liabilities at the reporting date were as follows:

	2019 £	2018 £
Financial investments		
Shares, other variable yield securities, and units in equity funds at fair value through profit or loss	1,336,675	3,012,028
Debt securities, other fixed income securities and units in fixed income funds at fair value through profit or loss	49,947,706	27,030,346
Held-to-Maturity investments carried at amortised cost	-	2,734,070
Available-for-sale assets	2,856,685	2,870,365
Deposits with credit institutions	1,202,818	2,978,026
Investment in subsidiary	-	-
Debtors arising out of direct insurance operations	21,541,143	16,741,615
Debtors arising out of reinsurance operations	6,760,656	6,774,356
Cash at bank and in hand	27,144,894	17,659,371
Reinsurers' share of unearned premiums	14,817,743	17,008,433
Reinsurers' share of outstanding claims	28,004,873	20,197,544
Other debtors	3,548,821	3,593,973
Total financial assets	157,162,014	120,600,127
Provision for unearned premiums	34,754,913	35,523,622
Provision for Claims outstanding	64,172,524	46,305,870
Creditors arising from insurance operations	23,856,102	20,148,025
Other creditors including taxation and social security	3,213,613	1,827,791
Total financial liabilities	125,997,152	103,805,308

Transactions in financial instruments and insurance liabilities may result in the Company assuming financial risks. These include market risk, credit risk and liquidity risk. Each of these financial risks is described below, together with a summary of the ways in which the Company manages these risks.

There is no significant change in the Company's exposures to risk and how they arise, nor the Company's objectives, policies and processes for managing each of these risks.

Notes to the financial statements (continued)
Year ended 31 December 2019

5. Management of Insurance and financial risks (continued)

5.2 Financial risk (continued)

a) Market risks

Market risk can be described as the risk of change in fair value of a financial instrument due to changes in interest rates, equity prices or foreign currency exchange rates.

i) Interest rate risk

Interest rate risk is the risk to the earnings or market value of a fixed-rate financial instrument due to uncertain future market interest rates.

The Company monitors this exposure through periodic reviews of its financial instruments. Estimates of cash flows, as well as the impact of interest rate fluctuations relating to the investment portfolio are modelled and reviewed periodically.

The Company is exposed to interest rate risk in relation to the debt investments classified as, designated at fair value through profit or loss, held to maturity and deposits of £49,948k, nil and £1,203k respectively (31 December 2018 £27,030k, £2,734k and £2,978k respectively). A decrease of 50 basis points in interest rates of the debt investments classified as designated at fair value through profit or loss, with all other variables held constant, has no significant effect on the Company's profit before tax and increase the Company's total equity by approximately 1.07% (2018: 1.5%) of the total investments held by the Company as at 31 December 2019.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period.

ii) Equity price risk

The Company has a portfolio of marketable equity securities, which is carried at fair value and is exposed to price risk. This risk is defined as the potential loss in market value resulting from an adverse change in prices.

The Company manages the equity price risk by investing in a diverse portfolio of high quality and liquid securities.

The Company's investment in equity securities was carried at a fair value of £1,337k (31 December 2018: £3,012k).

A 10% increase/decrease in market value of the equity securities and investment funds classified as held-for-trading held by the Company as at 31 December 2019, with all other variables held constant, would increase/decrease the Company's loss before tax by £134k (2018: £301k).

iii) Currency risk

In respect of the general insurance business in Netherlands, premiums are received in EUR and we have separate bank accounts opened in Netherlands. Therefore, the foreign exchange risk in respect of EURO for the Company's EUR-O-currency operations is not significant in the profit and loss account.

The Company holds financial instruments denominated in currencies other than Sterling of the measurement currency. The plan is therefore exposed to currency risk as the value of these financial instruments will fluctuate due to changes in foreign exchange rates.

China Taiping Insurance (UK) Co Ltd

Notes to the financial statements (continued) Year ended 31 December 2019

5. Management of Insurance and financial risks (continued)

5.2 Financial risk (continued)

a) Market risk (continued)

A 50 basis points increases/decreases in EUR, US Dollar and HK Dollar to Sterling would decrease/increase the Company's profit before tax by £5k, £19k and £0.5k (2018: £11k, £3k and £1k) respectively.

b) Credit risks

Credit risk is the risk of economic loss resulting from the failure of one of the obligors to make full payment of principal or interest when due.

The Company is exposed to credit risks primarily associated with bank deposits, money market funds, insurance debtors, investments in debt securities and debt products, reinsurance arrangements with reinsurers and other debtors etc.

The maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at the end of the reporting period is the carrying amount of the assets as shown in the table below. Cash at bank are held with highly rated banking institutions. "Non-rated" assets capture assets not rated by external ratings agencies and certain policy holders.

	2019	% of total	2018	% of total
	£		£	
Deposit with credit institutions	1,202,818	1.06%	2,978,026	3.70%
Debt Securities, other fixed income securities and units in fixed income funds at fair value through profit or loss	49,947,706	44.20%	27,030,346	33.63%
Held-to-Maturity investments carried at amortised cost	-	0.00%	2,734,070	3.40%
Available-for-sale assets	2,856,685	2.53%	2,870,365	3.57%
Insurance debtors	28,301,799	25.05%	23,515,971	29.26%
Other debtors	3,548,821	3.14%	3,593,973	4.47%
Cash at bank and in hand	27,144,894	24.02%	17,659,371	21.97%
	113,002,723	100.0%	80,382,122	100.0%

	2019	2018
	£	£
AAA	811,855	4,773,386
AA	36,909,320	2,736,458
A	29,179,788	31,824,478
BBB	10,686,236	9,955,105
BB	-	849,471
Not rated	35,415,524	30,243,224
Total assets bearing credit risk	113,002,723	80,832,122

China Taiping Insurance (UK) Co Ltd

Notes to the financial statements (continued) Year ended 31 December 2019

5. Management of Insurance and financial risks (continued)

5.2 Financial risk (continued)

b) Credit risk (continued)

To reduce the credit risk associated with the investments in debt securities and debt products, the Company has established detailed investment policy which is managed by an investment committee. Any non-compliance or violation in the investment policies will be followed up and rectification action will be taken immediately. Majority of the bonds are with ratings of investment grade or above.

The credit risk associated with insurance debtors and other debtors are managed by the Credit Control Committee.

c) Liquidity risks

The Company has to meet daily calls on its cash resources, notably from claims arising from its general insurance contracts and reinsurance contracts. There is, therefore, a risk that cash will not be available to settle liabilities when due.

The Company manages this risk by formulating policies and general strategies of liquidity management to ensure that the Company can meet its financial obligations in normal circumstances and that an adequate stock of high-quality liquid assets is maintained in order to contain the possibility of a liquidity crisis.

The amounts of financial liabilities and outstanding claims disclosed in the table represent undiscounted cash flows.

Balance as at 31 December 2019	Less than 1 year or on demand	More than 1 year	Total Carrying amount
	£	£	£
Provision for unearned premiums	34,754,913	-	34,754,913
Provision for outstanding claims	34,999,412	29,173,112	64,172,524
Creditors arising from insurance operations	23,856,102	-	23,856,102
Other creditors including taxation and social security	3,213,613	-	3,213,613
Total Financial liabilities and outstanding claims	96,824,040	29,173,112	125,997,152
Balance as at 31 December 2018	Less than 1 year or on demand	More than 1 year	Total Carrying amount
	£	£	£
Provision for unearned premiums	35,523,622	-	35,523,622
Provision for outstanding claims	25,208,410	21,097,460	46,305,870
Creditors arising from insurance operations	20,148,025	-	20,148,025
Other creditors including taxation and social security	1,827,791	-	1,827,791
Total Financial liabilities and outstanding claims	82,707,848	21,097,460	103,805,308

China Taiping Insurance (UK) Co Ltd

Notes to the financial statements (continued) Year ended 31 December 2019

5.3 Capital Management

The Company's key business operation is its general insurance business and the reinsurance business. The Company manages its capital to ensure that the entities conducting the general insurance business and reinsurance business will be able to meet statutory solvency requirements including Solvency II. The Company has a solvency coverage ratio of 157.4% (2018: 129.5%) as at the balance sheet date 31 December 2019. The Company's capital management initiatives also strive to maintain a surplus for future business expansion opportunities. The statutory solvency requirements are set out in the solvency rules in the United Kingdom. The Company's capital includes the components of total equity of £47.8m (2018: £29.7m). The Company complied with the various solvency requirements throughout the year.

5.4 Fair value estimation

The levels of fair value hierarchy of the Company's financial instruments are disclosed below:

	Year Ended 31 December 2019			Total balance £'000
	Level 1 £'000	Level 2 £'000	Level 3 £'000	
-Equity securities	1,337	823	-	2,160
-Debt securities	49,948	1,969	64	51,981
-Deposits with credit institutions	-	1,203	-	1,203
Total	51,285	3,995	64	55,344

	Year Ended 31 December 2018			Total balance £'000
	Level 1 £'000	Level 2 £'000	Level 3 £'000	
-Equity securities	3,012	2,744	-	5,756
-Debt securities	24,772	5,045	74	29,891
-Deposits with credit institutions	-	2,978	-	2,978
Total	27,784	10,767	74	38,625

No transfers occurred between Level 1 and Level 2 and Level 1 and Level 3.

	At Jan	Total gains/ (losses) in income statement	Total (losses)/ gains recorded as other comprehensive income	Purchases	Sales	Settled	Issued	Transfers into level 3	Transfers out of level	At 31 Dec
Debt securities	74	-	(10)	-	-	-	-	-	-	64

Reconciliation of movements in level 3 assets and liabilities measured at fair value. The following table reconciles the value of level 3 fair valued assets and liabilities at 1 January 2019 to that presented at 31 December 2019.

China Taiping Insurance (UK) Co Ltd

Notes to the financial statements (continued) Year ended 31 December 2019

5.4 Fair value estimation (continued)

Financial instruments at fair value

The fair values of financial instruments traded in active markets are based on quoted bid prices at the balance sheet date as described in Note 3.13. These instruments are included in Level 1. Instruments included in Level 1 comprise primarily FTSE listed equity investments as well as government and corporate bonds.

If observable prices are available for recent arm's length transactions, the instrument is included in Level 2. The Company has unit trust investments and certain debt securities which are classified as Level 2. The valuations for these reflect the price of a recent transaction for an identical asset. The Company closely monitors the valuation of assets in markets that have become less liquid. Determining whether a market is active requires the exercise of judgement and is determined based upon the facts and circumstances of the market for the instrument being measured. Where it is determined that there is no active market, fair value is established using a valuation technique. The techniques applied incorporate relevant information available and reflect appropriate adjustments for credit and liquidity risks. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates.

The Company held unlisted equities investments which are classified as Level 3. These investments are valued by a technique if there is no active market data.

China Taiping Insurance (UK) Co Ltd

Notes to the financial statements (continued) Year ended 31 December 2019

6. Particulars of Business

2019	Medical expense insurance	Other motor insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Miscellane ous financial loss	Marine, Aviation and Transport	Total direct	Reinsuran ce accepted	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Gross premium written	4,621	579	44,901	5,965	622	11,390	4,934	73,012	13,002	86,014
Gross premium earned	4,746	557	47,510	5,740	1,259	10,992	3,871	74,675	11,763	86,438
Gross claims incurred	(4,399)	(331)	(32,809)	(3,799)	(6,744)	(8,536)	(741)	(57,359)	(2,513)	(59,872)
Net operation expenses	(1,541)	(82)	(13,225)	(1,528)	(152)	(7,655)	1,039	(23,144)	(773)	(23,917)
Reinsurance balances	(24)	(124)	(4,043)	(1,717)	4,505	(432)	(3,082)	(4,917)	(10,598)	(15,515)
Net technical result	(1,218)	20	(2,567)	(1,304)	(1,132)	(5,631)	1,087	(10,745)	(2,121)	(12,866)

China Taiping Insurance (UK) Co Ltd

Notes to the financial statements (continued) Year ended 31 December 2019

6. Particulars of Business (continued)

2018	Medical expense insurance	Other motor insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Miscellaneous financial loss	Marine, Aviation and Transport	Total direct	Reinsurance accepted	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Gross premium written	4,761	539	46,823	5,271	268	10,899	2,479	71,040	7,857	78,897
Gross premium earned	2,968	524	43,450	5,053	1,169	10,160	373	63,697	2,528	66,225
Gross claims incurred	(1,637)	(347)	(34,005)	(5,077)	323	(3,089)	(7)	(43,839)	(773)	(44,612)
Net operation expenses	(1,461)	(80)	(10,849)	(1,165)	(100)	(6,676)	142	(20,189)	(856)	(21,045)
Reinsurance balances	(32)	(131)	(3,792)	400	(1,137)	(97)	(368)	(5,157)	(1,114)	(6,271)
Net technical result	(162)	(34)	(5,196)	(789)	255	298	140	(5,488)	(215)	(5,703)

All gross written premiums resulted from contracts of insurance or reinsurance concluded in the UK, except for business underwritten from the branch in Rotterdam of £22.4m (2018: £17.3m) and also in Ireland for which total gross written premium was £1.6m (2018: £2.2m). The business underwritten has been allocated to the relevant classification.

All premiums arising from direct business emanated from risks located in the UK, Ireland and The Netherlands via our office in Rotterdam.

'Reinsurance accepted' arises from risks located both inside and outside the UK.

Net assets are maintained to meet the solvency requirements of the Company as a whole and as a consequence segmental analysis of net assets has not been provided.

China Taiping Insurance (UK) Co Ltd

Notes to the financial statements (continued) Year ended 31 December 2019

7. Claims incurred, net of reinsurance

	2019		2018			
	Gross £	Reinsurance £	Net £	Gross £	Reinsurance £	Net £
Claims paid	43,200,731	(14,999,722)	28,201,009	32,468,134	(10,947,487)	21,520,647
Provision for outstanding claims						
Brought forward	46,305,870	(20,197,544)	26,108,326	33,399,267	(12,819,852)	20,579,415
Exchange movements	(503,200)	155,981	(347,219)	161,266	(53,578)	107,688
Carried forward	64,172,524	(28,004,873)	36,167,651	46,305,870	(20,197,544)	26,108,326
Change	18,369,854	(7,963,310)	10,406,544	12,745,337	(7,324,114)	5,421,223
Claims incurred	61,570,585	(22,963,032)	38,607,553	45,213,471	(18,271,601)	26,941,870

8. Provision for liabilities

	2019		2018			
	Gross £	Reinsurance £	Net £	Gross £	Reinsurance £	Net £
Notified outstanding claims	38,790,189	(20,499,407)	18,290,782	29,097,385	(11,948,817)	17,148,568
Provision for claims incurred but not reported	23,442,567	(7,505,466)	15,937,101	15,760,496	(8,248,727)	7,511,769
	62,232,756	(28,004,873)	34,227,883	44,857,881	(20,197,544)	24,660,337
Claims handling expenses	1,939,768	-	1,939,768	1,447,989	-	1,447,989
Provision for outstanding claims	64,172,524	(28,004,873)	36,167,651	46,305,870	(20,197,544)	26,108,326
Provision for unearned premiums	34,754,913	(14,817,743)	19,937,170	35,523,622	(17,008,433)	18,515,189
Total	98,927,437	(42,822,616)	56,104,821	81,829,492	(37,205,977)	44,623,515

China Taiping Insurance (UK) Co Ltd

Notes to the financial statements (continued) Year ended 31 December 2019

8. Provision for liabilities (continued)

An analysis of outstanding claims movements is shown below:

	Gross	Reinsurance	2019 Net	Gross	Reinsurance	2018 Net
	£	£	£	£	£	£
Balance at 1 January	46,305,870	(20,197,544)	26,108,326	33,399,267	(12,819,852)	20,579,415
Claims paid/recoveries received during the year	43,200,731	(14,999,722)	28,201,009	32,468,134	(10,947,487)	21,520,647
Increase/ (decrease) during the year	61,067,385	(22,807,051)	38,260,334	45,374,737	(18,325,179)	27,049,558
Balance at 31 December	64,172,524	(28,004,873)	36,167,651	46,305,870	(20,197,544)	26,108,326

An analysis of unearned premium movements is shown below:

	Gross	Reinsurance	2019 Net	Gross	Reinsurance	2018 Net
	£	£	£	£	£	£
Balance at 1 January	35,523,622	(17,008,433)	18,515,189	22,719,232	(6,968,301)	15,750,931
Premium written during the year	86,014,166	(36,320,372)	49,693,794	78,896,900	(34,551,088)	44,345,812
Less: Premium earned during the year	(86,782,875)	38,511,062	(48,271,813)	(66,092,510)	24,510,956	(41,581,554)
Balance at 31 December	34,754,913	(14,817,743)	19,937,170	35,523,622	(17,008,433)	18,515,189

China Taiping Insurance (UK) Co Ltd

Notes to the financial statements (continued) Year ended 31 December 2019

9. Net operating expenses

	2019		2018			
	Gross £	Reinsurance £	Net £	Gross £	Reinsurance £	Net £
Acquisition costs/(commissions)	30,412,775	(10,630,069)	19,782,706	25,852,378	(8,125,056)	17,727,322
Deferred acquisition costs						
Brought forward	9,467,640	(3,077,092)	6,390,548	7,548,544	(1,983,126)	5,565,418
Carried forward	11,829,071	(4,589,454)	7,239,617	9,467,640	(3,077,092)	6,390,548
Increase/(decrease)	2,361,431	(1,512,362)	849,069	1,919,096	(1,093,966)	825,130
Incurred acquisition costs	28,051,344	(9,117,707)	18,933,637	23,933,282	(7,031,090)	16,902,192
Administrative expenses	3,284,539	-	3,284,539	3,540,227	-	3,540,227
Total operating expenses	31,335,883	(9,117,707)	22,218,176	27,473,509	(7,031,090)	20,442,419

10. Investment income

	2019 £	2018 £
Interest on bank deposits	164,423	84,368
Income from fixed-income securities	1,397,189	903,782
Income from variable-yield securities	179,240	239,702
Other interest	97,078	103,611
Total investment income	1,837,930	1,331,463

11. Administrative expenses

	2019 £	2018 £
Administrative expenses charged to the technical and non-technical accounts include:		
Auditors' remuneration in respect of the audit of these financial statements	189,730	172,875
Depreciation of tangible fixed assets	262,538	264,340

The total auditors' remuneration payable by the company including VAT, to its auditors in respect of the audit of these financial statements, is shown above. The audit fee is borne by the company.

China Taiping Insurance (UK) Co Ltd

Notes to the financial statements (continued) Year ended 31 December 2019

12. Staff costs

	2019	2018
	£	£
All salary costs, including directors' emoluments, comprise:		
Wages and salaries	4,897,603	4,572,277
Social security costs	810,200	777,087
Total staff costs	<u>5,707,803</u>	<u>5,349,364</u>

	2019	2018
	Number	Number
The average monthly number of employees, including executive directors employed during the year was as follows:		
Management	5	5
Underwriting	39	39
Claims	8	8
Finance	7	8
Administration	8	8
Total number of staff	<u>67</u>	<u>68</u>

China Taiping Insurance (UK) Co Ltd

Notes to the financial statements (continued) Year ended 31 December 2019

13. Directors' remuneration

The emoluments in respect of directors are shown in the table below:

	2019	2018
	£	£
Aggregate emoluments	713,527	600,558
Pension contributions	2,729	6,054
	<u>716,256</u>	<u>606,612</u>

Two of the directors were remunerated for their role as employees across the Group. They were not remunerated directly for their services as directors for the Company and the amount of time spent performing their roles were incidental to their roles across the Group.

	2019	2018
	£	£
Remuneration of the highest paid director		
Aggregate emoluments	250,050	462,191
Pension contributions	1,558	6,054
	<u>251,608</u>	<u>468,245</u>

14. Tax on loss on ordinary activities

The charge for taxation comprises:

a) Tax expense included in profit and loss

	2019	2018
	£	£
Current tax:		
-Adjustment in respect of prior periods	-	(186,408)
Total current tax	-	(186,408)
Deferred tax:		
- Origination and reversal of timing difference	(2,458,428)	(1,363,308)
Total current tax	<u>(2,458,428)</u>	<u>(186,408)</u>
Tax on loss on ordinary activities	<u>(2,458,428)</u>	<u>(1,549,715)</u>

China Taiping Insurance (UK) Co Ltd

Notes to the financial statements (continued) Year ended 31 December 2019

14. Tax on profit on ordinary activities (continued)

b) Reconciliation of tax credit

Tax assessed for the year is at the standard rate of corporation tax in the UK for the year ended 31 December 2019 of 19% (2018: 19%). The differences are explained below:

	2019 £	2018 £
Loss on ordinary activities before tax	(14,408,333)	(6,884,549)
Loss multiplied by the standard rate of tax in the UK of 19% (2018: 19 %)	(2,737,583)	(1,308,064)
Effects of:		
- Income not subject to tax	(21,571)	(72,384)
- Expenses not deductible for tax purposes	12,560	17,141
- (Over) Provision in Prior year	(27,259)	(186,408)
- Re-measurement of deferred tax – change in UK tax rate	315,425	-
	<u>-</u>	<u>-</u>
Tax credit for the year	(2,458,428)	(1,549,715)

The rate of corporation tax changed to 19% with effect from 1 April 2017. Finance Act 2016, which received Royal Assent on 15 September 2016, will reduce the corporation tax rate further to 17% from 1 April 2020. In the Budget of 11 March 2020, the UK Government reversed this rate reduction, announcing that the UK corporation tax will remain at 19% from 1 April 2020 and this was substantively enacted on 17 March 2020.

At as 31 December 2019, this measure was not substantively enacted and therefore no impact is reflected in the calculation of the Company's deferred tax assets and liabilities at 31 December 2019. The measure would have increased the Company's deferred tax asset by approximately £315,000.

15. Other charges

Other income and expenditure consist of income and expenditure arising out of operation activities.

	2019 £	2018 £
Provision for bad debt	2,000,000	-
Other charges	1,806,452	1,295,898
	<u>3,806,452</u>	<u>1,295,898</u>

Other charges consist of other indirect charges allocated from non-distributable investment expenses and miscellaneous income or expenses.

China Taiping Insurance (UK) Co Ltd

Notes to the financial statements (continued) Year ended 31 December 2019

16. Tangible Assets

	Land and building £	Computer equipment £	Office furniture and equipment £	Motor vehicles £	Total £
Cost					
Balance as at 1 January 2019	6,990,762	632,309	130,379	100,579	7,854,029
Additions	-	80,284	11,226	-	91,510
Disposals	-	(547)	-	-	(547)
Exchange movement	(1,099)	(918)	(5,009)	564	(6,462)
Balance as at 31 December 2019	<u>6,989,663</u>	<u>711,128</u>	<u>136,596</u>	<u>101,143</u>	<u>7,938,530</u>
Accumulated depreciation					
Balance as at 1 January 2019	1,097,062	583,473	73,686	100,579	1,854,800
Charged during the year	201,144	38,140	23,458	-	262,742
Disposals	-	(547)	-	-	(547)
Exchange movement	274	(5,940)	3,432	564	(1,670)
Balance as at 31 December 2019	<u>1,298,480</u>	<u>615,126</u>	<u>100,576</u>	<u>101,143</u>	<u>2,115,325</u>
Net book value					
Balance as at 31 December 2019	<u>5,691,183</u>	<u>96,002</u>	<u>36,020</u>	<u>-</u>	<u>5,823,205</u>
Balance as at 31 December 2018	<u>5,893,700</u>	<u>48,836</u>	<u>56,693</u>	<u>-</u>	<u>5,999,229</u>

China Taiping Insurance (UK) Co Ltd

Notes to the financial statements (continued) Year ended 31 December 2019

17. Share capital and reserves

	2019	2018
	£	£
Authorised, allotted, called up and fully paid		
55 million (2018: 25 million) ordinary shares of £1 each	55,000,000	25,000,000

There are 2 phases of capital injection taken places during the year. On 3 April 2019, 10,000,000 ordinary shares of £1 each were issued and on 12 December 2019, 20,000,000 ordinary shares of £1 each were issued, these shares were issued to China Taiping International Company Limited. There is only a single class of ordinary shares. There are no restrictions on the distribution of dividends and the repayment of capital.

Revaluation reserves

Increases in carrying amounts arising from revaluation are recognised in revaluation reserve, unless they offset previous decreases in the carrying amount of the same investment, in which case, they are recognised in the income statement. Decreases in carrying amounts that offset previous increases of the same investment asset are recognised in the revaluation reserve.

18. Dividends

The directors do not recommend the payment of a dividend for the year ended 31 December 2019 and the accumulated retained results will continue to be carried forward in the financial statements.

China Taiping Insurance (UK) Co Ltd

Notes to the financial statements (continued) Year ended 31 December 2019

19. Deferred tax

The balances at year-end comprised:

	2019	2018
	£	£
Deferred tax assets	3,744,623	1,343,291
Deferred tax liabilities	(171,285)	(228,380)
Net deferred tax asset/(liability)	3,573,338	1,114,911

The net deferred tax asset/(liability) arises on the following items:

	2019	2018
	£	£
Timing differences between capital allowances and depreciation	143,635	41,603
Unused losses and tax credits	3,600,988	1,301,688
Claims equalisation reserve	(171,285)	(228,380)
Net deferred tax asset/(liability)	3,573,338	1,114,911

The table above sets out are the deferred tax liabilities and assets recognised by the Company. Deferred tax is calculated on timing differences using the tax rate of 17% (2018: 19%), which received Royal Assent on 15 September 2016.

20. Amounts due from/ (to) group undertakings

Included in the balance sheet are amounts due from/ (to) group undertakings, as set out below:

	2019	2018
	£	£
Debtors arising out of reinsurance operations	194,097	195,274
Creditors arising out of reinsurance operations	(2,073,158)	(3,482,712)

21. Related party transactions

As the Company is a wholly owned subsidiary of China Taiping International Company Limited, it has taken advantage of the exemption under FRS 102 not to disclose transactions with other wholly-owned entities within the Group. There are no other transactions requiring disclosure.

China Taiping Insurance (UK) Co Ltd

Notes to the financial statements (continued) Year ended 31 December 2019

22. Debtors arising out of reinsurance operations

Debtors arising out of reinsurance operations comprised:

	2019 £	2018 £
Debtors arising out of reinsurance operations	8,760,656	6,774,356
Provision for bad debt	(2,000,000)	-
Net	<u>6,760,656</u>	<u>6,774,356</u>

During the year, the Company has made a provision for doubtful debts of £2 million with regards to a reinsurance receivable. The provision is arising from business disputes in a reinsurance contract arrangement with one of the reinsurers. The management has assessed all necessary evidence and set aside a provision of £2 million.

23. Other debtors, accrued interest and rent

Other debtors comprised:

	2019 £	2018 £
Guarantee deposits	953,788	979,840
Advance payments	1,326,098	1,135,815
Other receivables	1,268,935	1,478,318
Total	<u>3,548,821</u>	<u>3,593,973</u>

Accrued interest and rent comprised:

	2019 £	2018 £
Accrued interest	620,411	396,533
Prepayments	286,926	402,220
Total	<u>907,337</u>	<u>798,753</u>

China Taiping Insurance (UK) Co Ltd

Notes to the financial statements (continued) Year ended 31 December 2019

24. Cash at bank and in hand

Cash and cash equivalents comprised:

	2019 £	2018 £
Cash at bank – savings and current accounts	9,398,825	5,788,391
Fixed deposits with maturity less than 3 months	17,745,724	11,870,633
Cash in hand	345	347
Total	27,144,894	17,659,371

25. Other accruals

This note analyses other accruals at the end of the year:

	2019 £	2018 £
Accrued expenses	340,270	1,106,101
Other payables	526,093	242,262
Total	866,363	1,348,363

26. Other creditors including taxation and social security

Other creditors including taxation and social security comprised:

	2019 £	2018 £
Tax payables	1,419,336	1,298,597
Remuneration payables	1,794,277	529,194
Total	3,213,613	1,827,791

27. Operating lease commitments

Amounts of payments committed to be made during the next year in respect of operating leases analysed between commitments expiring:

	Land and buildings	
	2019 £	2018 £
Within one year	67,717	70,420
In the second to fifth years	232,777	278,859
After five years	-	34,622

China Taiping Insurance (UK) Co Ltd

Notes to the financial statements (continued) Year ended 31 December 2019

28. Investment in subsidiary

China Insurance Consultants (Europe) Limited was incorporated on 6 March 2015. It is a wholly owned subsidiary of China Taiping Insurance (UK) Co Ltd. The address of the registered office is 2 Finch Lane, London, EC3V 3NA. The principal business of the subsidiary is insurance mediation which preliminary engages in offering and selling of insurance products and services.

29. Ultimate parent undertaking and controlling party as at 31 December 2019

At 31 December 2019, the Company's ultimate parent undertaking and controlling party is China Taiping Insurance Group Limited, a Company incorporated in the Peoples' Republic of China. Copies of the group consolidated financial statements are obtainable from its registered office at Room 3-905, Building 2, 4 Guangcheng Street, Xicheng District, Beijing, and Peoples' Republic of China.

The Company's immediate parent undertaking is China Taiping International Company Limited, a company incorporated in Hong Kong.

30. Events after the end of the reporting period

In March 2020, the World Health Organisation declared Coronavirus (COVID-19) to be a global pandemic. This is a non-adjusting post balance sheet event and as such the results as at 31 December 2019 have not been updated. Consideration has been given to the potential risks and uncertainties, including both operational and financial risks, up to the date of approving these financial statements.

This pandemic disease is widely spread and the UK government are taking preventative actions such as closure of certain businesses, restrictions on public travel and gatherings, and cancelling events, in an attempt to slow down the transmission of the disease.

The Company is operating in accordance with UK government advice and is closely monitoring the situation to manage its financial and operational risks. The Company continues to focus on supporting its employees and servicing its policyholders. The directors are monitoring its business activities to ensure the Company's stakeholders and business processes continue to be supported and that operational risks are being addressed.

The financial impact of COVID-19 on CTIUK's arises mainly from the Business Interruption (BI) cover offered as part of the package policies issued to the Company's SME policyholders. On 15 September 2020, the High Court ruled on the FCA test case which considered 21 lead sample wordings of BI policy wording from eight insurers. Notwithstanding that there continues to be uncertainty over the interpretation of policy wordings and how the ruling applies to the Company, the directors have revised its impact assessment and estimate a gross of reinsurance claims estimate of approximately £36m (£17m net of reinsurance) at the time of writing. The directors have mitigating actions in place to support the impact of COVID-19 on the Company's solvency position in light of the High Court ruling, and as discussed Note 3.2, the Company received a letter of support from China Taiping Insurance Holdings Company Limited to ensure that the Company is able to continue to meet its financial obligations as they fall due. However, there continues to be uncertainty as COVID-19 is still evolving. The Board will continue to monitor the situation closely and take appropriate action as necessary.