

**MARITIME INSURANCE
COMPANY LIMITED**

REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2000



CONTENTS

PAGE

2	Chairman's Statement
3	Officers and professional advisers
4	Managing Director's Statement
6	Directors' Report
7	Statement of Directors' Responsibilities
8	Auditors' Report
9	Accounting Policies
12	Technical Account
13	Non-Technical Account
13	Statement of Total Recognised Gains and Losses
13	Reconciliation of Movements in Shareholders' Funds
14	Balance Sheet
16	Cash Flow Statement
17	Notes to the Accounts

Registered Office and Principal Underwriting Office: 77 Gracechurch Street, London, EC3V 0DL
Registered Number: 950

- CHAIRMAN'S STATEMENT

I was delighted to be elected Chairman of Maritime following the move of Tom Rowley to another position in the Group and take this opportunity to thank him for his contribution to the Company. Not only have I been a Director of the Company for some 2 years but my knowledge of the Company and reputation in the marine insurance market goes back long before. It is appropriate that as we approach a year of consolidation within the Company that I am in a position to oversee the changes. I look forward to working with everyone in the team to bring further successes in the future.

Year 2000 may yet be remembered not for the Y2K issue but as the year when reality set in once again in the marine insurance market place. The Company has been facing unrealistic competition for several years but at last withdrawals and consolidation suggest that for such competition the end is in sight.

The Company now has marine underwriters in place not only in the UK but also in Paris, Frankfurt, Amsterdam and Copenhagen and is positioned well to provide service across the European Union. Recently introduced new systems in the UK will be rolled out throughout our European branches during the next 12 months. The better service and administration that this will provide will also allow us to deliver more timely and consistent management information to our team managing underwriting and claims.

Our revised website is now operational and brings together the Company with our colleagues at MOAC in North America under a revised CNA Maritime umbrella site. This will form the platform for introduction on a phased basis of a number of web enabled business to business solutions. The first phase of OMMni our cargo insurance service is already live and will see enhancement as the year progresses. The site will transform what has been the paper intensive business of cargo insurance to the benefit of customer and Company alike.

The most important development of the last 12 months however was the announcement last April of our intended merger with CNA Insurance Company (Europe) Ltd (CIE). CIE is the non-marine arm of our parent and operates in the same European markets as ourselves. Subject to regulatory approval CIE will merge with Maritime and we anticipate a number of synergies benefiting our customer base during the second half of 2001. At the same time this will not be allowed to detract from work being undertaken to enhance the provision of global marine insurance solutions working together with colleagues in North America. In this regard I am pleased to congratulate our Managing Director Nigel Jenkins on his appointment as Global Marine Underwriting Manager for CNA's worldwide marine business.

During 2000 our wider geographical base in Europe enabled us to increase gross written premiums to £63.3m. from £60.3m. last year. In spite of this and largely as a result of reserve strengthening in the 1998 and 1999 underwriting years our insurance result deteriorated from a deficit of £1.3m in 1999 to a deficit of £4.8m in 2000. It is appropriate that with the forthcoming merger the full impact of the reserve changes are taken now.

The next 12 months will continue to be challenging for the Company but with firm bases now established in Europe, new systems in place and a better underwriting outlook we can look forward to a more encouraging year than for sometime.



H J C Morland
Chairman

OFFICERS AND PROFESSIONAL ADVISERS

Directors

H J C Morland – Chairman
G J Owcar
N T Jenkins
P L Thorpe-Apps
S P Baker
J T Rohrer

Company Secretary

S P Baker

Management

Managing Director	-	N T Jenkins BSc (Econ) FCII
Underwriting Director	-	P L Thorpe-Apps ACII
Finance Director & Company Secretary	-	S P Baker FCCA
Claims Manager	-	M Peach ACII
Marine Manager France	-	C Kupiec BTS Insurance
Operations Manager	-	C N Pooley ACII
London Underwriting Manager	-	A P Coutts ACII
Underwriting Manager	-	I D Harrison ACII
Underwriting Manager	-	J P G Watson

Registered Office

77 Gracechurch Street
London
EC3V 0DL

Bankers

HSBC
18 London Street
Norwich
NR2 1LG

Solicitors

Lovells
65 Holborn Viaduct
London
EC1A 2DY

Actuaries

English Matthews Brockman
Nightingale House
46-48 East Street
Epsom
Surrey
KT17 1HP

Auditors

Deloitte & Touche
Chartered Accountants
Stonecutter Court
1 Stonecutter Street
London
EC4A 4TR

MANAGING DIRECTOR'S STATEMENT

Review of operations

2000 has seen the Company complete its immediate plans for Europe with the appointment of marine underwriters in Frankfurt and Amsterdam. At the same time we have continued to work with colleagues in North America culminating in the launch of OMMni our cargo insurance website in the third quarter. OMMni will provide the service platform for cargo insurance as B2B transactions develop, integrating both the front and back offices of clients and ourselves.

The year has also seen the culmination of our replacement systems project which went live in October. It has been a challenging time for the entire team with so many projects running consecutively and all are to be congratulated on their forbearance. We have been continually on our guard for issues arising from date recognition problems but have no significant instances to report. The Euro continues as a working currency but whilst we have some active policies the take up of Euro denominated policies has been slow. This may well change towards the latter part of 2001.

The reinsurance market continued its strong improvement last year and is now starting to have a significant impact on direct writers with both costs and retentions increased. The Company has continued to focus on cargo business but the stronger rate increases on the commercial hull account mean that this year the balance between the classes remained little changed. The emphasis will continue to be for cargo business which we still believe provides the longer term returns to the Company.

European marine cargo market

This continues to provide the greater part of our income with the UK providing the largest share. In spite of the strength of Sterling against the Euro currencies for much of the year we still saw significant growth in our EU income from our newly established branches. We expect these offices to provide much of the development in 2001 as they come to maturity.

The London market

Driven by a hardening reinsurance market, withdrawals and consolidations, the London Market has seen the most significant hardening of rates and terms. In the last hard market it was London that led the way and again we expect many of these changes to spread out across world markets. The Company's stance continues to be a conservative one with any growth largely coming from pricing rather than new business development. Our consistency in this approach over a number of years has allowed us to secure support in a market place where all too often big has been seen as beautiful.

Mid year we were joined by Neil Hiller and his team who add their strength in yacht underwriting to that elsewhere in Maritime. It will be in this area that much of the new hull business will be developed. As with cargo we see yacht insurance as providing a wide geographic spread of business with low unit values and a shorter tail than commercial hull. We will work with Neil and the team to ensure that we have a product that customers will seek out in the same way as we have done with cargo.

Overseas

Our subsidiary Eastern Marine Underwriters Incorporated (EMU) has increased income in 2000 for both Maritime and MOAC as it has consolidated both teams into its operations. EMU continues to be the major player in the Canadian cargo insurance market with its company director Art Payne elected Vice President of the International Union of Marine Insurers (IUMI) in September. For Art, who has served on IUMI Technical Committees for some years this is a personal honour but also reflects on the Company's support for the market place.

Underwriters have continued to travel in support of customers and clients outside of Europe and have cemented relationships in the Middle East and elsewhere.

Future developments

The Chairman has already mentioned the forthcoming merger with CIE and clearly this is the most significant step forward since our acquisition by CNA in June 1998. The merger will secure a more substantial base for operations as we seek to satisfy our customers' needs. It will give a new impetus to the steps already underway to synergise the relationship with our non-marine colleagues. The introduction of new software means that we are now both live on the same systems as they are introduced across our European offices.

The adoption of these common systems also means that the web products can easily be adapted to our European branches and will feed into those systems. We look forward to working together with new colleagues to provide marine products that will delight our customers.



pp. **N T Jenkins**
Managing Director

DIRECTORS' REPORT

Year ended 31 December 2000

The directors present their annual report and the audited financial statements for the year ended 31 December 2000.

Principal activity and review of the business

The principal activity of the Company is the transaction of marine insurance and reinsurance business. The company operates from it's offices within the United Kingdom and mainland Europe.

The Company's Canadian subsidiary, Eastern Marine Underwriters Incorporated, continues to operate as underwriting agent on behalf of a pool of leading international insurance companies.

The review of the business and future developments are included in the Managing Director's statement on pages 4 and 5.

Results and dividend

The results for the year are discussed in the Chairman's Statement on page 2.

The directors have not recommended a dividend for the year (1999 £nil).

Fixed assets

Details of the Company's fixed assets are included in note 14 to the accounts.

Euro

The Company's activities in respect of the Euro are included in the Managing Director's Statement on page 4.

Directors

The names of the directors are given on page 3.

M J Cashion resigned as director on 9 May 2000.

T H Rowley resigned as director and chairman on 15 December 2000.

According to the register kept under Section 325 of the Companies Act 1985, no director has any interest in any share or debenture of the Company or any other Group company.

Auditors

Deloitte & Touche have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board



H J C Morland
Chairman

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss of the Company for that period. In preparing those financial statements the directors are required to:

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

On behalf of the Board



H J C Morland
Chairman

AUDITORS' REPORT

To the members of Maritime Insurance Company Limited

We have audited the financial statements on pages 9 to 27, which have been prepared on the basis of the accounting policies set out on pages 9 to 11.

Respective responsibilities of directors and auditors

As described on page 7 the Company's directors are responsible for the preparation of the financial statements, which are required to be prepared in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 2000 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche
Chartered Accountants and
Registered Auditors

Stonecutter Court
1 Stonecutter Street
London
EC4A 4TR

Date: 15 May 2001

ACCOUNTING POLICIES

A. Basis of preparation

These financial statements are prepared in accordance with the provisions of section 255 of, and Schedule 9A to, the Companies Act 1985.

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards and under the historical cost accounting rules as modified by the revaluation of investments, including land and buildings. The company has adopted all material recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 1998 ("the ABI SORP").

In accordance with the dispensation provided by section 228 of the Companies Act 1985 and as a subsidiary undertaking of an EU parent, the financial statements present information about the Company as an individual undertaking.

The particular accounting policies adopted are described below.

B. Valuation of investments

Investments are shown in the balance sheet as follows:

- (i) Listed securities at middle market value less accrued interest where applicable.
- (ii) Unlisted securities at market value estimated by the directors.
- (iii) Group undertakings at net asset value.

C. Basis of accounting for underwriting activities and technical provisions

The results of the Company are determined on a funded basis due to the longer term nature of the business written and the fact that an underwriting result cannot be established with sufficient accuracy using the annual basis. Under the fund basis of accounting, premiums, claims and expenses have been carried forward as a fund and recognition of profit has been deferred until the end of the third year from the start of an underwriting year for Hull business and until the end of the second year for Cargo business. Any anticipated underwriting losses are recognised as soon as they are foreseen.

The insurance fund is arrived at by considering the adequacy of each year having regard to estimates of future premiums and settlements. Whilst the directors consider that these estimates are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events, and may result in adjustments to the amounts provided. Adjustments to the amount of provisions are reflected in the financial statements for the period in which the adjustments are made.

The estimated cost of these claims has been determined using actuarial methods after considering anticipated claims settlement patterns and future increases in settlement costs together with related handling expenses.

D. Foreign exchange

Monetary assets and liabilities held in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date. Revenue transactions of overseas agencies and United States and Canadian dollar transactions in the U.K. market accounts are translated into sterling at rates of exchange ruling at the end of the year and other revenue transactions at an average rate during the year.

Revenue items relating to foreign investment transactions financed from the United Kingdom have been translated into sterling at the rates of exchange ruling on the date the transaction occurred. Assets and liabilities backing these transactions are included in the balance sheet at rates of exchange ruling on 31 December 2000.

In respect of business transacted in foreign currencies where liabilities are broadly matched by the holding of foreign currency assets in those currencies, exchange differences arising on the opening net investment are taken directly to reserves.

E. Claims incurred

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

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

F. Claims outstanding

Provision is made for outstanding claims and settlement expenses incurred at the balance sheet date including an estimate for the cost of claims incurred but not reported at that date. Included in the provision is an estimate of the internal and external costs of handling the outstanding claims. Material salvage and other recoveries are recorded as other assets and not deducted from outstanding claims. Provisions for claims outstanding are based on information available to the directors and the eventual outcome may vary from the original assessment.

G. Revaluation reserve

The revaluation reserve consists of unrealised appreciation/depreciation on investments in Group undertakings.

H. Deferred Taxation

Deferred taxation is provided using the liability method on all timing differences, arising from the different treatment of items for accounting and taxation purposes, which are expected to reverse in the future calculated at the rates at which it is expected that tax will arise.

I. Premiums

Premiums are accounted for in the year in which the risk commences. An adjustment has been made for the overall effect of new business premiums, mid term adjustments and lapses of renewal premiums not accounted for in the year of risk inception.

Estimates are included of pipeline premiums due but not yet notified to the company.

Written premiums are stated gross of commissions payable to intermediaries and exclusive of taxes and duties levied on premiums. The amount due but not paid is included in "Other creditors including taxation and social security" in the balance sheet.

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

J. Pension costs

The expected costs of providing pensions and other post retirement benefits, as calculated periodically by professionally qualified actuaries, are charged to the profit and loss account so as to spread the costs over the service lives of the scheme members in such a way that pension costs are a substantially level percentage of current and expected future pensionable payroll.

K. Investment return

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

Investment income comprises interest and dividends, exclusive of the tax credit, net rents and realised gains and losses on investments. Interest and net rents are dealt with on an accruals basis and dividends are included on an ex-dividend basis.

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

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

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

L. Allocation of investment return

An allocation of investment return is made from the non-technical account to the technical account. The actual investment return is allocated on the basis of investments supporting the general business technical provisions and associated shareholders' funds.

M. Equalisation provision

An equalisation reserve has been established in accordance with the requirements of the Insurance Companies (Reserves) Act 1995. It is required by Schedule 9a to the Companies Act 1985 to be included within technical provisions in the balance sheet notwithstanding that it does not represent a liability at the balance sheet date.

N. Tangible assets

Tangible assets are capitalised and depreciation is charged to the technical accounts over the estimated useful lives as follows:

Computer equipment and software	3 – 5 years
Others	5 years
Motor vehicles	4 years

O. Leases

Assets held under finance leases and hire purchase contracts are capitalised at their fair value on the inception of the leases and depreciated over their estimated useful lives. The finance charges are allocated over the period of the lease in proportion to the capital amount outstanding.

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

PROFIT AND LOSS ACCOUNT
Year ended 31 December 2000

TECHNICAL ACCOUNT - General Business

	Notes	2000 £'000	1999 £'000
Earned premiums, net of reinsurance			
Gross premiums written - continuing operations		63,288	60,273
- discontinued operations		(9)	13
	1, 24	63,279	60,286
Outward reinsurance premiums		(11,266)	(6,555)
Net premiums written and earned, net of reinsurance		52,013	53,731
Allocated investment return transferred from the non-technical account	11	2,803	2,335
Total technical income		<u>54,816</u>	<u>56,066</u>
Claims incurred, net of reinsurance			
Claims paid - gross amount		58,543	52,655
- reinsurers' share		(9,985)	(11,232)
Net claims paid		<u>48,558</u>	<u>41,423</u>
Change in the provision for claims - gross amount	22	597	(5,933)
- reinsurers' share	22	(4,568)	5,533
Change in the net provision for claims		<u>(3,971)</u>	<u>(400)</u>
Claims incurred net of reinsurance		44,587	41,023
Net operating expenses	3, 4, 5, 6, 7	15,024	16,309
Total technical charges		<u>59,611</u>	<u>57,332</u>
Deficit on the technical account for general business before equalisation provisions		4,795	1,266
Change in equalisation provision		-	-
Deficit on the technical account for general business after equalisation provisions	1	<u>4,795</u>	<u>1,266</u>
Balance analysed between :			
- continuing operations		5,159	1,718
- discontinued operations		(364)	(452)
	24	<u>4,795</u>	<u>1,266</u>

PROFIT AND LOSS ACCOUNT
Year ended 31 December 2000

NON-TECHNICAL ACCOUNT

	Notes	2000 £'000	1999 £'000
(Deficit) on the general business technical account		(4,795)	(1,266)
Investment income	2	4,731	6,674
Unrealised gains/(losses) on investments		634	(3,017)
Investment expenses and charges	8	<u>(219)</u> 351	<u>(334)</u> 2,057
Allocated investment return transferred to the General business technical account	11	<u>(2,803)</u>	<u>(2,335)</u>
Loss on ordinary activities before tax	9	(2,452)	(278)
Tax (charge)/credit on loss on ordinary activities	10	<u>(358)</u>	<u>324</u>
Retained (loss)/profit for the financial year		<u>(2,810)</u>	<u>46</u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
Year ended 31 December 2000

	2000 £'000	1999 £'000
(Loss)/profit for the financial year	(2,810)	46
Change in value of Group undertakings	(12)	12
Restatement of foreign currency net assets	<u>40</u>	<u>(200)</u>
Total recognised gains and losses related to the year	<u>(2,782)</u>	<u>(142)</u>

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
Year ended 31 December 2000

	2000 £'000	1999 £'000
(Loss)/profit for the financial year	(2,810)	46
Change in value of Group undertakings	(12)	12
Exchange differences taken to reserves	<u>40</u>	<u>(200)</u>
Net reduction in equity shareholders' funds	<u>(2,782)</u>	<u>(142)</u>
Opening equity shareholders' funds	43,605	43,747
Closing equity shareholders' funds	<u>40,823</u>	<u>43,605</u>

BALANCE SHEET
AT 31 DECEMBER 2000

		2000	1999
Assets	Notes	£'000	£'000
Investments			
Investments in Group undertakings		259	271
Other financial investments		<u>76,620</u>	<u>81,161</u>
	12	<u>76,879</u>	<u>81,432</u>
Reinsurers' share of technical provisions			
Claims outstanding	22	<u>70,144</u>	<u>61,089</u>
Debtors			
Debtors arising out of direct insurance operations – intermediaries		21,187	21,009
Debtors arising out of reinsurance operations		12,997	10,867
Other debtors	13	<u>3,940</u>	<u>6,807</u>
		<u>38,124</u>	<u>38,683</u>
Other assets			
Tangible assets	14	3,682	2,321
Cash at bank and in hand		<u>1,760</u>	<u>2,076</u>
		<u>5,442</u>	<u>4,397</u>
Prepayments and accrued income			
Prepayments		117	-
Accrued interest		<u>869</u>	<u>1,321</u>
		<u>986</u>	<u>1,321</u>
Total assets		<u>191,575</u>	<u>186,922</u>

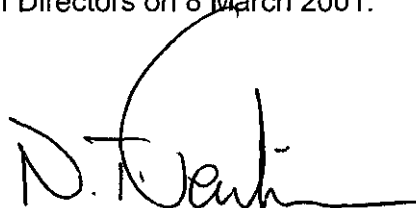
The loss on ordinary activities before tax and the net assets split by geographical location are disclosed in notes 9 and 16 respectively.

Liabilities	Notes	2000 £'000	1999 £'000
Capital and reserves			
Called up share capital	15	50,000	50,000
Revaluation reserve		(1,104)	(1,092)
Profit and loss account		(8,073)	(5,303)
Equity shareholders' funds	17	<u>40,823</u>	<u>43,605</u>
Technical provisions			
Claims outstanding - gross amount	22	<u>142,401</u>	<u>134,237</u>
Creditors			
Creditors arising out of direct insurance operations		2,505	2,001
Creditors arising out of reinsurance operations		2,463	3,042
Amounts owed to credit institutions	18	1,738	1,288
Other creditors including taxation and social security	19	<u>1,138</u>	<u>644</u>
		<u>7,844</u>	<u>6,975</u>
Accruals and deferred income			
Other accruals and deferred income		<u>507</u>	<u>2,105</u>
Total liabilities		<u>191,575</u>	<u>186,922</u>

These financial statements were approved by the Board of Directors on 8 March 2001.



H J C Morland
Chairman



N T Jenkins
Managing Director

CASH FLOW STATEMENT
Year ended 31 December 2000

		2000		1999	
	Notes	£'000	£'000	£'000	£'000
Operating activities					
Net cash (outflow)/inflow from operating activities	21		(7,887)		(15,607)
Servicing of finance					
Interest paid			(31)		(125)
Taxation					
Corporation and income tax received/(paid)			1,470		30
Capital Expenditure					
(Payments) to acquire tangible fixed assets		(1,722)		(2,223)	
Receipt from sales of tangible fixed assets		<u>-</u>		<u>95</u>	
			(1,722)		(2,128)
Financing					
Issuing of ordinary share capital			-		13,000
			<u>(8,170)</u>		<u>(4,830)</u>
 Cash flows were invested as follows:					
Decrease in cash holdings			(725)		(1,420)
 Net portfolio investment					
Purchases of shares and other variable yield investments		1,712		1,519	
Sales of shares and other variable yield investments		(1,951)		(6,873)	
Purchases of fixed income investments		97,203		91,101	
Sales of fixed income investments		<u>(104,409)</u>		<u>(89,157)</u>	
			(7,445)		(3,410)
Net investment of cash flows	21		<u>(8,170)</u>		<u>(4,830)</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 2000

1. Segmental information

	Marine, Aviation and Transport £'000	Reinsurance Accepted £'000	Total £'000
(i) Origin of risk			
2000			
Gross premiums written			
- UK	33,914	13,707	47,621
- European Union	5,920	2,384	8,304
- International	6,279	1,075	7,354
	<u>46,113</u>	<u>17,166</u>	<u>63,279</u>
Gross claims incurred	(37,383)	(21,757)	(59,140)
Gross operating expenses	(12,237)	(6,334)	(18,571)
Gross technical result	<u>(3,507)</u>	<u>(10,925)</u>	<u>(14,432)</u>
Reinsurance balance	<u>3,287</u>	<u>-</u>	<u>3,287</u>
1999			
Gross premiums written			
- UK	29,889	15,829	45,718
- European Union	5,257	2,604	7,861
- International	5,364	1,343	6,707
	<u>40,510</u>	<u>19,776</u>	<u>60,286</u>
Gross claims incurred	(23,329)	(23,393)	(46,722)
Gross operating expenses	(11,723)	(5,737)	(17,460)
Gross technical result	<u>5,458</u>	<u>(9,354)</u>	<u>(3,896)</u>
Reinsurance balance	<u>(1,099)</u>	<u>243</u>	<u>(856)</u>
(ii) Location of risk – Gross premiums written			
2000			
- risks located - UK	24,073	7,139	31,212
- risks located - European Union	8,176	5,249	13,425
- risks located - International	13,864	4,778	18,642
	<u>46,113</u>	<u>17,166</u>	<u>63,279</u>
1999			
- risks located - UK	21,035	3,857	24,892
- risks located - European Union	8,615	8,415	17,030
- risks located - International	10,860	7,504	18,364
	<u>40,510</u>	<u>19,776</u>	<u>60,286</u>

The loss on ordinary activities before tax and the net assets split by geographical location are disclosed in notes 9 and 16 respectively.

2. Investment income

	2000 £'000	1999 £'000
Income from other financial investments	4,393	4,522
Realised gains on investments	338	2,152
	<u>4,731</u>	<u>6,635</u>

3. Net operating expenses

	2000 £'000	1999 £'000
Acquisition costs - commission	11,736	11,493
- other	2,895	2,826
Administrative expenses	<u>3,940</u>	<u>3,141</u>
Gross operating expenses	18,571	17,460
Reinsurance commissions	<u>(3,547)</u>	<u>(1,151)</u>
	<u>15,024</u>	<u>16,309</u>
Commission on direct insurance business	<u>8,666</u>	<u>7,314</u>
	2000 £'000	1999 £'000
Administrative expenses include:		
Depreciation		
Owned assets	<u>470</u>	<u>101</u>

4. Auditors' remuneration

	2000 £	1999 £
Audit fees	50,000	52,731
Other services	<u>8,789</u>	<u>12,261</u>
	<u>58,789</u>	<u>64,992</u>

5. Particulars of staff

The average monthly number of persons employed by the Company including executive directors during the year, was 96 (1999 : 89).

An analysis is shown below:

	2000 No.	1999 No.
United Kingdom	87	83
European Union	<u>9</u>	<u>6</u>
	<u>96</u>	<u>89</u>

The aggregate remuneration paid or payable in respect of those employees during the year was :

	2000 £'000	1999 £'000
Wages and salaries	2,859	2,599
Social security costs	370	360
Pension costs	<u>499</u>	<u>319</u>
	<u>3,728</u>	<u>3,278</u>

6. Staff pension plans

Pensions are provided for eligible full and part-time employees in the United Kingdom through The Continental Insurance Company (Europe) Retirement Benefits Scheme. Contributions to this defined benefits funded scheme are made by way of monthly payments to secure benefits accruing to members and payments to pensioners. The scheme is non-contributory for members and payments are made through the various UK Group related companies of the Loews Corporation.

Contributions are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives within the Company. The contributions to the scheme are determined using the attained age method.

The most recent valuation was 1 January 1999 and the details of this valuation are disclosed in the accounts of CNA Europe Holdings Limited which can be obtained from 77 Gracechurch Street, London, EC3V 0DL.

The contribution rate remains at 18.2 %. The next revaluation of the scheme is due 1 January 2002.

7. Directors' remuneration

Directors' remuneration for the year comprised	2000 £	1999 £
Emoluments	<u>520,422</u>	<u>481,644</u>
The number of directors qualifying for the defined benefit pension scheme was 3 (1999 : 3)	2000 £	1999 £
Emoluments of the highest paid director	219,981	211,052
Accrued pension and lump sum of the highest paid director	<u>83,691</u>	<u>77,918</u>

The emoluments of all directors are paid by the Group companies where their principal activities are performed.

8. Investment expenses and charges

	2000 £'000	1999 £'000
Investment management expenses	188	209
Loan interest	-	-
Overdraft interest	<u>31</u>	<u>125</u>
	<u>219</u>	<u>334</u>

9. Loss on ordinary activities before tax

	2000 £'000	1999 £'000
Geographical area		
United Kingdom	(4,903)	(1,192)
Overseas – European Union	(148)	(451)
Overseas – International	<u>2,599</u>	<u>1,365</u>
	<u>(2,452)</u>	<u>(278)</u>

10. Taxation

(i) Provision for taxation on the result for the year has been made as shown below :

	2000 £'000	1999 £'000
UK corporation tax at 30% (1999 – 30%)	-	-
Tax on franked investment income	-	39
Deferred taxation	195	57
Overseas taxation	15	10
Total taxation for the year	210	106
Adjustment in respect of prior years including deferred taxation	148	(430)
(Credit) to non-technical account	358	(324)

The tax charge is higher than expected due to a prior year credit on overseas taxes.

(ii) Details of the full potential liability for deferred taxation are given below :

	2000 £'000	1999 £'000
Provided in accounts :		
Accelerated capital allowance	-	-
Short term timing differences	252	57
	252	57
Not provided in accounts :		
Unrealised appreciation of investments	1,646	2,099
Unutilised trading losses	(2,788)	(2,204)
Short term timing differences	-	-
	(1,142)	(105)
Full potential liability for deferred taxation	(890)	(48)

Losses of approximately £9.3m (1999 £7.3m) are to be carried forward for offset against future profits of the same trade at the balance sheet date.

11. Allocation of Investment return

	2000 £'000	1999 £'000
Investment income	4,713	6,674
Investment expenses and charges	(219)	(334)
Unrealised gains/(losses) on investments	634	(3,017)
Total investment return	5,146	3,323
Allocation to the technical account.		
The actual investment return is allocated on the basis of investments supporting the general business technical provisions and associated shareholders' funds.	2,803	2,335

12. Investments

	2000 £'000	1999 £'000
(a) Investments in Group undertakings (see note 23) at net book value comprise :		
Shares	<u>259</u>	<u>271</u>
	<u>259</u>	<u>271</u>
(b) Other financial investments at market value comprise :		
Shares and other variable yield securities - listed in United Kingdom	12,072	13,301
Debt and fixed income securities - listed	61,449	64,802
Deposits with credit institutions	<u>3,099</u>	<u>3,058</u>
	<u>76,620</u>	<u>81,161</u>
	<u>76,879</u>	<u>81,432</u>

£1,048,780 of deposits with credit institutions are secured against a letter of credit issued by the company (see note 20).

In the opinion of the directors, the value of the Company's Group undertakings are not less than the amounts stated in the accounts.

(c) Investments at cost comprise :

Investments in Group undertakings		
Shares	<u>1,363</u>	<u>1,363</u>
	<u>1,363</u>	<u>1,363</u>
Other financial investments		
Shares and other variable yield securities - listed in United Kingdom	6,585	6,305
Debt and fixed income securities - listed	59,400	67,627
Deposits with credit institutions	<u>3,099</u>	<u>3,058</u>
	<u>69,084</u>	<u>76,990</u>
Total investments at cost	<u>70,447</u>	<u>78,353</u>

13. Other debtors

	2000 £'000	1999 £'000
Amounts due from Group undertakings	3,398	3,911
Taxation	-	1,650
Other	<u>542</u>	<u>1,246</u>
	<u>3,940</u>	<u>6,807</u>

14. Tangible assets

		Motor Vehicles £'000	Computer Equipment & software £'000	Fixtures & Fittings £'000	Total £'000
Cost	- at 1 January 2000	46	1,685	698	2,429
	- additions	-	1,544	179	1,723
	- disposals	-	-	-	-
	- at 31 December 2000	46	3,229	877	4,152
Depreciation	- at 1 January 2000	9	53	46	108
	- charge for the year	3	198	161	362
	- disposals	-	-	-	-
	- at 31 December 2000	12	251	207	470
Net book value					
At 31 December 2000		34	2,978	670	3,682
At 31 December 1999		36	1,632	653	2,321

No tangible assets are held under finance leases.

15. Called up share capital

	2000 £'000	1999 £'000
Authorised 5,000,000 ordinary shares of £10 each	50,000	50,000
Allotted, called up and fully paid 5,000,000 ordinary shares of £10 each	50,000	50,000

16. Net assets

	2000 £'000	1999 £'000
Geographical area		
United Kingdom	43,868	48,743
Overseas – European Union	(9,661)	(9,513)
Overseas – International	6,616	4,375
	<u>40,823</u>	<u>43,605</u>

17. Reserves

	Share Capital	Revaluation Reserve	Profit & Loss Account	Total Shareholders' Funds	
	2000 £'000	2000 £'000	2000 £'000	2000 £'000	1999 £'000
Balance at 1 January	50,000	(1,092)	(5,303)	43,605	43,747
Non-technical account retained profit/(loss) for the year	-	-	(2,810)	(2,810)	46
Change in value of Group undertakings	-	(12)	-	(12)	12
Restatement of foreign currency net assets	-	-	40	40	(200)
Balance at 31 December	<u>50,000</u>	<u>(1,104)</u>	<u>(8,073)</u>	<u>40,823</u>	<u>43,605</u>

18. Amounts owed to credit institutions

	2000 £'000	1999 £'000
Bank loans and overdrafts repayable in one year or less or on demand :	<u>1,738</u>	<u>1,288</u>

19. Other creditors including taxation and social security

	2000 £'000	1999 £'000
Amounts due to Group undertakings	-	565
Taxation	380	79
Other	758	-
	<u>1,138</u>	<u>644</u>

20. Contingent liabilities

Following the merger of the ILU (Institute of London Underwriters) and LIRMA (London Insurance & Reinsurance Market Association) to form the IUA (International Underwriting Association) of London the Company resigned its membership of the ILU on 31 December 1998. The Company has had to establish a fund of £1,048,780 by way of an irrevocable letter of credit in order to meet the ILU's expected shortfall of income from the period 1999 until 2011. Subsequent correspondence indicates that the financial draw-down on the levy will be reduced by around £150,000, following confirmation from HM Customs & Excise that a VAT provision is no longer required. At 31 December 2000 the amount remaining on the letter of credit after draw-downs in the period was £897,214.

21. Cash flow statement

- (i) Reconciliation of the loss on ordinary activities before tax to net cash outflow from operating activities

	2000 £'000	1999 £'000
Loss on ordinary activities before tax	(2,452)	(278)
Depreciation of tangible fixed assets	362	101
Loss on disposal of tangible fixed assets	-	12
Realised (gains) less losses on investments	(338)	(2,152)
Unrealised (gains)/losses on investments	(634)	3,017
Increase in debtors	(1,091)	(5,249)
Decrease in prepayments and accrued income	335	170
Increase/(decrease) in technical provisions	8,164	(4,546)
(Increase)/decrease in reinsurers' share of technical provisions	(9,055)	4,537
Decrease in insurance and reinsurance creditors	(75)	(12,323)
Increase in other creditors relating to operating activities	311	593
(Decrease)/increase in accruals	(1,598)	720
Foreign exchange	(1,847)	(334)
Interest paid	31	125
Net cash outflow from operating activities	(7,887)	(15,607)

- (ii) Movement in cash and portfolio investments

	1999 £'000	Cashflow £'000	Changes in market value and currencies £'000	2000 £'000
Cash at bank and in hand	2,076	(316)	-	1,760
Shares and other variable yield investments	13,301	(239)	(990)	12,072
Fixed income securities	64,802	(7,206)	3,852	61,448
Deposits with credit institutions	3,058	41	-	3,099
Bank overdrafts	(1,288)	(450)	-	(1,738)
	81,949	(8,170)	2,862	76,641

21. Cash flow statement (cont.)

(iii) Movements in opening and closing portfolios net of financing

	2000	1999
	£'000	£'000
Net cash outflow for the year	(725)	(1,420)
Portfolio investments	(7,445)	(3,410)
Movement arising from cashflows	(8,170)	(4,830)
Changes in market value and exchange rates	2,862	(731)
Total movement in portfolio investments net of financing	(5,308)	(5,561)
Balance at the beginning of the year	81,949	87,510
Balance at 31 December	76,641	81,949

22. Technical provisions

	Claims outstanding £'000	Equalisation provision £'000	Total £'000
Gross			
At 1 January 2000	134,237	-	134,237
Exchange adjustments	7,567	-	7,567
	141,804	-	141,804
Movement in provision	597	-	597
At 31 December 2000	142,401	-	142,401
Reinsurance amount			
At 1 January 2000	61,089	-	61,089
Exchange adjustments	4,487	-	4,487
	65,576	-	65,576
Movement in provision	4,568	-	4,568
At 31 December 2000	70,144	-	70,144
Net			
At 31 December 2000	72,257	-	72,257
At 31 December 1999	73,148	-	73,148

23. Group undertakings

The Group undertakings of the Company at 31 December 2000 are

	Country of incorporation	Nature of business	Percentage of allotted share capital held
R E Heathcock Limited	England & Wales	Underwriting agent	100
Eastern Marine Underwriters Incorporated	Canada	Underwriting agent	100

With effect from 1 January 1999 R E Heathcock Limited ceased operation with all underwriting business being transferred to Maritime Insurance Company Limited.

Group refers to the Loews Corporation and all its worldwide subsidiaries.

24. Continuing and discontinued operations

	Continuing £'000	2000 Dis- continued £'000	Total £'000	Continuing £'000	1999 Dis- continued £'000	Total £'000
Gross premiums written	63,288	(9)	63,279	60,273	13	60,286
Net premiums written	52,013	-	52,013	53,735	(4)	53,731
Allocated investment return	2,544	259	2,803	2,119	216	2,335
Net claims incurred	(43,164)	349	(42,815)	(41,178)	155	(41,023)
Net operating expenses	(16,552)	(244)	(16,796)	(16,394)	85	(16,309)
(Deficit)/surplus on the technical account	(5,159)	364	(4,795)	(1,718)	452	(1,266)
Total investment return less previously allocated	2,343	-	2,343	988	-	988
(Loss)/profit on ordinary activities before tax	(2,816)	364	(2,452)	(730)	452	(278)

Discontinued operations relate to the cessation of underwriting aviation business with effect from 31 December 1993.

25. Related party transactions

Transactions with entities which are part of the Loews Corporation have not been disclosed as permitted by paragraph 3c of FRS 8 – Related Party Disclosures.

The following payments were made in the year to bodies of which NT Jenkins is a board member:

	Nature of payment	£'000
London Processing Centre	Processing fees	115
International Underwriting Association	Trade subscriptions and accommodation charges	44

No other contract existed at any time during the year in which a director or key manager was materially interested or which required disclosure as a related party transaction as defined under FRS 8.

26. Ultimate Parent company and controlling party

The Company's ultimate parent company and controlling party is the Loews Corporation, registered in the United States of America.

Copies of its Report & Accounts can be obtained from 667 Madison Avenue, New York, New York 10021-8087, United States of America.

The immediate parent undertaking is CNA Europe Holdings Limited, registered in Great Britain. Copies of its Report and Accounts can be obtained from 77 Gracechurch Street, London EC3V 0DL.

• **MARITIME INSURANCE COMPANY LIMITED**

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D MCCLEAN, Cargo Development Underwriter

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Accounts and Collections

S P BAKER, FCCA - Finance Director and joint Company Secretary

R H CATTERMOLE - Accounts Manager

M F FISHER, ACCA - Financial Accountant

E P B RODGERS - Management Accountant

Enquiries can be made at any office of Maritime Insurance Company Limited.

MARITIME INSURANCE COMPANY LIMITED

PRINCIPAL OVERSEAS REPRESENTATION

Canada

Canadian Group undertaking

Eastern Marine Underwriters Incorporated

G J GIROUX, AIIC - President
M F L JAQUES - Director
P CROMPTON - Director
L CONDINHO - Vice President Finance

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