

COMPANY REGISTRATION NO. 950

CNA INSURANCE COMPANY LIMITED

REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2005



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REPORT AND FINANCIAL STATEMENTS – 31 DECEMBER 2005

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

OFFICERS AND PROFESSIONAL ADVISERS

Directors

N T Jenkins
P W Wilson
J R Lewis
G G MacNeil
J A P Enoizi (appointed 12 October 2005)
M W Coyne (appointed 1 December 2005)
D S Fortin (appointed 9 March 2006)

Company Secretary

S P Baker

Registered Office

77 Gracechurch Street
London
EC3V 0DL

Bankers

HSBC Bank PLC
18 London Street
Norwich
NR2 1LG

Actuaries

EMB Consultancy
Saddlers Court
64 - 74 East Street
Epsom
Surrey
KT17 1HP

Auditors

Deloitte & Touche LLP
London

DIRECTORS' REPORT
Year ended 31 December 2005

The directors present their annual report and the audited financial statements for the year ended 31 December 2005.

Principal activity and review of the business

The principal activity of the Company is the transaction of general insurance business. The Company operates from its offices within the United Kingdom and mainland Europe. The review of the business and future developments are included in the Directors' Statement on page 4.

Results and dividend

The results for the year are set out on pages 7 and 8. The directors have not recommended a dividend for the year (2004: £nil).

Directors and their interests

The names of the directors are given on page 2.

The following directors resigned from their appointments during the year:

D K Davies (resigned 30 November 2005)

P V Hennessy (resigned 12 April 2005)

D M Jaffray (resigned 30 November 2005)

None of the directors had any interests in the shares of the Company or any other group company requiring disclosure under the Companies Act 1985.

The directors' have also considered the following in relation to the use of financial instruments and they believe that the Company is not materially exposed:

- (a) the financial risk management objectives and policies of the company including the policy for hedging each major type of forecasted transaction for which hedge accounting is used; and
- (b) the exposure of the Company to price risk, credit risk, liquidity risk and cash flow risk.

Donations

During the year the Company made charitable donations of £nil (2004: £nil) and made no political donations (2004: £nil).

Auditors

Deloitte & Touche LLP 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.

Approved by the Board of Directors
and signed on behalf of the Board


J A P Enoizi
Director

DIRECTORS' STATEMENT

Review of Operations and Future Developments

The company recorded another set of solid results in 2005, in spite of a softening rate environment in Europe as a whole. Gross written premiums rose slightly to £155.7m, representing a 3% increase over 2004. Our cautious approach to growth emphasises the Company's first priority of preserving the loss ratios in all of the product lines which we sell in Europe today. Significantly, we deliberately held back our writings in London, where the effects of falling prices were felt most acutely, while promoting growth in the UK regions and on the Continent which collectively account for 54% of our total premium income versus 46% in 2004. Our plans for 2006 call for a continuation of this shift in geographical mix in favour of the UK regions and the Continent, while calling for modest growth overall.

Profits for the year were £15.6m versus £8.4m in 2004. Profits were retained in full, enabling shareholders' funds to end the year at £121.5m, up from £105.6m in 2004. Investment income made a significant contribution to profits. The combined ratio was 99% which masks an excellent underlying loss ratio of 61.9%. Our expense ratio is clearly too high and is explained in large part by investment in people and infrastructure as we continue to build our business in Europe. Diligent expense management coupled with continued growth will cause the expense ratio to fall in 2006 and beyond.

Our strategy for Europe going forward remains largely unchanged. We will continue to be a specialist provider of value added products as opposed to a generalist supplier and we will back these products with superior underwriting decisions and exemplary claims service. As noted, the UK regions and the Continent will play an increasingly important role. In 2005 we opened a new point of sale office in Zurich. We now have a presence in nine countries in Europe and write business on a cross border basis in a further nine. Early in 2006, our long standing association with Hansen & Klein Insurance Management A/S, our underwriting agents in Denmark and Sweden, will enter a new phase with the majority of the staff and the business transferring to CNA. Hansen & Klein, which was founded in 1917, has represented CNA's interests in the wider Scandinavian market since 1996 and has built a solid portfolio of clients through offering specialised niche products. Notably, thanks to the expertise brought by Hansen & Klein, CNA is considered a market leader in insurances for the Wind Turbine industry in Europe. The acquisition positions CNA strongly for continued growth in both Denmark and Sweden, while providing a springboard for expansion into Finland, Norway and the Baltic States.

At the end of 2005, Keith Davies retired from the firm having held the position of Managing Director since 2001. The company owes Keith a big debt of thanks for his efforts in turning it around from a loss making position to one of sustained profitability.

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; 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 the system of internal control, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CNA INSURANCE COMPANY LIMITED

We have audited the financial statements of CNA Insurance Company Limited for the year ended 31 December 2005 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses, the reconciliation of movements in Shareholders' funds, and the related notes 1 to 24. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice.

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with the relevant financial reporting framework and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP



Chartered Accountants and Registered Auditors
London, UK
27 March 2005

PROFIT AND LOSS ACCOUNT
Year ended 31 December 2005

TECHNICAL ACCOUNT - General Business	Notes	2005 £'000	2004 £'000
Gross premiums written	2, 18	155,659	151,375
Outward reinsurance premiums		<u>(25,501)</u>	<u>(29,524)</u>
Premiums written, net of reinsurance		130,158	121,851
Change in provision for unearned premiums			
- gross amount	15	(5,728)	3,472
- reinsurers' share	15	(3,363)	1,605
Earned premiums, net of reinsurance		<u>121,067</u>	<u>126,928</u>
Allocated investment return transferred from the non-technical account	8	<u>712</u>	<u>9,229</u>
Total technical income		<u>121,779</u>	<u>136,157</u>
Claims incurred, net of reinsurance			
Claims paid		66,973	62,029
- gross amount			
- reinsurers' share		<u>(17,399)</u>	<u>(11,604)</u>
Net claims paid		49,574	50,425
Change in the provision for claims			
- gross amount	15	36,721	5,051
- reinsurers' share	15	<u>(11,323)</u>	<u>26,530</u>
Change in the net provision for claims		25,398	31,581
Claims incurred, net of reinsurance		74,972	82,006
Net operating expenses	4	44,683	50,251
Total technical charges		<u>119,655</u>	<u>132,257</u>
Surplus on the technical account for general business before and after equalisation provisions		<u>2,124</u>	<u>3,900</u>

PROFIT AND LOSS ACCOUNT
Year ended 31 December 2005

NON-TECHNICAL ACCOUNT

	Notes	2005 £'000	2004 £'000
Surplus on the general business technical account		2,124	3,900
Investment income	6	19,358	21,404
Unrealised gains / (losses) on investments		4,230	(73)
Investment expenses and charges	7	<u>(9,904)</u>	<u>(8,554)</u>
		15,808	16,677
Allocated investment return transferred to the general business technical account	8	(712)	(9,229)
Profit on ordinary activities before tax		15,096	7,448
Tax credit on profit on ordinary activities	9	574	925
Retained profit for the financial year	14	<u>15,670</u>	<u>8,373</u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
Year ended 31 December 2005

	2005 £'000	2004 £'000
Retained profit for the financial	15,670	8,373
Retained profit for the financial year	<u>15,670</u>	<u>8,373</u>
Exchange differences	468	329
Change in value of group undertakings	<u>(200)</u>	<u>-</u>
Total recognised gains for the year	<u>15,938</u>	<u>8,702</u>

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
Year ended 31 December 2005

		2005 £'000	2004 £'000
Retained profit for the financial year	14	15,670	8,373
Exchange differences taken to reserves	14	468	329
Net increase to equity shareholders' funds		<u>16,138</u>	<u>8,702</u>
Change in value of group undertakings		<u>(200)</u>	<u>-</u>
		15,938	8,702
Opening equity shareholders' funds		<u>105,626</u>	<u>96,924</u>
Closing equity shareholders' funds	14	<u>121,564</u>	<u>105,626</u>

BALANCE SHEET
31 December 2005

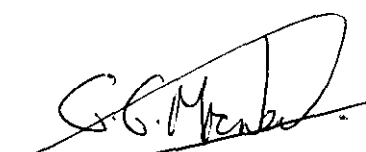
Assets	Notes	2005 £'000	2004 £'000
Investments			
Investments in group undertakings	10	55,164	55,374
Other financial investments	11	<u>385,913</u>	<u>332,104</u>
		<u>441,077</u>	<u>387,478</u>
Reinsurers' share of technical provisions			
Provision for unearned premiums	15	11,481	14,566
Claims outstanding	15	<u>111,674</u>	<u>94,411</u>
		<u>123,155</u>	<u>108,977</u>
Debtors			
Debtors arising out of direct insurance operations		42,945	57,094
Debtors arising out of reinsurance operations		8,059	21,988
Other debtors	12	<u>9,068</u>	<u>6,445</u>
		<u>60,072</u>	<u>85,527</u>
Other assets			
Cash at bank and in hand		<u>12,502</u>	<u>17,677</u>
Prepayments and accrued income			
Accrued interest		7,925	6,189
Deferred acquisition costs		<u>11,542</u>	<u>9,891</u>
		<u>19,467</u>	<u>16,080</u>
Total assets		<u>656,273</u>	<u>615,739</u>

BALANCE SHEET continued
31 December 2005

Liabilities	Notes	2005 £'000	2004 £'000
Capital and reserves			
Called up share capital	13	130,200	130,200
Profit and loss account	14	(8,636)	(24,574)
Equity shareholders' funds		<u>121,564</u>	<u>105,626</u>
Technical provisions			
Claims outstanding	15	374,076	325,952
Provision for unearned premiums	15	63,965	57,930
		<u>438,041</u>	<u>383,882</u>
Creditors			
Creditors arising out of direct insurance operations		4,472	21,603
Creditors arising out of reinsurance operations		24,554	41,171
Amounts owed to credit institutions	16	1,315	3,393
Other creditors including taxation and social security	17	65,497	60,064
		<u>95,838</u>	<u>126,231</u>
Accruals and deferred income			
Other accruals and deferred income		830	-
Total liabilities		<u>656,273</u>	<u>615,739</u>

These financial statements were approved by the Board of Directors on 22 March 2006
Signed on behalf of the Board of Directors


J A P Enoizi
Director


G G MacNeil
Director

NOTES TO THE ACCOUNTS
Year ended 31 December 2005

1. ACCOUNTING POLICIES

Basis of preparation

These financial statements are prepared in accordance with the provisions of section 255, and Schedule 9A of 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. 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 2005 ("the ABI SORP").

The particular accounting policies adopted are described below.

Basis of accounting for underwriting activities

All classes of business are accounted for on the annual basis.

Premiums

Under the annual basis of accounting, written premiums comprise the premiums on contracts incepting in the financial year. Under the underwriting year basis of accounting, written premiums comprise premiums estimated to be receivable in respect of contracts commencing in the financial year.

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 Creditors arising out of Insurance operations 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.

1. ACCOUNTING POLICIES continued

Unearned premiums

The provision for unearned premiums comprises the amount representing that part of gross premiums written, and reinsurers' share of premiums written, that is estimated to be earned in the following or subsequent financial years. It is calculated separately for each insurance contract on the 24ths or 365ths 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.

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.

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.

Deferred acquisition costs

Acquisition costs comprise the expenses, both direct and indirect, of acquiring insurance policies written during the financial year. Acquisition 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. Deferred acquisition costs represent the proportion of acquisition costs incurred in respect of unearned premiums at the balance sheet date.

Foreign exchange

Monetary assets and liabilities are translated into sterling at rates of exchange ruling at the balance sheet date. Revenue transactions of foreign currencies in the United Kingdom market accounts are translated into sterling at rates of exchange ruling at the date the transaction occurs. These translation differences are dealt with in the non-technical account.

NOTES TO THE ACCOUNTS
Year ended 31 December 2005

1. ACCOUNTING POLICIES continued

Foreign exchange (continued)

Revenue items relating to foreign investment transactions financed from the United Kingdom are 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 at the balance sheet date. These translation differences are dealt with in the non-technical account.

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.

Cash flow statement

The Company has not presented a cash flow statement under the exemptions available in Financial Reporting Standard No. 1, paragraph 5a.

Allocation of investment return

All investment income is recognised in the non-technical account. An allocation of investment return is then 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.

Investment return

Investment income comprises interest and dividends, exclusive of the tax credit and realised gains and losses on investments. Interest is 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.

Other financial investments

All other financial investments are stated at market value.

Deferred Taxation

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are not recognised where their recovery is considered to be uncertain. Deferred tax assets or liabilities are not discounted.

NOTES TO THE ACCOUNTS
Year ended 31 December 2005

1. ACCOUNTING POLICIES continued

Investment in Group Undertakings

Investments in group undertakings are valued at it's respective net asset value.

Leases

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

Pension Costs

The Company's Holding company CNA Europe Holdings Limited operates a defined benefit pension scheme, (closed to new entrants), a defined contribution pension scheme and state pension schemes for eligible full and part-time employees. The state pensions are administered and managed at each local overseas branch. The pension costs are charged to the profit and loss account as incurred.

Group Accounts

The Company is exempt under S228 of the Companies Act 1985 from preparing group accounts as it is a wholly owned subsidiary of another company registered in England and Wales that prepares consolidated accounts that contain the results of this Company.

NOTES TO THE ACCOUNTS
Year ended 31 December 2005

2. SEGMENTAL INFORMATION

Analysis of gross premiums written, gross claims incurred, gross operating expenses and the reinsurance balance – Origin of Risk

	Marine, aviation and transport £'000	Commercial Property and Casualty £'000	Accident and Travel £'000	Speciality lines £'000	Overall total £'000
2005					
Gross premiums written	47,965	51,958	11,912	43,824	155,659
Gross premiums earned	48,625	48,632	10,085	42,589	149,931
Gross claims incurred	12,316	32,750	8,903	49,726	103,695
Net operating expenses	17,132	13,180	4,609	9,762	44,683
Reinsurance balance	8,105	(857)	519	(7,625)	142
2004					
Gross premiums written	49,788	45,394	16,983	39,210	151,375
Gross premiums earned	49,625	51,307	16,801	37,114	154,847
Gross claims incurred	17,918	1,733	13,316	34,112	67,079
Net operating expenses	16,528	15,069	5,638	13,016	50,251
Reinsurance balance	11,738	9,087	6,598	15,422	42,845

Analysis of gross premiums written: Origin of Risk

Contracts written by company in:	2005 £'000	2004 £'000
United Kingdom	114,701	117,711
Other EU Member States	40,958	33,661
International	0	3
	<u>155,659</u>	<u>151,375</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 2005

2. SEGMENTAL INFORMATION continued

The following sets out an analysis by geographical areas in which risks are situated.

By geographical segment	Gross premiums written		Profit before tax		Net Assets	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000	2005 £'000	2004 £'000
United Kingdom	95,188	108,159	9,232	5,322	74,544	75,470
European Union	44,879	36,123	4,352	1,777	34,896	25,206
International	15,592	7,093	1,512	349	12,124	4,950
Total	<u>155,659</u>	<u>151,375</u>	<u>15,096</u>	<u>7,448</u>	<u>121,564</u>	<u>105,626</u>

3. PRIOR YEARS' CLAIMS PROVISIONS

Material over/(under) provisions for claims at the beginning of the year as compared with net payments and provisions at the end of the year in respect of prior years' claims are as follows:

	2005 £'000	2004 £'000
Marine	14,763	(2,405)
Commercial property and casualty	1,429	(25,469)
Accident and health	3,028	4,144
Specialty lines	(4,825)	10,611
Motor	-	9,662
Total	<u>14,395</u>	<u>(3,457)</u>

4. NET OPERATING EXPENSES

	2005 £'000	2004 £'000
Acquisition costs - commission	22,547	22,495
- other	14,639	13,383
Change in gross deferred acquisition costs	(1,537)	(232)
Administrative expenses	<u>9,703</u>	<u>16,292</u>
Gross operating expenses	45,352	51,938
Reinsurance commissions and profit participation	(1,369)	(1,498)
Change in deferred reinsurance commission	700	(189)
Net Operating Expenses	<u>44,683</u>	<u>50,251</u>
Commission on direct insurance business	<u>22,547</u>	<u>22,495</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 2005

4. NET OPERATING EXPENSES continued

	2005 £'000	2004 £'000
Administrative expenses include:		
Management charge (CNA Europe Holdings Limited)	30,069	30,042
Rentals under operating leases	178	145
Auditors' remuneration		
- audit fees	211	165
- other services	-	57

Administration expenses, including auditors' remuneration and other acquisition costs are incurred by CNA Europe Holdings Limited and re-charged to the Company as a management expense.

5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

CNA Insurance Company Limited is a subsidiary of CNA Europe Holdings Limited, which is a subsidiary of CNA Financial Corporation (USA) Group.

The directors of the Company are all employed and remunerated by connected companies as follows:
J R Lewis, P W Wilson, and M W Coyne, CNA Financial Corporation (USA)
J A P Enoizi, N T Jenkins and G G MacNeil, CNA Europe Holdings Limited.

It is not practicable to allocate the directors' remuneration between their services across the companies they are executives of, therefore remuneration and pension benefits are included in the financial statements of the individual company, which employs and remunerates them.

Copies of the financial reports for CNA Europe Holdings Limited can be obtained from 77 Gracechurch Street, London, EC3V 0DL. Copies of the financial reports for CNA Financial Corporation (USA) can be obtained from CNA Plaza, Chicago, Illinois 60685, USA

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

	2005 No.	2004 No.
European Union	19	20
	19	20
Management	-	15
Claims	1	5
Underwriting	17	-
Administration	1	-
	19	20

	2005 £'000	2004 £'000
Staff costs incurred during the year in respect of employees were:		
Wages and salaries	1,429	771
Social security costs	532	289
Pension costs	141	91
	2,102	1,151

NOTES TO THE ACCOUNTS
Year ended 31 December 2005

6. INVESTMENT INCOME

	2005 £'000	2004 £'000
Income from other investments	18,621	16,614
Net gains on the realisation of investments	651	4,790
Dividend receivable	86	-
	<u>19,358</u>	<u>21,404</u>

7. INVESTMENT EXPENSES AND CHARGES

	2005 £'000	2004 £'000
Overdraft interest	51	54
Investment management expenses	555	435
Net realised losses on investments	9,298	8,065
	<u>9,904</u>	<u>8,554</u>

8. ALLOCATION OF INVESTMENT RETURN

	2005 £'000	2004 £'000
Investment income	19,358	21,404
Unrealised gains / (losses) on investments	4,230	(73)
Investment expenses and charges	(9,904)	(8,554)
Total investment return	<u>13,684</u>	<u>12,777</u>
Allocation to the technical account	<u>712</u>	<u>9,229</u>

9. TAX CREDIT ON LOSS ON ORDINARY ACTIVITIES

Analysis of credit in year

	2005 £'000	2004 £'000
Current tax:		
UK Corporation tax on profits of the period		-
Group relief receivable	(614)	-
Overseas taxation	40	-
Current tax credit	<u>(574)</u>	<u>-</u>
Deferred tax:		
Origination and reversal of short term timing differences	-	(820)
Adjustments in respect of previous years:		
Group relief	-	(120)
Overseas tax	-	15
Total tax credit	<u>(574)</u>	<u>(925)</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 2005

9. TAX CREDIT ON LOSS ON ORDINARY ACTIVITIES continued

Factors affecting tax charge for period:

	2005 £'000	2004 £'000
Profit on ordinary activities before tax	15,096	7,448
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%:	4,529	2,235
Effects of:		
Expenses disallowed for tax purposes	(96)	(463)
Section 107 adjustment in relation to under reserving	64	(1,335)
Section 107 (4) reversal of previous years' disclaim of technical reserves	(29,253)	(30,112)
Section 107 (4) disclaim of technical reserves	22,098	29,253
Unrealised gain spreading election	274	274
Overseas tax payable	(40)	15
Adjustments to tax charge in respect of previous periods	-	(120)
Utilisation of group relief	614	-
Group relief receivable	(614)	148
Losses carried forward	1,850	-
Total current tax credit	(574)	(105)

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

	Provided 2005 £'000	Provided 2004 £'000	Not Provided 2005 £'000	Not Provided 2004 £'000
Short term timing differences	-	-	416	640
Unutilised capital losses	-	-	164	164
Unutilised trading losses	4,520	4,520	19,428	24,733
	4,520	4,520	20,008	25,537

The deferred tax asset has been recognised in the financial statements to the extent that the directors consider that it is likely to be utilised within twelve months of the balance sheet date.

NOTES TO THE ACCOUNTS
Year ended 31 December 2005

10. INVESTMENTS IN GROUP UNDERTAKINGS

The Group

	Shares £'000
Subsidiary undertakings	
At 1 January 2005	55,374
Adjustment to net asset value of subsidiary undertaking	(210)
At 31 December 2005	<u>55,164</u>

The Company has the following subsidiary undertaking which is incorporated in Great Britain and registered in England and Wales:

Name	Principal Activity
------	--------------------

100% of voting rights and issued ordinary share capital owned directly :

CNA Insurance Company (Europe) Limited In Liquidation

R E Heathcock Limited was sold on the 29 December 2005 for £1.

In the opinion of the Directors, the value of the Company's subsidiary undertaking is not less than the amounts stated in the accounts.

11. OTHER FINANCIAL INVESTMENTS

	Cost 2005 £'000	Cost 2004 £'000	Current Value 2005 £'000	Current Value 2004 £'000
Debt securities and other fixed income securities	374,579	328,734	370,636	316,130
Deposits with credit institutions	<u>15,202</u>	<u>15,974</u>	<u>15,277</u>	<u>15,974</u>
	389,781	344,708	385,913	332,104
Listed investments:				
Debt securities and other fixed income securities			<u>370,636</u>	<u>316,130</u>

£507,185 (2004: £544,865) of deposits with credit institutions are secured against a letter of credit issued by the Company (see note 19).

NOTES TO THE ACCOUNTS
Year ended 31 December 2005

12. OTHER DEBTORS

	2005 £'000	2004 £'000
Amounts due from group undertakings	1,842	534
Taxation	29	29
Other	2,677	1,362
Deferred tax asset	4,520	4,520
	<u>9,068</u>	<u>6,445</u>

13. CALLED UP SHARE CAPITAL

Called up share capital	2005 £'000	2004 £'000
Authorised: 15,000,000 ordinary shares of £10 each (2004: 15,000,000)	<u>150,000</u>	<u>150,000</u>
Allotted, called up and fully paid: 13,020,000 ordinary shares of £10 each (2004: 130,020,000)	<u>130,200</u>	<u>130,200</u>

14. RESERVES

	Share Capital 2005 £'000	Profit and Loss Account 2005 £'000	Total Shareholders' Funds 2005 £'000	2004 £'000
Balance at 1 January	130,200	(24,574)	105,626	96,924
Share capital issued	-	-	-	-
Retained profit for the year	-	15,670	15,670	8,373
Change in value of group undertakings	-	(200)	(200)	
Restatement of foreign currency net assets	-	468	468	329
Balance at 31 December	<u>130,200</u>	<u>(8,636)</u>	<u>121,564</u>	<u>105,626</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 2005

15. TECHNICAL PROVISIONS

	Provision for unearned premiums £'000	Claims outstanding £'000	Total £'000
Gross			
At 1 January 2005	57,930	325,952	383,882
Exchange adjustments	307	13,403	13,710
	<u>58,237</u>	<u>339,355</u>	<u>397,592</u>
Reallocation	-	(2,000)	(2,000)
Movement in provision	5,728	36,721	42,449
At 31 December 2005	<u>63,965</u>	<u>374,076</u>	<u>438,041</u>
Reinsurance amount			
At 1 January 2005	14,566	94,411	108,977
Exchange adjustments	278	5,940	6,218
	<u>14,844</u>	<u>100,351</u>	<u>115,195</u>
Movement in provision	(3,363)	11,323	7,960
At 31 December 2005	<u>11,481</u>	<u>111,674</u>	<u>123,155</u>
Net			
At 31 December 2005	<u>52,484</u>	<u>262,402</u>	<u>314,886</u>
At 31 December 2004	<u>43,364</u>	<u>231,541</u>	<u>274,905</u>

16. AMOUNTS OWED TO CREDIT INSTITUTIONS

	2005 £'000	2004 £'000
Unsecured bank loans and overdrafts repayable in one year or less or on demand	<u>1,315</u>	<u>3,393</u>

17. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	2005 £'000	2004 £'000
Amounts due to Group undertakings	63,532	57,287
Insurance premium tax payable	1,860	2,173
Other	105	604
	<u>65,497</u>	<u>60,064</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 2005

18. CONTINUING AND DISCONTINUING OPERATIONS

The Company's discontinued operations amount to less than 1% of Gross Written Premium and as such no separate disclosure is required.

19. 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 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. At 31 December 2005 the amount remaining on the letter of credit after draw-downs in the period was £507,185 (see note 11).

20. PENSIONS

The Company's Holding company CNA Europe Holdings Limited operates a defined benefit pension scheme, closed to new entrants, a defined contribution pension scheme and a state pension scheme for eligible full and part-time employees. The state pensions are administered and managed at each local overseas branch.

The pension cost for the period was £141,149 (2004: £91,103).

21. OPERATING LEASE COMMITMENTS

Annual commitments under non-cancellable operating leases are as follows:

	Land and buildings	
	2005 £'000	2004 £'000
Leases which expire:		
Within one year	60	-
Within two to five years	86	145
After five years	32	-
	<u>178</u>	<u>145</u>

22. RELATED PARTIES

The Company has taken advantage of the exemption given in Financial Reporting Standard No.8 "Related Party Transactions" not to disclose transactions with companies in the group qualifying as related parties. 90% of the voting rights of the Company are controlled within the group and results are included in the consolidated financial statements of the ultimate parent company.

The group here is taken to mean the group of companies controlled by the ultimate parent company, The Loews Corporation.

23. ULTIMATE PARENT COMPANY

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

The parent undertaking which heads the smallest group of undertakings for which group accounts were drawn up and of which the Company is a member is CNA Europe Holdings Limited a company incorporated in Great Britain and registered in England and Wales.

The consolidated financial statements of these companies are available to the public and may be obtained from 77 Gracechurch Street, London, EC3V 0DL.

24. DEED OF GUARANTEE

The Company has been granted a Deed of Guarantee by Continental Casualty Company of Chicago, Illinois, USA (the Guarantor), part of the CNA Financial Group effective 24 January 2002. Under the terms of the Deed of Guarantee, Continental Casualty Company guarantees all liabilities that arise or have arisen under policies of insurance or contracts of reinsurance entered into by the Company, including policies or contracts entered into before 24 January 2002.

The Deed of Guarantee will remain in place until 31 December 2007 unless written notice is received from Standard and Poor's that the guarantee is no longer needed for the Company to maintain a Standard and Poor's rating at the same level as the rating assigned to the Guarantor, or, if the majority shareholding in the Company is transferred to a corporate entity outside the CNA Financial Group which has a Standard and Poor's rating equal to or better than the rating assigned to the Guarantor.