

CNA INSURANCE COMPANY LIMITED

REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2004



56

REPORT AND FINANCIAL STATEMENTS – 31 DECEMBER 2004

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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
A K Cameron (resigned 31 August 2004)
D K Davies
P V Hennessy
M-M Westdale Kiep (resigned 14 October 2004)
J R Lewis (appointed 2 February 2004)
G G MacNeil (appointed 10 November 2004)
D M Jaffray (appointed 13 September 2004)

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 2004

The directors present their annual report and the audited financial statements for the year ended 31 December 2004.

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 (2003: £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:

A K Cameron (resigned 31 August 2004)
M-M Westdale Kiep (resigned 14 October 2004)

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.

Donations

During the year the Company made charitable donations of £nil (2003: £nil) and made no political donations (2003: £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



D K Davies
Director

22 March 2005

DIRECTORS' STATEMENT

Review of Operations and Future Developments

The company achieved good results in 2004, building on the strong performance recorded in 2003. Revenues remained relatively static, however, as we refused to follow the market down when rates began to soften in the second half of the year. The Net technical result was a pleasing £3.9 million. The accident year loss ratios produced by our core product lines were favourable, emphasising the quality of our portfolio and the overriding emphasis which is placed on underwriting discipline and risk selection. Shareholders' funds at year end stood at £105.6 million while the company continued to be backed by an unconditional policyholders' guarantee provided by Continental Casualty Company - the largest and most strongly rated Property/Casualty company within the CNA Group. The company's S&P Insurer Financial Strength rating of A minus was reaffirmed in December 2004.

We continued to adhere to a strategy of providing specialty products and services where we add value rather than being a supplier of commodity products. The successful launch of our Technology product is a good example of the strategy. We continued to prove our commitment to delivering our products and services in innovative ways. In Continental Europe, for example, our model of supplying niche products across borders from a central hub in Paris via underwriting outlets in key countries paid dividends. The Continent now represents 20% of our overall revenues. The Internet also played an increasingly important role in our distribution strategy and we transacted 5% of our revenues via this channel in 2004, while new web enabled products for Excess Casualty and Business Travel were successfully launched.

Looking forward, we will be working to build on the firm foundations we now have in place, with resources being channelled to careful expansion of our UK regional operations in particular. The UK regions provided 27% of our revenues in 2004 and we would like to see this increase. In 2004, we opened a new office in Southampton to tap the South West, while strengthening our existing regional offices.

Much of our success over the past two years has been down to the quality of our people and the *strength and depth of the relationships we enjoy with our brokers and agents*. Our strategy for continued success will rest on our ability to retain and attract talent, to provide our brokers with new products and to back those products with consistent and superior service.

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 2004 which comprise the profit and loss account, statement of total recognised gains and losses, reconciliation of movements in shareholders' funds, the balance sheet 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 else 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 accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view 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 have read the directors' report and the directors' statement for the above year and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

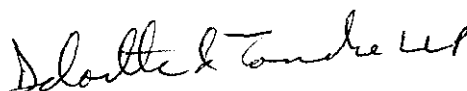
We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates 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 the Company's affairs as at 31 December 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP
Chartered Accountants and
Registered Auditors
London



Date: 30 March 2005

PROFIT AND LOSS ACCOUNT
Year ended 31 December 2004

TECHNICAL ACCOUNT - General Business	Note	2004 £'000	2003 £'000
Gross premiums written	2, 18	151,375	67,334
Outward reinsurance premiums		<u>(29,524)</u>	<u>(3,174)</u>
Premiums written, net of reinsurance		121,851	64,160
Change in provision for unearned premiums			
- gross amount	15	3,472	1,484
- reinsurers' share	15	1,605	(2,741)
Earned premiums, net of reinsurance		<u>126,928</u>	<u>62,903</u>
Allocated investment return transferred from the non-technical account	8	<u>9,229</u>	<u>3,697</u>
Total technical income		<u>136,157</u>	<u>66,600</u>
Claims incurred, net of reinsurance			
Claims paid		62,029	52,093
- gross amount			
- reinsurers' share		<u>(11,604)</u>	<u>(8,855)</u>
Net claims paid		50,425	43,238
Change in the provision for claims			
- gross amount	15	5,051	(7,721)
- reinsurers' share	15	26,530	832
Change in the net provision for claims		<u>31,581</u>	<u>(6,889)</u>
Claims incurred, net of reinsurance		82,006	36,349
Net operating expenses	4, 18	50,251	26,087
Total technical charges		<u>132,257</u>	<u>62,436</u>
Surplus on the technical account for general business before and after equalisation provisions	18	<u>3,900</u>	<u>4,164</u>

PROFIT AND LOSS ACCOUNT
Year ended 31 December 2004

NON-TECHNICAL ACCOUNT

	Note	2004 £'000	2003 £'000
Surplus on the general business technical account		3,900	4,164
Investment income	6	21,404	6,343
Unrealised losses on investments		(73)	(2,648)
Investment expenses and charges	7	<u>(8,554)</u>	<u>(1,685)</u>
		16,677	6,174
Allocated investment return transferred to the general business technical account	8	(9,229)	(3,697)
Profit on ordinary activities before tax		7,448	2,477
Tax credit on profit on ordinary activities	9	925	4,054
Retained profit for the financial year	14	<u>8,373</u>	<u>6,531</u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
Year ended 31 December 2004

	2004 £'000	2003 £'000
Retained profit for the financial year before prior period adjustment	8,373	4,845
Prior period adjustment	-	1,686
Retained profit for the financial year	<u>8,373</u>	<u>6,531</u>
Change in value of Group undertakings	-	2
Excess of assets on transfer of CNA Insurance Company (Europe) Limited	-	164
Exchange differences	329	(9,809)
Total recognised gains/(losses) for the year	<u>8,702</u>	<u>(3,112)</u>

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
Year ended 31 December 2004

	2004 £'000	2003 £'000
Retained profit for the financial year	14 8,373	6,531
Change in value of Group undertakings	14 -	2
Excess of assets on transfer of CNA Insurance Company (Europe) Limited	14 -	164
Exchange differences taken to reserves	14 329	(9,809)
Net increase/(reduction) to equity shareholders' funds	<u>8,702</u>	<u>(3,112)</u>
Share capital issued	-	55,000
Opening equity shareholders' funds	96,924	45,036
Closing equity shareholders' funds	14 <u>105,626</u>	<u>96,924</u>

BALANCE SHEET
31 DECEMBER 2004

Assets	Note	2004 £'000	2003 £'000
Investments			
Investments in group undertakings	10	55,374	55,382
Other financial investments	11	332,104	311,647
		<u>387,478</u>	<u>367,029</u>
Reinsurers' share of technical provisions			
Provision for unearned premiums	15	14,566	12,961
Claims outstanding	15	94,411	128,242
		<u>108,977</u>	<u>141,203</u>
Debtors			
Debtors arising out of direct insurance operations		57,094	39,880
Debtors arising out of reinsurance operations		21,988	5,954
Other debtors	12	6,445	7,535
		<u>85,527</u>	<u>53,369</u>
Other assets			
Cash at bank and in hand		<u>17,677</u>	<u>14,941</u>
Prepayments and accrued income			
Accrued interest		6,189	4,897
Deferred acquisition costs		9,891	9,659
		<u>16,080</u>	<u>14,556</u>
Total assets		<u>615,739</u>	<u>591,098</u>

BALANCE SHEET continued
31 DECEMBER 2004

Liabilities	Note	2004 £'000	2003 £'000
Capital and reserves			
Called up share capital	13	130,200	130,200
Revaluation reserve	14	-	-
Profit and loss account	14	(24,574)	(33,276)
Equity shareholders' funds		<u>105,626</u>	<u>96,924</u>
Technical provisions			
Claims outstanding	15	325,952	334,598
Provision for unearned premiums	15	57,930	61,002
		<u>383,882</u>	<u>395,600</u>
Creditors			
Creditors arising out of direct insurance operations		21,603	11,501
Creditors arising out of reinsurance operations		41,171	25,285
Amounts owed to credit institutions	16	3,393	3,282
Other creditors including taxation and social security	17	60,064	58,179
		<u>126,231</u>	<u>98,247</u>
Accruals and deferred income			
Other accruals and deferred income		-	327
Total liabilities		<u>615,739</u>	<u>591,098</u>

These financial statements were approved by the Board of Directors on 22 March 2005.
Signed on behalf of the Board of Directors


R K Davies
Director


G G MacNeil
Director

NOTES TO THE ACCOUNTS
Year ended 31 December 2004

1. ACCOUNTING POLICIES

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. 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 November 2003 ("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 Other creditors 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.

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, 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.

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.

NOTES TO THE ACCOUNTS
Year ended 31 December 2004

1. ACCOUNTING POLICIES continued

Investment in Group Undertakings

Investments in group undertakings are valued at their respective net asset values.

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 a state pension scheme for eligible full and part-time employees. The 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 2004

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 & Casualty £'000	Accident & Travel £'000	Speciality lines £'000	Overall total £'000
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
Gross operating expenses	16,528	15,069	5,638	13,016	50,251
Reinsurance balance	11,738	9,087	6,598	15,422	42,845
2003					
Gross premiums written	58,154	3,880	2,086	3,214	67,334
Gross claims incurred	59,116	4,580	2,082	3,040	68,818
Gross operating expenses	22,031	1,470	790	1,218	25,509
Reinsurance balance	2,238	(14,244)	198	8,034	(3,774)

Analysis of gross premiums written: Origin of Risk

Contracts written by company in:	2004 £'000	2003 £'000
United Kingdom	117,711	56,162
Other EU Member States	33,661	11,155
International	3	17
	<u>151,375</u>	<u>67,334</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 2004

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	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000	2004 £'000	2003 £'000
United Kingdom	108,159	32,393	5,322	1,192	75,470	32,472
European Union	36,123	17,709	1,777	651	25,206	20,209
International	7,093	17,232	349	634	4,950	44,079
Total	151,375	67,334	7,448	2,477	105,626	96,760

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:

	2004 £'000	2003 £'000
Marine	(2,405)	764
Commercial property & casualty	(25,469)	98
Accident & health	4,144	852
Specialty lines	10,611	92
Motor	9,662	(12)
Total	(3,457)	1,794

4. NET OPERATING EXPENSES

	2004 £'000	2003 £'000
Acquisition costs - commission	22,495	7,931
- other	13,383	3,716
Change in gross deferred acquisition costs	(232)	5,063
Administrative expenses	16,292	8,799
Gross operating expenses	51,938	25,509
Reinsurance commissions and profit participation	(1,498)	578
Change in deferred reinsurance commission	(189)	-
Net Operating Expenses	50,251	26,087
Commission on direct insurance business	22,495	6,763

NOTES TO THE ACCOUNTS
Year ended 31 December 2004

4. NET OPERATING EXPENSES continued

	2004 £'000	2003 £'000
Administrative expenses include:		
Management charge (CNA Europe Holdings Limited)	30,042	13,209
Rentals under operating leases	145	146
Auditors' remuneration		
- audit fees	165	73
- other services	57	24

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, M-M Westdale Kiep and D M Jaffray, CNA Financial Corporation (USA) D K Davies, A K Cameron, P V Hennessy, 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:

	2004 No.	2003 No.
European Union	20	15
	<u>20</u>	<u>15</u>
Management	15	-
Underwriting	-	10
Claims	5	2
Administration	0	3
	<u>20</u>	<u>15</u>

Staff costs incurred during the year in respect of employees were:	2004 £'000	2003 £'000
Wages and salaries	771	1,158
Social security costs	289	147
Pension costs	91	123
	<u>1,151</u>	<u>1,428</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 2004

6. INVESTMENT INCOME

	2004 £'000	2003 £'000
Income from other investments	16,614	6,299
Net gains on the realisation of investments	4,790	44
	<u>21,404</u>	<u>6,343</u>

7. INVESTMENT EXPENSES AND CHARGES

	2004 £'000	2003 £'000
Overdraft interest	54	80
Investment management expenses	435	202
Net realised losses on investments	8,065	1,403
	<u>8,554</u>	<u>1,685</u>

8. ALLOCATION OF INVESTMENT RETURN

	2004 £'000	2003 £'000
Investment income	21,404	6,343
Unrealised losses on investments	(73)	(2,648)
Investment expenses and charges	(8,554)	(1,685)
Total investment return	<u>12,777</u>	<u>2,010</u>
Allocation to the technical account	<u>9,229</u>	<u>3,697</u>

9. TAX CREDIT ON LOSS ON ORDINARY ACTIVITIES

Analysis of credit in year

	2004 £'000	2003 £'000
Current tax:		
UK Corporation tax on profits of the period	-	(205)
Group relief receivable	-	-
Overseas taxation	-	104
Current tax (credit)/charge	<u>-</u>	<u>(101)</u>
Deferred tax:		
Origination and reversal of short term timing differences	(820)	(3,700)
Adjustments in respect of previous years:		
Group relief	(120)	(253)
Overseas tax	15	-
Total tax credit	<u>(925)</u>	<u>(4,054)</u>

9. TAX CREDIT ON LOSS ON ORDINARY ACTIVITIES continued

Factors affecting tax charge for period:

	2004 £'000	2003 £'000
Profit/(loss) on ordinary activities before tax	7,448	2,477
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%:	2,235	743
Effects of:		
Expenses disallowed for tax purposes	(463)	98
P6 Sch15A 96 pre-commencement gain spreading election	-	-
S1 1994/3226 P.15 foreign exchange spreading election	-	-
Section 107 adjustment in relation to under reserving	(1,335)	(577)
Section 107 (4) reversal of previous years' disclaim of technical reserves	(30,112)	
Section 107 (4) disclaim of technical reserves	29,253	(44)
Unrealised gain spreading election	274	274
Utilisation of group relief	-	-
UK deduction for overseas taxes payable	-	(30)
Overseas tax payable	15	103
Adjustments to tax charge in respect of previous periods	(120)	(253)
Group relief receivable	148	-
Effect of prior period adjustment	-	(668)
Total current tax credit	(105)	(354)

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

	Provided 2004 £'000	Provided 2003 £'000	Not Provided 2004 £'000	Not Provided 2003 £'000
Short term timing differences	-	-	640	783
Unutilised capital losses	-	-	164	164
Unutilised trading losses	4,520	3,700	24,733	19,454
	4,520	3,700	25,537	20,401

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 2004

10. INVESTMENTS IN GROUP UNDERTAKINGS

The Group

	Shares £'000
Subsidiary undertakings	
At 1 January 2004	55,382
Purchase of subsidiary	-
Adjustment to net asset value of subsidiary undertaking	(8)
At 31 December 2004	<u>55,374</u>

The Company has the following subsidiary undertakings which are incorporated in Great Britain and registered in England and Wales except where stated:

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

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

CNA Insurance Company (Europe) Limited	Dormant
--	---------

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

With effect from 13 November 2003 CNA Insurance Company (Europe) Limited ceased operation with all business being transferred to CNA Insurance Company Limited.

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

11. OTHER FINANCIAL INVESTMENTS

	Cost 2004 £'000	Cost 2003 £'000	Current Value 2004 £'000	Current Value 2003 £'000
Shares and other variable yield securities and units in unit trusts	-	6,932	-	8,197
Debt securities and other fixed income securities	328,734	296,547	316,130	284,196
Deposits with credit institutions	15,974	19,254	15,974	19,254
	<u>344,708</u>	<u>322,733</u>	<u>332,104</u>	<u>311,647</u>
Listed investments:				
Shares and other variable yield securities and units in unit trusts			-	8,197
Debt securities and other fixed income securities			316,130	284,196
			<u>316,130</u>	<u>292,393</u>

£544,865 (2003: £584,993) 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 2004

12. OTHER DEBTORS

	2004 £'000	2003 £'000
Amounts due from group undertakings	534	2,178
Taxation	29	80
Other	1,362	1,577
Deferred tax asset	4,520	3,700
	<u>6,445</u>	<u>7,535</u>

13. CALLED UP SHARE CAPITAL

	2004 £'000	2003 £'000
Called up share capital		
Authorised: 15,000,000 ordinary shares of £10 each (2003: 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 (2003: 130,020,000)	<u>130,200</u>	<u>130,200</u>

14. RESERVES

	Share Capital 2004 £'000	Profit & Loss Account 2004 £'000	Total Shareholders' Funds 2004 £'000	2003 £'000
Balance at 1 January	130,200	(33,276)	96,924	45,036
Share capital issued	-	-	-	55,000
Retained profit for the year	-	8,373	8,373	6,531
Change in value of group undertakings	-	-	-	2
Transfer of realised revaluation reserve	-	-	-	-
Excess of assets on transfer of CNA Insurance Company (Europe) Limited	-	-	-	164
Restatement of foreign currency net assets	-	329	329	(9,809)
Transfer of revaluation reserve to profit and loss account	-	-	-	-
Balance at 31 December	<u>130,200</u>	<u>(24,574)</u>	<u>105,626</u>	<u>(96,924)</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 2004

15. TECHNICAL PROVISIONS

	Provision for unearned premiums £'000	Claims outstanding £'000	Total £'000
Gross			
At 1 January 2004	61,002	334,598	395,600
Prior period adjustment	-	-	-
Exchange adjustments	400	(13,728)	(13,328)
	<u>61,402</u>	<u>320,870</u>	<u>382,272</u>
Reallocation	-	31	31
Movement in provision	(3,472)	5,051	1,579
At 31 December 2004	<u>57,930</u>	<u>325,952</u>	<u>383,882</u>
Reinsurance amount			
At 1 January 2004	12,961	128,242	141,203
Prior period adjustment	-	-	-
Exchange adjustments	-	(7,301)	(7,301)
	<u>12,961</u>	<u>120,941</u>	<u>133,902</u>
Movement in provision	1,605	(26,530)	(24,925)
At 31 December 2004	<u>14,566</u>	<u>94,411</u>	<u>108,977</u>
Net			
At 31 December 2004	<u>43,364</u>	<u>231,541</u>	<u>274,905</u>
At 31 December 2003	<u>48,041</u>	<u>206,356</u>	<u>254,397</u>

16. AMOUNTS OWED TO CREDIT INSTITUTIONS

	2004 £'000	2003 £'000
Unsecured bank loans and overdrafts repayable in one year or less or on demand	<u>3,393</u>	<u>3,282</u>

17. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	2004 £'000	2003 £'000
Amounts due to Group undertakings	57,287	55,164
Insurance premium tax payable	2,173	2,068
Other	604	947
	<u>60,064</u>	<u>58,179</u>

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

2004

	Total £'000
Gross premiums written	151,375
Net premiums earned	126,928
Allocated investment return	9,229
Net claims incurred	(82,006)
Net operating expenses	(50,251)
Surplus on the technical account	3,900
Total investment return less previously allocated	3,548
Profit on ordinary activities before tax	7,448

2003

	Continuing £'000	Discontinuing Hull £'000	Total £'000
Gross premiums written	63,255	4,079	67,334
Net premiums earned	60,226	2,677	62,903
Allocated investment return	3,063	634	3,697
Net claims incurred	(25,987)	(10,362)	(36,349)
Net operating expenses	(24,507)	(1,580)	(26,087)
Surplus/(deficit) on the technical account	12,795	(8,631)	4,164
Total investment return less previously allocated	(1,585)	(102)	(1,687)
Profit/(loss) on ordinary activities before tax	11,210	(8,733)	2,477

Discontinued operations "Hull" relates to the cessation of underwriting hull business with effect from 31 December 2002.

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 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 2004 the amount remaining on the letter of credit after draw-downs in the period was £544,865 (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 pensions are administered and managed at each local overseas branch.

The pension cost for the period was £91,103 (2003: £122,503).

21. OPERATING LEASE COMMITMENTS

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

	Land and buildings	
	2004	2003
	£'000	£'000
Leases which expire:		
Within two to five years	145	146
	<u>145</u>	<u>146</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.