





CONTENTS

- 8 Chief Executive's statement
- 12 Directors' report
- 19 Statement of Directors' Responsibilities
- 20 Independent Auditor's Report
- 24 Profit and loss account technical account
- 25 Profit and loss account non-technical account
- 26 Statement of total recognised gains and losses
- 27 Balance sheet
- 29 Notes to the financial statements

Pages 8 to 52 (excluding 11, 18 and 22) represent a complete reproduction of the annual report and financial statements of the Company. All other pages did not form part of these financial statements and consequently represent unaudited information.

GWP

+16.2%

Our underwriting expertise and ability to identify and meet market needs helped us achieve strong growth in competitive markets.

PROFITS

\$69m

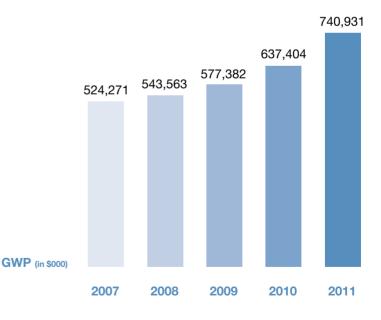
Despite difficult markets and uncertain economic conditions we continue to achieve profits according to plan.

NET ASSETS

+1.4%

Following our seventh consecutive profitable year, our capital and surplus base increased to \$700m.

THE FIVE YEAR RECORD





EXTENDINGOUR REACH

INTERNATIONAL

We have broadened the distribution of our products by leveraging Liberty's global expertise to meet the needs of local markets.

In Dubai, Liberty continued to bring new products to market in 2011. But as Elie Bouchaaya, Senior Vice-President and General Manager of Liberty Middle East and North Africa explains, this is always part of a careful strategic process. "First we fully assess the market, identifying exactly what cover is needed. Next, we draw on Liberty's global technical expertise in the product line. Then we build the local resources to deliver the product successfully, tailored to local conditions."

One example during 2011 was the development of Event Cancellation, with our Dubai office working in partnership with sister company Liberty Syndicates. As Elie explains, this was a relatively new cover to the region but by leveraging Liberty Syndicates' technical expertise, the result was a strong product

that complemented existing specialty Casualty lines. Another example was Professional Lines, which saw the Dubai team working closely with the London specialty office to deliver new products in the region.

An innovative new package of cover across civil commotion, terrorism and civil war also proved successful in 2011.

With political instability a cause of concern for many clients in the Middle East, an innovative new package of cover across civil commotion, terrorism and civil war also proved successful in 2011, building on the growth in terrorism lines introduced in 2010.

With new products set to emerge in 2012, the ability of brokers and clients to access our world-class products and local underwriting is set to continue, helping Liberty to grow in the region.



COMPETITIVE PRODUCT RANGE

Our products are built on proven underwriting ability and experience across sectors.



AVIATION

Our highly experienced team serves secondtier and smaller international flag carrier airlines, with a specific focus on start-ups. We also write a substantial book of industrial aid and rotor wing equipment. Other specialist areas include 'total loss only' and non-critical products liability cover.



MARINE

Our specialists cover ocean cargo, project cargo with delay in start-up, marine liabilities, hull and shipbuilders' risks products. We provide tailored risk solutions, capacity and service to our clients through our network of global marine professionals, claims and risk engineering services.



ENERGY/POWER GENERATION

We offer an innovative, flexible service closely geared to the needs of the energy sector including onshore, offshore operational and construction, and power generation. Our clients benefit from crossclass products and bespoke policy cover from our underwriting, risk engineering and claims teams.



CASUALTY/GENERAL LIABILITY

An extensive range of liability products is offered to commercial clients in construction, manufacturing, leisure, motorsport, transportation, film and TV production. These include both primary and excess public and product liability and employers' liability.



CONSTRUCTION

Our team of construction engineers and underwriters combines technical expertise with significant underwriting capacity to deliver risk transfer solutions for a wide range of heavy industries, as well as for building and civil projects.



COMMERCIAL PROPERTY

Our specialist team has an in-depth understanding and many years of industry experience. Focusing on material damage and business interruption cover, they offer a full-service proposition that combines underwriting, risk engineering and claims expertise.



ENVIRONMENTAL

With gaps in pollution cover becoming increasingly apparent under many traditional liability policies, our highly experienced team underwrites a wide range of environmental exposures. Our products provide broad and comprehensive coverage for pollution liability and environmental damage liability.



CRISIS MANAGEMENT

We help clients to avoid or, if necessary, manage a major crisis and mitigate the risk of product contamination and product recall. Our kidnap and ransom cover provides governments, international corporations and private individuals around the world with prevention, training and response services.



PROFESSIONAL INDEMNITY

Our market-leading underwriters can arrange cover on a primary or excess basis for both traditional and emerging professions. These include accountants, architects, brokers, designers, estate agents, property managers, solicitors and independent financial advisers.



SURETY

We provide surety bonds and guarantees predominantly for large quoted or large privately-owned organisations. We specialise in serving the construction, engineering, manufacturing, electronics, defence, shipbuilding, oil and gas, transportation and retail industries.



FINANCIAL INSTITUTIONS

As a leading insurer in this sector, we offer tailor-made cover for financial institutions. Products include: blanket bonds for banking organisations; specialist coverage for crime, including electronic and computer crime; and professional indemnity for all types of financial institutions.



TRADE CREDIT/POLITICAL RISK

We insure trade credit and political risks in emerging markets. Our focus is on insurance against default by individual buyers or suppliers. We also protect against the non-honouring of letters of credit and cover pre-shipment risk, currency inconvertibility, expropriation, and unfair bond calling.



DIRECTORS & OFFICERS

Both brokers and clients benefit from our first-class service. Areas covered include directors' & officers' liability, pension trustee liability, employment practice liability, commercial crime, and public offering of securities insurance.



STRATEGIC ASSETS

Modern businesses are increasingly dependent on intangible assets and non-physical perils. Our highly experienced team offers innovative, flexible solutions in areas such as reputation, intellectual property, cyber and privacy protection, and non-damage business interruption.



EUROPE

New products that meet the needs of brokers and clients are key to success in competitive markets. One example is Integrale, which continued to grow in 2011, being offered in new territories and through an online underwriting platform.

Integrale was designed in France to solve a problem: the Directors & Officers market for small and medium-sized companies was crowded, competitive and keenly priced. The solution was a new package that stood out from the crowd. As well as Directors & Officers, Integrale offered Crime and Employment Practices Liability Insurance plus Key Man and Threat cover. Policyholders could also access a consultancy service covering tax and legal advice as well as crisis management support. "As a result,

Integrale won the Argus D'Or award for innovation in 2008, was successfully rolled out in France in 2009, and crossed into Spain in 2011.

by answering just a few more questions than for their Directors & Officers cover, brokers and clients could gain valuable additional products specifically tailored to meet middle-market needs, with limits and exceptions that kept prices to, typically, about just 30% more than standalone Directors & Officers ", explains Olivier Muraire, General Manager, Southern Europe.

The value of such an approach was quickly recognised by the industry: Integrale won the Argus D'Or award for innovation in 2008, was successfully rolled out in France in 2009, crossed into Spain in 2011 and was launched as an online underwriting tool the same year. As a result, as Senior Underwriter Christine Pujo and Underwriter Nadia Ghrib explain, "Integrale now represents 50% of our new products sold and 45% of our middle-market portfolio." And with its planned roll-out into Switzerland expected in 2012, Integrale's growth looks set to continue.



GLOBAL DISTRIBUTION LOCAL KNOWLEDGE

As we continued to widen our product ranges and strengthen our teams across the world, revenues increased in every region in which we operate.





LONDON HEAD OFFICE LONDON MARKET

Acting as a gateway to the London market and the base for some of the most highly skilled insurance professionals in Europe, our head office offers a full range of specialty products and the flexibility required to meet the needs of our brokers. Our commitment to the London market means that we have the capacity and expertise to underwrite the most complex risks.

+11.5%

BUSINESS VOLUME



CONTINENTAL EUROPE

COLOGNE | THE HAGUE | HAMBURG | MADRID | PARIS | ZURICH

Through independent and affiliated brokerage firms we offer a growing suite of insurance products in Europe's key strategic markets. Our customers are medium and large-sized companies operating in a wide range of industry sectors, who benefit from our technical expertise and deep understanding of their needs.

+24.3%

BUSINESS VOLUME



UK AND IRELAND COMMERCIAL

BIRMINGHAM | BRISTOL | CHELTENHAM | DUBLIN | LEEDS | LONDON | MANCHESTER | SOUTH EAST

Our investment in expanding our branch network, strengthening our underwriting capabilities and improving the quality and accessibility of our services means we are strongly positioned to support brokers and clients. We provide a wide range of commercial insurance products through independent and national brokers.

+37%

BUSINESS VOLUME



INTERNATIONAL DUBAI | HONG KONG |

MALAYSIA | SINGAPORE





Our extensive network gives local brokers and insurance companies the capacity to meet demand from some of the world's fastest growing markets. With experience of the local trading environment and a wide product offering, our highly qualified teams have the underwriting authority and expertise to meet customer needs in a variety of sectors.

+22%

BUSINESS VOLUME

CHIEF EXECUTIVE'S STATEMENT

"I am therefore very pleased to report that commercial activities are already showing substantial top line growth, with more scope ahead to secure and expand our position in the market."



STRATEGIC GROWTH

Our business performed strongly in 2011, with Gross Written Premium up 16% at \$741m and pre-tax profits at \$69m. Against a backdrop

of highly competitive markets and a number of natural and man-made catastrophes that impacted the insurance industry during 2011, this was all the more creditable.

Our performance was built on the combination of our conservative approach to risk, deep underwriting expertise and the ability to identify and realise growth opportunities. Strategic investments over past years in new teams, new products and broadening geographical distribution are paying off, while new investments in the midmarket sector are creating further growth potential. Our position in the industry as a respected provider with strong technical knowledge and deep understanding of broker needs was demonstrated in the Insurance 360 Financial and Professional Lines Insight Report 2011, which placed Liberty fourth out of 16 major carriers for overall service quality and second for claims handling.

Once again we were able to build the strength of our capital base, with net assets rising to \$700m during 2011. We maintained a conservative stance on the management of our investments, with a continued focus on high-quality fixed interest stocks leading to total investments returns in excess of 4%. As a result of this strong overall financial performance, we are pleased to announce dividend payments totalling \$42m this year (for further details please see the directors' report).

MARKETS

The year was characterised by a high number of catastrophes and risk losses, with the Japanese tsunami, Australian floods, Thai floods and New Zealand earthquake all taking place in 2011, as well as civil unrest in the eurozone and Middle East. Although the company ("LMIE") inevitably had some exposure to these tragic events, there was no major impact on our business.

There was continuing evidence of oversupply and weak pricing in the broader market throughout 2011. Although some pockets saw rate increases during the year, these were sector-specific and patchy: for example energy, where strong demand firmed prices, and financial and credit lines, where euro debt and double-dip fears impacted rates.

We continue to be well reserved against the stillemerging effects of the 2007/8 global financial crisis and have suffered little impact from the more recent sovereign debt crisis in Europe.

REGIONS

All our regions grew revenue during the year as we continued to achieve our objective of diversifying away from our London specialty business. We continued to strengthen our continental Europe and International operations, in terms of both underwriting expertise and widening our product distribution. For example, we introduced trade credit lines in France and added terrorism lines in Dubai. We hired an energy team in Madrid as well as building our casualty and professional indemnity cover in Germany and France. In 2011 our continental Europe operations saw revenues rise by 24% and our International region saw growth of 22%.

PRODUCTS

Recently launched products such as Environmental Impairment Liability, Crisis Management and Strategic Assets exceeded plan and were well received by brokers. In fact the latter two were recently cited by industry sources as key future growth areas, demonstrating our ability to position ourselves ahead of the curve. Our property team, new in 2010, also grew rapidly, playing a key role in our commercial operations.

The robustness of our financial lines business was demonstrated during the year when, despite management turnover, we were able to maintain our market position and in fact grow revenues. This underlined the strength and depth of the team, which, as mentioned earlier, achieved a high ranking in the 2011 Insurance 360 financial and professional lines report.

COMMERCIAL

This was a year of intense activity in the commercial arena, in which we strengthened our foundations, almost doubling staff levels during 2011. I am therefore very pleased to report that commercial activities are already showing substantial top line growth, with more scope ahead to secure and expand our position in the market.

Our new, much larger office in Birmingham was opened in 2011. We also set up a branch operating from London and covering the South East region, and a new office in Leeds will be opened shortly. We broadened distribution of products, mainly our property, casualty and financial lines but also provided further opportunities for specialist lines.

In order to manage these changes efficiently, a number of organisational changes were necessary. Firstly, we created a distinct midmarket business unit presently located within our London headquarters. We also set up a dedicated business development team to refine our approach to market and generate business, and appointed a Chief Underwriting Officer solely for our commercial operations.

During the reporting period, our parent company, Liberty Mutual, acquired the Irish business of Quinn Insurance. This will strengthen the Liberty brand in Ireland and facilitate further growth in our Dublin operations. As a result of the acquisition, Chief Operating Officer Patrick O'Brien left LMIE to take on the position of Chief Executive, Liberty Insurance Ireland. John McCammon, formerly LMIE Head of Claims, was appointed to replace Patrick as Chief Operating Officer.

"Strategic investments over past years in new teams, new products and broadening geographical distribution are paying off, while new investments in the mid-market sector are creating further growth potential"

EFFICIENCY AND SERVICE

We continue to use technology to drive business efficiency and customer service. Examples include the development of a new financial mini-lines portal that provides access to quotes and products, and a new claims platform. We also continue to play an active role in industry technology initiatives and support our staff in achieving professional training accreditation.

The emphasis we place on claims handling was demonstrated in 2011 both by our high ranking in the industry survey mentioned earlier and by our major investment in claims technology referenced above.

SPONSORSHIP

In terms of sponsorship we are supporting four British athletes during 2012. We are also continuing our support for up-and-coming racing drivers Sam Brabham and Alex Brundle which provides a natural fit with our provision of motorsport liability insurance.

OUTLOOK

In the broader market, we expect conditions to remain much the same in 2012, with oversupply mitigating rate increases and forcing some capacity out of the market.

Our primary focus will be on consolidating existing opportunities rather than expanding into new countries or sectors. We will therefore continue to broaden our distribution of current products through existing branches. At the same time, we will remain watchful of opportunities available in the market: where these are attractive, we will launch new products and open new offices to take advantage.

As a result, we anticipate further growth in 2012, although this is unlikely to be at as high a rate as 2011 – a year in which we rapidly expanded our mid-market offering from a low base. Given the strength of our performance in what was a difficult year in the broader market and the global economy in general, I would like to thank all management and staff for their hard work and their expertise in achieving so much during 2011.

SEAN P ROCKS CEO | 29 MARCH 2012 Liberty Mutual Insurance Europe Limited



WORKING

LONDON SPECIALTY

The strength of Liberty Mutual Insurance Europe's London specialty team is built on its understanding of client needs. A good example is our relationship with National Grid, where we have gone from offering a single line in one product area to supplying them with tailored solutions that cross product areas and regions.

The relationship began in 2003 with National Grid's main LNG import terminal in Isle of Grain, Kent. Impressed by the high-quality management and design of the project, Liberty took a lead role in covering its expansion in 2005. The relationship was further cemented by involvement in the National Grid property programme. Beginning by writing a small part of an excess layer, we progressed to writing a quota-share line, taking 10% of a £500m limit. When the client later requested a long-term deal for the property policy, the strength of our relationship and our close-up understanding of the risks involved meant we were able to develop a stand-alone,

tailor-made deal involving unique payment terms and long-term stability.

Having gradually increased our involvement in the National Grid engineering programme, Liberty wrote 100% of their recent LNG cryogenic pipeline construction project. We also led underwriting terms for the London Cable Replacement Tunnel project, a major infrastructure development that will help power London for the future.

The relationship continues to grow and now includes Surety, Casualty and Directors & Officers lines, plus a share of National Grid's power generation assets in the US.

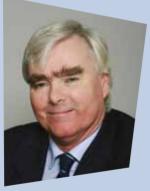


Board of directors (top left to bottom right):
Sean Rocks (Chief Executive LMIE),
Gordon McBurney (President LIU),
Daniel Forsythe (CEO LIU),
David Prince, David Oates,
Dr Jonathan Spencer (non-executive),
Malcolm McKenzie (non-executive).













DIRECTORS' REPORT

Our strategy of diversifying both geographically and by product line continues to deliver growth

The directors have pleasure in submitting their report, together with the audited financial statements of the company, for the year ended 31 December 2011.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The company underwrites marine, non-marine and aviation insurance and reinsurance business from its head office in London and its branches across Europe, the Middle East and Asia.

During 2011 the company's principal business lines were Casualty, Specialty Casualty, Aviation, Property, Trade Credit, Surety and Marine, Energy and Engineering. Company strategy continues to be to offer through the independent broker network a diverse and growing range of specialty insurance products to markets in Europe, the Middle East and the Far East. During 2011, the company focus was on extending geographical presence, broadening the product range, and developing the company's position in the UK and Ireland mid-market corporate sector.

The company's key financial performance indicators during the year were as follows:

	2011 \$'000	2010 \$'000	Change %
Gross written premiums	740,931	637,404	16.2
Profit before taxation	69,112	82,358	(16.1)
Net assets	700,147	690,348	1.4
Combined ratio	97.4%	96.4%	

The increase in the gross written premiums reflects organic growth across the business, further increased by \$20m (3%) as a result of positive exchange rate effects, with average USD rates against GBP and the euro around 3% higher in 2011 than the prior year. However, the positive effect of this on profit before taxation was outweighed by the corresponding increase in the USD value of the company's expenses, which are predominantly GBP and euro denominated. The combined ratio is calculated as total technical charges excluding change in the equalisation provision / earned premiums, net of reinsurance. The combined ratio reflects a benefit taken from prior year claim overprovisions of 2.1% (2010: 3.1% benefit), as further explained in note 29.

Investment income, excluding net gains and losses on the realisation of investments, was consistent with the previous year, driven by lower investment yields, but offset by higher invested asset values arising from strong operational cashflows. Total investment returns of 4% reflected further increases in the market value of the company's bond investments as market yields continued to decline.

The company made net realised gains on its investment portfolio of \$6.43m (2010: gain of \$7.47m).

The company operates in international markets and recorded net gains of \$2,613,000 during 2011 (2010: losses of \$5,068,000) on the translation of non-USD currencies into USD. In accordance with the company's accounting policies, a gain of \$2,084,000 (2010: loss of \$10,640,000), being that part of the total gain relating to the retranslation of the company's principal operating currencies GBP, euro and USD, is reflected in the Statement of Total Recognised Gains and Losses, and not in the profit and loss account.

Net assets increased by \$9,799,000, attributable to the profit for the year of \$47,991,000, other recognised net gains of \$4,293,000 for the year, and an interim dividend of \$42,485,000 paid during the year. The directors do not recommend payment of a final dividend (2010: Nil).

PRINCIPAL RISKS AND UNCERTAINTIES

The Board sets risk appetite annually as part of the company's business planning process.

Risk management is currently undertaken on three levels:

- Risk ownership risk owners identify risks and are responsible for establishing and maintaining appropriate controls over those risks
- Risk control exercised by the Risk Committee which is responsible for oversight of the operation of the risk management strategy; and by the Executive Committee, which is responsible for the management of risk in accordance with the risk appetites set by the Board. Measures of risk are monitored against risk appetite on a quarterly basis. The Risk Committee is assisted by the advisory and monitoring functions of Risk Management and Compliance. Risk Management defines and prescribes the financial and operational risk assessment processes for the business, maintains the risk registers, and undertakes regular reviews of these risks with the risk owners. Compliance advises on all areas of regulatory principles, rules and guidance, and undertakes monitoring activity on key areas of regulatory risk
- Risk assurance conducted by the Internal Audit function under the control and direction of the Audit Committee. Internal audit conducts a programme of audits covering all aspects of risk ownership and risk control.

The principal risks and uncertainties facing the company are as follows:

INSURANCE RISK

Insurance risk includes the risks that a policy will be written for too low a premium or will provide inappropriate cover (underwriting risk), that the frequency or severity of insured events will be higher than expected (claims risk), and that estimates of claims subsequently prove to be insufficient (reserving risk). The Board manages insurance risk by agreeing its appetite for these risks annually through the business plan, which sets out targets for volumes, pricing, line sizes and retention by class of business.

The Executive Committee of the Board then monitors performance against the business plan monthly through the year. Reserve adequacy is monitored by the Reserving Committee which meets quarterly to establish and review the held reserves. A key element of this consideration is review of the quarterly report by the company's actuary, which includes the actuarial estimate of required reserves together with documentation supporting the material judgements and assumptions made in arriving at this estimate.

CREDIT RISK

The company's principal credit risk exposure is the risk of non-performance by one or more of the company's reinsurers.

A key part of the company's risk management strategy is the purchase of effective reinsurance across all lines. The company purchases both proportional and non-proportional reinsurance locally and through participation in Liberty Mutual Insurance Group global treaties. There are a limited number of reinsurers worldwide with the capacity or capability to participate in these

global treaties. A consequence of this is a degree of concentration of exposure with the major reinsurers.

The company has established a Reinsurance Committee which approves all reinsurance treaties and assesses and is required to approve all new reinsurers before business is placed with them. Carriers must be A rated or better. Reinsurer exposure is reviewed quarterly. The company uses a default risk model to determine a need for specific provisions against reinsurer non-performance which are adjusted on a quarterly basis. Changes in the amount of the provisions are reflected in the profit and loss account.

MARKET RISK

Market risk is defined as the risk of loss to the company arising from fluctuations in the values of its assets, the amount of its liabilities, or the income from its assets. Sources of market risk for the company include movements in interest rates, equity values, and exchange rates. Such movements would potentially affect the value of the company's cash and investment portfolio and the income therefrom. The company underwrites insurance policies in several currencies and consequently has an exposure to retranslation gains and losses arising from the impact of changes in exchange rates on technical assets and liabilities denominated in foreign currencies.

The company has delegated management of its investment portfolio to Liberty Mutual Group Asset Management Inc., the specialist investment management arm of Liberty Mutual Insurance Group. The portfolio is managed in accordance with investment guidelines established on behalf of the company by the Investment Committee. These guidelines set out limits on asset quality, counterparty exposure, asset concentration, and geographical concentration, compliance with

which, alongside investment performance, is monitored by the Committee on a quarterly basis.

The portfolio comprises a broad spread of investment grade instruments, including bonds issued by eurozone sovereign states collectively known as the "PIIGS" states. Total value of exposure to PIIGS sovereign debt is less than \$50m within an overall portfolio valued at in excess of \$1.8bn. The performance of PIIGS bonds is currently subject to monthly review and reporting to the Executive Committee of the Board, and to formal review at a strategic level with the investment managers through the Investment Committee.

The company follows a policy of matching foreign currency-denominated assets and liabilities so as to minimise the impact of exchange rate movements. Shareholder surplus is currently held in USD.

Thus, overall, the company holds limited net assets in non-USD currencies and consequently has no significant balance sheet exposures to exchange rate movements.

LIQUIDITY RISK

Liquidity risk is the risk of loss to the company arising from the company being insufficiently liquid to meet all cashflow commitments as and when they fall due. It is company policy that all funds are held in cash or in readily marketable instruments.

This requirement is reflected in the investment guidelines. The duration of investment instruments is matched to the anticipated duration of liabilities to policyholders; and the currency of investment instruments is matched to the currency of anticipated liabilities to policyholders. Shorter term needs are anticipated through a process of cashflow forecasting with the backing of a bank

loan facility which can be drawn upon if needed to cover immediate requirements.

The directors believe that these actions provide assurance that the company will be able to continue to meet its obligations as and when they fall due. In making this assessment, the directors have fully considered the effect of current market conditions on asset values and asset marketability.

OPERATIONAL RISK

Operational risk is defined as the risk of loss to the company arising from inadequate or failed internal processes, people, and systems. The company manages operational risk through the three mechanisms of risk ownership, risk control and risk assurance described above.

FUTURE DEVELOPMENTS

The company focus for 2012 will be on consolidating recent growth and building on the infrastructure put in place over the past few years. The company intends to continue to broaden the range of profitable insurance products offered and to further develop the company's position in the UK and Ireland mid-market corporate sector.

DIRECTORS' INTERESTS

The directors of the company during the year and up to the date of signing the financial statements were:

S P Rocks	Chairman - Chief Executive Officer
P J O'Brien	Director - Chief Operating Officer (resigned 2 December 2011)
D R Oates	Director
D J Prince	Director - Chief Financial Officer
G M Van Loon	Director (resigned 4 January 2011)
D T N Forsythe (USA)	Non-Executive Director
G J McBurney (USA)	Non-Executive Director
J P Spencer	Non-Executive Director
M G McKenzie	Non-Executive Director

According to the Register of Directors' Interests, no director has any beneficial interest in the issued share capital of the company.

FIXED ASSETS

The changes in the company's fixed assets for the year are set out in Note 12.

DONATIONS

During the year the company made charitable donations of \$30,435 (2010: \$32,372) and made no political donations (2010: nil).

EMPLOYEES

During the year an average number of 454 (2010: 402) staff were employed. The total aggregate remuneration of employees amounted to \$84.0m (2010: \$71.2m).

The company operates a framework for employee information and consultation which complies with the requirements of the Information and Consultation of Employees Regulations 2004.

The policy is principally operated through the company's intranet, from which employees are provided with regular information regarding the company's performance, and are encouraged to present suggestions and raise questions regarding the company's performance. In addition, periodic meetings are held with management. The company operates discretionary performance-related remuneration schemes which enable employees to share in the success of the company and to be rewarded for good service and incentivised for future performance. The company invests in staff training to develop the skills of employees to maximise the service levels provided to customers and business partners.

Full and fair consideration is given to the recruitment of disabled people and to the offering of proper training, career development and promotion opportunities for them. Every effort is made to retain, in suitable employment, any member of staff who becomes disabled whilst employed by the company. Where this is not possible, a permanent health insurance scheme is in place for those staff who are unable to return to suitable employment.

GOING CONCERN

The financial statements have been prepared on a going concern basis. In assessing whether the going concern basis is appropriate, the directors have considered the information contained in the financial statements, the company's latest business plan, and the company's current solvency calculations. The directors are satisfied that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

DISCLOSURE OF INFORMATION TO THE AUDITORS

So far as each person who was a director of the company at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with its report, of which the auditor is unaware. Having made enquiries of fellow directors of the company and the company's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/ herself aware of any relevant audit information and to establish that the auditor is aware of that information

AUDITORS

Ernst & Young LLP are deemed to be reappointed in accordance with an elective resolution made under Section 485 of the Companies Act 2006. Consequently, the company has dispensed with the requirement to hold an Annual General Meeting and re-appoint the auditors. Ernst & Young LLP have expressed their willingness to continue in office and so have been invited to do so.

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

SEAN P ROCKS, CEO | 29 MARCH 2012 COMPANY NUMBER: 1088268 Liberty Mutual Insurance Europe Limited

Registered office and advisers

Directors

S P Rocks

D R Oates

D J Prince

DTN Forsythe

G J McBurney

J P Spencer

M G McKenzie

Company Secretary

N J Davenport

Registered Office

3rd Floor, Two Minster Court Mincing Lane London EC3R 7YE

Company Number

1088268

Corporate Bankers

Lloyds Banking Group Plc City Office PO Box 72 Gillingham Business Park Gillingham Kent MF8 0SI

Independent Auditors

Ernst & Young LLP 1 More London Place London SE1 2AF



UK AND IRELAND

Significant investment in the commercial midmarket sector was a key feature of 2011, and has been well received by brokers and clients.

A position in the mid-market was nothing new for Liberty, but previously it had been built around specialty casualty. A decision to move to a broader commercial proposition was taken because there was an appetite for Liberty's technical underwriting capability and an opportunity to build on our brand, even in competitive markets. Strategically, it also meant Liberty could build a more diversified portfolio.

The decision meant expanding and strengthening our branch network. A new branch was opened in the South East and one planned for Leeds, while our operations in our existing branches were expanded. We broadened our lines to offer combined property/casualty as well as access to other, more specialist lines. Another key element was changing new and existing brokers' perception of Liberty, which was

seen more as a specialty than a commercial provider. A dedicated relationship management team led this work, while underwriting, risk management and claims teams focused on bringing the best of Liberty's expertise to the mid-market.

We enter 2012 with new offices in the South East and Leeds.

As a result, we enter 2012 with new offices in the South East and Leeds, a much stronger network all over the UK and Dublin, and excellent broker relationships. Commercial revenues rose substantially in 2011 and with a new, bespoke underwriting platform in development and further branch openings anticipated, we expect further mid-market growth in 2012 and beyond.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 that 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 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LIBERTY MUTUAL INSURANCE EUROPE LIMITED

We have audited the financial statements of Liberty Mutual Insurance Europe Limited for the period ended 31 December 2011 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, and the related notes 1 to 32. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), having regard to the statutory requirement for insurance companies to maintain equalisation provisions. The nature of equalisation provisions, the amounts set aside at 31 December 2011, and the effect of the movement in those provisions during the year on shareholders' funds, the balance on the general business technical account, and profit before tax, are disclosed in note 30.

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement set out on page 19, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

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

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

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

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

Stuart Wilson (Senior Statutory Auditor) for and on behalf of Ernst & Young LLP, Statutory Auditor London 29th March 2012



SUPPORTING SUCCESS

Our commitment to outstanding performance is reflected in Liberty Mutual Insurance Europe's support for four British athletes aiming for success at London 2012.

The whole world is looking to London in 2012 as athletes from over 200 countries compete for the chance of winning gold. But what can sometimes be forgotten is the long and difficult journey these athletes undertake to get there. So in the run up to the world's biggest sporting event, we are supporting the hard work, talent and commitment of four British athletes. Boxer Luke Campbell, paralympian discus thrower Dan Greaves, long jumper Chris Tomlinson and gymnast Hannah Whelan all benefit from financial support from Liberty to assist their preparations during and beyond the London 2012 selection process.

Liberty is supporting the hard work, talent and commitment of four British athletes.

Just as Liberty's operations span UK regions, the athletes are from all over the country – from the Midlands and South to the North West and North East. Our staff and brokers are also set to benefit from the experience, with the athletes getting involved in Liberty events and taking part in question and answer sessions.

As Sean Rocks, LMIE's CEO explains, "It will be a valuable opportunity to support British athletes and for staff and brokers to meet these sports people, and learn about the way in which they prepare themselves and focus their energies."

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2011

Technical Account - General Business	NOTES	2011 \$000	2010 \$000
Gross premiums written	3	740,931	637,404
Outward reinsurance premiums		(341,138)	(298,938)
Net premiums written		399,793	338,466
Change in the unearned premium			
- gross amount	2	(60,474)	(43,678)
- reinsurers' share	2	28,307	43,468
- net amount	2	(32,167)	(210)
Earned premiums, net of reinsurance	2	367,626	338,256
Allocated investment return transferred from the non-technical account		51,426	49,416
Total Technical Income		419,052	387,672
Claims paid			
- gross amount		(196,124)	(308,037)
- reinsurers' share		72,863	150,198
- net of reinsurance		(123,261)	(157,839)
Change in the provision for claims			
- gross amount	28	(234,382)	52,018
- reinsurers' share	28	144,942	(88,165)
- net of reinsurance	28	(89,440)	(36,147)
Claims incurred net of reinsurance		(212,701)	(193,986)
Net operating expenses	4	(149,521)	(132,161)
Change in the equalisation provision	30	(7,871)	(5,828)
Total Technical Charges		(370,093)	(331,975)
Balance on the Technical Account for General Business		48,959	55,697
delicit of the formation of the formation of the first of the fi		10,000	30,001

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2011 (continued)

Non-technical Account	NOTES	2011 \$000	2010 \$000
Balance on the Technical account for General Business		48,959	55,697
Investment income and gains on realisation of investments	5	73,383	72,754
Investment expenses and charges	6	(2,333)	(2,249)
Foreign exchange gains		529	5,572
Allocated investment return transferred to the general business technical account		(51,426)	(49,416)
Profit on ordinary activities before tax	7	69,112	82,358
Tax on profit on ordinary activities	8	(21,121)	(17,249)
Profit on ordinary activities after tax	21	47,991	65,109

All the amounts above are in respect of continuing operations.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 2011

	NOTES	2011 \$000	2010 \$000
Profit on ordinary activities after tax	21	47,991	65,109
Gains/(losses) arising from the effect of retranslation of assets and liabilities denominated in GBP and Euro	21	2,084	(10,640)
Pension scheme – Actuarial gain/(loss), net of tax	21	2,209	(606)
Total recognised gains relating to the year	22	52,284	53,863

BALANCE SHEET AS AT 31 DECEMBER 2011

ASSETS	Notes	2011 \$000	2011 \$000	2010 \$000	2010 \$000
Investments					
Investments in subsidiary undertakings	11	1,846		1,812	
Other financial investments	13	1,769,928		1,591,099	
Deposits with ceding undertakings		19,089		2,942	
			1,790,863		1,595,853
Reinsurers' share of technical provisions					
Provision for unearned premiums	2	202,374		176,400	
Claims outstanding	28	841,484		696,928	
			1,043,858		873,328
Debtors					
Debtors arising out of direct					
insurance operations	15	226,279		200,427	
Debtors arising out of					
reinsurance operations		38,174		36,146	
Other debtors	10	10,057		12,318	
			274,510		248,891
Other assets					
Tangible assets	12	3,556		2,160	
Cash at bank and in hand		61,302		110,080	
			64,858		112,240
Prepayments and accrued income					
Accrued interest		22,686		21,886	
Gross deferred acquisition costs	4	56,486		49,022	
Other prepayments	16	2,888		2,576	
			82,060		73,484
Total assets excluding pension assets			3,256,149		2,903,796
Pension asset	26		1,302		-
Total assets			3,257,451		2,903,796

BALANCE SHEET AS AT 31 DECEMBER 2011 (continued)

LIABILITIES	Notes	2011 \$000	2011 \$000	2010 \$000	2010 \$000
Capital and reserves	Notes	φοσσ	φοσο	Ψ000	φοσσ
Capital and reserves					
Called up share capital	20	290,225		290,225	
Profit and loss account	21	409,922		400,123	
			700,147		690,348
Technical provisions					
Provision for unearned premiums	2	457,486		400,625	
Gross claims outstanding	28	1,798,001		1,564,803	
Equalisation provision	30	27,981		19,740	
			2,283,468		1,985,168
Creditors					
Creditors arising out of direct insurance operations	15	3,376		2,772	
Creditors arising out of reinsurance operations		107,209		80,523	
Other creditors including taxation and social security	18	86,453		80,285	
			197,038		163,580
Accruals and deferred income	19		76,798		63,480
Total liabilities excluding pension liability			3,257,451		2,902,576
Pension liability	26		-		1,220
Total liabilities			3,257,451		2,903,796

The financial statements were approved by the Board of Directors on 29th March 2012 and were signed on its behalf by:

S P Rocks

Director - Chief Executive Officer

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

(a) Disclosure requirements

The financial statements have been prepared in compliance with the special provisions relating to insurance companies in Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

(b) Standard accounting practice

The financial statements comply with applicable accounting standards and the revised ABI Statement of Recommended Practice issued in December 2005 as amended in December 2006.

The company has adopted Financial Reporting Standard No.1 (Revised 1996), and is therefore exempt from the requirement to prepare a cash flow statement as it is a 100% owned subsidiary of Liberty International Holdings Incorporated, and its cash flows are included within the consolidated cash flow statement of Liberty International Holdings Inc. As allowed under Financial Reporting Standard No. 8, the company has not disclosed all related party transactions with group undertakings on the basis that the company is a subsidiary undertaking with 100% voting rights controlled within a group which produces publicly available consolidated financial statements in which the company is included.

(c) Basis of accounting

The annual basis of accounting has been applied to all classes of business written by the company.

(d) Subsidiary undertakings

The company has claimed exemption from the production of consolidated financial statements under the Companies Act 2006 s.400 as it is a subsidiary undertaking whose ultimate parent company produces consolidated accounts in a manner equivalent to financial statements drawn up under the provisions of the EU 7th Council Directive 83/349/EEC of 13 June 1983 based on Article 54(3) g of the Treaty on Consolidated Accounts.

Investments in subsidiary undertakings are held at cost less accumulated impairment losses, if any.

(e) Premiums

Gross written premiums represent premiums receivable for the whole period of cover under contracts incepting during the financial year, together with adjustments arising in the financial year to business written in previous financial years and are stated before commissions but net of taxes, duties levied on premiums and other deductions. Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance or inwards reinsurance business.

(f) Unearned premiums

For business accounted for on an annual basis, the proportion of the premiums written in a year relating to the period of risk from 1 January to the subsequent dates of expiry of policies is carried forward as a provision for unearned premiums. The provision is calculated on the 365ths method, or, in respect of engineering / course of construction business, is calculated using an earnings profile based on the construction and maintenance period of specific policies.

(a) Unexpired risks

Provision is made for any anticipated shortfall of the provision for unearned premiums for claims and administrative expenses likely to arise after the end of the year from contracts concluded before that date. The overall assessment of whether a provision is necessary is made on the basis of all categories of business. No account is taken of future investment income.

(h) Deferred acquisition costs

Commission costs which vary with, and are primarily related to, the acquisition of new insurance contracts and the renewal of existing insurance contracts are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

(i) Investments

Investments, other than debt securities and other fixed interest securities, are stated at their current value. Listed investments are stated at bid price market value at close of business on the balance sheet date, or on the last stock exchange trading day before the balance sheet date.

Redeemable fixed interest securities, held as a portfolio of such securities intended to be held on an ongoing basis, are

1 ACCOUNTING POLICIES (continued)

(i) Investments (continued)

valued at amortised cost. The amortisation is calculated so as to write off the difference between the purchase price and the maturity value over the life of the security.

Redeemable fixed interest securities are reviewed for any permanent diminution in value periodically on a holding by holding basis. Where a permanent diminution is identified, the carrying value of the security is adjusted to its fair value at that time and the difference between this value and the security's amortised cost is recorded as a realised investment loss in the profit and loss account.

(j) Investment income, expenses and charges

Investment income and expenses are accounted for on an accruals basis. In accordance with Financial Reporting Standard 16 "Current Tax", dividends are recognised at the amount receivable without any attributable tax credit.

Investment income (which includes the amortisation charge in respect of investments carried at amortised cost), realised gains and losses arising from the disposal of investments, and unrealised gains and losses are dealt with through the non-technical account and then reallocated in part to the technical account to reflect that proportion of the investment return arising on technical provisions.

Realised gains or losses represent the difference between net sales proceeds (or fair value in the case of impairments) and purchase price, or in the case of debt securities and other fixed interest securities, amortised cost.

(k) Unrealised gains and losses on shares and other variable yield securities and units in unit trusts

Unrealised gains and losses on shares and other variable yield securities and units in unit trusts represent the difference between the market value at the balance sheet date and their purchase price, or if they have been previously revalued, the valuation at the last balance sheet date.

The movement in unrealised gains and losses on shares and other variable yield securities and units in unit trusts disclosed in the profit and loss account includes any reversal for previously recognised unrealised gains and losses on shares and other variable yield securities and units in unit trusts, which were disposed of in the accounting period.

(I) Outstanding claims

Full provision is made on an individual case basis for the estimated cost of claims notified but not settled by the balance sheet date after taking into account handling costs and settlement trends. A provision for claims incurred but not reported is established from statistical analysis undertaken by the company's actuaries. The methods used and the estimates made are reviewed regularly. Whilst the directors consider that the gross provision for claims and the related reinsurance recoveries 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. Any differences between provisions and subsequent settlements are dealt with in the technical accounts of later years.

In calculating the estimated cost of unpaid claims the company uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which may cause the cost of unsettled claims to change when compared with the cost of previously settled claims including:

- changes in company processes which might accelerate or slow down the development and/or recording of paid or incurred claims compared with the statistics from previous periods
- · changes in the legal environment
- · the effects of inflation
- · changes in the mix of business
- · the impact of large losses
- movement in industry benchmarks

1 ACCOUNTING POLICIES (continued)

(I) Outstanding claims (continued)

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these the company has regard to claim circumstances as reported, and information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods.

Large claims impacting each relevant business class were assessed separately where appropriate, being measured on a case-by-case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of the large claims.

The provision for claims outstanding is based on information available at the balance sheet date and it is estimated to give a result within a normal range of outcomes. To the extent that the ultimate cost falls outside this range, for example where assumptions over claims inflation may alter in future, there is a contingent liability in respect of this uncertainty. Provisions are calculated allowing for reinsurance recoveries and a separate asset is recorded for the reinsurers' share, having regard to collectability.

(m) Claims management expenses

Claims management expenses have been determined by an apportionment of employment costs.

(n) Equalisation provisions

Equalisation provisions have been established in accordance with the requirements of the Prudential Sourcebook for Insurers and included as the equalisation provision within technical provisions.

(o) Deferred taxation

Financial Reporting Standard 19 "Deferred Tax" requires full provision to be made for deferred tax assets and liabilities arising from timing differences between the recognition of gains and losses in the financial statements and their recognition in a tax computation.

Deferred tax is recognised as a liability or asset if the transactions or events that give the entity an obligation to pay more tax in the future or a right to pay less or receive more tax in the future have occurred by the balance sheet date. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

(p) Exchange rates

Assets and liabilities are translated into US dollars at the exchange rates prevailing at the balance sheet date. Income and expense transactions are translated using the rate prevailing at the date of transactions or an appropriate average rate.

Principal exchange rates used were as follows:

	Average	Closing	
USD : GBP	1.60412	1.56850	
USD : EUR	1.39264	1.30650	_

The company maintains separate currency ledgers for US dollars, £ sterling and Euro business. These separate foreign currency ledgers are considered by management to represent foreign branches. Exchange gains and losses arising from the retranslation into US dollars of the balance sheets of these branches using the rates of exchange prevailing at the balance sheet date, and the retranslation into US dollars of the profit and loss accounts of these branches using the average rates of exchange for the year, have been recorded in the statement of total recognised gains and losses.

Ledgers are held in US dollars in respect of the overseas branches in the Far East and Euros in respect of the overseas branches in Europe. Exchange gains and losses arising from the retranslation of the European overseas branches to US dollars continue to be recorded directly in the statement of total recognised gains and losses.

All other foreign exchange gains and losses continue to be recorded in the non-technical account.

1 ACCOUNTING POLICIES (continued)

(a) Fixed assets

Expenditure on leasehold improvements, software, computer equipment, motor vehicles, fixtures, fittings and office equipment is capitalised and depreciated over the estimated useful economic lives of the assets on a straight line basis.

The periods used to depreciate such assets are as follow:-

Leasehold improvements	Remaining lease term
Software	1 year
Computer Equipment	1 year
Motor Vehicles	4 years
Fixture, fittings and office equipment	5 - 10 years

Depreciation is included as part of administrative expenses.

(r) Pension costs

The company participates in a group contributory pension scheme. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. Variations arising from actuarial surpluses are spread over the average remaining service lives of members to the extent that the resulting credit does not exceed the regular cost.

Defined Benefit Pension Scheme

The company has fully adopted accounting standard FRS17 "Retirement Benefits".

The difference between the fair value of the assets held in the company's defined benefit pension scheme and the scheme's liabilities measured on an actuarial basis using the projected unit method are recognised in the company's balance sheet as a pension scheme asset or liability as appropriate.

The carrying value of any resulting pension scheme assets is restricted to the extent that the company is able to recover the surplus either through reduced contributions in the future or through refunds from the scheme. The pension scheme balance is recognized net of any related deferred tax balance.

Changes in the defined benefit pension scheme asset or liability from factors other than cash contribution by the company are charged to the Profit and Loss account or the Statement of Total Recognised Gains and Losses in accordance with FRS17 "Retirement Benefits".

Employees joining on or after 1 January 2002 became members of the company defined contribution pension schemes. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the schemes.

(s) 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.

(t) Salvage and subrogation recoveries

Anticipated salvage and subrogation recoveries are calculated on an individual case basis. The level of recovery estimated is set on the basis of information which is currently available, including potential outstanding claims advices and case law. Salvage and subrogation recoveries are included in claims incurred in the profit and loss account.

2 EARNED PREMIUMS NET OF REINSURANCE

2011	Gross \$000	Reinsurance \$000	Net \$000
Premiums written	740,931	(341,138)	399,793
Unearned premiums carried forward	(457,486)	202,374	(255,112)
Unearned premium brought forward	400,625	(176,400)	224,225
Exchange difference on brought forward	(3,613)	2,332	(1,281)
Movement per Technical Account	(60,474)	28,307	(32,167)
Premiums earned	680,457	(312,831)	367,626
2010	Gross \$000	Reinsurance \$000	Net \$000
Premiums written	637,404	(298,938)	338,466
Unearned premiums carried forward	(400,625)	176,400	(224,225)
Unearned premium brought forward	360,676	(133,988)	226,688
Exchange difference on brought forward	(3,729)	1,056	(2,673)
Movement per Technical Account	(43,678)	43,468	(210)
Premiums earned	593,726	(255,470)	338,256

3 ANALYSIS OF PREMIUMS WRITTEN, CLAIMS, OPERATING EXPENSES AND REINSURANCE BALANCE

Information required by the Companies Act 2006 by class of business is as follows:

2011 Direct	Gross premium written \$000	Gross premium earned \$000	Gross claims incurred \$000	Gross operating expenses \$000	Reinsurance balance \$000	Total \$000	Net technical provision \$000
Marine, Aviation & Transport	194,050	183,277	(166,127)	(62,580)	42,801	(2,629)	219,200
Primary Direct & Fac Property	61,479	47,467	(60,513)	(14,833)	22,582	(5,297)	61,747
Primary Direct Commercial Liability	396,363	368,398	(135,341)	(115,988)	(90,752)	26,317	772,574
Primary Direct Commercial Financial	86,591	78,886	(72,550)	(28,030)	2,111	(19,583)	88,962
Total Direct	738,483	678,028	(434,531)	(221,431)	(23,258)	(1,192)	1,142,483
Total Non-Prop & Prop R/I Treaty Business	2,448	2,429	4,025	(587)	729	6,596	61,691
Totals	740,931	680,457	(430,506)	(222,018)	(22,529)	5,404	1,204,174
2010 Direct	Gross premium written \$000	Gross premium earned \$000	Gross claims incurred \$000	Gross operating expenses \$000	Reinsurance balance \$000	Total \$000	Net technical provision \$000
2010 Direct Marine, Aviation & Transport	premium written	premium earned	claims incurred \$000	operating expenses	balance \$000		technical provision \$000
Direct	premium written \$000	premium earned \$000	claims incurred	operating expenses \$000	balance	\$000	technical provision
Direct Marine, Aviation & Transport	premium written \$000	premium earned \$000	claims incurred \$000 (48,279)	operating expenses \$000 (50,535)	\$000 (41,970)	\$ 000 18,283	technical provision \$000
Direct Marine, Aviation & Transport Primary Direct & Fac Property Primary Direct Commercial	premium written \$000 168,221 40,537	premium earned \$000 159,067 38,385	claims incurred \$000 (48,279) (16,151)	operating expenses \$000 (50,535) (8,999)	(41,970) (9,781)	\$000 18,283 3,454	technical provision \$000 190,319 50,246
Direct Marine, Aviation & Transport Primary Direct & Fac Property Primary Direct Commercial Liability Primary Direct Commercial	premium written \$000 168,221 40,537 351,919	premium earned \$000 159,067 38,385 333,524	claims incurred \$000 (48,279) (16,151) (181,639)	operating expenses \$000 (50,535) (8,999) (105,607)	(41,970) (9,781) (67,323)	\$000 18,283 3,454 (21,045)	technical provision \$000 190,319 50,246 708,492
Direct Marine, Aviation & Transport Primary Direct & Fac Property Primary Direct Commercial Liability Primary Direct Commercial Financial	premium written \$000 168,221 40,537 351,919	premium earned \$000 159,067 38,385 333,524 63,557	claims incurred \$000 (48,279) (16,151) (181,639)	operating expenses \$000 (50,535) (8,999) (105,607)	(41,970) (9,781) (67,323)	\$000 18,283 3,454 (21,045) 9,255	technical provision \$000 190,319 50,246 708,492 66,152

3 ANALYSIS OF PREMIUMS WRITTEN, CLAIMS, OPERATING EXPENSES AND REINSURANCE BALANCE (continued)

The company operates its business in the following divisions:

2011	Gross premium written \$000	Gross premium earned \$000	Gross claims incurred \$000	Gross operating expenses \$000	Reinsurance balance \$000	Total \$000	Net technical provision \$000
London Market	374,619	365,303	(248,345)	(101,005)	(2,555)	13,398	773,214
UK and Ireland Commercial	130,697	107,935	(65,308)	(41,224)	(8,063)	(6,660)	155,565
Continental Europe	126,150	115,958	(66,848)	(39,507)	(9,721)	(118)	160,362
International	109,465	91,261	(50,005)	(40,282)	(2,190)	(1,216)	115,033
Totals	740,931	680,457	(430,506)	(222,018)	(22,529)	5,404	1,204,174
	Gross premium written	Gross premium earned	Gross claims incurred	Gross operating expenses	Reinsurance balance	Total	Net technical provision
2010	\$000	\$000	\$000	\$000	\$000	\$000	\$000
London Market	379,717	360,043	(130,892)	(104,865)	(102,224)	22,062	744,519
UK and Ireland Commercial	66,786	60,990	(31,131)	(21,100)	(10,014)	(1,255)	117,463
Continental Europe	101,471	96,904	(54,853)	(30,994)	(9,032)	2,025	127,152
International	89,430	75,789	(39,143)	(32,342)	(15,027)	(10,723)	94,800
Totals	637,404	593,726	(256,019)	(189,301)	(136,297)	12,109	1,083,934

Commissions payable in respect of direct insurance amounted to \$73,266,000 (2010: \$59,497,000). Net Technical Provisions include Gross Deferred Acquisition Costs and Deferred Reinsurance Commissions.

4 NET OPERATING EXPENSES

2011	Gross \$000	Reinsurance \$000	Net \$000
Acquisition costs	95,899	(81,286)	14,613
Deferred acquisition costs carried forward	(56,486)	49,031	(7,455)
Deferred acquisition costs brought forward	49,022	(40,856)	8,166
Exchange difference on brought forward	(627)	614	(13)
Change in deferred acquisition costs	(8,091)	8,789	698
Incurred acquisition costs	87,808	(72,497)	15,311
Administrative expenses			134,210
			149,521
2010		Reinsurance \$000	Net \$000
2010 Acquisition costs	Gross \$000 78,913	Reinsurance \$000 (69,830)	Net \$000
	\$000	\$000	\$000
Acquisition costs	\$000 78,913	\$000 (69,830)	\$000 9,083 (8,166)
Acquisition costs Deferred acquisition costs carried forward	\$000 78,913 (49,022)	\$000 (69,830) 40,856	\$000 9,083 (8,166) 14,816
Acquisition costs Deferred acquisition costs carried forward Deferred acquisition costs brought forward	\$000 78,913 (49,022) 43,179	\$000 (69,830) 40,856 (28,363)	\$000 9,083 (8,166)
Acquisition costs Deferred acquisition costs carried forward Deferred acquisition costs brought forward Exchange difference on brought forward	\$000 78,913 (49,022) 43,179 (260)	\$000 (69,830) 40,856 (28,363) 86	\$000 9,083 (8,166) 14,816 (174)
Acquisition costs Deferred acquisition costs carried forward Deferred acquisition costs brought forward Exchange difference on brought forward Change in deferred acquisition costs	\$000 78,913 (49,022) 43,179 (260) (6,103)	\$000 (69,830) 40,856 (28,363) 86 12,579	\$000 9,083 (8,166) 14,816 (174) 6,476

5 INVESTMENT INCOME AND GAINS ON REALISATION OF INVESTMENTS

	2011 \$000	2010 \$000
Income from other financial investments	66,953	65,284
Net gains on the realisation of investments	6,430	7,470
	73,383	72,754

6 INVESTMENT EXPENSES AND CHARGES

	2011 \$000	2010 \$000
Investment management expenses including interest	2,333	2,249
7 PROFIT AND LOSS ACCOUNT		
Profit on ordinary activities before tax is stated:		
	2011 \$000	2010 \$000
After charging		
Depreciation	1,270	1,348
Operating lease rentals:		
Motor vehicles and equipment	878	899
Land and buildings	7,969	8,103
	2011 \$000	2010 \$000
Auditors' remuneration:		
Statutory audit of company's financial statements	660	636
Other services pursuant to legislation	121	154
Other services relating to tax	323	310
All other services – additional group reporting audit requirements not pursuant to legislation	168	159
Audit of group pension scheme	11	10

7 PROFIT AND LOSS ACCOUNT (continued)

	2011 \$000	2010 \$000
Directors' Remuneration		
Emoluments	4,419	5,249
	2011	2010
Number of directors who are members of a defined benefit pension scheme	1	1
	2011	2010
Highest paid director's remuneration		
Aggregate of emoluments and awards under long term incentive schemes, including \$44,938 of pension contributions	1,406	1,668
8 TAXATION		
(a) Analysis of charge in period		
	2011 \$000	2010 \$000
Current tax:		
Current year:		
Overseas taxation	(449)	(762)
UK taxation	(18,798)	(22,829)
Prior periods	(785)	4,483
Total current tax (see Note 8(b))	(20,032)	(19,108)
Deferred tax:		
Origination and reversal of timing differences	(548)	2,062
Rate change adjustment	(541)	(203)
Total deferred tax	(1,089)	1,859
Tax charge on profit on ordinary activities	(21,121)	(17,249)

8 TAXATION (continued)

(b) Factors affecting tax charges for period

The tax charged for the period is higher than the standard effective rate of corporation tax in the UK (26.5%). The differences are explained below:

	2011 \$000	2010 \$000
Profit on ordinary activities before tax	69,112	82,358
Profit on ordinary activities multiplied by standard effective rate of corporation tax in the UK of 26.5% (2010: 28%)	(18,315)	(23,061)
Effects of: Unrelieved overseas tax losses and withholding taxes	(449)	-
Effect of disallowable items	(479)	(530)
Tax (under)/over provided in previous years	(789)	4,483
Current tax charge for year (see Note 8(a))	(20,032)	(19,108)

(c) Factors that may affect future tax charges

On 22 June 2010 the Chancellor announced that the main rate of UK corporation tax would reduce from 28% to 27% with effect from 1 April 2011. This tax change became substantively enacted in July 2010 and therefore the effect of the rate reduction was reflected in the deferred tax balances at 31 December 2010.

The Chancellor subsequently announced a further reduction in the main rate of UK corporation tax to 26% with effect from 1 April 2011, and to 25% to be effected from 1 April 2012. These rate changes were enacted in 2011 and the reductions have therefore been reflected in the deferred tax balances at 31 December 2011.

The main rate of corporation tax is now intended to be reduced further by one per cent per annum to 22% by 1 April 2014. These changes have not yet been substantively enacted and are therefore not reflected in the closing deferred tax balances. It is expected that the impact of these future rate changes would reduce the closing deferred tax balance by approximately \$533,000.

Based on current business plans, the company expects to make sufficient taxable profits in the next three financial years to support the recoverability of the deferred tax asset recognised at 31 December 2011.

9 STAFF NUMBERS AND COSTS

The average number of persons employed by the company (including executive directors) during the year, analysed by category, was as follows:

	2011	2010
Underwriting	289	262
Claims	49	46
Administration	116	94
	454	402

The aggregate payroll costs of these persons were as follows:

	2011 \$000	2010 \$000
Wages and salaries	68,445	58,238
Social security costs	8,346	6,778
Other pension costs	6,566	6,230
	83,357	71,246

Included in Other pensions costs are \$308,000 (2010: \$171,000 credit) in respect of the defined benefit scheme and \$6,258,000 (2010: \$6,401,000) in respect of defined contribution schemes.

10 OTHER DEBTORS

	2011 \$000	2010 \$000
Deferred taxation (see Note 17)	6,623	7,534
Amounts due from group undertakings	65	827
Other debtors	3,369	3,957
	10,057	12,318

11 INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

Details of the company's investments in subsidiary undertakings, all of which produce their financial statements at 31 December each year, are as follows:

Name	Type of Business	Class of Shares Held (all held directly)	Percentage of nominal value and voting rights held by the company	Country of incorporation and operation
Vision Underwriting Limited	Underwriting Agency	Ordinary	100%	UK
Vision Employment Health and Safety Limited	Health and Safety Services	Ordinary	100%	UK
Vision Risk Management Limited	Risk Management	Ordinary	100%	UK

12 TANGIBLE ASSETS

	Leasehold	Fixtures, fittings &		
	Improvements	equipment	Motor	Total
	\$000	\$000	Vehicles \$000	\$000
Cost:				
At 1 January 2011	2,110	9,166	50	11,326
Revaluation	27	321	-	348
Additions during the year	1,197	1,575	-	2,772
Disposals during the year	-	(351)	(50)	(401)
At 31 December 2011	3,334	10,711	-	14,045
Accumulated depreciation:				
At 1 January 2011	1,504	7,614	48	9,166
Revaluation	128	324	(2)	450
Charge for the year	400	866	4	1,270
Disposals during the year	-	(347)	(50)	(397)
At 31 December 2011	2,032	8,457	-	10,489
Net book value at 31 December 2011	1,302	2,254	-	3,556
Net book value at 31 December 2010	606	1,552	2	2,160

13 OTHER FINANCIAL INVESTMENTS

	2011 \$000	2010 \$000
Market valuations		
Debt securities and other fixed income securities	1,684,824	1,555,801
Deposits with credit institutions	155,996	105,111
Total Market Value of Other Financial Investments	1,840,820	1,660,912
Original Cost		
Debt securities and other fixed income securities	1,623,201	1,497,774
Deposits with credit institutions	155,996	105,111
Total Original Cost of Other Financial Investments	1,779,197	1,602,885
Carrying Value		
Debt securities and other fixed income securities at amortised cost	1,613,933	1,485,988
Deposits with credit institutions at original cost	155,996	105,111
Total Carrying Value of Other Financial Investments	1,769,929	1,591,099
Included in the above market valuations were investments:		
	2011	2010
	\$000	\$000
Listed on the UK Stock Exchange	222,169	208,876
Listed on other investment exchanges	969,009	892,619
	1,191,178	1,172,695

The maturity value of debt securities and other fixed income securities is \$1,591,886,410 (2010: \$1,469,449,790) and the unamortised premium amounts to \$22,046,382 (2010: \$18,553,771).

14 AMOUNTS DUE TO AND FROM GROUP UNDERTAKINGS

The following amounts due (to) and from group undertakings are included within:

	2011 \$000	2010 \$000
Deposits with ceding undertakings	16,329	-
Reinsurers' share of technical provisions	106,884	54,547
Debtors arising out of reinsurance operations	995	689
Gross deferred acquisition costs	561	309
Technical provisions	(27,747)	(3,173)
Creditors arising out of reinsurance operations	(9,085)	(6,852)
Accruals and deferred income	(4,046)	(2,927)
Other creditors	(33,982)	(33,399)
	49,909	9,194

15 DEBTORS AND CREDITORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

All amounts are owed to or due from intermediaries.

16 OTHER PREPAYMENTS

	2011	2010
	\$000	\$000
Prepayments	2,888	2,576

17 DEFERRED TAXATION

	2011	2010
	\$000	\$000
Other timing differences	6,189	7,986
Asset at start of year	7,986	6,241
Timing differences arising in period	(548)	2,062
Effect of reduction in tax rate	(541)	(203)
Deferred tax (charge)/credit in profit and loss account	(1,089)	1,859
Effect of foreign currency translation	28	(326)
Taxation recognised in the Statement of Total Recognised Gains and Losses	(736)	212
Asset at end of year	6,189	7,986
Deferred tax asset included in Other debtors	6,623	7,534
Deferred tax (liability)/asset deducted from Pension liability	(434)	452
	6,189	7,986
18 OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY	2011 \$000	2010 \$000
Duami, and Assault		,,,,,
Premium taxes payable	23,291	24,379
Corporation taxes payable	11,245	17,097
Social security	2,394	967
Other creditors	49,523	37,842
	86,453	80,285
19 ACCRUALS AND DEFERRED INCOME		
	2011 \$000	2010 \$000
Deferred reinsurance commissions	49,031	40,856
Other accruals		-,
	27,767	22,624
	27,767 76,798	

20 SHARE CAPITAL

	2011 \$000	2010 \$000
Authorised:		
629,187,000 (2010: 629,187,000) ordinary shares of \$1 each	629,187	629,187
Issued and fully paid:		
290,225,000 (2010: 290,225,000) ordinary shares of \$1 each	290,225	290,225

21 RESERVES

	Profit & loss Account Excluding Pension Liability \$000	Pension Liability \$000	Total Profit & loss Account \$000
Balance at 1 January 2011	401,343	(1,220)	400,123
Profit for financial year	47,593	398	47,991
Interim dividend paid in the financial year	(42,485)	-	(42,485)
Change in FRS17 "Retirement Benefits", net of tax	-	2,209	2,209
Gains and losses arising from the retranslation of assets and liabilities denominated in GBP and EUR	2,169	(85)	2,084
Balance at 31 December 2011	408,620	1,302	409,922

22 RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS

	2011 \$000	2010 \$000
Total recognised gains relating to the year	52,284	53,863
Opening shareholder's funds	690,348	666,485
Dividend paid	(42,485)	(30,000)
Closing shareholder's funds	700,147	690,348

23 COLLATERAL DEPOSITS

Debt securities and deposits with credit institutions amounting to \$79,326,619 (2010: \$62,915,537) have been pledged as security in connection with certain of the company's overseas liabilities.

24 OTHER COMMITMENTS

Annual commitments at 31 December under non-cancellable operating leases are shown below:

	2011	2010
	Land and	Land and
	Buildings	Buildings
	\$000	\$000
Operating leases expiring within one year	-	-
Operating leases expiring within two to five years	6,723	5,366
Operating leases expiring after five years	81	550

25 CONTINGENT LIABILITY

The company has entered into a letter of credit in favour of the Institute of London Underwriters ("ILU") for certain potential liabilities in respect of the Institute's building in Leadenhall Street, London EC3. During 2011 drawings on the letter of credit amounted to \$78,425 (2010: \$19,246) and its value at 31 December 2011 was \$524,871 (2010: \$592,063).

On 14 February 2008, the company provided a guarantee on behalf of a fellow group undertaking, Liberty Syndicate Management Limited, in respect of that company's financial obligations related to a property tenancy expiring on 22 February 2017. The maximum potential obligation of the company under the guarantee is dependent, inter alia, on future rent reviews but is estimated by the company to be \$9,643,000.

The company has provided to the Labuan Offshore Financial Services Authority an irrevocable and unconditional guarantee that it will meet all of the company's obligations relating to its insurance operations in Labuan, Malaysia.

26 DEFINED BENEFIT PENSION SCHEME

The company participates in a funded group defined benefit scheme in the UK, together with fellow subsidiaries of Liberty Mutual Holding Company Inc. The scheme is closed to new participants. The information disclosed below is in respect of Liberty Mutual Insurance Europe Limited's participation in the scheme. Regular employer contributions to the Scheme for the year starting on 1 January 2012 are estimated to be \$684,000.

The valuation used for FRS 17 disclosures has been based on a full assessment of the liabilities of the Scheme as at 1 July 2010. The present values of the Scheme liabilities, the related current service cost and any past service costs were measured using the projected unit credit method.

Actuarial gains and losses have been recognised in the period in which they occur, through the Statement of Recognised Gains and Losses (STRGL).

Following the UK Government's announcement in summer 2010, the inflation index to be used to derive statutory pension increases was changed from the Retail Prices Index (RPI) to the Consumer Prices Index (CPI). Due to a number of differences between the indices, including both constituents and construction, CPI is expected to be less than RPI over the long-term, which means that the Scheme liabilities reduced. The change was recognised at October 2010, following the pension trustees' decision to adopt CPI in the determination of Scheme liabilities. Following discussions with our pensions advisors, we recognised the reduction as a negative past service cost - that is, as a change to the constructive obligation to provide certain benefits to Scheme members.

The principal assumptions used by the independent qualified actuaries to calculate the liabilities under FRS 17 are set out below:

At 31 December	2011 %	2010 %	2009 %
Rate of increase in salaries	4.1	4.5	4.6
Rate of increase in pensions in payment where Limited Price Indexation (LPI) applies	2.9	3.3	3.4
Discount rate	4.9	5.3	5.6
Inflation assumption (RPI)	3.1	3.5	3.6
Inflation assumptions (CPI)	2.2	2.7	N/A

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member who retires in 2024 aged 60 will live on average for a further 29.3 years after retirement if they are male and for a further 30.5 years if they are female.

The Company employs a building block approach in determining the long-term rate of return on pension scheme assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Scheme at 31 December 2011.

26 DEFINED BENEFIT PENSION SCHEME (continued)

The assets in the scheme and the expected return were:

At 31 December	Long- term rate of return expected at 2011	Value at 2011 \$000	Long- term rate of return expected at 2010	Value at 2010 \$000	Long- term rate of return expected at 2009	Value at 2009 \$000
Equities	7.8	6,501	8.2	11,112	8.2	10,417
Bonds	4.6	10,707	5.3	7,067	5.2	8,206
Other (property, cash etc)	4.2	12,981	6.1	8,242	4.9	6,316
Total market value of assets		30,189		26,421		24,939
Present value of scheme liabilities		(28,453)		(28,093)		(26,783)
Surplus/(deficit) in the scheme		1,736		(1,672)		(1,844)
Net pension asset/(liability) (after adjustment for deferred tax)		1,302		(1,220)		(1,327)

Analysis of the amount charged to operating profit

	2011 \$000	2010 \$000
Current service cost	563	713
Analysis of the amount credited / (charged) to net investment income	2011 \$000	2010 \$000
Expected return on pension scheme assets	1,815	1,571
Interest on pension scheme liabilities	(1,560)	(1,480)
Net return	255	91

26 DEFINED BENEFIT PENSION SCHEME (continued)

Analysis of amount recognised in statement of total recognised gains and losses ("STRGL")

Analysis of amount recognised in statement of total recognised gains and losses	(011102)	
	2011	2010
	\$000	\$000
	4000	4000
Actual return less expected return on pension scheme assets	955	375
Experience gains and losses arising on the scheme liabilities	1,391	214
Changes in assumptions underlying the present value of the scheme liabilities	599	(1,409)
Actuarial gain/(loss) recognised in STRGL	2,945	(820)
Changes to the present value of the defined benefit obligation		
	2011	2010
	\$000	\$000
Opening defined benefit obligation	28,093	26,783
Movement in year:	2011	2010
	\$000	\$000
Current service cost	551	702
Interest cost	1,525	1,458
Contributions by participants	61	86
Actuarial (gains)/losses on liabilities	(1,945)	1,176
Net benefits paid out	(358)	(377)
Past service costs	-	(781)
Re-translation of opening balance	526	(954)
Closing defined benefit obligation	28,453	28,093

26 DEFINED BENEFIT PENSION SCHEME (continued)

Changes to the fair value of Scheme assets

	2011 \$000	2010 \$000
Opening fair value of assets	26,421	24,939
Movement in year:		
Expected return on assets	1,774	1,547
Actuarial gain/(losses)on assets	933	370
Contributions by the employer	864	745
Contributions by participants	61	86
Net benefits paid out	(358)	(377)
Re-translation of opening balance	494	(889)
Closing fair value of assets	30,189	26,421

History of experience gains and losses

	2011 \$000	2010 \$000	2009 \$000	2008 \$000	2007 \$000
Total market value of assets	30,189	26,421	24,939	19,370	25,476
Present value of scheme liabilities	(28,453)	(28,093)	(26,783)	(20,310)	(26,881)
Surplus/(deficit) in the scheme	1,736	(1,672)	(1,844)	(940)	(1,405)
Difference between the expected and actual return on scheme assets:					
Amount	955	375	2,013	(1,798)	1,711
Percentage of scheme assets	3%	1%	8%	(9%)	7%
Experience gains and losses on scheme liabilities:					
Amount	1,391	214	(34)	(172)	108
Percentage of the present value of the scheme liabilities	5%	1%	0%	(1%)	0%
Total amount recognised in statement of total recognised gains and losses:					
Amount	2,864	(820)	(1,070)	(408)	4,732
Percentage of the present value of the scheme liabilities	10%	(3%)	(4%)	(2%)	17%

Defined Contribution Scheme

The company operates a defined contribution pension scheme, the Company Pension Scheme, for its employees. The assets of the scheme are held separately from those of the company in an independently administered fund. The unpaid contributions outstanding at the year end, included in Other creditors (Note 18) are \$430,950 (2010: \$405,646).

27 TRANSACTIONS WITH DIRECTORS AND OFFICERS

Fees of \$61,172 (2010: \$47,963) in respect of Mr M G McKenzie were paid to McKenzie Consulting Limited, a company controlled by Mr M G McKenzie. There were no other transactions requiring disclosure between Liberty Mutual Insurance Europe Limited and its directors and officers during the year ended 31 December 2011.

28 CHANGE IN THE PROVISION FOR CLAIMS

2011	Gross \$000	Reinsurance \$000	Net \$000
Claims outstanding carried forward	(1,798,001)	841,484	(956,517)
Claims outstanding brought forward	1,564,803	(696,928)	867,875
Exchange difference on brought forward	(1,184)	386	(798)
Movement per Technical Account	(234,382)	144,942	(89,440)
2010	Gross \$000	Reinsurance \$000	Net \$000
Claims outstanding carried forward	(1,564,803)	696,928	(867,875)
Claims outstanding brought forward	1,642,998	(792,835)	850,163
Exchange difference on brought forward	(26,177)	7,742	(18,435)

29 PRIOR YEARS CLAIMS

An over-provision of reserves net of reinsurance of \$7,799,000 (2010: Over-provision \$10,373,000) arose between the outstanding claims provision at the beginning of the year, payments made during the year and the provision at the end of the year. The overprovision arose principally as a result of a review of the recognition of reinsurance recoveries under whole account policies, and reserves for Casualty business in the company's Asia branches.

30 EQUALISATION PROVISION

These provisions, which amount to \$27,981,000 as at the year end (2010: \$19,740,000), are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date, and are required by Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 to be included within technical provisions in the balance sheet, notwithstanding that it does not represent a liabilities at the balance sheet date. This has had the cumulative effect of reducing shareholders' funds by \$20,146,000 net of tax (2010: \$14,213,000). The movement in equalisation provisions during the year resulted in a decrease in the general business technical account result of \$7,871,000 (2010: decrease of \$5,828,000) and a decrease in the net assets of \$8,241,000 (2010: decrease of \$6,341,000).

31 PARENTAL GUARANTEE

On 15 February 2002 the board of Liberty Mutual Insurance Company agreed to grant a guarantee covering the company's insurance obligations. This was ratified by the Massachusetts' Department of Insurance on 10 May 2002. The original guarantee was updated and re-issued on 13 April 2006.

32 ULTIMATE PARENT COMPANY

The ultimate parent company is Liberty Mutual Holding Company Inc. of Boston,

175 Berkeley Street, Boston, Massachusetts 02117, U.S.A. a company incorporated in the United States of America. The smallest higher group of companies for which group accounts are drawn up and of which this company is a member is Liberty International Holdings Incorporated, a company incorporated and registered in the U.S.A.

The immediate parent company of Liberty Mutual Insurance Europe Limited is Liberty ITB UK and Europe Ltd.

Copies of the group accounts of Liberty International Holdings Incorporated and of Liberty Mutual Holding Company Inc. of Boston are available from the companies' registered office, 175 Berkeley Street, Boston, Massachusetts 02117, U.S.A.

LONDON OFFICE:

Head office

3rd Floor, Two Minster Court Mincing Lane London EC3R 7YE Tel: +44 (0)20 7860 6600 Fax: +44 (0)20 7860 6290 mailbox.london@libertyiu.com

UK OFFICES:

Birmingham

7th Floor 45 Church Street Birmingham B3 2RT Tel: +44 (0)121 214 2100 Fax: +44 (0)121 236 9878 mailbox.birmingham@libertyiu.com

Bristol

4th Floor 11-12 Queen Square Bristol BS1 4NT Tel: +44 (0)117 930 7320 Fax: +44 (0)117 376 3205 mailbox.bristol@libertyiu.com

Cheltenham

St James House St James Square Cheltenham Gloucestershire GL50 3PR Tel: +44 (0)1242 244 499 Fax: +44 (0)1242 244 445 info@visionunderwriting.co.uk

Leeds

5th Floor 2 Bond Court Leeds LS1 2JZ Tel: +44 (0)113 236 8280 Fax: +44 (0)113 391 2962

Manchester

Lowry House
17 Marble Street
Manchester M2 3AW
Tel: +44 (0)161 838 7900
Fax: +44 (0)161 819 1962
mailbox.manchester@libertyiu.com

INTERNATIONAL OFFICES:

Dubai

Office 8, Floor 4
Gate Village Building 5, DIFC
Dubai, United Arab Emirates
Tel: +971 4 302 8000
Fax: +971 4 323 0231
mailbox.dubai@libertviu.com

Hong Kong

Suites 2401-04 Cityplaza One 1111 King's Road Taikoo Shing, Island East Hong Kong Tel: +852 3655 2600 Fax: +852 3655 2699 mailbox.hongkong@libertyiu.com

Malaysia

Suite 9-7 Wisma UOA Damansara II No. 6 Jalan Changkat Semantan Damansara Heights 50490 Kuala Lumpur Tel: +60 3 2082 4000 Fax: +60 3 2082 4050

Singapore

One Raffles Quay #37-02 North Tower Singapore 048583 Tel: +65 6622 9160 Fax: +65 6622 9168 mailbox.singapore@libertyiu.com

EUROPEAN OFFICES:

Cologne

Im MediaPark 8 50670 Köln, Germany Tel: +49 22 150 05 22 01 Fax: +49 22 150 05 22 99 mailbox.cologne@libertyiu.com

Dublin

Third Floor
Kestrel House
Clanwilliam Place
Dublin 2, Ireland
Tel: +353 1 818 0505
Fax: +353 1 818 0528
mailbox.dublin@libertyiu.com

The Hague

2514 AB Den Haag Netherlands Tel: +31 70 30 28 650 Fax: +31 70 36 34 700

Koninginnegracht 22

mailbox.denhaag@libertyiu.com

Hamburg

Neuer Wall 80 D-20354 Hamburg, Germany Tel: +49 40 360 98 98 00 Fax: +49 40 360 98 98 11

Madrid

Paseo de la Castellana, 31-8° B 28046 Madrid, Spain Tel: +34 91 444 28 67 Fax: +34 91 444 28 76 mailbox.madrid@libertyiu.com

Paris

5 boulevard de la Madeleine 75001 Paris, France Tel: +33 1 53 05 90 59 Fax: +33 1 53 05 90 58 mailbox.paris@libertyiu.com

Zurich

Lintheschergasse 23 CH – 8001 Zürich Switzerland Tel: +41 44 285 10 00

Fax: +41 44 285 10 00 mailbox.zurich@libertyiu.com

About Liberty Mutual Insurance Europe Limited

Liberty Mutual Insurance Europe Limited is a wholly owned subsidiary of Liberty Mutual Insurance Group writing both Commercial Lines, trading as Liberty Mutual Insurance (LMI) and Specialty Lines, trading as Liberty International Underwriters (LIU).

About Liberty International Underwriters (LIU)

Established in 1999, Liberty International Underwriters (www.libertyiu.com) provides a diverse range of specialty products distributed exclusively through the independent broker network. The LIU staff of over 1,300 professionals offers core products in marine, aviation, energy, engineering, global crisis management, property, casualty, professional liability, directors & officers, environmental, strategic assets (including cyber), construction, surety bonds, legal expenses and trade credit insurance. Worldwide offices include North America, Europe, the Middle East, and Asia Pacific.

LIU is part of Liberty Mutual Insurance Group's International operations, which reported net written premium of \$8.2 billion in 2011, an increase of 13.3 per cent over 2010. This constituted 26.3 per cent of Liberty Mutual Insurance Group's \$31.183 billion in net written premium for the year ended December 31, 2011.

About Liberty Mutual Insurance Group

"Helping people live safer, more secure lives" since 1912, Boston-based Liberty Mutual Insurance Group is a diversified global insurer and the third largest property and casualty insurer in the U.S. based on A.M. Best Company's report of 2010 net written premium.

Liberty Mutual Insurance Group also ranks 84th on the Fortune 500 list of largest corporations in the U.S. based on 2011 revenue. As of December 31, 2011, Liberty Mutual Insurance Group had \$117.1 billion in consolidated assets, \$99.3 billion in consolidated liabilities, and \$34.7 billion in annual consolidated revenue.

Liberty Mutual Insurance Group offers a wide range of insurance products and services, including personal automobile, homeowners, workers compensation, property, commercial automobile, general liability, global specialty, group disability, reinsurance and surety.

Liberty Mutual Insurance Group (www.libertymutualinsurance.com) employs over 45,000 people in more than 900 offices throughout the world.

GEN257-05-12

© 2012 Liberty Mutual Insurance Europe Limited. All rights reserved.