



CNA Insurance Company Limited
31 December 2011
Report and Financial Statements

TUESDAY



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20/03/2012
COMPANIES HOUSE

Officers and Professional Advisers

Executive Directors

J B Hennessy
D J Stevens
C A Kearney

Non-executive Directors

T J Szerlong
P W Wilson
H I Thomas
R W Forrest

Company Secretary

S P Baker

Registered Office

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EC3R 7BB

Bankers

HSBC Bank PLC
18 London Street
Norwich
NR2 1LG

Auditor

Deloitte LLP
London

Contents

2	Officers and Professional Advisers
4	Directors' Report
11	Statement of Directors' Responsibilities
12	Independent Auditor's Report
13	Profit and Loss Account – Technical Account General Business
14	Profit and Loss Account – Non-Technical Account
14	Statement of Total Recognised Gains and Losses
14	Reconciliation of Movements in Shareholders' Funds
15	Balance Sheet
17	Notes to the Accounts

Directors' Report

Year ended 31 December 2011

The Directors of CNA Insurance Company Limited ("the Company" or "CICL") present their Annual Report and Financial Statements for the year ended 31 December 2011

CICL's immediate parent undertaking is CNA Europe Holdings Ltd ("CNAE") which is wholly owned by Continental Casualty Company ("CCC") and The Continental Insurance Company ("CIC"). CCC and CIC are a part of CNA Financial Corporation ("CNAF") which, in turn, is controlled by the Loews Corporation. References to "CNA" in this report are to CNAF and its group undertakings including CCC and CIC.

Forward-Looking Statements

This Directors' Report may include statements which relate to anticipated future events (forward-looking statements) rather than actual present conditions or historical events. Forward-looking statements, by their nature, are subject to a variety of inherent risks and uncertainties that could cause actual results to differ materially from the results projected. Many of these risks and uncertainties cannot be controlled by CICL. Any forward-looking statements made in this Directors' Report are made by CICL as of the date of this Directors' Report. Further, CICL does not have any obligation to update or revise any forward-looking statement contained in this Directors' Report, even if CICL's expectations or any related events, conditions or circumstances change.

Principal Activity

The principal activity of the Company is the transaction of general insurance business from its offices within the United Kingdom and Continental Europe.

Business Review

Results

Gross written premium for the year of £199.5 million increased by 12% over 2010 (£178.4 million). This growth was predominantly generated by the newer specialist lines of business that have been a focus of investment by the Company in recent years. The HealthPro, Renewable Energy and Technology practices now have well-developed product offerings and are operating in many of the countries in which the Company has branch operations. As a result, there were strong levels of new business in 2011. In addition, interaction with underwriting colleagues in other CNA operations has enabled the Company to grow its multi-national business.

The more traditional and mature lines of business such as Marine Cargo, Property, Casualty and Financial Lines did not see premium volumes grow significantly in the year. Rate levels remained under significant pressure in the continuing soft market and the Company maintained its philosophy of limiting the expansion of these lines in these conditions. This approach led to reduced retention levels in certain areas. The Company has also been mindful of the issues within the wider European economic environment and has sought to limit its exposures to the potential impacts of the sovereign debt issues in certain European countries.

With a strong branch footprint in the United Kingdom and Continental Europe and a well-developed portfolio of specialist product offerings, the Company is well placed to leverage market opportunities and generate sustained profitable growth. The Company has also expanded its ability to service business originating outside Europe. During 2011 the Company applied to be included on the National Association of Insurance Commissioners ("NAIC") list of eligible surplus lines insurers. The Company is listed with effect from 1 January 2012 and, as a result, is able to write surplus lines business emanating from the United States. In addition, the Company is pursuing various reinsurer licences in South America and is already approved in Brazil.

Again, the Company delivered a significant underwriting profit with a combined ratio at 92.8% (2010 – 84.1%). This translated to an underwriting profit of £11.4 million (2010 – £23.1 million). Loss ratios related to the latest accident year were broadly in line with expectations and reflected the rate levels, claim inflation and loss incidence that were being seen in the Company's lines of business.

In 2011 the global insurance and reinsurance industry was heavily impacted by a series of catastrophes which included the Japanese tsunami, the Christchurch earthquake in New Zealand and the Queensland floods in Australia. The Company experienced £2.3 million of claims from these three events in the 2011 accident year. This amount is small relative to overall industry catastrophe losses during the year and reflects the Company's approach of not targeting business in parts of the world which are heavily exposed to major catastrophe risks.

Directors' Report - continued

Year ended 31 December 2011

Results - continued

Reserve releases contributed positively to the result with claims experience being favourable against expectations in a few areas. In the shorter tail lines, such as Marine Cargo, Property and Renewable Energy, there was an absence of large individual claims on prior accident years. In the longer tail lines, notably Financial Institutions, there were significant improvements relating to the outcome of large losses for accident years 2003 and prior. For Professional Indemnity business there was an evident increase in loss frequency that led to additions being made to prior year reserves.

The expense ratio element of the combined ratio at 35.1% improved over 2010 at 36.9%. The Company has continued to make underwriting and technology investments but, at a time where there has been little growth in traditional lines of business, expenditure has been closely controlled. Projects to generate operational efficiencies within the organisation continue to be a key area of focus.

After investment returns and other income and expenses, pre-tax profits were £30.0 million (2010 – £41.7 million). The continuing low interest rate environment resulted in investment income being lower than the previous year even though strong cash flows meant that the investment portfolio increased significantly. The Company continues to maintain an investment portfolio entirely composed of corporate and government fixed income securities and bank deposits. The balance of the portfolio is the subject of continuous review with the appointed investment managers to ensure that appropriate actions have been taken with regard to the unique issues raised by the current European economic environment.

The low level of foreign currency gains and losses reported in other income and charges reflects the fact that the key currency rates were relatively stable during the year. However, the Company also ensures that exposures to foreign currency movements are minimised by a careful process of matching foreign currency assets and liabilities. Surplus net assets are predominantly maintained in Sterling and Euro.

Pre-tax profits of £30.0 million (2010 – £41.7 million) translated to after-tax profits of £20.9 million (2010 – £31.9 million). The effective tax rate for the year is higher than the standard United Kingdom corporation tax rate primarily because of the impact of taxes in higher rate countries.

Key performance indicators

- Gross written premiums (GWP) – £199.5 million (2010 – £178.4 million)
- Combined ratio – 92.8% (2010 – 84.1%),
- Expense ratio – 35.1% (2010 – 36.9%)
- Profits before tax – £30.0 million (2010 – £41.7 million),
- Net assets – £281.6 million (2010 – £275.0 million)

Financial Position

The accounted capital base of the Company grew to £281.6 million from £275.0 million as at the end of 2010. The increase was the result of after tax-profits of £20.9 million offset by other equity movements related to pensions and currency translation of £6.3 million and a dividend payment of £8.0 million. The dividend payment was made to the Company's immediate parent company and was used to eliminate indebtedness between the two entities and to equalise the capital position of the Group and of the Company.

The net asset profile in the balance sheet is indicative of continued improvement in the financial strength of the Company. The exposure to reinsurers and other debtors has decreased whilst the value of the investment portfolio has substantially increased. The capital base remains strong in terms of the amount of business underwritten by the Company and it continues to allow room for longer-term strategic growth plans.

Business Operations

The Company operates through branch offices that have been established in Belgium, Denmark, France, Germany, Italy, the Netherlands and the United Kingdom. In each of these locations domestic business is underwritten, but the Company also underwrites cross-border under Freedom of Services into other EEA countries. In addition the Company is authorised to underwrite risks located in Switzerland through its regulated status in that country. The Company is included on the NAIC list of eligible surplus lines insurers with effect from 1 January 2012 and, as a result, is able to underwrite surplus lines business emanating from the United States from this date.

Directors' Report - continued

Year ended 31 December 2011

Business Operations - continued

Underwriting staff and certain support functions are located in the branch offices but the main support functions are based in the United Kingdom in the Company's offices in London and Norwich. Minster Court in London has been the Company's European headquarters and London Market operation since May 2010. During 2010 and 2011 improvements have also been made to some of the other branch offices.

Investments have been made in the underwriting and support teams in all branch locations but, otherwise, there have not been significant changes to the Company's branch footprint or the portfolio of specialist product opportunities that the Company pursues.

Commercial Lines

The Company underwrites a broad-based **Marine Cargo** account focusing predominantly on domestic European small to mid-sized risks. A small book of international (London market) business is also written on a subscription basis. Opportunities in the London Market will be enhanced by the recent listing of the Company by the NAIC as an eligible surplus lines insurer. The Company is also well established in the French, Danish, Belgian and Italian markets.

Gross written premium for this line of business has been relatively static in 2010 and 2011 and weak economic activity is a factor in this regard. However, the focus on the appropriate alignment of this business to the areas with greatest potential has been rewarded by improving results in recent accident years. Some reserve releases have been possible because of this improving loss experience.

From the start of 2012 the Company is separating a new **Transport & Logistics** line from the Marine Cargo book. This will enable a specific focus on customers in the Transport and Logistics sector and enable the development of products specifically to meet their needs.

The **Property and Casualty** businesses have been consolidated with regards to underwriting management and this is enabling a more co-ordinated approach to be taken to opportunities in this area. The strategy in these lines has been reviewed and an increasingly specialised approach is being taken. A combined Property and Casualty product is under development and an emphasis on specific industries is being pursued.

The **Property** book is primarily written in the United Kingdom from the Company's offices in London and Manchester. The focus is on corporate and middle market customers and major risk programmes. A strong underwriting profit was recorded in 2011, although premium levels were slightly below 2010. There were no significant individual losses in the year and catastrophe losses were minimal in a year where there were a number of significant industry catastrophe events. Positive loss experience also led to some reserve releases.

The **Casualty** business primarily comprises Public, Product and Employers' Liability. The business is written mostly out of London and Paris, but some business is now being written in Benelux and Scandinavia. The Company avoids high hazard and long tail business in the Casualty sector.

Again, there was no growth in the book and a careful review of the portfolio was undertaken. The loss ratios on recent accident years for primary business in the United Kingdom remain relatively high. Actions are being taken to address the areas where there is a need to improve results. Loss emergence on older accident years continued to be within expectations and allowed for some reserve release. The French book is predominantly for Contractors' Liability and profitability has been strong in this area, as a result some expansion of appetite and geographic reach in Europe is underway.

Renewable Energy is written from the offices in the United Kingdom, Denmark, Italy and France and good progress has been made, especially in the Continental operations. Larger international accounts are underwritten from the London and Copenhagen operations, with the focus elsewhere being on mid sized pan-European accounts and smaller domestic accounts. Gross written premium levels were behind plan for the London operation as refinements were made to the appetite for certain aspects of the business.

The **Technology** line, an industry practice offering tailored insurance solutions to the technology and communications sector set up in 2009, generated very strong premium growth in 2011. This business is now being written in the United Kingdom and in most of the branch operations. The suite of products is also expanding, most recently with an offering for first and third party Cyber exposures. The initial impact of expenses for this new line has been mitigated significantly by the levels of growth in the last year and the Company anticipates profitable growth of this business.

Directors' Report - continued

Year ended 31 December 2011

Specialty Lines

Financial Lines encompasses **Professional Indemnity** insurance and a range of liability coverages for **Commercial Institutions** and **Financial Institutions**. This business is spread broadly over the locations in which the Company maintains offices. There is also a wide spectrum of available products.

The Professional Indemnity book has continued to grow, but has seen some deterioration in loss ratios arising from the difficult economic environment. In particular, the regulated professions business is generating more losses and the Company is adjusting the business mix accordingly. Some additions to reserves have been made for recent accident years in recognition of this emerging loss experience.

The Commercial Institutions market is one of the most saturated areas at the present time and obtaining adequate levels of rate is a significant challenge. Competition is fierce and, as a result, the Company has allowed premium levels to drop off to a degree. A very careful and cautious approach continues to be taken to this line given the current economic conditions.

The Financial Institutions line is another area that is being closely monitored in the context of economic conditions. Exposures related to the most troubled European countries have been monitored and managed and the Company has actively limited and reduced exposures to large banks. An underwriting profit was recorded, however, as a result of reserve releases. The positive outcomes on certain large cases from early in the last decade are the reason that such releases could be made.

HealthPro is a specialty practice targeting the Healthcare treatment and Medical Technology sectors. The HealthPro business is now established in the United Kingdom, offering a broad range of insurance coverages led by Medical Professional Liability, Product Liability and Professional Indemnity coverage. Business is also being underwritten in both France and the Netherlands and opportunities for the future exist in other countries.

This line of business generated significant growth in 2011. The book of French public hospitals was a notable element in that and there are now opportunities within the private sector in that country. Further product development continues, an example being a Property product to round out the offering made to Medical Technology clients. The loss experience for this line has been good and the growth in business has brought expense ratios down to appropriate levels.

Future Developments

At this time there are early signs of recovery in insurance rates and there is some optimism about the potential for an improvement in market conditions in 2012. The Company continues to be committed to the organic expansion of its business. The geographic footprint of the Company provides a base to write business on a pan-European basis. Within the existing areas of specialism there is the opportunity to add particular lines to the portfolio written in certain countries. The targeted focus on obtaining certain new licences and on interactions with other CNA operations will also enable the expansion of multi-national and international business. The Company continues to focus on specialist products for particular industries where it believes it can bring greatest value. The financial resources of the Company are strong and investments in capabilities and technology are being leveraged to lay the foundation for profitable growth.

Corporate Governance

Ultimate responsibility for the Company's affairs rests with the Board of Directors. The Board is responsible for approving the Company's business plan and its strategies with regard to risk management. The Board provides leadership on a framework of effective controls and suitable risk management. The Board also seeks to ensure compliance with all of the relevant internal and external regulations governing CICL's activities. The Board meets quarterly and comprises representatives of the parent company, two independent non-executive Directors and three members of the local executive management team.

The Board has established and authorised two principal committees, an **Audit Committee** and a **Risk Committee**, to deal directly with matters that are the responsibility of the Board. Each committee has clear terms of reference for the matters it is responsible for and is chaired by an independent non-executive Director. Each committee reports to the Board. This forms the basic structure for the corporate governance framework which is reviewed and approved by the Board at least annually to ensure continued effectiveness.

Directors' Report - continued

Year ended 31 December 2011

Corporate Governance - continued

The key objective of the Audit Committee is to assist the Board with its responsibility of overseeing the integrity of CICL's financial statements, the adequacy and effectiveness of the internal control environment, the qualifications and independence of CICL's independent auditors and the performance of internal audit staff and independent accountants

The Risk Committee meets quarterly. Its key objectives are to raise the level of management risk awareness and accountability, to integrate an effective risk management process into the organisational structure, decision making process and CICL's culture, and to provide a mechanism for oversight of all risk management issues. It also monitors CICL's risk based capital and is overseeing the Company's Solvency II implementation. The Risk Committee assesses compliance with CICL risk management strategy, risk policies and risk appetite while ensuring that the risk register is both up to date and maintained at an appropriate level. It monitors all key risks including emerging risks, and related mitigating controls.

CICL has made further enhancements to its Corporate Governance framework with the establishment of an **Underwriting Committee** reporting directly to the Risk Committee. The Underwriting Committee is chaired by John Taylor, Chief Underwriting Officer, and its key objective is to ensure appropriate governance of underwriting operations and consistency of underwriting standards, policies and procedures across CICL's lines of business and geographies.

Various other sub-committees of the Board operate to cover specific areas of responsibility. The sub-committees which meet regularly throughout the year and report to either the Audit or Risk committee include:

- Investment Committee
- Legal, Regulatory and Compliance Committee
- Internal Controls and Attestation Committee
- Solvency II Steering Committee
- Reserving Group

Capital Management

The Company maintains its capital base in accordance with its own risk based requirements and in order to meet the regulatory requirements of the Financial Services Authority ("FSA"). In addition, capital requirements are assessed in the light of prospective business growth. The Company also seeks to maintain a Standard & Poor's rating (currently A-) at the same level as Continental Casualty Company ("CCC"). As explained in note 26 to the financial statements, a deed of guarantee ensures that this is accomplished.

The modelling used by the Company to calculate its Individual Capital Assessment ("ICA"), in line with the requirements of the FSA, is a key element in the capital and business management of the Company. The Company's capital levels continue to be in excess of the resultant Individual Capital Guidance ("ICG") issued by the FSA.

During 2011 the Company has continued to be highly engaged in preparing for the new Solvency II regulatory regime. By the end of 2011 these efforts have resulted in the Company having in place the various elements of risk, capital management infrastructure and governance framework that are required under Pillars I and II. The Company has also modified several of its reinsurance programmes to improve cost-effectiveness and capital protection. Finally, the Company continues to work with the FSA on the path towards seeking approval to use an internal model for setting its capital requirements under Solvency II.

Risk Management

The Risk Committee reviews all key risks to which the Company is exposed including underwriting risk, reserve risk, asset risk, credit risk, operational risk, currency risk and liquidity risk. The Committee maintains a risk register to monitor all relevant enterprise-wide risks and ensures that adequate controls or other mitigation techniques exist to manage those risks. The Company has a dedicated risk management function with capabilities in risk management, capital modelling, reinsurance and catastrophe risk management. The risk management framework includes a Board approved risk appetite statement, risk management governance structure, risk reporting processes, stress testing and an emerging risk management process. The risk appetite statement is aligned with the Company's business strategy and risk based capital assessment.

Directors' Report - continued

Year ended 31 December 2011

Risk Management - continued

The Company also employs a capital model to determine its regulatory and risk based capital and to support management decision making. Further information on how the Company manages risk is disclosed in note 2 to these financial statements.

Going Concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in this Directors' Report. The financial position of the Company and its risk exposures are also explained in the financial statements.

The Company has continued to operate in a difficult economic environment which is still to recover from a global financial crisis and recession. In recent times this situation has been exacerbated by the financial concerns in relation to certain country economies within the "Eurozone". The impacts of these economic issues are varied and potentially unknown.

The Company has strong risk management disciplines in terms of the exposures that the Company underwrites and the protection of its financial resources. In particular, the potential impacts of the economic issues described above have been assessed and mitigating actions have been taken where appropriate. The Company's current financial condition is strong in the context of the amount of business it underwrites. It operates with a broad range of brokers, clients and other business contacts in different product lines and geographic areas. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully despite the current economic conditions.

After making enquiries, the Directors have a reasonable expectation 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.

Corporate and Social Responsibility

CICL aims to minimise any adverse impact on the environment that arises from its business activities. All UK offices have recycling facilities for plastics and paper, and IT equipment is disposed of in accordance with Waste Electrical and Electronic Equipment ("WEEE") directives. Furniture disposals are undertaken without use of landfill sites. Ongoing technology initiatives are focused on developing more efficient processes that will enable working in a more paperless way. General use paper is made from recycled materials.

Community Involvement Grants, which are funded through the CNA Foundation set up by CNA Financial Corporation, make grant money available to eligible charitable organisations to help fulfil the Corporation's mission of building stronger relationships in local communities. The grant monies are made available both inside and outside the United States and this has allowed CICL to pass grants to various charitable organisations in Europe.

Dividends

The Company paid a dividend of £8,019,437 in respect of the year ended 31 December 2011 (2010: £nil).

Directors

The Directors who have held office since 1 January 2011 are as follows:

Executive Directors

J B Hennessy
D J Stevens
C A Kearney

Non-executive Directors

T J Szerlong
P W Wilson
H I Thomas
R W Forrest

Directors' Report - continued

Year ended 31 December 2011

Charitable and Political Donations

During the year, CICL made charitable donations of £2,238 (2010 £32,678), principally to local and national charities in the communities in which the Company operates

The Company made no political donations in 2011 (2010 £nil)

Directors' Indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its Directors which were made during the year and remain in force at the date of this report

Elective resolutions

The Company has elected to dispense with the laying of financial statements and reports before the Company in general meeting, the holding of an annual general meeting and the obligation to appoint auditors annually

Auditor

Each of the persons who is a Director at the date of approval of this report confirms that

- 1 so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- 2 the Director has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006

Deloitte LLP have expressed their willingness to continue in office as auditor of the Company

Approval

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



J B Hennessy Director

2 Minster Court, Mincing Lane,
London EC3R 7BB

1 March 2012

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). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting 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, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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 CNA Insurance Company Limited

We have audited the financial statements of CNA Insurance Company Limited for the year ended 31 December 2011 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Shareholders' Funds and the related notes 1 to 27. 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).

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 any one 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, 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 and express an opinion on 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 (APB'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.

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 matters 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.

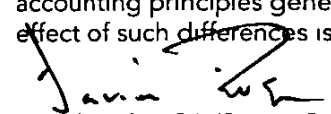
Matters on which we are required to report by exception

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.

US Generally Accepted Accounting Principles

Accounting principles generally accepted in the United Kingdom vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in note 27 to the financial statements.



David Rush ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor
London, United Kingdom

1 March 2012

Profit and Loss Account

Year ended 31 December 2011

Technical Account – General Business

	Notes	2011 £'000	2010 £'000
Gross premiums written - continuing operations	3	199,515	178,370
Outward reinsurance premiums		(29,040)	(31,295)
Premiums written, net of reinsurance		170,475	147,075
Change in provision for unearned premiums			
– gross amount	16	(8,905)	(4,681)
– reinsurers' share	16	6,060	3,841
Earned premiums, net of reinsurance		167,630	146,235
Claims paid			
– gross amount		97,189	109,461
– reinsurers' share		(26,019)	(11,086)
Net claims paid		71,170	98,375
Change in the provision for claims			
– gross amount	16	6,847	(13,610)
– reinsurers' share	16	18,747	(15,686)
Change in the net provision for claims		25,594	(29,296)
Claims incurred, net of reinsurance		96,764	69,079
Net operating expenses	6	58,768	53,938
Change in equalisation provision	17	721	88
Surplus on the technical account for general business		11,377	23,130

The notes 1 to 26 form an integral part of these financial statements

Profit and Loss Account - continued

Year ended 31 December 2011

Non-Technical Account

	Notes	2011 £'000	2010 £'000
Surplus on the general business technical account		11,377	23,130
Income from investments		26,784	27,710
Realised gains on investments		1,649	3,632
Realised losses on investments		(5,047)	(3,809)
Unrealised gains on investments		6,257	7,166
Unrealised losses on investments		(12,429)	(14,433)
Investment management expenses		(520)	(469)
Overdraft interest		(69)	(53)
Total investment return		16,625	19,744
Other income/(charges)	8	2,034	(1,148)
Profit on ordinary activities before taxation	5	30,036	41,726
Tax charge on profit on ordinary activities	9	(9,102)	(9,873)
Profit for the financial year	15	20,934	31,853

All the amounts above are in respect of continuing operations

Statement of Total Recognised Gains and Losses

Year ended 31 December 2011

	Notes	2011 £'000	2010 £'000
Profit for the financial year		20,934	31,853
Actuarial (loss)/gain relating to the pension schemes	22	(5,384)	5,635
UK deferred tax attributable to actuarial (loss)/gain	9	969	(1,521)
Currency translation differences		(1,865)	(2,966)
Total recognised gains for the year		14,654	33,001

Reconciliation of Movements in Shareholders' Funds

Year ended 31 December 2011

	Notes	2011 £'000	2010 £'000
Profit for the financial year		20,934	31,853
Actuarial (loss)/gain relating to the pension schemes	22	(5,384)	5,635
UK deferred tax attributable to actuarial (loss)/gain	9	969	(1,521)
Currency translation differences		(1,865)	(2,966)
Dividend paid		(8,019)	-
Net increase to equity shareholders' funds		6,635	33,001
Opening equity shareholders' funds		274,956	241,955
Closing equity shareholders' funds		281,591	274,956

The notes 1 to 26 form an integral part of these financial statements

Balance Sheet

As at 31 December 2011

Assets	Notes	2011 £'000	2010 £'000
Investments - other financial investments	11	646,776	595,326
Provision for unearned premiums	16	17,400	11,383
Claims outstanding	16	95,144	114,492
Reinsurers' share of technical provisions		112,544	125,875
Debtors arising out of direct insurance operations		54,986	50,788
Debtors arising out of reinsurance operations		6,316	7,982
Other debtors	12	7,488	16,852
Debtors		68,790	75,622
Tangible assets	13	5,673	6,188
Cash at bank and in hand		4,764	9,915
Other assets		10,437	16,103
Accrued interest		11,751	12,506
Deferred acquisition costs		17,460	15,795
Other prepayments and accrued income		624	534
Prepayments and accrued income		29,835	28,835
Total assets excluding pension asset		868,382	841,761
Net pension asset	22	384	2,858
Total assets		868,766	844,619

The notes 1 to 26 form an integral part of these financial statements

Balance Sheet - continued

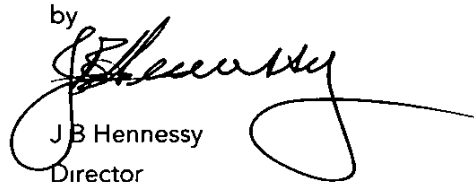
As at 31 December 2011

Liabilities	Notes	2011 £'000	2010 £'000
Called up share capital	14	130,200	130,200
Profit and loss account	15	151,391	144,756
Equity shareholders' funds		281,591	274,956
Provision for unearned premiums	16	93,717	85,008
Claims outstanding	16	454,599	452,774
Equalisation provision	17	809	88
Technical provisions		549,125	537,870
Creditors arising out of direct insurance operations		2,811	5,573
Creditors arising out of reinsurance operations		12,620	10,460
Amounts owed to credit institutions	18	2,226	1,534
Other creditors including taxation and social security	19	13,863	7,096
Creditors – Amounts falling due within one year		31,520	24,663
Reinsurers' share of deferred acquisition costs		956	554
Other accruals and deferred income		3,936	5,043
Accruals and deferred income		4,892	5,597
Provisions for liabilities and charges - onerous lease provisions	20	437	834
Total liabilities excluding pension liability		867,565	843,920
Net pension liability	22	1,201	699
Total liabilities		868,766	844,619

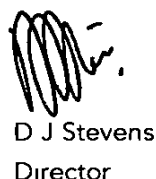
Registered in England and Wales number 950

The notes 1 to 26 form an integral part of these financial statements

These financial statements were approved by the Board of Directors on 1 March 2012 and signed on its behalf by



J B Hennessy
Director



D J Stevens
Director

Notes to the Accounts

Year ended 31 December 2011

1 Accounting Policies

Basis of preparation

The financial statements are prepared in accordance with the provisions of section 396 of the Companies Act 2006 and Schedule 3 of Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards and under the historical cost accounting rules as modified by the revaluation of investments. The Company has adopted all material recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 2005 as amended in December 2006.

As explained in the Directors' Report on page 9 the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and therefore continue to adopt the going concern basis in preparing these financial statements.

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

Basis of accounting for underwriting activities

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

Products are classified at inception, for accounting purposes, as either insurance contracts or investment contracts. A contract that is classified as an insurance contract remains an insurance contract until all rights and obligations are extinguished or expire. Investment contracts can be reclassified as insurance contracts after inception if insurance risk becomes significant.

Insurance contracts are those contracts that transfer significant insurance risk, if and only if, an insured event could cause an insurer to pay benefits that were significantly greater than the premium received. Such contracts may also transfer financial risk. Investment contracts are contracts that carry financial risk with no significant insurance risk.

Premiums

Under the annual basis of accounting, written premiums comprise the premiums on contracts incepting in the financial year.

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

Written premiums are stated gross of commissions payable to intermediaries and exclusive of taxes and duties levied on premiums. The amount due but not paid is included in debtors arising out of direct insurance operations in the balance sheet.

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

Unearned premiums

The provision for unearned premiums comprises the amount representing that part of gross premiums written, and reinsurers' share of premiums written, that is estimated to be earned in the following or subsequent financial years. It is calculated separately for each insurance contract on the 24ths or 365ths basis where the incidence of risk is the same throughout the contract. Where the incidence of risk varies during the term of the contract, the provision is based on the estimated risk profile of business written.

Claims incurred

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

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

Notes to the Accounts - continued

Year ended 31 December 2011

Claims outstanding and related reinsurance recoveries

Provision is made for outstanding claims and settlement expenses incurred at the balance sheet date including an estimate for the cost of claims incurred but not reported ("IBNR") at that date. Included in the provision is an estimate of the internal and external costs of handling the outstanding claims. Material salvage and other recoveries are recorded as other assets and not deducted from outstanding claims.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where there is more available information about the claim event. In calculating IBNR the Company uses a variety of estimation techniques. These are largely based on statistical analysis of historical experience, which assumes the development pattern of the 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 might cause the cost of unsettled claims to increase or reduce 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, and
- movements in industry benchmarks

Large claims are generally assessed separately by each business class, being measured on a case by case basis, to allow for the possible distortive impact of the development and incidence of the large claims.

When calculating the provision for claims outstanding, the Company selects an estimation technique taking into account the individual characteristics of each business class as follows:

Reinsurance recoveries related to the provision for claims outstanding are based upon the provision for outstanding claims, having due regard to collectability. Reinsurance recoveries in respect of estimated IBNR are assumed to be consistent with historical patterns of such recoveries, adjusted to reflect any changes in the nature and extent to the Company's reinsurance programme over time. The recoverability of reinsurance recoveries is assessed having regard to market data on the financial strength of each reinsurer.

The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures and the Directors therefore consider that its provisions for claims outstanding and related reinsurance recoveries are fairly stated. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove different from the original liability established. Any adjustment made to amounts for claims provisions in respect of prior years are included in the technical account for general business within the financial statements of the period when such adjustment is made.

Deferred acquisition costs

Acquisition costs comprise the expenses, both direct and indirect, of acquiring insurance policies written during the financial year. Acquisition costs are accrued over an equivalent period to that over which the underlying business is written and are charged to the accounting periods in which the related premiums are earned. Deferred acquisition costs represent the proportion of acquisition costs incurred in respect of unearned premiums at the balance sheet date.

Portfolio transfers

Portfolio claims receipts represent amounts receivable in consideration for the Company taking responsibility for the unpaid claims incurred by the transferor prior to a specified date. The value of the assumed claims is included within technical provisions.

Unexpired risks

Provision is made for unexpired risks arising from general business where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the balance sheet date exceeds the unearned premiums provision in relation to such policies after the deduction of any acquisition costs deferred. The provision for unexpired risks is calculated separately by reference to classes of business which are managed together, after taking into account relevant investment return.

Notes to the Accounts - continued

Year ended 31 December 2011

Equalisation provision

An equalisation reserve is established in accordance with the requirements of section 14 of the Prudential Sourcebook for Insurers. It is required by Schedule 3 to 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 liability at the balance sheet date.

Foreign currencies

The Company operates through foreign branches in a number of European countries. The financial statements of the branch entities are maintained in functional currency being the currency of the primary economic environment in which the entity operates. Typically, the functional currency and the currency of the primary economic environment is the currency of the country in which the entity is located.

Foreign currency transactions are converted to functional currency using the exchange rates prevailing at the date of the transactions. Monetary assets and liabilities denominated in foreign currency are revalued to functional currency at year end exchange rates and the resultant differences are recognised as gains and losses in the non-technical element of the profit and loss account. Non-monetary assets and liabilities denominated in foreign currency are converted to functional currency at historical rates and are not subject to revaluation.

The presentational currency of the Company's financial statements is Sterling. The Functional currency financial statements of foreign branches are translated to Sterling as follows. Income and expenses are translated to Sterling using the exchange rates prevailing at the date of the underlying transactions. Assets and liabilities are translated at year end exchange rates. All resulting exchange differences are recorded as currency translation differences in the Statement of Total Recognised Gains and Losses.

Cash flow statement

The Company has not presented a cash flow statement under the exemptions available in Financial Reporting Standard No 1 (Cash Flow Statements, Revised 1996), paragraph 5a.

Financial assets and liabilities

The Company recognises a financial asset or a financial liability on its balance sheet when it becomes a party to the contractual provisions of the instrument. On initial recognition the Company determines the category of financial instrument and values it accordingly. The classification depends on the purpose for which the instruments are acquired.

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Although permitted by its Investment guidelines, the Company does not normally hold or issue derivative financial instruments for trading purposes or to hedge its exposure to foreign exchange risk or interest rate risk. This position is regularly reviewed by the Investment Committee. No derivative financial instruments were held or issued during 2011 or the preceding year.

Purchases and sales of securities and currencies are recognised on trade date – the date on which the Company commits to purchase or sell the asset.

Investments at fair value through profit and loss

The Company designates financial assets upon initial recognition as "fair value through profit and loss" on the basis that the Company manages and evaluates the performance of its investment portfolio on a fair value basis in accordance with its investment strategy.

These financial assets are initially recognised at fair value with any transaction costs being expensed through the profit and loss account. For quoted investments where there is an active market, the fair value is the quoted bid price at the balance sheet date. For quoted investments where there is no active market, the fair value is determined by reference to prices for similar assets in active markets.

Realised gains and losses and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the profit and loss account in the period in which they arise.

Notes to the Accounts - continued

Year ended 31 December 2011

Cash at bank and in hand

Cash at bank and in hand is cash in hand and deposits repayable on demand. Deposits are repayable on demand if they can be withdrawn at any time without notice and without penalty or if a maturity or period of notice of not more than 24 hours or one working day has been agreed.

Insurance and other receivables

Insurance and other receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets and the loss is recognised in the profit and loss account.

Reclassification of financial assets

An entity is required to disclose details of carrying amounts and fair values for all financial assets reclassified until they are derecognised, together with the fair value gain or loss that would have been recognised if the financial asset had not been reclassified.

The Company has not reclassified any financial assets. Reclassification is only permitted in rare circumstances and where the asset is no longer held for the purpose of selling in the short-term. In all cases, reclassifications of financial assets are limited to debt instruments. Reclassifications are accounted for at the fair value of the financial asset at the date of reclassification.

Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities and equity

Debt and equity instruments are classified according to the substance of the contract.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Other financial liabilities

Other financial liabilities, including payables arising from insurance contracts, investment contracts, creditors and deposits received from reinsurers, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Notes to the Accounts - continued

Year ended 31 December 2011

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire

Investment return

All investment return is recognised in the non-technical account

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

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

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

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

Tangible fixed assets

Tangible fixed assets are stated at cost net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life as follows:

Leasehold property and improvements	Over the term of the lease
Fixtures, fittings and equipment	5 – 7 years
Computer equipment and software	3 – 7 years

Residual value is calculated on prices prevailing at the date of acquisition.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or the right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is calculated at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Investment in group undertakings

Investments in group undertakings are valued at their respective net asset value. Changes in value of group undertakings are dealt with through the Statement of Total Recognised Gains and Losses.

Notes to the Accounts - continued

Year ended 31 December 2011

Leases

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives.

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

Pension costs

For defined benefit schemes the amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the Statement of Total Recognised Gains and Losses.

The defined benefit schemes are funded, with the assets of the scheme held separately from those of the Company, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of related deferred tax, is presented separately after other net assets on the face of the balance sheet.

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Group accounts

The Company is exempt under section 401 of the Companies Act 2006 from preparing group accounts as it is an indirect wholly-owned subsidiary of CNA Financial Corporation, incorporated in the United States of America, which prepares consolidated accounts that contain the results of this Company. Accordingly these financial statements present information about the Company as an individual undertaking and not about its group.

Notes to the Accounts - continued

Year ended 31 December 2011

2 Risk Management

The Company utilises a number of processes to manage and monitor its risks within the overall governance framework set by the Board. During the year the Company enhanced its risk management capabilities through initiatives such as the implementation of a fit-for-purpose enterprise risk management system. The notes below describe how the principal risks of the Company are managed.

Underwriting risk

Underwriting risk represents risk associated with the continuing acceptance of insurance policies by the Company. This relates to the uncertainty as to whether premiums received will be sufficient to cover future incurred losses, including expenses.

Processes used to manage underwriting risk include the setting of underwriting and pricing standards and limits on risk-taking. The Company also monitors and manages its accumulation exposures. Where necessary, reinsurance is used to mitigate and transfer risk falling outside risk appetite. Additionally the Company employs a business model that achieves diversification through the spread of business across territories and sectors. The Underwriting Committee provides governance in all underwriting matters and reports to the Risk Committee.

Reserve risk

Reserve risk is associated with liabilities falling to the Company from insurance policies issued in the past. This is the risk that claims reserves and related claims handling reserves will be materially different from the ultimate cost of settlement.

Reserves for business written in the past are established through detailed actuarial studies of CICA's liabilities. These studies are subject to extensive management review and discussion. The Company reserves fully, using a variety of established methodologies for all liabilities reported and unreported. Where necessary, policies or parts of the portfolio that give rise to particular uncertainty are segmented and analysed separately as part of the reserving process. The drivers underlying changes in estimates of reserves are identified and analysed. When setting reserves for the current accident year additional sources of uncertainty, such as changes in pricing levels, catastrophe claims or the mix of business written, are explicitly considered. In order to monitor the adequacy of previously established reserves, claims experience is reviewed each quarter.

Asset risk

Asset risks are principally related to the Company's investment activity, notably its holding of debt and other fixed income investments. Within this area, the primary risks to which the Company is exposed are concentration risk, currency risk and interest rate risk.

The Company manages these exposures through its Investment Committee. The Committee is responsible for establishing and maintaining an investment policy in line with the risk appetite of the Company. In addition, the Committee is responsible for the management of all investment asset risks, the selection of its investment managers and reviewing investment performance.

The investment management function is outsourced to external fund managers, Conning Asset Management Limited ("Conning").

The Investment Committee has established an asset allocation policy of investing only in listed debt and other fixed income securities. The policy also stipulates that surplus cash can only be held on deposit with highly rated credit institutions until such time as suitable investments in appropriate listed debt and other fixed income securities can be made.

An investment management agreement has been established with Conning. The agreement includes specific guidelines for each individual portfolio in order to limit risks arising from duration, currency, liquidity, credit and concentration exposures. The agreement also limits concentration of exposures to single countries, economic sectors and individual securities and provides for minimum standards of creditworthiness. Conning provides quarterly affirmation of compliance with these guidelines.

Notes to the Accounts - continued

Year ended 31 December 2011

Currency risk

The Company is primarily exposed to currency risk in respect of assets and liabilities relating to insurance policies denominated in currencies other than Sterling. The Company looks to maintain an appropriate currency match of assets and liabilities with surplus funds being held in line with the currency profile policy for surplus investments.

The accounting policy for foreign currencies is stated in note 1 to the financial statements.

The Investment Committee has established a currency profile policy which defines target ranges for surplus investments. The policy cites two key functional currencies, Sterling and Euro, and stipulates a target range of between 60% and 80% for Sterling denominated net assets and a range of between 20% and 40% for Euro denominated net assets. This position is regularly reviewed by the Investment Committee.

For the profit and loss account, the average rates for Australian Dollar, Swedish Kroner, Swiss Franc, Danish Kroner and Euro have all fallen to AUD\$1.55 (2010: AUD\$1.69), SEK 10.39 (2010: SEK11.15), CHF 1.42 (2010: CHF1.61), DKK 8.56 (2010: DKK8.68) and EURO 1.15 (2010: 1.16) whereas the US Dollar has increased against the Sterling to USD 1.61 (2010: USD1.56).

For the balance sheet, the year end rates used to translate the currencies have moved as follows. Swedish Kroner, Danish Kroner and Euro have all increased to SEK 10.70 (2010: SEK 10.48), DKK 8.91 (2010: DKK 8.69) and EURO 1.20 (2010: 1.17) compared to a decrease in the Australian Dollar and US Dollar AUD\$1.52 (2010: AUD\$1.53) and USD 1.55 (2010: USD 1.56). The Swiss Franc rate used was the same as the prior year at CHF 1.46 (2010: CHF 1.46).

Given the net asset position at year end, a 10% strengthening of Sterling against all other currencies (primarily the Euro, Danish Kroner, US Dollar and Australian Dollar) would result in a £7.9 million foreign exchange loss and a £2.2 million tax credit in the profit and loss account. It would also give rise to a £3.9 million currency translation loss in the statement of total recognised gains and losses. The total decrease to shareholders' funds would be £5.7 million.

Interest rate risk

The Company's exposure to interest rate risk is primarily through its investments in debt and other fixed income securities due to instrument duration and the associated duration of the liabilities arising from insurance activities. The investment portfolio is managed based on the characteristics of the underlying liabilities and the alignment of the duration of the investment portfolio to the duration of the liabilities.

The investment portfolio is periodically analysed for changes in duration and related price change risk. The evaluation is performed by applying an instantaneous change in yield rates of varying magnitude on a static balance sheet to determine the effect such a change in rates would have on the fair value at risk and the resulting effect on shareholders' funds.

To illustrate the downside risk within the debt and other fixed income securities portfolio of £611.0 million as at 31 December 2011 (2010: £568.2 million), the impact of an increase of 100 basis points in interest yields across all portfolios simultaneously (principally Sterling, Euro, US Dollars and Australian Dollars) has been calculated. Such an increase would decrease the market value of the investment portfolio and lead to a decrease in the total investment return of £13.1 million and accordingly decrease total shareholders' funds by £9.4 million.

Credit risk

Credit risk is the risk of loss if a counterparty fails to meet its contractual obligations resulting in a financial loss to the Company. The Company is exposed to credit risk primarily through its investment and insurance activities.

The investment risk, from its holding in debt and other fixed income securities, is managed by adherence to the Company's investment guidelines which detail minimum issuer credit quality, duration limits and the maximum value of individual holdings. The average Standard & Poor's credit rating of the Company's debt and other fixed income securities remained high throughout the year, and at 31 December 2011 was "A-" (2010: "AA-").

Notes to the Accounts - continued

Year ended 31 December 2011

Credit risk – continued

The Company is exposed to credit risk as a result of its regular insurance and reinsurance activity. The areas of key exposure are the reinsurers' share of claims outstanding and debtors arising out of direct and reinsurance operations from both policyholders and intermediaries. Ceded reinsurance is used to mitigate risks arising from inwards business. Ceded reinsurance does not discharge the Company's liability as primary insurer. If a ceded reinsurer fails to pay a claim, the Company remains liable for the payment to the policyholder. When purchasing reinsurance coverage the Company only uses reinsurers that appear on the Company's own approved reinsurance security listings. Generally, these reinsurers will have a Standard & Poor's credit rating of "A" or better. With regard to direct insurance and reinsurance receivables, the Company operates processes to review broker security and to monitor arrangements with managing general agents. Receivables consist of payments of premium due from a large number of policyholders, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

The Company does not have any significant credit risk exposure to any single counterparty or any group of counterparties. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit ratings agencies.

The assets bearing credit risk are summarised below

	2011 £'000	2010 £'000
Other financial investments	646,776	595,326
Reinsurers' share of claims outstanding	95,144	114,492
Debtors arising out of direct insurance operations	54,986	50,788
Debtors arising out of reinsurance operations	6,316	7,982
Cash at bank	4,764	9,915
Total assets bearing credit risk	807,986	778,503

The concentration of credit risk is substantially unchanged compared to prior year.

Other financial investments are designated as fair value through profit or loss at inception, and their performance evaluated on a fair value basis, in accordance with a documented investment strategy. The credit rating for other financial investments is detailed below. The ratings are derived from Standard & Poor's or Moody's Investor Services, Inc.

	2011 £'000	2010 £'000
AAA	252,601	191,877
AA	88,977	115,430
A	287,040	239,116
BBB	10,774	10,511
Below BBB or not rated	7,384	38,392
Total other financial investments bearing credit risk	646,776	595,326

Other financial investments and cash at bank are neither past due nor impaired.

Reinsurers' share of claims outstanding includes a £3.8 million (2010: £3.2 million) provision for impairment. Debtors arising out of direct and reinsurance operations includes a £5.0 million (2010: £6.2 million) provision for impairment which represents 79.1% (2010: 60.5%) of the total past due amount.

Notes to the Accounts - continued

Year ended 31 December 2011

Credit risk – continued

The Standard & Poor's credit rating for reinsurers' share of technical provisions and debtors arising out of reinsurance operations is detailed below

	2011 £'000	2010 £'000
AAA	-	-
AA	1,132	7,403
A	91,393	109,148
BBB	77	40
Below BBB or not rated	8,858	5,883
Total reinsurers' share of claims outstanding and debtors arising out of reinsurance operations bearing credit risk	101,460	122,474

Liquidity risk

In order to ensure that the Company has sufficient funds available for ongoing operations and future developments it holds a mixture of cash, short-term and long-term investments. The Company also seeks to match its assets and liabilities by currency and maturity and avoids the concentration of assets within specific markets or asset types.

Operational risk

The Company is exposed to a variety of operational risks associated with internal processes, people and systems and external events. These exposures are analysed and monitored under the risk mitigation programme established and operated by the Risk Committee.

Notes to the Accounts - continued

Year ended 31 December 2011

3 Segmental Information

Segmental information required by the Companies Act 2006 is as follows

Analysis of gross premiums written, gross premiums earned, gross claims incurred, gross operating expenses and the reinsurance balance

	Marine, Aviation and Cargo £'000	Commercial Property and Casualty £'000	Personal Accident £'000	Financial Lines £'000	Motor £'000	Overall Total £'000
2011						
Gross premiums written	50,731	92,527	1,031	55,226	-	199,515
Gross premiums earned	50,175	84,513	1,631	54,291	-	190,610
Gross claims incurred	29,205	41,470	528	32,861	(28)	104,036
Gross operating expenses	18,496	22,818	382	17,668	-	59,364
Reinsurance balance	1,073	13,565	910	(436)	-	15,112
2010						
Gross premiums written	50,477	69,954	3,171	54,768	-	178,370
Gross premiums earned	48,038	69,241	3,294	53,116	-	173,689
Gross claims incurred	25,813	34,947	89	35,504	(502)	95,851
Gross operating expenses	17,285	23,366	1,745	16,348	-	58,744
Reinsurance balance	2,939	(5,207)	1,087	(3,013)	70	(4,124)

Segmental information required by Statement of Standard Accounting Practice 25 is as follows

Analysis of geographic area (location of business written) is as follows

	Gross Written				Net Assets	
	Premiums	Profit before Taxation				
	2011	2010	2011	2010	2011	2010
	£'000	£'000	£'000	£'000	£'000	£'000
United Kingdom	121,131	104,294	21,922	36,304	236,046	231,507
Other EEA Member States	77,918	73,540	8,042	5,116	44,665	42,616
Other countries	466	536	72	306	880	833
Total	199,515	178,370	30,036	41,726	281,591	274,956

Notes to the Accounts - continued

Year ended 31 December 2011

3 Segmental Information – continued

Gross written premium by destination (location of risk) is as follows

	2011 £'000	2010 £'000
United Kingdom	93,576	76,764
Other EEA Member States	92,314	81,734
Other countries	13,625	19,872
Total	199,515	178,370

4 Prior Years' Claims Provisions

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

	2011 £'000	2010 £'000
Manne, Aviation and Cargo	4,006	7,248
Commercial Property and Casualty	9,300	23,549
Personal Accident	287	1,050
Financial Lines	10,300	4,555
Motor	-	447
Total	23,893	36,849

5 Profit on Ordinary Activities before Taxation

Profit on ordinary activities before taxation is stated after charging

	2011 £'000	2010 £'000
Depreciation		
- owned (see note 13)	1,328	1,337
- held under finance leases (see note 13)	-	17
Operating lease rentals		
- other (see note 23)	2,128	2,447
- plant and machinery (see note 23)	14	13
Fees payable to the Company's auditor for		
- the audit of the Company's annual accounts	260	285
- the audit of the Company's previous year annual accounts under accrued	18	60
- other services pursuant to legislation	5	4

Notes to the Accounts - continued

Year ended 31 December 2011

6 Net Operating Expenses

	2011 £'000	2010 £'000
Acquisition costs		
- commission	29,358	27,013
- other	11,579	12,069
Change in gross deferred acquisition costs	(1,690)	(1,468)
Administrative expenses	20,117	21,130
Gross operating expenses	59,364	58,744
Reinsurance commissions and profit participation	(1,000)	(4,667)
Change in deferred reinsurance commission	404	(139)
Total	58,768	53,938

7 Information regarding Directors and Employees**Directors' remuneration**

The following Directors of the Company were remunerated by the Company

J B Hennessy, D J Stevens, C A Kearney, H I Thomas, R W Forrest

	2011 £'000	2010 £'000
The total remuneration comprised		
Emoluments	1,234	782
Amounts receivable under long-term incentive schemes	76	62
Company contributions to defined contribution pension scheme	137	42
Company contributions to defined benefit pension scheme	27	7
Total	1,474	893

	2011 Number	2010 Number
The number of directors who		
Were members of a defined contribution pension scheme	2	2
Were members of a defined benefit pension scheme	1	1
Total	3	3

	2011 £'000	2010 £'000
Remuneration of the highest paid director:		
Emoluments	662	427
Amounts receivable under long-term incentive schemes	48	43
Company contributions to defined contribution pension scheme	105	11
Total	815	481

Notes to the Accounts - continued

Year ended 31 December 2011

7 Information regarding Directors and Employees – continued

The remaining Directors of the Company who served during the year, listed below, are all employed and remunerated by CCC, part of the CNA Financial Corporation group (see note 25). It is not practicable to allocate these Directors' remuneration between their services across the companies they are executives of, therefore the remuneration and pension benefits are included in the financial statements of the individual company which employed and remunerated them, CCC.

T J Szerlong and P W Wilson

Employee costs

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

	2011 Number	2010 Number
United Kingdom	201	213
Continental Europe	83	73
Total	284	286
Management	21	20
Claims	32	33
Underwriting	141	130
Administration	90	103
Total	284	286

Staff costs incurred during the year in respect of employees were

	2011 £'000	2010 £'000
Wages and salaries	20,226	19,247
Social security costs	3,366	3,160
Pension costs (see note 22)		
Defined benefit pension schemes	325	406
Other pension schemes	1,513	1,431
Total	25,430	24,244

Notes to the Accounts - continued

Year ended 31 December 2011

8 Other Income/(Charges)

	2011 £'000	2010 £'000
Foreign exchange loss	(322)	(1,302)
Other finance income (see note 22)	354	6
Sundry other income	519	236
Interest income on investment contracts	145	-
Amounts settled with an associated group company	1,338	(88)
Total	2,034	(1,148)

The amounts settled with an associated group company represents settlements during the financial year with CCC, under the terms of the indemnity in place between the Company and CCC, in respect of the CNA Re Management Company Limited Retirement Benefits Plan (1977) (see note 22) split as follows

	2011 £'000	2010 £'000
Actuarial loss relating to the pension scheme net of attributable UK deferred tax reported in the statement of total recognised gains and losses	1,508	(559)
Other pension costs net of attributable UK deferred tax charged to the profit and loss account during the year	(170)	471
Total	1,338	(88)

9 Tax charge on Profit on Ordinary Activities

	2011 £'000	2010 £'000
Current tax:		
UK Corporation tax on profits of the year	(7,744)	(11,754)
Double taxation relief	3,385	2,183
Overseas taxation	(4,467)	(3,064)
	(8,826)	(12,635)
Adjustments in respect of previous years		
UK corporation tax	(277)	772
Overseas tax	315	831
Total current tax charge	(8,788)	(11,032)
Deferred tax		
Origination and reversal of timing differences	389	13
Effect of change in tax rate on opening asset	(141)	(121)
Adjustment in respect of prior years	(264)	1,657
Movement in post-retirement liability excluding actuarial gain	(298)	(390)
Total tax charge on profit on ordinary activities	(9,102)	(9,873)

Notes to the Accounts - continued

Year ended 31 December 2011

9. Tax charge on Profit on Ordinary Activities - continued

	2011 £'000	2010 £'000
Factors affecting tax charge for the year		
Profit on ordinary activities before tax	30,036	41,726
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 26.5% (2010: 28.0%)	(7,959)	(11,683)
Effects of		
Expenses disallowed for tax purposes	170	(287)
Net pension contribution relief in excess of pension charges	125	72
Short term timing differences	19	(57)
Add back profit on disposal of fixed assets	(22)	2
Capital allowances for year net of depreciation	(106)	31
Overseas tax payable	(42)	75
Group relief received without payment	71	94
Adjustments to tax charge in respect of previous years	38	1,603
Adjustments in respect of foreign tax rates	(1,082)	(882)
Total current tax charge	(8,788)	(11,032)

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

	Provided 2011 £'000	Provided 2010 £'000	Not Provided 2011 £'000	Not Provided 2010 £'000
Accelerated capital allowances	(150)	(294)	-	-
Short-term timing differences	2,301	2,461	-	-
Unutilised capital losses	-	-	137	147
	2,151	2,167	137	147
Post-retirement liability (see note 22)	(128)	(799)	-	-
Total	2,023	1,368	137	147

The reduction in the deferred tax balance relating to the post-retirement asset/(liability) of £670,660 comprises £969,000 attributable to the actuarial loss recognised in the statement of total recognised gains and losses and £(298,340) attributable to other movements recognised in the profit and loss account

The total deferred tax asset has been recognised in the financial statements to the extent that the Directors consider that it is likely to be utilised in the foreseeable future

As a result of the change in the 2011 UK main corporation tax rate to 26% that was substantively enacted during the year and that will be effective from 1 April 2011 and the change in the main corporation tax rate from 26% to 25% that will be effective from 1 April 2012 the relevant tax balances have been re-measured

A further reduction to the UK corporation tax rate was announced in the 2011 Budget. The change, which is expected to be enacted in 2012, proposes to reduce the rate by 1% each year to 23% by 1 April 2014. The change has not been substantively enacted at the balance sheet date and, therefore, has not been recognised in these financial statements

Notes to the Accounts - continued

Year ended 31 December 2011

10. Investments in Group Undertakings

The Company owns one ordinary £1 share, issued at par value, of Maritime Insurance Company Limited ("MICL") representing 100% of MICL's authorised share capital. MICL is incorporated in Great Britain and registered in England and Wales and is currently dormant.

11 Other Financial Investments

	Cost 2011 £'000	Cost 2010 £'000	Fair Value 2011 £'000	Fair Value 2010 £'000
Debt securities and other fixed income securities - listed	606,923	555,254	610,960	568,194
Deposits with credit institutions	35,817	27,132	35,816	27,132
Total	642,740	582,386	646,776	595,326

£351,311 (2010: £401,371) of deposits with credit institutions are secured against letters of credit issued by the Company (see note 21).

Fair value

Fair value is the price that would be received upon sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following fair value hierarchy is used in selecting inputs, with the highest priority given to Level 1, as these are the most transparent or reliable.

Level 1 – Quoted prices for identical instruments in active markets

Level 2 – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model derived valuations in which all significant inputs are observable in active markets

Level 3 – Valuations derived from valuation techniques in which one or more significant inputs are not observable

The Company attempts, either itself or through its external fund manager Conning (see note 2), to establish fair value as an exit price in an orderly transaction consistent with normal settlement market conventions. The Company is responsible for the valuation process and seeks to obtain quoted market prices for all securities. When quoted market prices in active markets are not available, the Company utilises market observable information to the extent possible. As further validation of the Company's valuation process, the Company samples past fair value estimates and compares the valuations to actual transactions executed in the market on similar dates.

Notes to the Accounts - continued

Year ended 31 December 2011

11 Other Financial Investments - continued

Other financial investments measured by fair value hierarchy at 31 December are summarised below

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
2011				
Debt securities and other fixed income securities	2,503	608,033	424	610,960
Deposits with credit institutions	35,816	-	-	35,816
Total	38,319	608,033	424	646,776
2010				
Debt securities and other fixed income securities	13,643	554,172	379	568,194
Deposits with credit institutions	27,132	-	-	27,132
Total	40,775	554,172	379	595,326

During the year no significant transfers occurred between Level 1 and Level 2

A reconciliation of the movements in the Level 3 fair value is as follows:

	2011 £'000	2010 £'000
Opening balance	379	139
Gains recognised in the profit and loss account	45	240
Total	424	379

Gains/(losses) recognised in the profit and loss account comprise net realised gains/(losses) of £nil (2010 £nil) and net unrealised gains of £45,001 (2010 £240,130) as presented within the non-technical account

12 Other Debtors

	2011 £'000	2010 £'000
Amounts due from group undertakings	3,763	11,900
Taxation	1,176	2,509
Deferred tax asset (see note 9)	2,151	2,167
Other	398	276
Total	7,488	16,852

Notes to the Accounts - continued

Year ended 31 December 2011

13. Tangible Assets

	Leasehold Property and Improvements	Fixtures, Fittings and Equipment	Computer Equipment and Software	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2011	3,926	1,248	4,527	9,701
Additions	274	277	603	1,154
Disposals	-	(18)	(323)	(341)
At 31 December 2011	4,200	1,507	4,807	10,514
Accumulated depreciation				
At 1 January 2011	916	442	2,155	3,513
Charge for year	452	180	905	1,537
Disposals	-	(2)	(207)	(209)
At 31 December 2011	1,368	620	2,853	4,841
Net book value				
At 31 December 2011	2,832	887	1,954	5,673
At 31 December 2010	3,010	806	2,372	6,188
Leased assets included above:				
Net book value				
At 31 December 2011	-	-	-	-
At 31 December 2010	-	123	-	123

The net book value of Leasehold Property and Improvements includes £721,574 (2010 £740,077) relating to a property held under a long-term lease with the remainder held under short-term leases

14. Called Up Share Capital

	2011 £'000	2010 £'000
Authorised:		
15,000,000 ordinary shares of £10 each (2010 15,000,000)	150,000	150,000
Allotted, called up and fully paid:		
13,020,000 ordinary shares of £10 each (2010 13,020,000)	130,200	130,200

Notes to the Accounts - continued

Year ended 31 December 2011

15 Reserves

	Share Capital 2011 £'000	Profit and Loss Account 2011 £'000	Total Shareholders' Funds 2011 £'000	2010 £'000
Balance at 1 January	130,200	144,756	274,956	241,955
Profit for the financial year	-	20,934	20,934	31,853
Actuarial (loss)/gain relating to the pension scheme	-	(5,384)	(5,384)	5,635
UK deferred tax attributable to actuarial (loss)/gain	-	969	969	(1,521)
Currency translation differences	-	(1,865)	(1,865)	(2,966)
Dividend paid	-	(8,019)	(8,019)	-
Balance at 31 December	130,200	151,391	281,591	274,956

16 Technical Provisions

	Provision for Unearned Premiums £'000	Claims Outstanding £'000	Total £'000
Gross			
At 1 January 2011	85,008	452,774	537,782
Exchange adjustments	(196)	(5,022)	(5,218)
Movement in provision	8,905	6,847	15,752
At 31 December 2011	93,717	454,599	548,316
Reinsurance amount			
At 1 January 2011	11,383	114,492	125,875
Exchange adjustments	(43)	(601)	(644)
Movement in provision	6,060	(18,747)	(12,687)
At 31 December 2011	17,400	95,144	112,544
Net			
At 31 December 2011	76,317	359,455	435,772
At 31 December 2010	73,625	338,282	411,907

17 Equalisation Provisions

As explained in the accounting policies (see note 1) an equalisation provision is established in the financial statements. The effect of this provision is to reduce shareholders' funds by £593,544 (2010 £63,609). The increase in the provision during the year had the effect of reducing the balance on the technical account for general business and the profit on ordinary activities by £721,346 (2010 £88,346).

Notes to the Accounts - continued

Year ended 31 December 2011

18 Amounts Owed to Credit Institutions

Borrowings are repayable as follows

	2011	2010
	£'000	£'000
Unsecured bank loans and overdrafts	2,226	1,534
Total repayable on demand or within one year	2,226	1,534

19 Other Creditors including Taxation and Social Security

	2011	2010
	£'000	£'000
Insurance premium tax	1,247	582
Other taxation and social security	6,019	4,961
Financial liabilities	5,760	-
Other	837	1,553
Total	13,863	7,096

The carrying amounts of all items approximate to fair value

The financial liability relates to a payable arising from an insurance contract. The liability was initially reported at fair value. At 31 December 2011 the liability has been measured at amortised cost using the effective interest method, with interest recognised on an effective yield basis.

20 Provisions for Liabilities and Charges

Onerous lease provision

	2011
	£'000
As at 1 January 2011	834
Charged to the profit and loss account	138
Utilised	(535)
As at 31 December 2011	437

The onerous lease provision has arisen as a result of the relocation of the Company's London Head office in 2010. This relocation resulted in the exited space becoming void, and as a result the Company has established a provision for the net present value of estimated future liabilities associated with the void space. Full settlement of the remaining provision is expected to take place in 2012.

Notes to the Accounts - continued

Year ended 31 December 2011

21 Contingent Liabilities

Institute of London Underwriters ("ILU")

Following the merger of the Institute of London Underwriters ("ILU") and the London Insurance & Reinsurance Market Association to form the International Underwriting Association of London, the Company resigned its membership of the ILU on 31 December 1998. The Company had to establish a fund of £1,048,780 by way of an irrevocable letter of credit in order to meet the ILU's expected shortfall of income from the period 1999 until further notice. At 31 December 2011 the amount remaining on the letter of credit after draw downs was £351,311 (see note 11).

London Underwriting Centre

In 2002 CCC sold its subsidiary undertaking CNA Re Management Company Limited ("CNA Re") to Tawa Plc (formerly Tawa UK Limited). By virtue of a letter dated 10 February 2003 and pursuant to Clause 9.8 of the Share Purchase Agreement between CCC and Tawa UK Limited dated 15 July 2002, CCC provided an indemnity in favour of CNA Europe Holdings Limited ("CNAE") for its liabilities as the legal holder of certain shares in LUC Holdings Limited and the related guarantees ("LUC Shareholder and Guarantor").

By virtue of a Deed of Adherence dated 7 August 2008 ("Deed of Adherence"), the execution of an identical Deed of Adherence by each current member of LUC Holdings Limited, and the Deed of Release and Substitution of Guarantor effective 7 August 2008, the Company replaced CNAE as LUC Shareholder and Guarantor. CCC has agreed to provide an indemnity in favour of CICL.

Notes to the Accounts - continued

Year ended 31 December 2011

22 Staff Pension Plans**Retirement Benefit Pension Scheme**

The Company operates two defined benefit schemes in the United Kingdom

Scheme A – CNA Pension Plan for UK Employees**Composition of the scheme**

A full actuarial valuation was carried out at 1 April 2010 and updated to 31 December 2011 by a qualified independent actuary

The scheme is closed to new entrants. In accordance with FRS 17, the valuation of the Scheme's liabilities has been determined using the projected unit method. In these circumstances the use of this method can lead to the contribution rate underlying the current service cost increasing in future years

The amounts recognised in the balance sheet are as follows

	2011 £'000	2010 £'000
Total fair value of scheme assets	(42,117)	(41,922)
Present value of funded obligation	41,605	38,007
Surplus in the scheme	(512)	(3,915)
Related deferred tax liability	128	1,057
Net asset	(384)	(2,858)

The amounts recognised in profit and loss are as follows

	2011 £'000	2010 £'000
Current service cost	325	406
Expected return on scheme assets	(2,539)	(2,337)
Interest on obligation	2,110	2,181
Total	(104)	250

	2011 £'000	2010 £'000
Actual return on scheme assets - gain	794	4,841

Analysis of amount recognised in the Statement of Total Recognised Gains and Losses ("STRGL"):

	2011 £'000	2010 £'000
Opening cumulative STRGL	2,590	(2,279)
Actuarial (loss)/gain	(3,876)	4,869
Closing cumulative STRGL	(1,286)	2,590

Notes to the Accounts - continued

Year ended 31 December 2011

22 Staff Pension Plans - continued

Changes in the present value of the defined benefit obligation are as follows

	2011 £'000	2010 £'000
Opening defined benefit obligation	38,007	38,328
Current service cost	325	406
Contributions by members	100	117
Interest cost	2,110	2,181
Actuarial losses/(gains)	2,131	(2,365)
Benefits paid	(1,068)	(660)
Closing defined benefit obligation	41,605	38,007

Changes in the fair value of scheme assets are as follows

	2011 £'000	2010 £'000
Opening fair value of scheme assets	41,922	37,117
Expected return	2,539	2,337
Actuarial gains	(1,745)	2,504
Contributions by employer	369	507
Contributions by members	100	117
Benefits paid	(1,068)	(660)
Closing fair value of scheme assets	42,117	41,922

The Company's contributions during the accounting period amounted to £369,000 (2010 £507,000) and the agreed Company contribution for the coming year is 20.0% of pensionable salaries

The major categories of scheme assets as a percentage of total scheme assets are as follows

	2011 %	2010 %
Equities	69.1	70.4
Bonds	9.1	9.5
Gilts	20.0	19.9
Other	1.8	0.2

Notes to the Accounts - continued

Year ended 31 December 2011

22 Staff Pension Plans - continued

The principal actuarial assumptions were

	2011	2010
	%	%
Rate of increase in salaries	4.6	5.0
Rate of increase to pensions in payment accrued before 1 April 2003	3.6	3.8
Rate of increase to pensions in payment accrued after 1 April 2003	3.0	3.4
Rate of increase to pensions in payment accrued after 6 April 2006	2.4	2.6
Rate of increase to deferred pensions	2.4	2.8
Discount rate at 31 December	4.9	5.6
Inflation assumption	2.4	2.8

Mortality assumption

2011 - 95% of S1NxA projected in line with 2011 CMI projection model with default parameters and 1.25% long-term rate of improvement

2010 - 95% of S1NxA projected in line with 2009 CMI projection model with default parameters and 1.25% long-term rate of improvement

The expected return on scheme assets at 31 December

	2011	2010
	%	%
Equities	7.5	7.5
Bonds	4.7	5.4
Gilts	2.9	4.0
Other	0.5	0.5

Amounts for the current and previous four periods are as follows

	2011	2010	2009	2008	2007
	£'000	£'000	£'000	£'000	£'000
Defined benefit obligation	(41,605)	(38,007)	(38,328)	(30,174)	(32,251)
Scheme assets	42,117	41,922	37,117	31,017	37,535
Surplus/(deficit)	512	3,915	(1,211)	843	5,284
Experience adjustments on scheme liabilities - gain/(loss)	(2,131)	2,365	(6,541)	3,982	4,726
Experience adjustments on scheme assets - gain/(loss)	(1,745)	2,504	4,316	(8,749)	582

Notes to the Accounts - continued

Year ended 31 December 2011

22 Staff Pension Plans - continued**Scheme B – The CNA Re Management Company Limited ("CNA Re") Retirement Benefits Plan (1977)**

In 2002 CCC sold its subsidiary undertaking CNA Re to Tawa UK Limited. By virtue of a letter dated 3 November 2005, and pursuant to Clause 12.1 of the Share Purchase Agreement between CCC and Tawa UK Limited dated 15 July 2002, CCC provided an indemnity in favour of CNAE in respect of obligations which CNAE assumed as Principal Employer of the Plan.

By virtue of a Deed of Substitution of Principal Employer effective 10 July 2008, the Company replaced CNAE as Principal Employer of the Plan. CCC has agreed to provide an indemnity in favour of the Company.

Composition of the scheme

A full actuarial valuation was carried out at 1 January 2009 and updated to 31 December 2011 by a qualified independent actuary. The scheme is closed to new entrants. In accordance with FRS 17, the valuation of the Scheme's liabilities has been determined using the projected unit method.

The amounts recognised in the balance sheet are as follows:

	2011	2010
	£'000	£'000
Total fair value of scheme assets	(8,607)	(8,006)
Present value of funded obligation	9,808	8,963
Deficit in the scheme	1,201	957
Related deferred tax asset	(300)	(258)
Net liability	901	699

Notes to the Accounts - continued

Year ended 31 December 2011

22. Staff Pension Plans - continued

The amounts recognised in profit and loss are as follows

	2011 £'000	2010 £'000
Expected return on scheme assets	(458)	(387)
Interest on obligation	532	537
Total	74	150

	2011 £'000	2010 £'000
Actual return on scheme assets - gain	350	739

Analysis of amount recognised in the Statement of Total Recognised Gains and Losses ("STRGL"):

	2011 £'000	2010 £'000
Opening cumulative STRGL	(479)	(1,245)
Actuarial (loss)/gain	(1,508)	766
Closing cumulative STRGL	(1,987)	(479)

Changes in the present value of the defined benefit obligation are as follows

	2011 £'000	2010 £'000
Opening defined benefit obligation	8,963	9,986
Interest cost	532	537
Actuarial losses/(gains)	1,400	(414)
Benefits paid	(1,087)	(1,146)
Closing defined benefit obligation	9,808	8,963

Changes in the fair value of scheme assets are as follows

	2011 £'000	2010 £'000
Opening fair value of scheme assets	8,006	7,075
Expected return	458	387
Actuarial (losses)/gains	(108)	352
Contributions by employer	1,338	1,338
Benefits paid	(1,087)	(1,146)
Closing fair value of scheme assets	8,607	8,006

The Company's contributions during the accounting period amounted to £1,338,000 (2010 £1,338,000) and the agreed Company contribution for the coming year is £1,338,000

Notes to the Accounts - continued

Year ended 31 December 2011

22 Staff Pension Plans - continued

The major categories of scheme assets as a percentage of total scheme assets are as follows

	2011	2010
	%	%
Equities	49.0	55.0
Bonds	24.0	16.0
Gilts	21.0	14.0
Other	6.0	15.0

The principal actuarial assumptions were

	2011	2010
	%	%
Rate of increase to deferred pensions	3.0	3.5
Discount rate at 31 December	4.9	5.6
Inflation assumption	2.3	2.8

Mortality assumptions

2011 - PCA00 on a year of birth usage projected using the 2011 CMI projection model with a long term rate of future mortality improvement equal to 1.25% p.a.

2010 - PCA00 year of birth usage projected using the 2009 CMI projection model with a long term rate of future mortality improvement equal to 1.25% p.a.

The expected return on scheme assets at 31 December

	2011	2010
	%	%
Equities	7.5	7.5
Bonds	4.9	5.4
Gilts	3.0	4.2
Other	0.5	0.5

Amounts for the current and previous four periods are as follows:

	2011	2010	2009	2008	2007
	£'000	£'000	£'000	£'000	£'000
Defined benefit obligation	(9,808)	(8,963)	(9,986)	(7,818)	(8,514)
Scheme assets	8,607	8,006	7,075	5,006	5,586
Surplus/(deficit)	(1,201)	(957)	(2,911)	(2,812)	(2,928)
Experience adjustments on scheme liabilities - gain/(loss)	(122)	291	(96)	(10)	(207)
Experience adjustments on scheme assets - gain/(loss)	(108)	352	551	(1,485)	(65)

Other pension schemes

The Company also operates defined contribution schemes and state pension schemes for eligible full and part-time employees. The state pensions are administered and managed at each local branch.

The pension cost for the period was £1,512,652 (2010: £1,430,680).

Notes to the Accounts - continued

Year ended 31 December 2011

23 Operating Lease Commitments

	Land and buildings		Other	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
Leases which expire				
Within one year	862	284	66	82
Within two to five years	1,261	1,348	157	122
After five years	74	597	-	-
Total	2,197	2,229	223	204

24 Related Parties

The Company has taken advantage of the exemption given in Financial Reporting Standard No 8 'Related Party Transactions' not to disclose transactions with companies in the group qualifying as related parties. 100% of the voting rights of the Company are controlled within the group and results are included in the consolidated financial statements of the ultimate parent company.

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

25 Ultimate Parent Company

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

The immediate parent undertaking of the Company is CNAE, a company incorporated in Great Britain and registered in England and Wales.

The parent undertaking which heads the smallest group of undertakings for which group accounts were drawn up and of which the Company is a member is CNA Financial Corporation ("CNAF"), a company incorporated in the United States of America.

The consolidated financial statements of CNAF are available to the public and may be obtained from CNA Financial Corporation, 333 South Wabash Avenue, Chicago, IL 60604.

26 Deed of Guarantee

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

The Deed of Guarantee will remain in place until 31 December 2012 unless written notice is received from Standard & Poor's that the guarantee is no longer needed for the Company to maintain a Standard & Poor's rating at the same level as the rating assigned to the Guarantor, or, if the majority shareholding in the Company is transferred to a corporate entity outside the CNA Financial Corporation group which has a Standard & Poor's rating equal to or better than the rating assigned to the Guarantor.

Notes to the Accounts - continued

Year ended 31 December 2011

27. Reconciliation from UK GAAP to US GAAP

As outlined in the Statement of Directors' Responsibilities and note 1, the Company prepares and presents statutory financial statements in accordance with accounting principles generally accepted in the United Kingdom (UK GAAP). The Directors have prepared a reconciliation to accounting principles generally accepted in the United States of America (US GAAP) for the benefit of the parent company's regulator in the United States of America as follows

Reconciliation of profit for the financial year on a UK GAAP basis to net income on a US GAAP basis

	2011 £'000	2010 £'000
Profit for the financial year on a UK GAAP basis (see note 15)	20,934	31,853
Adjustments to reconcile to US GAAP		
Foreign exchange loss/(gain) on financial investments included in Other Comprehensive Income ("OCI") for US GAAP net of tax of £(724,000) (2010 £950,000) – see i below	2,008	(2,443)
Difference in net investment income and realised gains and losses due to differing financial investments cost basis and presentation net of tax of £(833,000) (2010 £(1,274,000)) – see ii below	2,310	3,276
Change in difference in valuation allowance on deferred tax liability – see iii below	(774)	432
Difference in treatment of amounts in relation to Scheme A – see iv below	-	(163)
Equalisation provision net of tax of £(178,000) (2010 £(25,000)) – see v below	542	64
Net income on a US GAAP basis	25,020	33,019

Reconciliation of equity shareholders' funds from UK GAAP basis to stockholders' equity per US GAAP

	2011 £'000	2010 £'000
Equity shareholders' funds on a UK GAAP basis (see note 15)	281,591	274,956
Difference in valuation allowance on deferred tax liability – see iii below	-	799
Equalisation provision – see v below	607	64
Stockholders' equity on a US GAAP basis	282,198	275,819

Notes to the Accounts - continued

Year ended 31 December 2011

27 Reconciliation from UK GAAP to US GAAP - continued

- i Under UK GAAP foreign exchange (gain)/loss on the revaluation of investments is included in profit for the financial year whereas under US GAAP the foreign exchange (gain)/loss is recorded within OCI consistent with the treatment of unrealised gains and losses
- ii Whilst the carrying value of financial investments are both stated at market value under UK GAAP and US GAAP there are differences in the cost basis and the treatment of unrealised gains and losses. Under UK GAAP the cost basis is historic cost and both realised and unrealised gains and losses are included within profit for the financial year

Under US GAAP the investments are classified as available for sale. Consequently, the cost basis is amortised cost with accretion and amortisation of premiums and discounts reported within net income and changes in unrealised gains and losses also included within OCI. Upon disposal of the investments the unrealised gains and losses are recycled to net income. Provisions for other than temporary impairments are recorded in net income.

- iii Under UK GAAP, deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. Deferred tax assets are recognised to the extent that, on the basis of all available evidence, it is regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. In certain circumstances where it is expected to take some time for tax losses to be recovered, it may not be appropriate to recognise the deferred tax assets at all. FRS 19 'Deferred Tax' does not define or provide guidance relating to the phrases 'some time' or 'more likely than not'.

Under US GAAP, deferred tax assets and liabilities are recognised in respect of all temporary differences (differences between the financial statement carrying amounts of existing assets and liabilities and the respective tax bases and operating and capital loss and tax credit carry forwards). Deferred tax assets are reduced through the establishment of a valuation allowance at such time as, based on available evidence, it is more likely than not (a likelihood of more than 50%) that the deferred tax assets will not be realised.

- iv Under US GAAP, amortisation of actuarial gains and losses are accounted for as part of the net periodic pension cost, but offset by a credit to OCI. Under UK GAAP amortisation of actuarial gains and losses are included in profit for the financial year. As a result no net asset difference arises between UK GAAP and US GAAP.
- v As explained in the accounting policies (see note 1) an equalisation provision is established in the UK GAAP financial statements. The effect of this provision is to reduce profit for the financial year on a UK basis by £530,000 (2010 £64,000) net of tax of £191,000 (2010 £24,000). The equalisation provision also reduces shareholders' funds under UK GAAP by £594,000 (2010 £64,000) net of tax of £215,000 (2010 £24,000). Equalisation provisions are not permitted under US GAAP reporting rules.