HCC

HCC International

2012 Annual Review

Including HCC International Insurance Company PLC Report & Accounts

Business As Usual:

STAYING STRONG

in a world where

change

is constant

There's

NOTHING WRONG

with business as

usual

Not when you've recorded growth and profitability year after year.

Not when you consistently outperform your peers.

Not when you continue to earn the industry's highest ratings.

Not when your leadership team is focused and experienced.

Not when your formula is clearly working.

HCC takes pride in another Business As Usual year.

Overview of the HCC International Operations

HCC remains one of the highest-rated property and casualty insurance companies worldwide.

Why HCCI?

Unrivalled expertise and experience of underwriters

Well established regional presence

Innovative yet cautious underwriting approach

Financial strength ratings of AA (Very Strong) from Standard & Poor's Corporation

Contract certainty and treating customers fairly embedded in all our processes

Efficient and fair claims management teams

The HCC International Group (HCCI) is a leader in Specialty Insurance with offices across the U.K., Ireland and Spain.

HCCI has successfully developed a book of niche products that can be tailored to customers' needs, focusing on customer service and underwriting profitability. Business is predominantly sourced from the London Market, regional or international brokers, however certain products are offered on a direct basis.

To ensure our underwriters are able to offer insurance and reinsurance products across the globe to all brokers, four underwriting platforms are used:

HCC International Insurance Company PLC, an FSA regulated insurance company.

Houston Casualty London Branch, an FSA regulated U.K. branch of Houston Casualty Company, a U.S. insurance company domiciled in Texas.

Houston Casualty Company Europe, Seguros y Reaseguros, S.A., a Spanish regulated insurance company.

HCC Underwriting Agency Limited, a Lloyd's agency managing Syndicate 4141.

HCCI includes the following agency operations:

HCC Specialty Limited acts as an underwriting agency for HCCI, writing Sports Disability, Contingency and Entertainment business on behalf of HCCI and other third party insurance carriers.

HCC Global Financial Products S.L. acts as an underwriting agency writing Directors' and Officers' Liability and other financial lines on behalf of HCCI.

HCC Multinational Insurance Services (HCCMIS), based in Indianapolis, Indiana, writes Travel Medical business for worldwide policyholders, both individual and groups, on behalf of Syndicate 4141.

HCCI is part of HCC Insurance Holdings, Inc. (HCCIH), a leading international Specialty Insurance group. HCCIH has assets exceeding US$10bn and shareholders' equity in excess of US$3.5bn. The major U.S. and international insurance company subsidiaries of HCCIH are rated "AA (Very Strong)" by Standard & Poor's.

Spotlight on Property Treaty

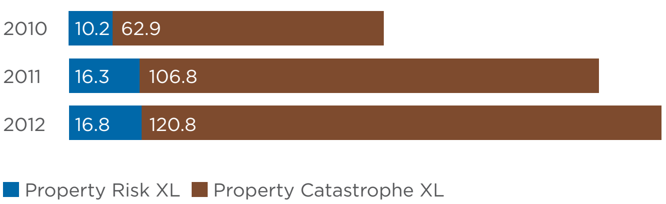
HCC International writes a treaty reinsurance account protecting insurance companies against their peak property exposures around the globe providing capacity to insurers ranging from small local mutual to major global insurance entities.

The Company's *Mind over risk* philosophy allows its underwriters to help insurance companies manage their exposures with confidence. The property treaty team's expertise, sophisticated risk selection and unique business strategy, coupled with some of the best security in the world, has enabled HCC International to build a significant and profitable property treaty reinsurance portfolio.

HCC International entered the property treaty market in 2010 and quickly established itself in the London Market as a significant writer of Property Reinsurance business. The contracts are generally "all risk" in nature with a focus on achieving a worldwide spread, currently supporting in excess of 600 clients in 74 countries. The account is primarily concentrated on protecting clients against extreme natural catastrophes. The graph below shows the growth in premium since the account has been written:

Property Treaty Premium

Gross written premium (in millions of dollars)



Despite significant premium growth over the past three years, underwriting focus remains on bottom line profit rather than top line growth, which has been demonstrated with market leading results of pre-tax profit in 2012 of $50m.

The team is headed by Tony O'Connor and supported by Richard Wells and Chris Parker and has now expanded to seven, plus a dedicated catastrophe modelling and specialist claims team.

The portfolio of business written has excellent geographical spread with 50% of the book originating from the US and 50% from International territories. With exposure targeted at the middle to the top end of clients' reinsurance programmes, the business profile is well balanced and ensures good performance particularly in high catastrophe experience years such as 2010 and 2011. The book is 85% Property Catastrophe excess of loss business and 15% Property Catastrophe Risk excess of loss. The business itself is written on HCC International's three main trading platforms with 80% being written on behalf of HCC International Insurance Company PLC.

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Kirsty Adam
Treaty Underwriting Assistant
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From the left: Chris Parker • Mark Kinseley • Tony O'Connor • Richard Wells • Kirsty Adam • Alasdair Rykens • Zach Willis

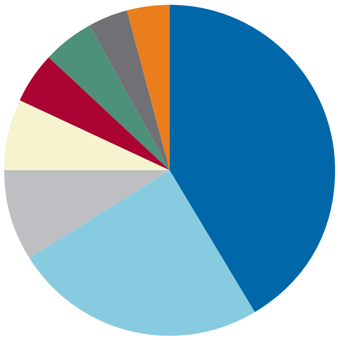
Centralised Underwriting

The HCCI property treaty team is based in London and Lloyd's. Great emphasis is placed on client relationships and underwriting discipline. To achieve this, the team believes that it is important to both centralise underwriting in one location and commit to travelling to build strong relationships with both clients and local brokers in their home offices. Since joining HCCI, the team have travelled extensively and regularly throughout North America, Europe and Japan, as well as visiting Latin America, South Africa, Australia and New Zealand.

Property Catastrophe Risk Excess of Loss Portfolio

The Property Castasprophe Risk excess of loss portfolio protects insurance companies from an individual major property loss caused by a major fire, explosion or catastrophe. This product is written on a very selective basis. The maximum line is $5m per programme and is well spread geographically around the world

Territorial Split by Income



	U.S.*	42%
	Europe**	25%
	Japan	8%
	Latin America, Carribean and Bermuda	7%
	Asia, Africa and Middle East	5%
	Australasia	5%
	Multi Territory	4%
	Canada	4%

* **U.S. Split:** USA Nationwide 10% • USA Regional 60% • USA Super Regional 30%

** **Europe Split:** Central/Eastern Europe 23% • UK/EIRE 22% • Scandinavia 16% • Southern Europe 13% • France 10% • Germany 8 % • Benelux 6% Multi-territory Europe 2%

6 Keys to Success

Strong technical and analytical approach to business

Understanding clients and providing tailored solutions

Personal service enabling lasting relationships and trust

Speed and quality of service

Market leading security for remote catastrophe purchases

Fast and efficient claims management

Property Catastrophe Excess of Loss Portfolio

The Property Catastrophe excess of loss portfolio protects insurance companies from a high number of original property losses following a major natural catastrophe. This is the largest sub-class within the property treaty account with a maximum limit per programme of $32.5m. Coverages afforded range from a multitude of natural perils from earthquakes In USA, windstorms in Australia, floods in Europe to volcanic eruptions in Iceland. HCCI's client selection and geographical spread are absolutely vital in writing a profitable Property Catastrophe excess of loss portfolio.

Exposure Management

HCC International has a dedicated exposure management team and utilises the latest external proprietary models in conjunction with internal exposure management tools. The underwriting team work very closely with the catastrophe modellers and the exposure management team to ensure pricing and accumulations are strictly controlled.

Financial Statements

Year ended 31 December 2012

COMPANY INFORMATION

Directors	B J Cook (Chairman and CEO) J H Bishop FIA (non-executive) K Cordier J R Davidson FCIOB MRICS FinstD T Hervy N I Hutton-Penman BSc, ACA K L Letsinger BSc, CPA J L T Newbegin (non-executive) W R Treen BSc, FIA (non-executive)
Company Secretaries	J R Davidson FCIOB MRICS FinstD D Feldman R L Hughes FCA N J Walklett ACA
Registered Number	1575839
Registered Office	Walsingham House 35 Seething Lane London EC3N 4AH
Solicitors	Clyde & Co 1 Stoke Road Guildford Surrey GU1 4HW
Independent Auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 7 More London Riverside London SE1 2RT

CONTENTS

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2012.

Directors

The directors set out below have held office from 1 January 2012 to the date of this report unless otherwise stated:

B J Cook (Chairman and CEO)

J H Bishop FIA

K J Cordier (appointed on 11 September 2012)

J R Davidson FCIOB MRICS FinstD

T Hervy

N I Hutton-Penman BSc, ACA

K L Letsinger BSc, CPA (Appointed on 8 October 2012)

B R A Merriman FCA (resigned on 19 September 2012)

J L T Newbegin

M J Schell (resigned on 16 July 2012)

W R Treen BSc, FIA

Principal activities

The Company is authorised under the Financial Services and Markets Act (2000) to transact general insurance business in the United Kingdom and benefits from the European Union Freedom of Services charter to write across the European Union member states. The Company operates from a number of offices across the UK and also has branches in Spain, Ireland and Switzerland.

The Company's ultimate parent is HCC Insurance Holdings, Inc. (HCCIH), whose head office is in Houston, Texas. HCCIH is a leading international specialty insurance group with offices across the United States and internationally. As of 31 December 2012, HCCIH had assets of US$10.3 billion and shareholders' equity of US$3.5 billion. HCCIH's major insurance companies have a financial strength rating of AA (Very Strong) from Standard and Poor's Corporation.

The Company is the primary insurance platform within HCCIH's International operations and is one of three UK insurance platforms, the other two being Houston Casualty Company (London Branch) used to insure US domiciled clients, and the wholly aligned Lloyd's Syndicate 4141. The Company has grown significantly in recent years as HCCIH has added to its international product offering and taken advantage of its European licenses.

The Company owns 100% of the voting share capital of Houston Casualty Company Europe, Seguros y Reaseguros, S.A. (HCCE), an insurance carrier domiciled in Spain. This subsidiary underwrites Surety and Professional Indemnity business.

Business review

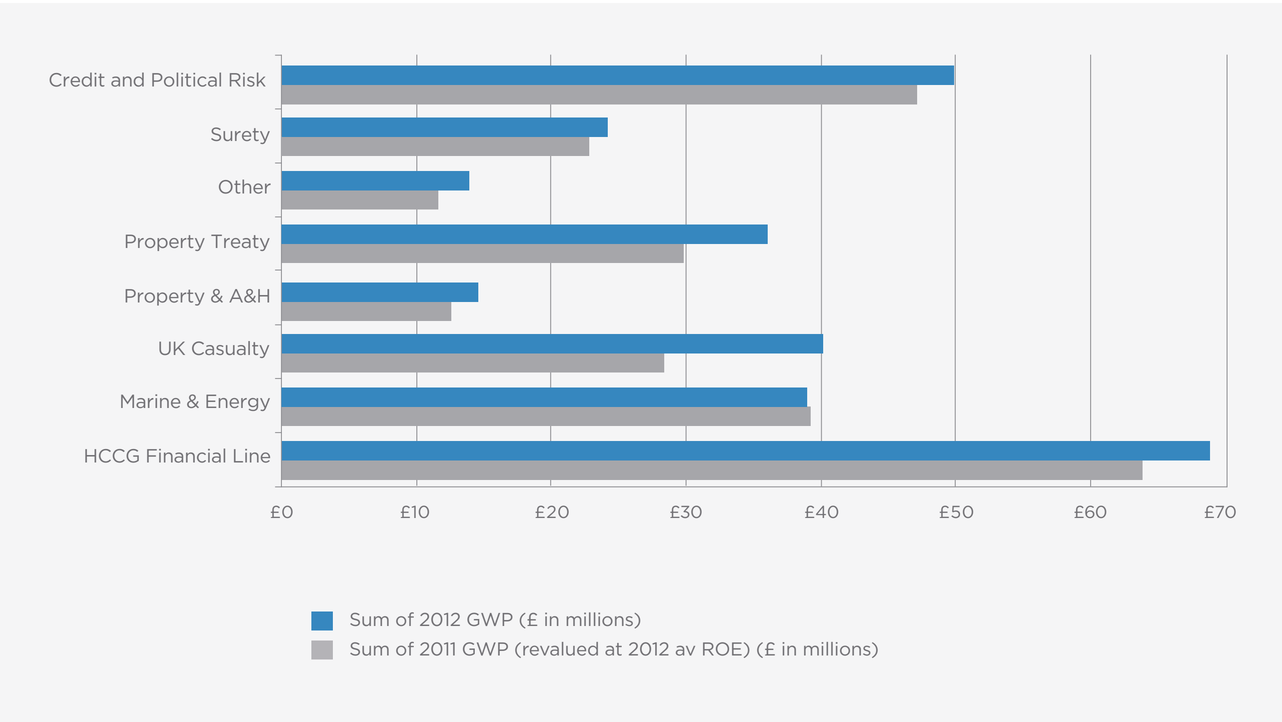
Results and performance

The Company has made a profit for the financial year of £60.9m (2011: £15.7m), as set out on page 21. Shareholders' funds as at 31 December 2012 totalled £214.9m (2011: £181.7m).

The net results in 2012 benefitted from benign catastrophe experience and also included £3.4m of releases on prior years' catastrophes and significant non-catastrophe reserve releases totalling £8.7m. By marked contrast, results in 2011 were significantly impacted by catastrophe losses totalling £38.6m, in particular the Japan Earthquake and Tsunami, New Zealand Earthquakes, Danish Floods and Hurricane Irene, offset by non-cat reserve releases totalling £5.3m, notably in the Professional Indemnity and Credit and Surety lines.

The overall increase of gross written premium of the Company during 2012 continued to be encouraging coming from organic growth and a better rating environment in some lines of business. Gross written premium increased from £252.3m to £284.9m, primarily driven by continued expansion of the Property Treaty, Credit and Political Risk, and Directors and Officers business, the latter written by wholly owned Group agency HCC Global Financial Products SL (HCC Global) headquartered in Barcelona. In addition, a new UK Liability line was written in 2012.

The following bar chart details the principal lines of business underwritten by the Company and variances in gross written premium year on year:



Investment return was substantially higher in 2012 at £36.9m (2011: £13.2m), largely due to receipt of dividend from the Company's Spanish subsidiary, HCCE, totalling £15.9m (2011: £2.5m), and the tightening of credit spreads which increased the value of debt securities held.

Key performance indicators ('KPI')

The directors monitor a number of key performance indicators for the business which are summarised below:

		YEAR ENDED 31 DECEMBER 2012	YEAR ENDED 31 DECEMBER 2011
Total shareholders' funds		£214.9m	£181.7m
Cash and investments	Excluding investment in subsidiaries and land and buildings	£411.0m	£300.6m
Gross premiums written		£284.9m	£252.3m
Net premiums written	Net of reinsurance	£211.9m	£183.6m
Underwriting result	Balance on technical account before investment income	£38.4m	£6.3m
Net loss ratio	Ratio of net incurred claims (excluding equalisation reserve) to net earned premiums	37%	57%
Net combined ratio	Ratio of total technical charges (excluding equalisation reserve) to net earned premiums	76%	91%
Investment return	Total investment return (excluding intercompany dividends)	£21.0m	£10.7m

Overall the directors are satisfied with the level of new business production and the financial position of the Company as at the year end.

Business environment

Market conditions have continued to be challenging in many of our lines of business. The Company continues to benefit from the financial strength ratings of AA from Standard and Poor's and A+ from AM Best. This remains a significant differentiator and a key selling point in many of the markets in which the Company operates, particularly Financial Lines. A summary of the current environment by the major lines the Company writes is detailed below:

London Market Lines

These lines of business are written on a subscription basis and include Offshore Energy and Marine, Property Treaty, Property Direct and Facultative and Accident and Health. Premium written totalled £89.2m in 2012 (2011: £81.1m). With the record level of international catastrophes experienced in 2011, the rating environment hardened during the year for most of our London Market Lines. Catastrophe exposure is well managed and the Company buys reinsurance to protect against both large individual risk losses and catastrophic type events.

The Marine and Energy account wrote £38.9m of premium in 2012 (2011: £39.0m). In general the Energy Market experienced very competitive conditions for onshore business, but was relatively well rated offshore.

Property Treaty wrote £35.9m of premium in 2012 (2011: £29.7m) with a firm market and rate increases across all areas. Due to relatively benign catastrophe experience in 2012, Property Treaty results exceeded management's expectations with the cost of Superstorm Sandy falling well within the Company's 2012 catastrophe budget.

Property Direct and Facultative and Accident and Health business wrote £14.4m of premium in 2012 (2011: £12.5m).

UK Casualty

The Company's UK Casualty business is comprised of UK Professional Indemnity and UK Liability business. The Professional Indemnity business is focused on low premium, high volume with low exposure. It is underwritten through UK brokers with the focus on client service. The UK Liability business comprises niche products covering lower risk trades and is made up of single risk and select affinity business. Business written in 2012 totalled £39.9m (2011: £28.2m). 2012 benefited from new UK Liability business, good renewal retention by policy count and premium retention, and organic growth resulting from targeted marketing.

Financial Lines

In 2012 HCC Global wrote Financial Lines business totalling £68.6m (2011: £63.7m). This business comprises Directors and Officers liability, Financial institutions bond and Commercial crime, Excess Professional Indemnity and Warranty & Indemnity business. Despite the difficult economic environment and the claim development from previous years, the market began to see rate rises in select lines. There was also some organic growth which led to a small rise in premium volume.

Credit & Political Risk and Surety

The Credit and Political Risk portfolio continued to provide good results in 2012, although the market continues to become more competitive. Rates are down given the high level previously attained and against a low claims and more competitive backdrop. However, our niche product offering and high service standards hold us in good stead and we would expect to retain a high level of business. Business volume held up well and totalled £49.7m in 2012 (2011: £47.0m).

Gross premium written for the Surety division was £23.4m (2011: £22.3m). The Company's AA rating and the strength and depth of the expertise in the division have enabled it to underwrite business at acceptable pricing levels which are stable compared to 2011.

Other Business Lines

HCCIH owns a managing general agent, HCC Specialty Ltd. which is a market leader in the Contingency, Sports Disability and Entertainment business. Renewal business was strong on Sports Disability and Contingency and contributed to an increase in premium in 2012.

Strategy

The Company's business philosophy is to maximise underwriting profits whilst limiting risk in order to preserve shareholders' equity and maximise earnings. Insurance underwriting is concentrated in selected, narrowly defined, speciality lines of business where it is believed underwriting profit can be achieved. Our experienced underwriting personnel with access to, and expertise in, the insurance and reinsurance marketplace have enabled the Company to achieve its strategic objectives. Continued increase in premium income is expected as the current portfolio of business is developed, but only if target returns can be achieved.

Future outlook

The Company continues to seek out profitable opportunities in new lines of business, looking at both teams and potential acquisitions. In addition the Company looks to build organically in its existing lines of business. The directors continually appraise the current portfolio and are looking to expand into complementary lines.

Other material matters

Despite the continued uncertainty relating to the implementation date for Solvency II, during 2012 the Company continued to work on Solvency II with a view to being compliant with the new EU regulation. During 2013 the Company will continue to refine its approach to governance, risk measurement and internal capital modelling to ensure compliance with the FSA deadlines for overall Solvency II approval.

Principal risks and uncertainties

The directors of the Company have assessed the risks to which the Company is exposed and consider the following as material:

Insurance risk - the process of risk acceptance and risk management is addressed through a framework of policies, procedures and internal controls. These policies are subject to board approval and on going review by the Risk and Capital Management Committee. Compliance with regulation, legal and ethical standards is a high priority for the Company and the risk, compliance and finance teams take an important oversight role in this regard.

The Company has developed a framework for identifying the risks that each business sector is exposed to and their impact on economic capital through the Risk and Capital Management Committee. This process is risk based and uses Individual Capital Assessment principles to manage capital requirements and to ensure the Company has the financial strength and capital adequacy to support the growth of the business and to meet the requirements of our shareholders as well as policyholders, regulators and rating agencies.

The Company's activities expose it to a number of financial risks. In particular, the key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from policies as they fall due. The most important components of financial risk are *currency risk, credit risk, liquidity risk and interest rate risk.*

Currency risk - this is where the Company is exposed to currency risk in respect of assets and liabilities denominated in currencies other than US Dollars, the functional currency of the Company. The risk is controlled by holding an appropriate level of funds in the relevant currency to meet expected liabilities.

Interest rate risk - this arises primarily from investment in fixed interest securities.

Credit risk - this is where a counterparty is judged to be unable to pay amounts in full when due. Key areas where the Company is exposed to credit risk are:

- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance contract holders;
- amounts due from insurance intermediaries; and
- investment in debt securities and other fixed income securities

The Company places a limit on its exposures to a single counterparty or group of counterparties. The payment history and financial security of intermediaries and policyholders are reviewed when assessing credit risk.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim the Company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an on going basis, not just prior to finalisation of any contract.

Liquidity risk - the risk that cash may not be available to pay obligations when due at a reasonable cost. The Company holds a significant proportion of its financial assets in a highly liquid form minimising the exposure to liquidity risk.

Operational risk - the risk that errors caused by people, processes or systems lead to loss. The Company seeks to manage this risk through the use of detailed procedure manuals and a structured programme of testing of processes and systems by Internal Audit.

Group risk - the risk that problems arising elsewhere in the group could adversely affect the Company's business and financial position.

Regulatory risk - the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. The Company is required to comply with the requirements of the Financial Services Authority and regulatory bodies in other states in which it carries on business.

Dividends

No dividends have been paid during the year (2011: £21.3m).

Policy and payment of creditors

The Company's policy concerning the payment of the amounts due in respect of the settlement of insurance and reinsurance claims is to pay when due in accordance with the terms of the insurance or reinsurance contract.

The Company's policy concerning the payment of creditors, excluding the amounts due in respect of settlement of insurance and reinsurance claims, has long been to pay suppliers in accordance with their terms of payment. The policy applies to all creditor payments for revenue and capital supplies of goods and services without exception. The Company's average creditor payment period as at 31 December 2012 was 30 days (2011: 20 days).

Charitable and political donations

The UK Group makes its charitable donations centrally; consequently, the Company made no charitable donations during the year ended 31 December 2012 (2011: £nil).

No political donations were made during either the current or the prior reporting period.

Independent Auditors

The auditors, PricewaterhouseCoopers LLP, have expressed their willingness to continue in office as auditors and accordingly a resolution to propose their reappointment will be submitted at the forthcoming annual general meeting.

Statement of disclosure of information to auditors

Each of the persons who are a director at the date of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the director has taken all steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

REPORT OF THE DIRECTORS (continued)

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' 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 prepared 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;
- 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 Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the board

B J Cook
Chairman and CEO
Walsingham House
35, Seething Lane
London EC3N 4AH

27 March 2013

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HCC INTERNATIONAL INSURANCE COMPANY PLC

We have audited the financial statements of HCC International Insurance Company PLC for the year ended 31 December 2012 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), having regard to the statutory requirement for insurance companies to maintain equalisation provisions. The nature of equalisation provisions, the amounts set aside at 31 December 2012, and the effect of the movement in those provisions during the year on shareholders' funds, the balance on the general business technical account and profit before tax, are disclosed in Note 23.

Respective responsibilities of directors and auditors

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 Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2012 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HCC INTERNATIONAL INSURANCE COMPANY PLC (continued)

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Alex Bertolotti (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

28 March 2013

PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2012

	NOTES	2012	2011
Technical account – general business		**£'000**	**£'000**
Earned premiums, net of reinsurance			
Gross premiums written	1	284,932	252,332
Outward reinsurance premiums		(73,063)	(68,779)
Net written premiums		211,869	183,553
Change in the gross provision for unearned premiums		(17,073)	(9,234)
Change in the provision for unearned premiums, reinsurers' share		5,060	(9,140)
Change in the net provision for unearned premiums		(12,013)	(18,374)
Earned premiums, net of reinsurance		199,856	165,179
Allocated investment return transferred from the non-technical account	5	11,985	8,608
Total technical income		211,841	173,787
Claims incurred, net of reinsurance			
Claims paid:			
- gross amount		83,234	92,474
- reinsurers' share		(39,496)	(28,457)
Net claims paid		43,738	64,017
Change in the provisions for claims:			
- gross amount		21,031	76,391
- reinsurers' share		9,080	(46,748)
Change in the net provision for claims		30,111	29,643
Claims incurred, net of reinsurance		73,849	93,660
Net operating expenses	3	77,372	56,816
Change in equalisation provision	23	10,192	8,365
Total technical charges		161,413	158,841
Balance on the technical account for general business		50,428	14,946

All activities relate to continuing operations.

PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2012

	NOTES	2012	2011
Non-technical account		**£'000**	**£'000**
Balance on the general business technical account		50,428	14,946
Investment income	4	29,346	11,636
Unrealised gains on investments	4	11,051	6,819
Investment expenses and charges	4	(1,399)	(330)
Unrealised losses on investments	4	(2,146)	(4,938)
Allocated investment return transferred to general business technical account	5	(11,985)	(8,608)
Other charges	6	(464)	(387)
Profit on ordinary activities before tax		74,831	19,138
Tax on profit on ordinary activities	11	(13,892)	(3,483)
Profit for the financial year		60,939	15,655

All activities relate to continuing operations.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 December 2012

	NOTES	2012	2011
		£'000	**£'000**
Profit for the financial year		60,939	15,655
Currency translation differences	22	(8,933)	183
Dividend received from subsidiary undertakings	14	(15,938)	(2,469)
Revaluation of subsidiary undertaking	14	(2,243)	5,129
Total recognised gains for the period		33,825	18,498

BALANCE SHEET

As at 31 December 2012

	NOTES	2012	2011
Assets		**£'000**	**£'000**
Intangible assets			
Goodwill	12	8,601	9,996
Investments			
Land and buildings	13	154	154
Investments in subsidiary undertakings	14	63,073	67,879
Other financial investments	15	394,546	291,907
		466,374	369,936
Reinsurers' share of technical provisions			
Provision for unearned premiums		30,672	26,881
Claims outstanding		90,847	103,035
		121,519	129,916
Debtors			
Debtors arising out of direct insurance operations			
- Policyholders		12,427	14,135
- Intermediaries		26,260	24,403
Debtors arising out of reinsurance operations		23,996	21,165
Other debtors	16	3,424	19,195
		66,107	78,898
Other assets			
Tangible assets	17	3,473	4,432
Deposits from third parties		17,979	20,603
Cash at bank and in hand		16,447	8,716
		37,899	33,751
Prepayments and accrued income			
Accrued interest and rent		4,450	3,991
Deferred acquisition costs		32,848	31,192
Other prepayments and accrued income		65	114
		37,363	35,297
Total assets		729,262	647,798

BALANCE SHEET

As at 31 December 2012

	NOTES	2012	2011
Liabilities		**£'000**	**£'000**
Capital and reserves			
Called up share capital	20	96,048	96,048
Revaluation reserve	22	13,787	31,968
Currency exchange reserve	22	10,648	19,605
Other reserves	22	216	850
Profit and loss account	22	94,180	33,241
Total shareholders' funds	21	214,879	181,712
Technical provisions			
Provision for unearned premiums		132,538	121,067
Claims outstanding		259,344	243,070
Equalisation provision	23	28,368	19,182
		420,250	383,319
Provisions for other risks and charges	19	-	-
Creditors			
Creditors arising out of direct insurance operations		4,116	809
Creditors arising out of reinsurance operations		24,373	32,719
Other creditors including taxation and social security	18	15,964	17,072
Deposits from third parties		17,979	20,603
		62,432	71,203
Accruals and deferred income		31,701	11,564
Total liabilities		729,262	647,798

The financial statements on pages 20 to 42 were approved by the Board of Directors on 27 March 2013 and were signed on its behalf by

K L Letsinger
Director

ACCOUNTING POLICIES

Basis of presentation

The financial statements have been prepared under the provision of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410) relating to insurance companies and with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers ("the ABI SORP") dated December 2005 (as amended in December 2006), except for the inclusion of foreign exchange gains and losses in the technical account.

The financial statements have been prepared in accordance with applicable accounting standards. A summary of the Company's accounting policies is set out below.

Compliance with Statement of Standard Accounting Practice ("SSAP") 19 "Accounting for Investment Properties" requires departure from the requirements of the Companies Act 2006 relating to depreciation and an explanation of the departure has been given in the Accounting policies relating to investments below.

Cash flow statement and related party disclosures

As a wholly owned subsidiary, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS1 (revised 1996). The Company is also exempt under the terms of FRS8 from disclosing related party transactions with entities that are part of the HCC Insurance Holdings, Inc. group or investees of the HCC Insurance Holdings, Inc. group.

Basis of consolidation

The Company is exempt from the obligation to prepare and deliver group accounts by virtue of Schedule 4 to SI 2008/410 in that the Company is included in the consolidated accounts of its ultimate parent company whose published accounts are considered to be compatible with the requirements of the European Union's Seventh Directive.

The financial statements present information about the Company as an individual undertaking and not about its group, except for the disclosure of auditors' remuneration in Note 7.

Comparatives

Where necessary, comparative amounts have been adjusted to conform to changes in presentation in the current year.

Basis of accounting

Insurance contracts

The underwriting results are determined on an annual basis whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

(a) Premiums written

Premiums written relate to business incepted during the year, together with any differences between booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet receivable or notified to the Company.

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

(b) Unearned premiums

Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on a time apportionment basis or on an exposure basis where appropriate.

(c) Acquisition costs

Acquisition costs, which represent commission and other related direct expenses, are expensed in the period in which the related premiums are earned.

(d) Claims incurred

Claims incurred comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and related loss adjustment expenses, together with any other adjustments to claims for previous years. Where applicable, deductions are made for salvage and other recoveries.

(e) Claims provisions

Provision is made at the year-end for the estimated costs of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the Company. The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries. The Company takes all reasonable steps to ensure it has appropriate information regarding its claims exposures; however, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims incurred but not reported ("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 more information about a claim is generally available. Claims IBNR may often not be apparent to the insurer until many years after the event giving rise to the claim has happened. Classes of business where claims are typically reported relatively quickly after the event tend to display lower levels of volatility in the claims tail. In calculating the cost of unpaid claims the Company uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of 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;
- the effects of inflation and market environment (e.g. legal and societal factors);
- changes in the mix of business;
- the impact of large losses; and
- movements in industry benchmarks.

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

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

Where possible the Company adopts multiple techniques to estimate the required level of provisions; this assists in giving greater understanding of the trends inherent in the data being projected. The projections given by various methodologies also assist in assessing the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

Credit and Surety, London Market and other business

The majority of the business is "short tail", that is, there is not a significant delay between the occurrence of the claim and the claim being reported to the Company. The cost of claims notified to the Company at the balance sheet date is estimated on a case by case basis to reflect the individual circumstances of each claim. The ultimate expected cost of claims is projected from this data by reference to statistics which show how estimates of claims incurred in previous periods have developed over time to reflect changes in the underlying estimates of the cost of notified claims and late notifications.

Professional Indemnity and financial lines

These claims are longer tail than those of the other classes of business described above and so a larger element of the claims provision relates to IBNR. Claims estimates for the Company's Professional Indemnity business are derived from a combination of loss ratio based estimates and an estimate based upon actual claims experience. The initial estimate of the loss ratio is based on the experience of previous years adjusted for factors such as premium rate changes, claims inflation and market environment. The estimate of claims inflation and anticipated market environment is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract.

(f) Reinsurance

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company (outwards reinsurance), and that meet the classification requirements for insurance contracts, are classified as reinsurance contracts. Insurance contracts entered into by the Company under which the contract holder is another insurer (inwards reinsurance) are included within insurance contracts, provided there is significant transfer of insurance risk.

The amounts that will be recoverable from reinsurers are estimated based on gross loss provisions, having due regard to collectability. Reinsurance recoveries in respect of estimated claims incurred but not reported are assumed to be consistent with the historical pattern of such recoveries, adjusted to reflect changes in the nature and extent of 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 of the reinsurance companies. The reinsurers' share of claims incurred, in the profit and loss account, reflects the amounts received or receivable from reinsurers in respect of those claims incurred during the period. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised in the Profit and Loss Account as "outwards reinsurance premiums".

(g) Unexpired risk provisions

Provision is made for any deficiencies arising when unearned premiums, net of associated acquisition costs, are insufficient to meet expected claims and expenses. The expected claims are calculated based on information available at the balance sheet date.

Unexpired risk surpluses and deficits are offset where business classes are managed together and a provision is made if an aggregate deficit arises. The unexpired risk provision is included within other technical provisions.

(h) Equalisation provision

An amount is set aside as equalisation provision in accordance with the FSA's Handbook for the purpose of mitigating exceptionally high loss ratios in future years. The amounts provided are not liabilities because they are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date. Notwithstanding this, they are required by Schedule 3 to SI 2009/410 to be included within technical provisions.

Goodwill

Goodwill is capitalised at cost and amortised over its useful economic life on a straight line basis over 15 years. No amortisation is charged in the year of acquisition. As goodwill is amortised over a period of less than 20 years, annual impairment reviews are not undertaken. However on an annual basis the directors consider whether there are any events or changes in circumstances which indicate that the carrying value of goodwill may not be recoverable. The gain or loss on any subsequent disposal of an entity will include any unamortised goodwill.

Investments

(a) Land and buildings

Land and buildings are valued at open market valuation. Full valuations are made by independent and professionally qualified valuers every five years. In the intervening years the valuations are updated by the directors with the assistance of independent professional advice where it is considered necessary.

In accordance with SSAP19, no depreciation or amortisation is provided in respect of freehold investment properties and leasehold investment properties with over 20 years term remaining. The requirement of the Companies Act 2006 is to depreciate all properties. This requirement conflicts with the generally accepted accounting principle set out in SSAP19. The directors consider that, as these properties are held for investment, to depreciate them would not give a true and fair view, and that it is necessary to adopt SSAP19 in order to give a true and fair view.

(b) Subsidiary undertakings

Investments in subsidiary undertakings are stated in the Balance Sheet of the Company at current net asset value.

(c) Other financial investments

Other financial investments are stated at market value, with unrealised gains and losses taken to the non-technical account, except where there is a positive intention to hold to maturity in which case the investments are valued at amortised cost. The amortisation is calculated so as to write off the difference between the purchase price and the maturity value over the life of the security, using the effective interest method.

ACCOUNTING POLICIES (continued)

Investment return

Investment return comprises all investment income (which includes the interest income for financial assets carried at amortised cost, using the effective interest method), realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses and interest payable. Interest, rent from investment property and expenses are accounted for on an accruals basis.

Realised gains and losses on investments held at market value are calculated as the difference between net sale proceeds and purchase price. In the case of investments included at amortised cost, realised gains and losses are calculated as the difference between sale proceeds and their latest carrying value. Movements in unrealised gains and losses on investments represent the difference between the market value at the balance sheet date and their market value at the previous balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier periods in respect of investment disposals in the current period.

Investment return is recorded in the non-technical account, except that investment return resulting from financial investments attributable to the general insurance business is transferred from non-technical to technical account.

Tangible assets

Tangible assets are capitalised and depreciated by equal instalments over their estimated useful lives. The principal annual rates used for this are as follows:

• Computer equipment	33%
• Fixtures, fittings and office equipment	20%
• Leasehold improvements	10%

The requirement of the Companies Act 2006 is to depreciate all tangible assets. However, the owner occupied freehold property is not depreciated on the basis that the depreciation charge is immaterial as the net realisable value of the property is greater than the carrying value. The carrying value is reviewed annually for impairments or changes in circumstances which might indicate that such value may not be fully recoverable. Any impairment in the value of the asset below the carrying value is charged to the Profit and Loss Account.

Taxation

Current tax is provided at the current rate of corporation taxation on the results for the year as adjusted by items of income and expenditure which are disallowed for taxation purposes.

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is calculated at the rates at which it is expected that the tax will arise. Deferred tax is recognised in the Profit and Loss Account for the period, except to the extent that it is attributable to a gain or loss that is recognised directly in the Statement of Recognised Gains and Losses. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax balances are not discounted.

Pension costs

HCC's International operations operate a Group Self Invested Personal Pension Scheme. Pension costs are expensed in full in the period to which they relate.

ACCOUNTING POLICIES (continued)

Foreign currencies

The accounting records are maintained in US Dollars, which is the Company's functional currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of transactions. Monetary assets and liabilities are revalued at period end rates and non-monetary assets and liabilities are recorded at historic rates. Foreign exchange gains and losses arising from the revaluation of foreign currencies into the Company's functional currency, together with settlement of foreign currency transactions, are recognised in the Profit and Loss Account.

Foreign exchange gains and losses arising from the translation from functional currency to the presentational currency, which is Sterling, are recognised in the Statement of Total Recognised Gains and Losses. The foreign exchange rates used for translation to the presentational currency are set out below.

a) assets and liabilities at the closing rate at the balance sheet date which for Sterling was £1 = $1.6168 (2011: $1.5456).

b) income and expenses at the average rate during the year which for Sterling was £1 = $1.5913 (2011: $1.6061).

Dividends

Dividends are accounted for in the period in which they are paid and received.

Share based payments

The Company has applied FRS 20 in its accounting for share options and restricted awards and units. See Note 6.

1. Segmental information

(a) Gross premiums written and gross premiums earned by class of business

	GROSS PREMIUMS WRITTEN		GROSS PREMIUMS EARNED	
	2012	2011	2012	2011
Direct insurance	**£'000**	**£'000**	**£'000**	**£'000**
Accident and health	10,077	9,113	10,141	8,310
Credit, political risk and suretyship	71,954	68,599	69,045	62,960
Fire and other damage to property	1,105	774	866	9,273
Marine, aviation and transport	20,827	21,822	20,951	17,853
Miscellaneous	3,084	3,035	2,601	3,036
Third party liability	95,532	81,121	87,223	76,966
	202,579	184,464	190,827	178,398
Reinsurance acceptances	82,353	67,868	77,032	64,700
	284,932	252,332	267,859	243,098

(b) Gross claims incurred, gross operating expenses and reinsurance balance by class of business

	GROSS CLAIMS INCURRED		GROSS OPERATING EXPENSES		REINSURANCE BALANCE	
	2012	2011	2012	2011	2012	2011
Direct insurance	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Accident and health	5,455	2,638	3,536	4,875	(793)	(3,999)
Credit, political risk and suretyship	26,935	26,398	24,954	16,062	(2,419)	(67)
Fire and other damage to property	(6,038)	25,546	54	3,791	(9,151)	2,725
Marine, aviation and transport	7,762	29,814	4,678	6,743	(16)	18,853
Miscellaneous	(15)	403	3,964	1,183	(1,802)	(2,630)
Third party liability	46,230	28,887	29,908	29,808	778	(14,490)
	80,329	113,686	67,094	62,462	(13,403)	392
Reinsurance acceptances	23,936	55,179	22,134	6,521	(12,328)	9,061
	104,265	168,865	89,228	68,983	(25,731)	9,453

The reinsurance balance represents the credit / (charge) to the technical account from the aggregate of all items relating to reinsurance outwards comprising premiums, claims and commissions.

1. Segmental information (continued)

(c) Analysis by geographic area

	GROSS PREMIUMS WRITTEN		PROFIT BEFORE TAXATION		NET ASSETS	
	2012	2011	2012	2011	2012	2011
	£'000	£'000	£'000	£'000	£'000	£'000
United Kingdom	242,544	209,315	73,778	15,209	203,710	170,576
Rest of Europe	42,388	43,017	1,053	3,929	11,169	11,136
	284,932	252,332	74,831	19,138	214,879	181,712

(d) Geographical location of policyholders

	GROSS PREMIUMS WRITTEN	
	2012	2011
	£'000	£'000
United Kingdom	129,948	114,264
Rest of Europe	100,332	91,296
Rest of the World	54,652	46,772
	284,932	252,332

2. Movement in prior years' provision for claims outstanding

	2012	2011
Surplus / (deficit) arising on prior years' provision, net of reinsurance	£'000	£'000
Accident and health	301	(135)
Credit and suretyship	5,154	535
Fire and other damage to property	(1,928)	(388)
Marine, aviation and transport	9,059	(318)
Third party liability	(496)	5,652
	12,090	5,346

3. Net operating expenses

	2012	2011
	£'000	£'000
Commission costs	56,710	50,260
Reinsurance commissions and profit participation	(11,856)	(12,167)
Change in deferred acquisition costs	(3,079)	(5,521)
Administrative expenses	33,285	27,014
Foreign exchange losses (gains)	2,312	(2,770)
	77,372	56,816

Total commission written during the period in respect of direct insurance was £41,731,230 (2011: £34,944,743).

4. Investment return

	2012	2011
Investment income	**£'000**	**£'000**
Income from other financial investments	9,876	8,886
Bank interest receivable and similar income	12	42
Investment property rental income	12	11
Dividend from group undertakings	15,938	2,469
Gains on the realisation of investments	3,508	228
	29,346	11,636
Investment management fees	(393)	(306)
Losses on the realisation of investments	(1,006)	(24)
	(1,399)	(330)
Net unrealised gains on investments		
Unrealised gains on investments	11,051	6,819
Unrealised losses on investments	(2,146)	(4,938)
	8,905	1,881
Total investment return	36,852	13,187

5. Allocation of investment return

	2012	2011
	£'000	**£'000**
Investment income (Note 4)	29,346	11,636
Net unrealised gains on investments (Note 4)	8,905	1,881
Investment expenses and charges (Note 4)	(1,399)	(330)
Total investment return	36,852	13,187
Allocated investment return transferred to the general business technical account	(11,985)	(8,608)
Investment income retained in the non-technical account	24,867	4,579

6. Share based payments

Some staff have been granted share options and restricted stock awards and units in HCC Insurance Holdings, Inc. (HCCIH), the ultimate holding company. These options and awards are part of the HCCIH Group's 2008 Flexible Incentive Plan which is administered by the Compensation Committee of HCCIH.

Each option granted under the plan may be used to purchase one share of common stock in HCCIH. Outstanding options vest over a period of up to five years, which is the requisite service period, and expire six to ten years after grant date.

Each restricted stock award and unit entitles the recipient to one share or equivalent unit of common stock in HCCIH. Outstanding restricted stock awards and units vest over a period of up to ten years, which is the requisite service period.

Where costs of some employees are shared by more than one group entity the net amount charged to the Company is disclosed, where possible, but data in respect of number of options is not pro-rated.

The Company has applied FRS 20 in its accounting for the options and awards which requires recognition at fair value. Fair value is calculated using an option pricing model and is expensed to the Profit and Loss Account over the vesting period of the option or award. In 2012 £464,000 (2011: £387,000) of stock based compensation was expensed. The accrued expense is recognised in Other Reserves in Shareholders' Funds and is adjusted each year to reflect the expected and actual level of vesting.

The table below shows the weighted-average fair value of options granted during the year and the related weighted-average assumptions used in the Black-Scholes model which is used to determine the fair value of an option on its grant date. The risk-free interest rate is based on the U.S. Treasury rate that most closely approximates each option's expected term. Expected volatility is based on the historical volatility of HCCIH's stock over a period matching each option's expected term. Dividend yield is based on an average of HCCIH's historical dividend payments divided by the stock price. Historical exercise patterns by grant type are used to estimate the expected option life. No options were granted in 2012.

	2012	2011
Expected volatility	-	34%
Expected life	-	5.8 years
Risk free rate	-	1.4%
Expected dividend expressed as dividend yield	-	2.0%
Fair value per option granted	-	$7.84

A reconciliation of option movements over the year to 31 December 2012 is shown below:

	2012		2011	
	NUMBER OF OPTIONS '000	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS '000	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at 1 January	189	$29.68	350	$27.13
Granted	-	-	9	$30.25
Forfeited/Expired	-	-	(50)	$20.86
Exercised	(123)	$30.40	(120)	$25.88
Outstanding at 31 December	66	$28.34	189	$29.68
Exercisable at 31 December	20	$28.88	105	$30.37

The weighted average share price at the date of exercise was $34.38. For options outstanding at the end of the year, the exercise prices ranged from $26.92 to $31.11 and the weighted average remaining contractual life was 2.3 years.

Restricted stock awards

The fair value of HCCIH's restricted stock awards and units are based on the closing price of HCCIH's common stock on the grant date. All outstanding stock awards earn dividends during the vesting period. The following table details the 2012 activity for the restricted stock awards;

	NUMBER OF AWARDS '000	2012 WEIGHTED AVERAGE GRANT DATE FAIR VALUE	NUMBER OF AWARDS '000	2011 WEIGHTED AVERAGE GRANT DATE FAIR VALUE
Outstanding at 1 January	101	$26.77	94	$26.61
Awarded	25	$32.05	33	$28.45
Forfeited	-	-	(26)	$28.31
Vested	(25)	$22.44	-	-
Outstanding at 31 December	101	$29.17	101	$26.77

For awards outstanding at the end of the year, the weighted average remaining contractual life was 3.1 years.

7. Auditors' remuneration

During the year the Company and its subsidiary undertakings obtained the following services from the Company's auditors at costs as detailed below:

	2012	2011
	£'000	**£'000**
Fees payable for the audit of the Company's accounts	193	160
Fees payable for the audit of the Company's subsidiary undertakings' accounts	112	104
Audit related assurance services	37	36
Tax compliance services	15	15
Tax advisory services	15	14
Other assurance services	-	-
Other services	-	-
	372	329

8. Staff costs

All staff are employed by HCC Service Corporation (UK). The disclosures below relate to staff whose costs are directly incurred for the Company. The costs of staff providing central services for group entities are allocated and recharged to the Company as a management fee. For disclosure purposes, it is not practical to allocate these amounts to the underlying entities to which the staff provide services.

	2012	2011
	£'000	£'000
Wages and salaries	11,204	10,084
Social security costs	1,502	1,271
Other pension costs	833	751
	13,539	12,106

The average number of employees (including executive directors) of the Company during the year was as follows:

	2012	2011
	Number	Number
Administration and finance	44	38
Claims	40	30
Underwriting	93	84
	177	152

9. Directors' emoluments

	2012	2011
	£'000	£'000
Aggregate emoluments	1,470	777
Pension contributions to Company's pension scheme	69	36

Retirement benefits are accruing to five directors (2011: three) under the Company's defined contribution pension scheme. Two directors exercised share options in the year and four directors are entitled to receive shares under a long term incentive scheme.

Highest paid director

	2012	2011
	£'000	£'000
Aggregate emoluments	488	449
Pension contributions to Company's pension scheme	-	25

10. Dividends

	2012	2011
	£'000	£'000
No dividends were paid on ordinary shares in 2012 (2011: 22.19p per share)	-	21,312

11. Taxation

	2012	2011
	£'000	£'000
Current UK corporation tax on income for the period	14,635	4,292
Adjustment in respect of prior periods	(743)	(355)
	13,892	3,937
Deferred tax – origination and reversal of timing differences	-	(454)
Tax on profit on ordinary activities	13,892	3,483

The tax assessed for the year is lower than the standard rate of corporation tax in the UK. The differences are explained below:

	2012	2011
	£'000	£'000
Profit on ordinary activities before tax	74,831	19,138
Tax on profit on ordinary activities at standard rate of 24.5% (2011: 26.5%)	18,334	5,072
Expenses not deductible for tax purposes	38	(23)
Stock option costs	(322)	356
Amortisation of goodwill	201	265
Dividends received	(3,905)	(654)
Depreciation in excess of capital allowances	100	166
Adjustments to tax charge in respect of prior periods	(743)	(355)
Local tax on foreign branches	6	56
Utilisation of group tax losses	-	(590)
Functional currency adjustment	183	(356)
Current tax charge for the period	13,892	3,937

12. Goodwill

	2012
Cost	**£'000**
At 1 January 2012	14,995
Foreign exchange impact of translation to closing rate	(660)
At 31 December 2012	14,335
Amortisation	
At 1 January 2012	4,999
Amortisation charge for the year	822
Foreign exchange impact of translation to closing rate	(87)
At 31 December 2012	5,734
Net book value	
At 31 December 2012	8,601
At 31 December 2011	9,996

The goodwill arose on the acquisition of the HCC Diversified Financial Products Limited book of professional indemnity business in 2007.

13. Land and buildings

	31 DECEMBER	
	2012	2011
	£'000	**£'000**
Leasehold land and buildings	154	154

The investment property, which consists of long leasehold industrial units, was valued by the directors at 31 December 2012 on an open market basis, using reasonable judgements and the contemporary evidence available. The valuations of the properties have been incorporated in the accounts as disclosed in the accounting policies.

14. Investment in subsidiary undertakings

	2012	2011
	£'000	**£'000**
At 1 January	67,879	65,184
Dividend received from subsidiary undertakings	(15,938)	(2,469)
Revaluation of subsidiary undertakings	(2,243)	5,129
Additions in the year	16,270	-
Foreign exchange impact on translation to closing rate	(2,895)	35
At 31 December	63,073	67,879

The additions in the year comprise a capital contribution made by the Company to HCCE.

The movement in the revaluation of subsidiary undertakings relates to HCCE, Manchester Dickson Holdings Limited and HCCI Credit Services Limited which have been included at their current net asset value. The directors believe that the carrying value of the investments is supported by the underlying net assets.

Investments in subsidiary undertakings comprise the equity holdings at current value less any impairment, in the following subsidiary companies:

NAME	PRINCIPAL ACTIVITY	CLASS OF SHARES	EFFECTIVE % HELD
Houston Casualty Company Europe, Seguros y Reaseguros, S.A. (incorporated in Spain)	Insurance company	A & B Shares	100%
HCCI Credit Services Limited	Information	Ordinary	100%
Manchester Dickson Holdings Limited	Holding company	Ordinary	100%
Dickson Manchester & Company Limited*	Insurance broker	Ordinary	100%
HCC Diversified Financial Products Limited*	Insurance agency	Ordinary	100%

* Indirect holding via subsidiary
All subsidiary companies are incorporated in England and Wales unless stated above.

15. Other financial investments

	CARRYING VALUE 31 DECEMBER		PURCHASE PRICE 31 DECEMBER	
	2012	2011	2012	2011
	£'000	£'000	£'000	£'000
Shares and other variable-yield securities and units in unit trusts	28,807	6,342	28,807	6,342
Debt securities and other fixed-income securities				
- Current value	365,739	235,451	353,672	228,824
Debt securities and other fixed-income securities				
- Held to maturity at amortised cost	-	50,114	-	52,963
	394,546	291,907	382,479	288,129

Debt securities and other fixed-income securities comprise listed investments.

Certain debt securities and other fixed income securities have been classified as held to maturity investments and are valued at amortised cost. The market value of these securities is £nil (2011: £50,534,897). The net surplus of the amounts payable at maturity over the amortised cost is £nil (2011: £2,049,657).

16. Other debtors

	31 DECEMBER	
	2012	2011
	£'000	£'000
Other debtors	997	37
Amounts owed by group companies	2,427	19,158
	3,424	19,195

There are no debtors falling due after more than one year. Amounts owed by group undertakings are short-term, unsecured, interest free and have no fixed date of repayment.

17. Tangible assets

	LEASEHOLD IMPROVE-MENTS	LAND AND BUILDINGS	COMPUTER EQUIPMENT	FIXTURES, FITTINGS AND OFFICE EQUIPMENT	TOTAL
Book cost	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
At 1 January 2012	1,605	2,131	7,345	1,298	12,379
Additions	-	-	4	6	10
Foreign exchange impact of translation to closing rate	(70)	(101)	(324)	(57)	(552)
At 31 December 2012	1,535	2,030	7,025	1,247	11,837
Depreciation					
At 1 January 2012	929	-	5,804	1,214	7,947
Charge for the year	164	-	566	37	767
Foreign exchange impact of translation to closing rate	(41)	-	(256)	(53)	(350)
At 31 December 2012	1,052	-	6,114	1,198	8,364
Net book value					
31 December 2012	483	2,030	911	49	3,473
31 December 2011	676	2,131	1,541	84	4,432

Land and buildings is occupied by the Company for its own use.

18. Other creditors including taxation and social security

	31 DECEMBER 2012	31 DECEMBER 2011
	£'000	**£'000**
Corporation tax	4,463	2,595
Other creditors	-	695
Intercompany loan	1,522	-
Amounts owed to group companies	9,979	13,782
	15,964	17,072

The intercompany loan had a maturity date of 31 December 2013, was unsecured and bore interest at 2.218%. It was repaid early in 2013. Amounts owed to group companies are short-term, unsecured, interest free and have no fixed date of repayment.

19. Provisions for other risks and charges

	2012	2011
	£'000	£'000
At 1 January 2012	-	454
Changes in accelerated capital allowances	317	(96)
Short-term timing differences	(317)	(358)
At 31 December 2012	-	-

Provision for deferred taxation consists of the following amounts:

	2012	2011
	£'000	£'000
Accelerated capital allowances	56	373
Short-term timing differences	(56)	(373)
	-	-

No deferred tax provision has been made on the revaluation of the subsidiary undertakings as any sale of the asset is under the Company's control and it currently has no intention of selling them.

20. Share capital

	31 DECEMBER	
	2012	2011
Ordinary shares	£'000	£'000
Allotted, called up and fully paid:		
96,047,813 (2011: 96,047,813) ordinary shares of £1 each	96,048	96,048
Authorised:		
96,047,813 (2011: 96,047,813) ordinary shares of £1 each	96,048	96,048

21. Reconciliation of movements in shareholders' funds

	2012	2011
	£'000	£'000
Shareholders' funds at 1 January 2012	181,712	185,046
Profit for the financial year	60,939	15,655
Net foreign exchange differences (Note 22)	(8,957)	183
Share based payments	(634)	(520)
Dividends paid (Note 10)	-	(21,312)
Dividend received from subsidiary undertakings (Note 14)	(15,938)	(2,469)
Revaluation of subsidiary undertakings (Note 14)	(2,243)	5,129
Net addition / (reduction) to shareholders' funds	33,167	(3,334)
Shareholders' funds at 31 December 2012	214,879	181,712

22. Reserves

	REVALUATION RESERVE	CURRENCY EXCHANGE RESERVE	OTHER RESERVES	PROFIT AND LOSS ACCOUNT
	£'000	£'000	£'000	£'000
At 1 January 2012	31,968	19,605	850	33,241
Exchange differences	-	(8,957)	-	-
Profit for the financial year	-	-	-	60,939
Share based expense	-	-	464	-
Share based charge on exercise	-	-	(1,098)	-
Dividend received from subsidiary undertakings (Note 14)	(15,938)	-	-	-
Revaluation of subsidiary undertakings (Note 14)	(2,243)	-	-	-
At 31 December 2012	13,787	10,648	216	94,180

23. Equalisation provision

The effect of the equalisation provision is to reduce shareholders' funds by £28,368,000 (2011: £19,182,000) before tax. 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 before tax by £10,192,000 (2011: £8,365,000).

24. Capital commitment

There were no capital commitments contracted for but not provided for at 31 December 2012 (2011: £nil).

25. Pension commitments

HCCIH's international operations operate a Group Self Invested Personal Pension Scheme. The assets of the pension scheme are held separately from those of HCCIH's international operations in an independently administered fund. The pension cost charged to the Profit and Loss Account for the year was £832,651 (2011: £751,228). The accrued pension cost outstanding as at 31 December 2012 was £nil (2011: £nil).

26. Ultimate parent company and controlling party

HCCIH, incorporated in the USA and listed on the New York Stock Exchange, is regarded by the directors as the Company's ultimate parent company and controlling party.

The largest and smallest group in which the results of the Company are consolidated is that of which HCCIH is the parent company. Copies of the consolidated financial statements of HCCIH can be obtained from its principal office at 13403, Northwest Freeway, Houston, Texas 77040-6094, USA, or from its website at hcc.com/Investor Relations/Financials/Financial Reports.

HCCI Group Limited, a company incorporated in England and Wales, is the Company's immediate parent company.

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