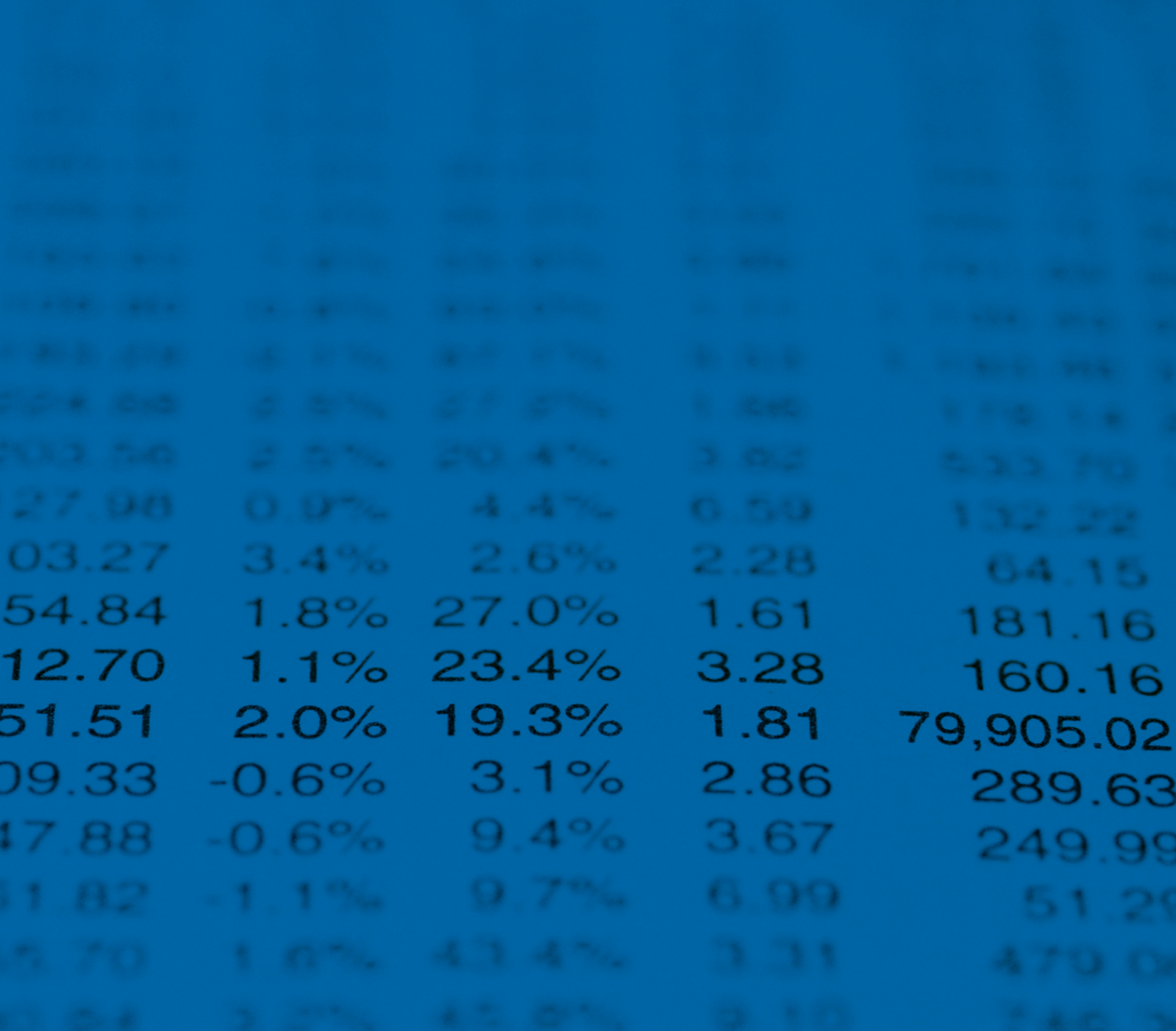
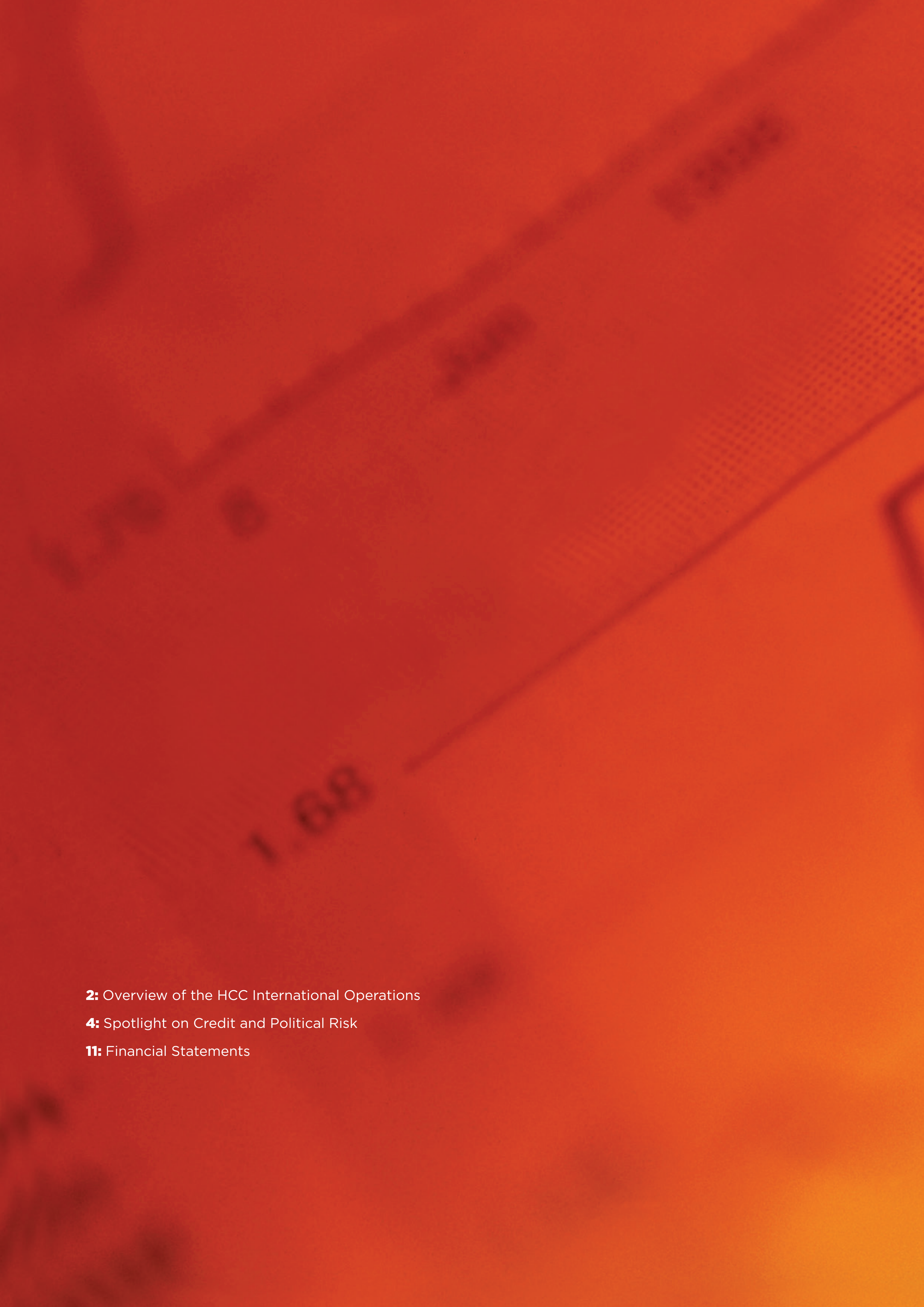
HCC

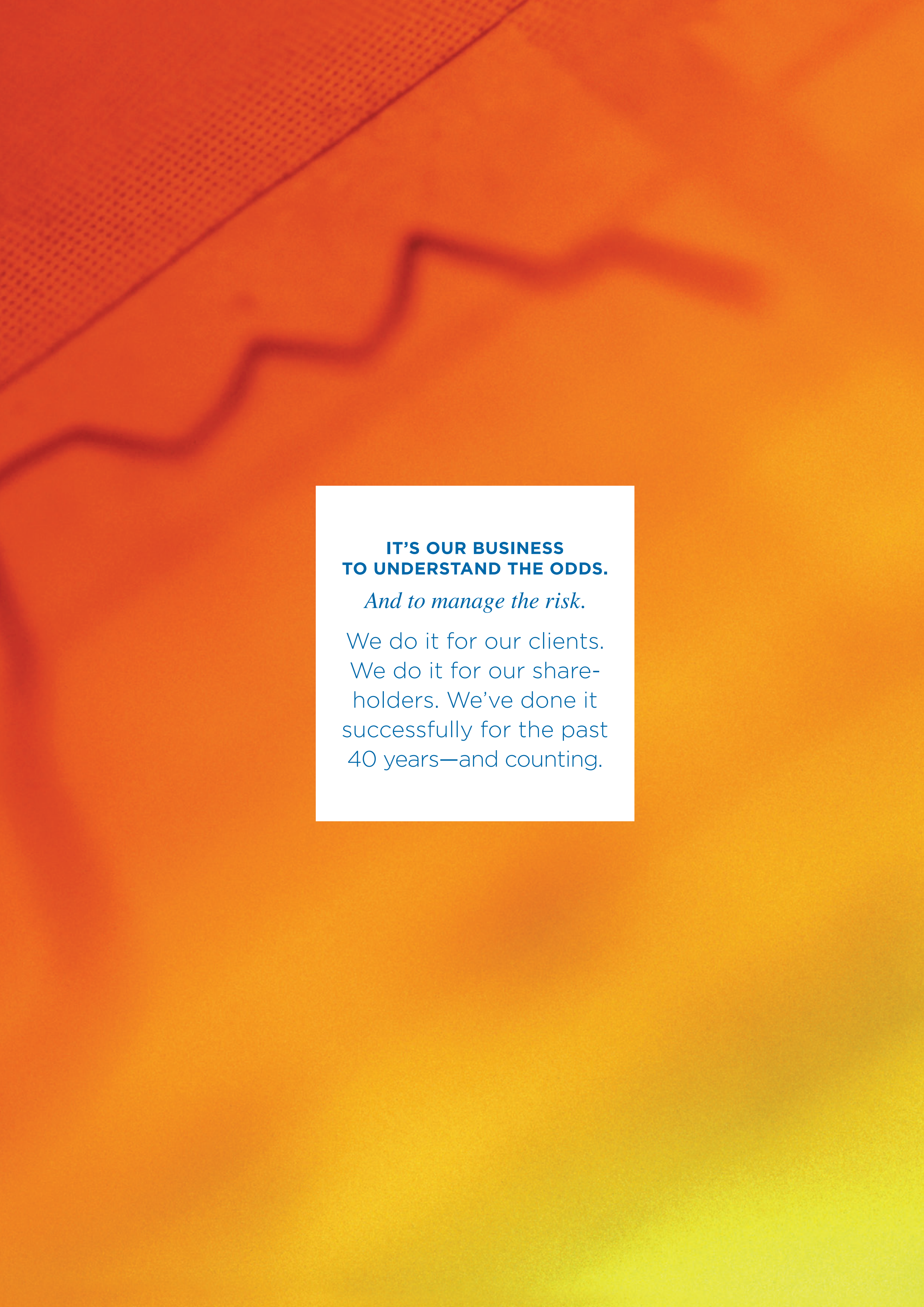
HCC International

2013 Annual Review

Including HCC International Insurance Company PLC Report & Accounts







**IT'S OUR BUSINESS
TO UNDERSTAND THE ODDS.**

And to manage the risk.

We do it for our clients. We do it for our shareholders. We've done it successfully for the past 40 years—and counting.

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

Why HCC International?

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

Contract certainty and treating customers fairly embedded in all our processes

Efficient and fair claims management teams

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

HCCIG 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 (HCCI), authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA

Houston Casualty London Branch, authorised by the PRA and regulated by the FCA and the PRA

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

HCC Underwriting Agency Ltd, a Lloyd's agency managing Syndicate 4141, authorised by the PRA and regulated by the FCA and the PRA

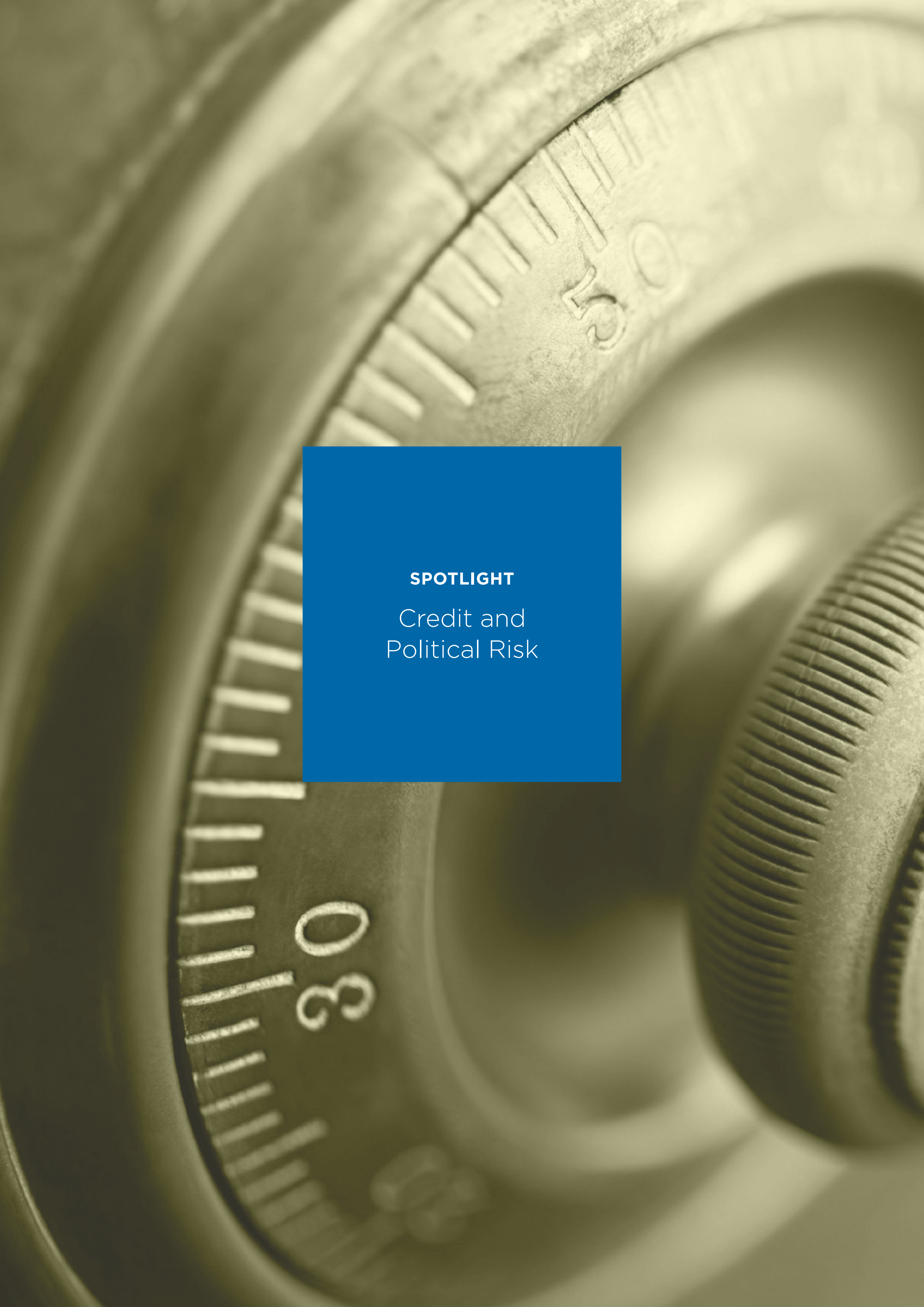
HCCIG includes the following agency operations:

HCC Specialty Limited acts as an underwriting agency 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 Medical 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. (HCC), a leading international Specialty Insurance group. HCC has assets exceeding US$10.3bn and shareholders' equity of US$3.7bn. The major U.S. and international insurance company subsidiaries of HCC are rated 'AA' (Very Strong) by Standard & Poor's.



SPOTLIGHT

Credit and Political Risk

HCC International Insurance Company PLC (HCCI) has operated in the International and UK Credit and Political Risk markets for 20 years from offices in London and Leicester. During that period we have helped our clients navigate through some turbulent economic times including the 2008 financial crisis and subsequent recession. With long-standing and strong relationships with all major and specialist brokers and an excellent reputation for claims handling, we have built a team who are well-known in the market for their expertise and underwriting skills.

In today's economy it is more important than ever to seek opportunities, whether in domestic or global markets. As companies expand their operations, they have to understand and manage the unique credit and political risks that arise from trading with new customers or in new markets, as well as remaining fully informed on their existing relationships. The domestic and the international credit and political risk coverages offered by HCCI's diverse policy range can be an important part of an effective risk management strategy to deal with these risks. Our coverage allows companies to pursue opportunities wherever they are based, while managing the risks inherent in doing business.

HCCI has two divisions within its Credit and Political Risk unit. The UK Trade Credit division operates from our office in Leicestershire and specialises in writing predominately UK based customers, providing Whole Turnover Credit Insurance via both specialist and major brokers. The HCC Credit division operates from our office in London, writing International Credit, predominately on an excess single buyer basis and Political Risk coverages via London Market brokers.

UK TRADE CREDIT - UK WHOLE TURNOVER CREDIT INSURANCE

HCCI's UK Trade Credit division started in 1992 as DeMontfort in Leicester writing UK small and medium sized enterprises under the Credit Shield brand. Following the acquisition of DeMontfort by HCCI in 2005, the account has grown to a core team of 40 including dedicated client executives, risk underwriters, claims technicians and a sales force writing approximately £22 million of income per annum. The business is growing to meet the requirements of our clients and we are looking to expand all of our product offerings, both within the UK and in exports.

More than 50% of all UK insolvencies involve customers who previously paid promptly and insolvency rates remain at a worryingly high level, in spite of the gradual economic recovery. Given those facts and because businesses may have up to 60% of their assets linked to their sales ledger, it means that potential payment problems present a serious issue.

HCCI's UK Whole Turnover Credit Insurance products are a proven way for businesses to reduce credit risk and protect business cash flow from insolvency and protracted default. Our clients are using our products as essential risk mitigation tools and our client base ranges from the small local trader to the large quoted company, across a broad range of industry sectors. We are recognised as specialists in the Construction Industry and in the Factoring / Finance Industry.

As well as our product offering, we have developed an expert IT system that supports the service we provide to our customers. It allows for instant on-line decision making and supports our focus on providing very high levels of customer service.

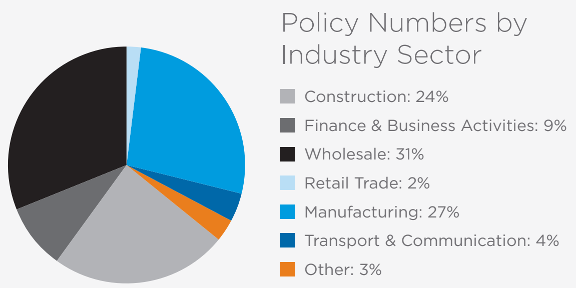
Our main products include:

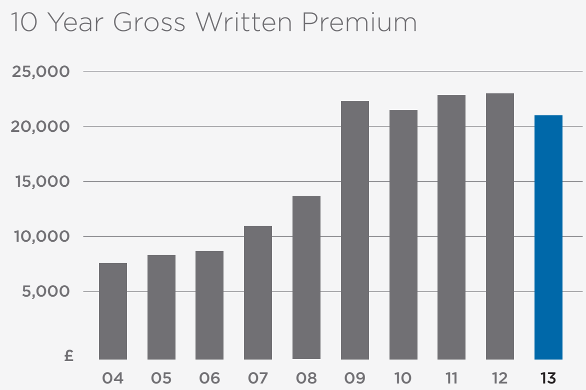
Trader Policy - our most popular whole turnover policy designed for businesses supplying goods or services on credit terms. It offers comprehensive cover for insolvency and protracted default on the policyholders' whole customer base.

Constructor Policy - designed by construction professionals using the language of the sector, especially for building trade contractors and sub-contractors. It offers the most comprehensive cover available in the UK market for insolvency and protracted payment default including cover for work executed retentions and final account balances which are common in the construction industry.

Specific Risk Policy - designed to cover a single UK customer, providing specific risk policies on UK buyers. It offers comprehensive cover for insolvency and protracted default.

Debt Collection / Overdue Accounts - HCC's partnership with Nelsons Solicitors LLP as our recommended debt collector is well established. Many of our policyholders regularly use Nelsons at discounted rates to ensure prompt collection of difficult debts, safe in the knowledge that if collection fails, their claim under our credit insurance policy will be settled quickly and without fuss.





Leicester Team

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Due to constant monitoring of buyers through our risk underwriting process, HCC is very often aware of the events signalling impending insolvency and therefore can react quickly and appropriately to help our customers mitigate the risk of loss.

Our claims department and personnel have the necessary skills and experience to deal with and settle credit insurance claims promptly and professionally. Our in-house claims team settle and pay the majority of claims submitted within just seven days. The key to our product is in the settlement of legitimate claims and this is something that HCCI prides itself in.

Keys to Our Success

Dedicated team of expert underwriters covering all sectors.

Experienced client executives supporting our policyholders from the start of the policy and throughout its entire life.

High quality easy to use products with exceptional customer service and strong information technology providing 24/7 on-line access and decisions.

Risk underwriting that provides early warning to our clients.

A team of expert construction professionals to advise and tailor wordings specifically for the construction market.

Quick and easy claims handling with majority of claims paid within seven days.

Senior Management Team

Jane Hull
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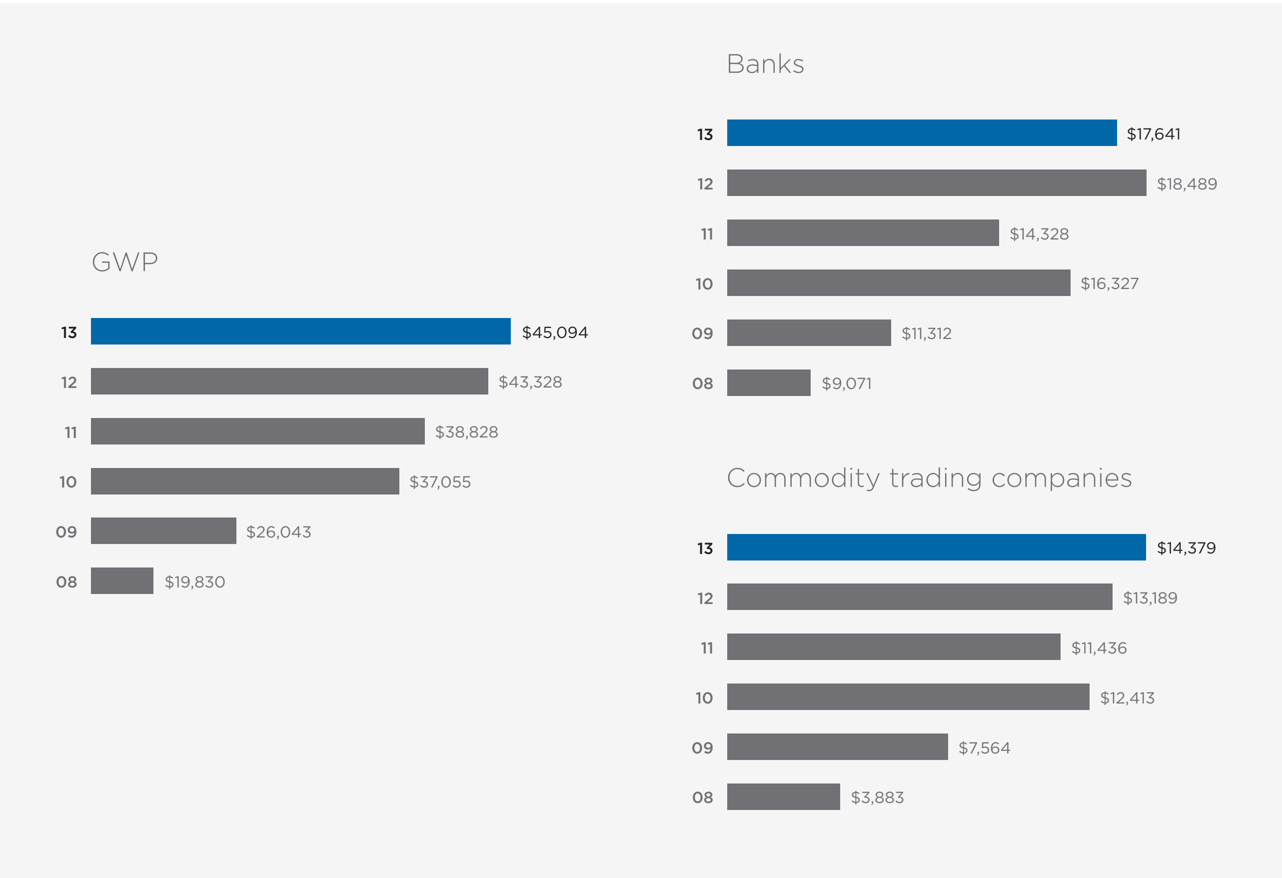
HCC CREDIT
INTERNATIONAL CREDIT AND POLITICAL RISK INSURANCE

The HCC Credit division has offices in both London and New York, albeit the business written for HCCI is written from the London office.

HCC Credit is a market leader in their field and issue policies worldwide for the full spectrum of international trade credit and political risks - essential for any company doing international business. Our clients include banks, trading companies and manufacturers that lend, trade and invest globally. We understand the demands of international business and can be flexible and responsive. We specialise in providing tailored solutions to our customers and their brokers. Our four specialist underwriters based in London write the full range of international trade credit and political risk coverages, including:

- **International Trade Credit** - single debtor and multi debtor trade credit coverage, for short and medium term trade credit exposures.
- **Bank Coverages** - comprehensive credit coverage for banks on credit exposures they face on letters of credit and structured trade financings.
- **Contract Frustration** - coverage on short and medium term (up to 7 years) contracts with foreign governments.
- **Confiscation, Expropriation, Nationalization, Deprivation** - coverage on fixed and mobile assets against all political risk perils.
- **Political Violence** - including revolution, insurrection, civil unrest, terrorism or war.
- **Non-honouring of letters of credit.**
- **Wrongful calling of on demand guarantees.**
- **Business Interruption.**
- **Inconvertibility of foreign currency or the inability to repatriate funds.**



Keys to Our Success

Well established presence in the London market and a recognised London lead.

'AA' (Very Strong) Standard & Poor's credit rating of HCCI.

Experienced panel of underwriters.

Focus on providing flexible insurance solutions to a core group of customers and brokers.

International Credit and Political Risk Team

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03.27 3.4% 2.6%
4.84 1.8% 27.0%
2.70 1.1% 23.4%
1.51 2.0% 19.3%
9.33 -0.6% 3.1%
7.88 -0.6% 9.4%

HCC International
Insurance Company PLC

FINANCIAL STATEMENTS

Year ended
31 December 2013

COMPANY INFORMATION

Directors	B J Cook (Chairman and CEO) J H Bishop FIA (non-executive) K J Cordier J R Davidson FCIOB MRICS FinstD T J G 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) S A Button H-D Rohlf (non-executive)
Company Secretaries	J R Davidson FCIOB MRICS FinstD D R 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

STRATEGIC REPORT

The directors present their Strategic Report for the year ended 31 December 2013.

Principal activities

The Company is authorised by the Prudential Regulation Authority and regulated by both the Financial Conduct Authority and the Prudential Regulation Authority. The principal activity of the Company is the transaction of general insurance business in the United Kingdom and it 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, France 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 2013, HCCIH had assets of US$10.3 billion and shareholders' equity of US$3.7 billion. HCCIH and the Company have a financial strength rating of AA (Very Strong) from Standard & 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 is used by group underwriters to write business based on prescribed rules that determine which UK insurance platform is utilised, the main determinate of carrier being licensing, distribution or client choice. The Company has grown significantly in recent years as HCCIH has added to its international product offering and made increasing use 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.

Strategy

The Company's business philosophy is to maximise risk adjusted returns whilst preserving shareholder's equity. Our strategic focus is to generate underwriting profit which meets HCCIH's risk adjusted return on capital. Insurance underwriting is concentrated on selected, narrowly defined, speciality lines of business where it is believed superior underwriting returns can be achieved. The Company has experienced underwriters in the lines of business they write and this, coupled with good distribution access and a strong financial rating, has enabled the Company to grow and achieve its strategic objectives. Continued increase in premium income is expected as the current portfolio of business is developed, this growth however will only occur if target returns can be achieved.

Business environment

Market conditions continue to be challenging in many of our lines of business as terms and conditions come under pressure due to excess capital in the market. The Company continues to benefit from the strong financial strength ratings which remains a significant differentiator and a key selling point in many of the markets in which the Company operates, particularly Financial Lines.

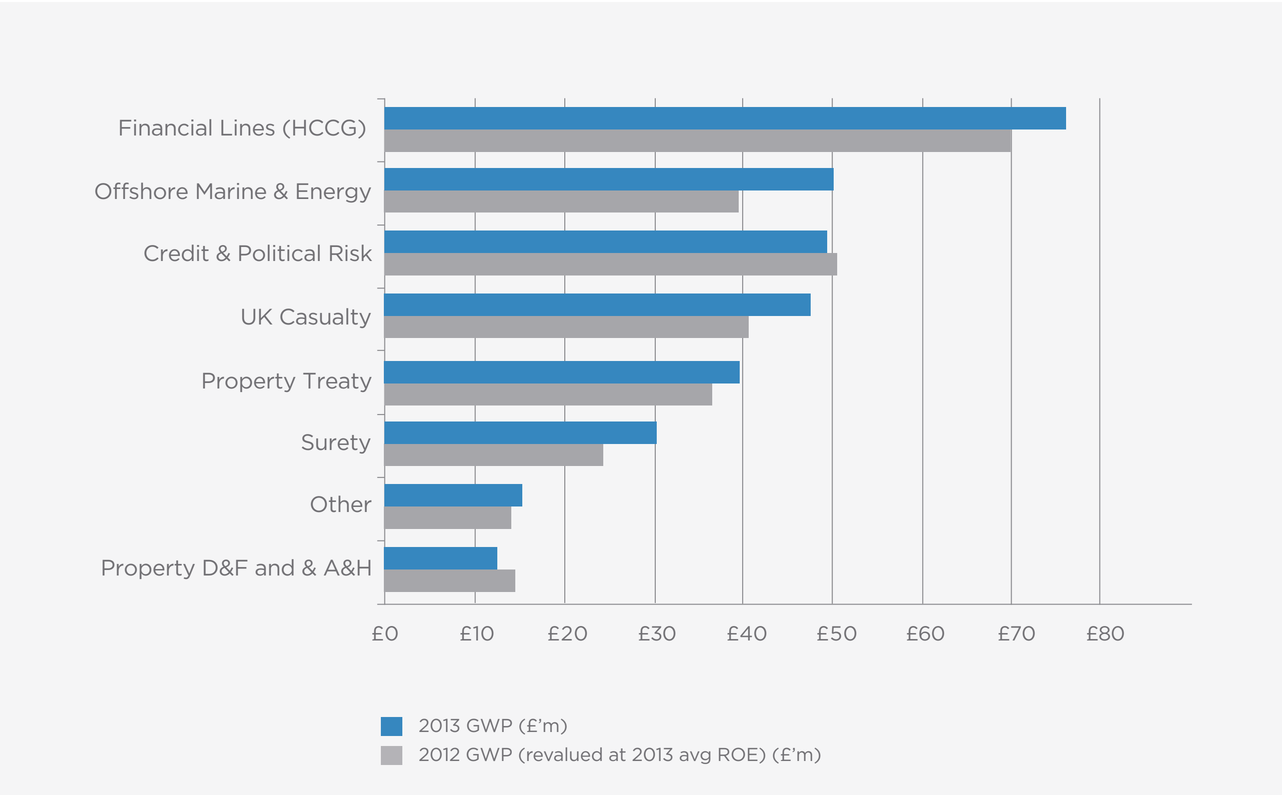
Results and performance

The Company made a net profit for the financial year of £13.2m (2012: £60.9m), as set out on pages 25 and 26. The reduction in profit year on year was driven by an increase in the loss ratio and a substantial reduction in investment return. Shareholder's funds as at 31 December 2013 totalled £227.2m (2012: £214.9m).

The Company reported a loss ratio of 45.0% (2012: 37.0%) which includes catastrophe losses totalling £19.2m, net of reinsurance, from the 2013 European Flood and German Hail events (£nil in 2012). These catastrophe losses, which represented an 8.8% increase in the loss ratio, were offset by releases from prior year reserves which totalled £20.4m (£12.1m in 2012).

Gross written premium increased from £284.9m to £320.9m, primarily driven by expansion of the following lines of business: Marine & Energy, Property Treaty, UK Liability, Surety and Financial Lines. The Financial Lines business is primarily comprised of Directors and Officers insurance, written by the wholly owned Group Agency HCC Global Financial Products SL (HCC Global) which is headquartered in Barcelona. The organic growth achieved in 2013 is particularly pleasing given the general rating environment and demonstrates the Company's ability to source well rated business in the targeted areas, this is achieved using underwriting expertise, access to distribution and financial strength.

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



Investment return was lower in 2013 at £(2.1)m (2012: £36.9m). This decline of £39m is due to several factors. Firstly, 2013 was adversely impacted by a £21.2m reduction in unrealised gains as a result of the upward shift in the yield curve at the end of 2013 decreasing the value of debt securities held. Secondly, in 2012 investment income benefitted from the receipt of a £15.9m dividend from HCCE (£nil in 2013), and realised investment gains, net of losses, of £2.5m (£nil in 2013). Excluding these two factors, investment income increased from £18.4m to £19.2m.

Shareholder's equity was substantially impacted by a £21m decrease in value of the Company's Spanish subsidiary (HCCE) resulting from an increase to its loss provisions for a legacy insurance product no longer underwritten.

Dividends

No dividends were paid during the year (2012: £nil). No dividend is recommended.

Key performance indicators ('KPI')

The directors monitor a number of Company key performance indicators as summarised below:

		YEAR ENDED 31 DECEMBER 2013	YEAR ENDED 31 DECEMBER 2012
Total shareholders' funds		£227.2m	£214.9m
Cash and investments	Excluding investment in subsidiaries and land and buildings	£487.1m	£411.0m
Gross premiums written		£320.9m	£284.9m
Net premiums written	Net of reinsurance	£231.4m	£211.9m
Underwriting result	Balance on technical account before investment income and equalisation provision	£33.2m	£48.6m
Net loss ratio	Ratio of net incurred claims (excluding equalisation reserve) to net earned premiums	45%	37%
Net combined ratio	Ratio of total technical charges (excluding investment income and equalisation provision) to net earned premiums	84.8%	75.7%
Investment return	Total investment return (excluding intercompany dividends)	£(2.1)m	£20.9m

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

Business Line Synopsis

Financial Lines (HCCG)

Financial Lines premium increased by 11% to £76.2m (2012: £68.6m) due to strong renewals and both recurrent and non-recurrent new business. The Financial Lines business consists of: Directors and Officers liability, Financial Institutions bonds and Commercial crime, Excess Professional Indemnity and Transaction Risk Insurance business. Despite the difficult economic environment and the claims development experienced by some of our peers on previous underwriting years, the market continued to see rate decreases with the exception of a few risk segments.

Offshore Marine & Energy

Offshore Marine & Energy premium increased by 29% to £50.0m (2012: £38.9m). The Energy market remains very competitive onshore, but relatively well rated offshore which is where our underwriting focus is at present. The growth in premium was achieved using our financial strength to write larger lines than we have historically targeted.

Credit & Political Risk

Credit & Political Risk premium was unchanged at £49.3m (2012: £49.7m) during a challenging year which saw both a shortfall in new business and our competitors adopt aggressive pricing strategies. However, our niche product offering and high service standards place us in a strong position with our clients and we would expect to retain a high level of business.

UK Casualty

Casualty premium increased by 19% to £47.4m (2012: £39.9m). The business is comprised of UK Professional Indemnity and UK General Liability business which we began underwriting in the Company in 2012. The Professional Indemnity business is high volume, low premium business and our target clients are smaller, lower risk businesses. With a focus on client service, it is underwritten through UK brokers. The UK Liability business comprises niche products covering lower risk trades and is made up of single risk and select affinity business.

Property Treaty

Despite experiencing a difficult rating environment in 2013, Property Treaty premium increased by 10% to £39.5m (2012: £35.9m) as a result of organic growth. We are experiencing significant pressure on rates and conditions as we move into 2014, however we have a clear underwriting strategy centred on target returns and we will only support accounts that we believe will achieve good returns over the cycle. The ever increasing capacity in the reinsurance market, not helped by the inflow of the collateralised markets, will only serve to further drive rates and conditions down.

Surety

Surety premium increased by 30% to £30.4m (2012: £23.4m) due to organic growth and some improvement in the rating environment. The Company's position in the market and its AA rating gives us good opportunities to support large multi-national companies with significant infrastructure projects. Bonds issued in respect of these larger infrastructure type projects drove growth in 2013.

Property Direct & Facultative and Accident & Health

Property Direct & Facultative and Accident & Health premium decreased by 10% to £12.5m (2012: £14.4m). Both markets remained competitive and we were careful not to take on under-priced exposure at this point of the cycle.

Other

HCCIH owns a managing general agent, HCC Specialty Ltd., which is a market leader in the Contingency, Sports Disability and Entertainment business. Total gross premium written in 2013 was £15.6m (2012:£13.9m).

Reinsurance

The reinsurance programme comprises a variety of excess of loss and quota share programmes. The excess of loss programmes purchased may be shared across the Company and the other HCC International carriers. In such circumstances, reinsurance premiums are pro-rated across HCC UK platforms according to gross written premiums, and reinsurance recoveries including reinstatement premiums are based on the share of gross losses suffered by each carrier. Purchases of the shared reinsurance programme are advised to the Prudential Regulation Authority. In addition, the Company purchases quota share reinsurance to balance line size and premium where it is prudent to do so.

Investment policy and management

The investment function is overseen by the Investment Committee, which operates under terms of reference set by the Company's Board. The Committee is responsible for preparing, in conjunction with the Company's Investment Managers, the Investment Policy for approval by the Board. It is also responsible for monitoring investment performance and recommending the appointment of investment managers.

General Re-New England Asset Management has been investment managers for the US dollar, Sterling and Euro funds throughout the year. The funds consist primarily of a portfolio of highly rated Corporate Bonds, which are BBB rated and above, including Bonds guaranteed by the UK, French, German and Canadian governments. The average duration of the aggregate portfolios at the year end was 3.96 years.

The annualised investment return on managed funds was (2.40)% for the US dollar portfolio, 0.49% for the Sterling portfolio and 0.54% for the Euro portfolio. All portfolios were adversely affected by an increase in interest rates through 2013. The return of the US dollar portfolios lagged behind the benchmark due to a strategic decision to diversify into structured securities and maintain quality above the benchmark average, as well as due to a slightly long duration bias. These decisions allowed for increased levels of income yet made the portfolios more susceptible to price volatility during the year. The return on the Sterling portfolio was ahead of our benchmark owing to the higher exposure to Corporate Bonds which benefited from the risk rally seen during the year. Another driver of this outperformance was the slightly short duration bias of the Sterling portfolio by comparison to the benchmark and the beneficial impact of this as gilt yields rose. The return on the Euro portfolio lagged as the benchmark contained some peripheral Eurozone exposures which rallied very strongly in the past year.

Other funds were placed on the money market or within short-term liquidity funds.

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.

Principal risks and uncertainties

The Board sets risk appetite as part of the Company's business planning and capital assessment process. The Board regularly reviews and updates the risk register and monitors performance against risk appetite using a series of key risk indicators. The principal risks and uncertainties facing the Company are as follows:

Insurance risk

Insurance risk includes the risk that:
- a policy is written for too low a premium, or provides inappropriate cover (underwriting risk); and
- the estimate of claims subsequently proves to be insufficient (reserving risk), for example, if the frequency or severity of insured events is higher than expected.

The Board manages insurance risk by agreeing its appetite for these risks annually through the business plan which sets out targets for volumes, pricing, line sizes and retentions by class of business. The Board then monitors performance against business plan through the year. Reserve adequacy is monitored quarterly by the Board.

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 its Enterprise Risk, Compliance and Finance teams take an important oversight role in this regard.

A framework has been developed 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 utilises capital assessment principles to manage capital requirements and to ensure the Company has the financial strength and capital adequacy to support the business and its future development and to meet the requirements of our shareholder as well as policyholders, regulators and rating agencies.

Foreign exchange risk – this is where the Company is exposed to foreign currency losses as a result of mismatches in those individual currencies in which assets and liabilities are denominated. It is the policy of management to match assets and liabilities by currency. See accounting policy 'Foreign Currencies'.

Interest rate risk – this risk applies to the Company's holding of fixed interest securities. A rise in interest rates will reduce the value of fixed interest securities held by the Company, however interest income from new purchases will increase. The Company's Investment Managers monitor rate movements and adjusts its investment approach accordingly, within the criteria of the Company's investment strategy and regulatory requirements. Note 15 summarises the Company's investment portfolio.

Credit risk – this is where a counterparty is considered unable to pay amounts in full when they fall due. Key areas where the Company is exposed to credit risk are:

- amounts due from policyholders;
- amounts due from intermediaries (e.g. brokers);
- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of claims already paid; and
- investments in fixed income securities and cash and deposits held at banks.

The Company places a limit on its exposures to a single counterparty or group of counterparties. The payment history and financial security of the policyholders and intermediaries 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 Company will only reinsure with reinsurers that are either on HCC's approved security listing or are specially accepted by the HCC Security Committee. All new reinsurers are assessed before business is placed with them. The creditworthiness of reinsurers is considered on an on-going basis, not just prior to finalisation of any contract. See accounting policy (f).

The investment guidelines set by the Investment Committee contain limits to both sector and individual counterparty exposures. They also restrict investment holdings to investment grade securities at the time of purchase.

Liquidity risk – this is the risk that sufficient financial resources are not maintained to meet liabilities as they fall due. To mitigate this risk cash flow projections are reviewed regularly. In addition, the Investment Committee is responsible, in conjunction with the Investment Managers, for setting investment guidelines for operating the portfolios, taking into account the cash flow needs of the Company.

Operational risk - the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. 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 – this risk is the potential impact of risk events, of any nature, arising elsewhere in HCCIH which could adversely affect the Company's business, reputation 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 Prudential

Regulation Authority, the Financial Conduct Authority and regulatory bodies in other states in which it carries on business. The Company has a Compliance team that monitors regulatory developments and assesses the impact on Company policy.

Post balance sheet events

On 7 March 2014, the Company issued 18,360,000 ordinary shares of $1 each to its parent HCCI Group Limited for cash of £10,976,846.

On behalf of the board

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

31st March 2014

DIRECTORS' REPORT

The directors present their Directors' Report and the audited financial statements of the Company for the year ended 31 December 2013.

Directors

The directors set out below have held office from 1 January 2013 to the date of this report unless otherwise stated:

B J Cook (Chairman and CEO)

J H Bishop FIA

K J Cordier

J R Davidson FCIOB MRICS FinstD

T J G Hervy

N I Hutton-Penman BSc, ACA

K L Letsinger BSc, CPA

J L T Newbegin

W R Treen BSc, FIA

S A Button (appointed 26 July 2013)

H-D Rohlf (appointed 16 January 2014)

Matters disclosed in the Strategic Report

The following matters which are required to be disclosed in the Directors' Report have been disclosed in the Strategic Report:

- Principal activities;
- Branches located outside the UK;
- Recommended dividend;
- Future outlook;
- Financial risk management objectives and policies;
- Exposure to price risk, credit risk, liquidity risk and cash flow risk; and
- Post balance sheet events.

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 they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Statement of directors' responsibilities

The directors are responsible for preparing 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 concerning the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board

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

31st March 2014

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

We have audited the financial statements of HCC International Insurance Company Plc (HCCI) for the year ended 31 December 2013 which comprise:

- the profit and loss account;
- the balance sheet;
- the cash flow statement;
- the statement of total recognised gains and losses;
- the statement of accounting policies; and
- 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).

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 21 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2013 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and 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

31st March 2014

PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2013

	NOTE	2013	2012
Technical account – general business		**£'000**	**£'000**
Earned premiums, net of reinsurance			
Gross premiums written	1	320,903	284,932
Outward reinsurance premiums		(89,484)	(73,063)
Net premiums written		231,419	211,869
Change in the gross provision for unearned premiums		(21,663)	(17,073)
Change in the provision for unearned premiums, reinsurers' share		9,424	5,060
Change in the net provision for unearned premiums		(12,239)	(12,013)
Earned premiums, net of reinsurance		219,180	199,856
Investment return transferred from the non-technical account	5	10,511	11,985
Total technical income		229,691	211,841
Claims incurred, net of reinsurance			
Claims paid:			
- gross amount		78,405	83,234
- reinsurers' share		(25,357)	(39,496)
Net claims paid		53,048	43,738
Change in the provisions for claims:			
- gross amount		29,025	21,031
- reinsurers' share		16,568	9,080
Change in the net provision for claims		45,593	30,111
Claims incurred, net of reinsurance	2	98,641	73,849
Net operating expenses	3	87,310	77,372
Change in equalisation provision	23	11,298	10,192
Total technical charges		197,249	161,413
Balance on the technical account for general business		32,442	50,428

PROFIT AND LOSS ACCOUNT (continued)

For the year ended 31 December 2013

	NOTE	2013	2012
Non-technical account		**£'000**	**£'000**
Balance on the technical account for general business		32,442	50,428
Investment income	4	11,274	29,346
Unrealised gains on investments	4	4,593	11,051
Investment expenses and charges	4	(997)	(1,399)
Unrealised losses on investments	4	(16,920)	(2,146)
Investment return transferred to general business technical account	5	(10,511)	(11,985)
Other charges	6	(826)	(464)
Profit on ordinary activities before tax		19,055	74,831
Tax on profit on ordinary activities	11	(5,835)	(13,892)
Profit for the financial year		13,220	60,939

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 December 2013

	NOTE	2013	2012
		£'000	**£'000**
Profit for the financial year		13,220	60,939
Currency translation differences	22	(5,459)	(8,957)
Dividend received from subsidiary undertakings	14	-	(15,938)
Revaluation of subsidiary undertaking	14	(22,863)	(2,243)
Total recognised (losses)/gains for the year		(15,102)	33,801

BALANCE SHEET

As at 31 December 2013

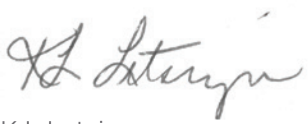
	NOTE	2013	2012
Assets		**£'000**	**£'000**
Intangible assets			
Goodwill	12	7,495	8,601
Investments			
Land and buildings	13	154	154
Investments in subsidiary undertakings	14	45,650	63,073
Other financial investments	15	453,261	394,546
		499,065	457,773
Reinsurers' share of technical provisions			
Provision for unearned premiums		39,010	30,672
Claims outstanding		74,195	90,847
		113,205	121,519
Debtors			
Debtors arising out of direct insurance operations			
- Policyholders		11,958	12,427
- Intermediaries		30,394	26,260
Debtors arising out of reinsurance operations		27,332	23,996
Other debtors	16	2,882	3,424
		72,566	66,107
Other assets			
Tangible assets	17	2,722	3,473
Deposits from third parties		31,714	17,979
Cash at bank and in hand		33,829	16,447
		68,265	37,899
Prepayments and accrued income			
Accrued interest and rent		4,833	4,450
Deferred acquisition costs		36,901	32,848
Other prepayments and accrued income		119	65
		41,853	37,363
Total assets		802,449	729,262

BALANCE SHEET (continued)

As at 31 December 2013

	NOTE	2013	2012
Liabilities		**£'000**	**£'000**
Capital and reserves			
Called up share capital	20	122,796	96,048
Revaluation reserve	22	(9,076)	13,787
Currency exchange reserve	22	5,189	10,648
Other reserves	22	890	216
Profit and loss account	22	107,400	94,180
Total shareholders' funds	21	227,199	214,879
Technical provisions			
Provision for unearned premiums		150,508	132,538
Claims outstanding		285,677	259,344
Equalisation provision	23	38,538	28,368
		474,723	420,250
Provisions for other risks and charges	19	-	-
Creditors			
Creditors arising out of direct insurance operations		2,396	4,116
Creditors arising out of reinsurance operations		33,257	24,373
Other creditors including taxation and social security	18	14,660	15,964
Deposits from third parties		31,714	17,979
		82,027	62,432
Accruals and deferred income		18,500	31,701
Total liabilities		802,449	729,262

The financial statements on pages 25 to 44 were approved by the Board of Directors and were signed on its behalf by



K L Letsinger
Group Chief Financial Officer

31st March 2014

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 in accordance 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 applicable in the United Kingdom and historical cost convention relating to depreciation. 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 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 under the terms of FRS8.

Basis of consolidation

The Company is exempt from the obligation to prepare and deliver group financial statements by virtue of Schedule 4 to SI 2008/410 in that the Company is included in the consolidated financial statements of its ultimate parent company whose published financial statements 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 accounting for its investment in subsidiary undertakings at current net asset value (see Note 14), and the disclosure of auditors' remuneration (see 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 year as the premiums for the related direct business.

Insurance contracts entered into by the Company, are accounted for as insurance contracts provided there is significant transfer of insurance risk.

(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 year 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 this business is "short tail", that is, where claims are usually made during the term of the policy or shortly after the policy has expired. 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 years 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 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.

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 year. 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 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 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 carried at amortised cost. For fixed interest securities, 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.

Investment return

Investment return, which is reported in the Profit and Loss Account, comprises all investment income (including the amortisation of premium or discount for fixed income securities), 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 carried at fair value are calculated as the difference between net sale proceeds and purchase price, or amortised cost for fixed income securities. Unrealised gains and losses on investments represent the difference between the fair value and purchase price, or amortised cost for fixed income investments, together with the reversal of unrealised gains and losses recognised in earlier years in respect of investment disposals in the current year.

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 year to which they relate.

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 year 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 reporting currency, which is Sterling, are recognised in the Statement of Total Recognised Gains and Losses. The foreign exchange rates used for translation to the reporting currency are set out below.

a) assets and liabilities at the closing rate at the balance sheet date which for Sterling was £1 = $1.6491 (2012: $1.6168).

b) income and expenses at the average rate during the year which for Sterling was £1 = $1.5653 (2012: $1.5913).

Dividends

Dividends are accounted for in the year in which they are declared as payable.

Share based payments

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

NOTES TO THE FINANCIAL STATEMENTS

1. Segmental information

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

	GROSS PREMIUMS WRITTEN		GROSS PREMIUMS EARNED		GROSS CLAIMS INCURRED	
	2013	2012	2013	2012	2013	2012
Direct insurance	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Accident and health	9,822	10,077	9,957	10,141	7,150	5,455
Credit, political risk and suretyship	76,967	71,954	69,834	69,045	24,920	26,935
Fire and other damage to property	296	1,105	552	866	(7,742)	(6,038)
Marine, aviation and transport	24,229	20,827	23,339	20,951	13,968	7,762
Miscellaneous	4,236	3,084	3,623	2,601	890	(15)
Third party liability	110,107	95,532	102,421	87,223	27,614	46,230
	225,657	202,579	209,726	190,827	66,800	80,329
Reinsurance acceptances	95,246	82,353	89,514	77,032	40,630	23,936
	320,903	284,932	299,240	267,859	107,430	104,265

(b) Gross operating expenses, reinsurance balance and net underwriting result* by class of business

	GROSS OPERATING EXPENSES		REINSURANCE BALANCE EXPENSES		NET UNDERWRITING RESULT*	
	2013	2012	2013	2012	2013	2012
Direct insurance	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Accident and health	3,596	3,536	(906)	(793)	(1,695)	357
Credit, political risk and suretyship	26,710	24,954	(9,201)	(2,419)	9,003	14,737
Fire and other damage to property	92	54	(5,303)	(9,151)	2,899	(2,301)
Marine, aviation and transport	4,773	4,678	(8,136)	(16)	(3,538)	8,495
Miscellaneous	5,062	3,964	(1,087)	(1,802)	(3,416)	(3,150)
Third party liability	38,386	29,908	(22,163)	778	14,258	11,863
	78,619	67,094	(46,796)	(13,403)	17,511	30,001
Reinsurance acceptances	24,674	22,134	(8,492)	(12,328)	15,718	18,634
	103,293	89,228	(55,288)	(25,731)	33,229	48,635

*before allocated investment return and equalisation provision

The reinsurance balance represents the 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) Geographical location of underwriting operations

	GROSS PREMIUMS WRITTEN		PROFIT BEFORE TAXATION		NET ASSETS	
	2013	2012	2013	2012	2013	2012
	£'000	£'000	£'000	£'000	£'000	£'000
United Kingdom	255,169	242,544	13,752	73,778	219,540	203,710
Rest of Europe	65,734	42,388	5,303	1,053	7,659	11,169
	320,903	284,932	19,055	74,831	227,199	214,879

(d) Geographical location of gross premiums written by destination

	GROSS PREMIUMS WRITTEN	
	2013	2012
	£'000	£'000
United Kingdom	146,870	129,948
Rest of Europe	114,462	100,332
Rest of the World	59,571	54,652
	320,903	284,932

2. Movement in prior years' provision for claims outstanding

	2013	2012
Surplus/(deficit) arising on prior years' provision, net of reinsurance	£'000	£'000
Accident and health	(2,536)	301
Credit and suretyship	7,187	5,154
Fire and other damage to property	4,717	(1,928)
Marine, aviation and transport	(1,330)	9,059
Third party liability	12,403	(496)
	20,441	12,090

3. Net operating expenses

	2013	2012
	£'000	£'000
Commission costs	64,127	56,710
Reinsurance commissions and profit participation	(15,984)	(11,856)
Change in deferred acquisition costs	(4,947)	(3,079)
Administrative expenses	40,900	33,285
Foreign exchange losses	3,214	2,312
	87,310	77,372

Total commission written during the year in respect of direct insurance was £49,521,959 (2012: £41,731,230).

4. Investment return

	2013	2012
Investment income	**£'000**	**£'000**
Income from other financial investments	11,018	9,876
Bank interest receivable and similar income	1	12
Investment property rental income	11	12
Dividend from group undertakings	-	15,938
Gains on the realisation of investments	244	3,508
	11,274	29,346
Investment expenses and charges		
Investment management fees and changes	(721)	(393)
Losses on the realisation of investments	(276)	(1,006)
	(997)	(1,399)
Net unrealised gains (losses) on investments'		
Unrealised gains on investments	4,593	11,051
Unrealised losses on investments	(16,920)	(2,146)
	(12,327)	8,905
Total investment return	(2,050)	36,852

5. Allocation of investment return

	2013	2012
	£'000	**£'000**
Total investment return (Note 4)	(2,050)	36,852
Investment return transferred to the general business technical account	(10,511)	(11,985)
Investment income retained in the non-technical account	(12,561)	24,867

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.

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 the Black Scholes option pricing model and is expensed to the Profit and Loss Account over the vesting period of the option or award. In 2013 £826,000 (2012: £464,000) of stock based compensation was expensed for all staff working for the Company participating in the Plan. This share based accrued expense is recognised in Other Reserves in Shareholder's Funds and is adjusted each year to reflect the expected and actual level of vesting.

Further details on the Plan are disclosed in the consolidated financial statements of HCCIH (see Note 26).

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:

	2013	2012
	£'000	**£'000**
Audit of the Company's financial statements	240	193
Audit of the Company's subsidiary undertakings' financial statements	118	112
Audit-related assurance services	38	37
Tax compliance services	18	15
Tax advisory services	17	15
	431	372

8. Staff costs

All staff are employed by HCC Service Company Inc. (UK branch). The disclosures for staff costs below relate to underwriting, claims and underwriting support staff. The costs of staff providing central services for group entities are allocated and recharged to the Company as a management fee. These employees are not included in the salary costs and average staff numbers, as for disclosure purposes, it is not practical to allocate these amounts to the underlying entities to which the staff provide services.

8. Staff costs (continued)

	2013	2012
	£'000	**£'000**
Wages and salaries	13,136	11,204
Social security costs	1,623	1,502
Other pension costs (Note 25)	916	833
	15,675	13,539

The average numbers of direct staff (excluding directors) working for the Company during the year were as follows:

	2013	2012
	Number	**Number**
Underwriting	91	93
Claims	40	40
Administration and finance	43	44
	174	177

9. Directors' emoluments

	2013	2012
	£'000	**£'000**
Aggregate emoluments (excluding share options and awards)	2,004	1,470
Pension contributions	93	69
	2,097	1,539

Pension benefits are accruing to five directors (2012: five) under the Group's defined contribution pension scheme (see Note 25). Two directors exercised share options in the year and five directors are entitled to receive shares under a long-term incentive scheme (see Note 6).

Highest paid director

	2013	2012
	£'000	**£'000**
Aggregate emoluments (excluding share options and awards)	737	488
Pension contributions	-	-
	737	488

The highest paid director exercised stock options during the year and is entitled to receive shares under a long-term incentive scheme (see Note 6).

10. Dividends

	2013	2012
	£'000	£'000
Dividends paid on ordinary shares	-	-

11. Tax on profit on ordinary activities

	2013	2012
	£'000	£'000
Current UK corporation tax on income for the year	4,008	14,635
Adjustment in respect of prior years	2,104	(743)
Current tax charge for the year	6,112	13,892
Deferred tax – origination and reversal of timing differences	(277)	-
Tax on profit on ordinary activities	5,835	13,892

The tax assessed for the year is higher (2012: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2013	2012
	£'000	£'000
Profit on ordinary activities before tax	19,055	74,831
Tax on profit on ordinary activities at standard rate of 23.25% (2012: 24.5%)	4,430	18,334
Expenses not deductible for tax purposes	53	38
Stock option costs	156	(322)
Amortisation of goodwill	191	201
Dividends received	-	(3,905)
Depreciation in excess of capital allowances	100	100
Adjustments in respect of prior years	2,104	(743)
Local tax on foreign branches	-	6
Functional currency adjustment	(922)	183
Current tax charge for the period	6,112	13,892

The calculation of deferred tax balances at the year-end takes into account the reduction in the UK main corporation tax rate to 23%, effective from 1 April 2013 and two further reductions to 21% and 20%, substantively enacted on 2 July 2013, that will be effective from 1 April 2014 and 1 April 2015, respectively.

12. Goodwill

	2013	2012
Cost	**£'000**	**£'000**
At 1 January 2013	14,335	14,995
Foreign exchange impact of translation to closing rate	(281)	(660)
At 31 December 2013	**14,054**	**14,335**
Amortisation		
At 1 January 2013	5,734	4,999
Amortisation charge for the year	822	822
Foreign exchange impact of translation to closing rate	3	(87)
At 31 December 2013	**6,559**	**5,734**
Net book value		
At 31 December 2013	**7,495**	**8,601**
At 31 December 2012	8,601	9,996

The goodwill arose on the purchase from another group company of a book of Professional Indemnity business in 2006.

13. Land and building

	2013	2012
	£'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 contemporary evidence available. This valuation of the property has been reflected in these financial statements (see the accounting policies note).

14. Investment in subsidiary undertakings

The movement in the revaluation of subsidiary undertakings is summarised below:

	2013	2012
	£'000	**£'000**
At 1 January 2013	63,073	67,879
Dividend received from subsidiary undertakings	-	(15,938)
Revaluation of subsidiary undertakings	(22,863)	(2,243)
Additions in the year	6,673	16,270
Foreign exchange impact on translation to closing rate	(1,233)	(2,895)
At 31 December 2013	45,650	63,073

The Company's investment in its subsidiary undertakings shown below comprises its equity holdings at current net asset value, less any impairment. The directors believe that the carrying value of the Company's investment in subsidiary undertakings is supported by the underlying net assets.

NAME	PRINCIPAL ACTIVITY	CLASS OF SHARES	EFFECTIVE %
Houston Casualty Company Europe, Seguros y Reaseguros, S.A (incorporated in Spain)	Insurance company	A & B Shares	100%
HCCI Credit Services Limited	Information services	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 otherwise stated above.

15. Other financial investments

	FAIR VALUE		BOOK COST	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
Shares and other variable-yield securities and units in unit trusts	2,687	28,807	2,687	28,807
Debt securities and other fixed-income securities	450,574	365,739	451,665	353,672
	453,261	394,546	454,352	382,479

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

16. Other debtors

	2013	2012
	£'000	£'000
Other debtors	773	997
Current tax recoverable	1,832	-
Deferred tax asset (Note 19)	277	-
Amounts owed by group companies	-	2,427
	2,882	3,424

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 IMPROVEMENTS	LAND AND BUILDINGS	COMPUTER EQUIPMENT	FIXTURES, FITTINGS AND OFFICE EQUIPMENT	TOTAL
Book cost	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
At 1 January 2013	1,535	2,030	7,025	1,247	11,837
Additions	-	-	-	-	-
Foreign exchange impact of translation to closing rate	(30)	(43)	(137)	(25)	(235)
At 31 December 2013	1,505	1,987	6,888	1,222	11,602
Depreciation					
At 1 January 2013	1,052	-	6,114	1,198	8,364
Charge for the year	169	-	519	28	716
Foreign exchange impact of translation to closing rate	(29)	-	(146)	(25)	(200)
At 31 December 2013	1,192	-	6,487	1,201	8,880
Net book value					
31 December 2013	313	1,987	401	21	2,722
31 December 2012	483	2,030	911	49	3,473

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

18. Other creditors including taxation and social security

	2013	2012
	£'000	**£'000**
Corporation tax	-	4,463
Other creditors	62	-
Intercompany loan	-	1,522
Amounts owed to group companies	14,598	9,979
	14,660	15,964

The intercompany loan was repaid in 2013. It had a maturity date of 31 December 2013, was unsecured and bore interest at 2.218%.

Amounts owed to group companies are short-term, unsecured, interest free and have no fixed date of repayment.

19. Provision for other risks and charges

	2013	2012
	£'000	£'000
At 1 January 2013	-	-
Changes in accelerated capital allowances	(114)	317
Short-term timing differences	(163)	(317)
At 31 December 2013	(277)	-

The provision for deferred tax liability (asset) consists of the following amounts:

	2013	2012
	£'000	£'000
Accelerated capital allowances	(58)	56
Short-term timing differences	(219)	(56)
Deferred tax liability(asset) (Note 16)	(277)	-

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. Called up share capital

	2013		2012	
Allotted, called up and fully paid ordinary Shares	**Number of shares**	**£'000**	**Number of shares**	**£'000**
Balance brought forward				
- Ordinary shares of £1 each	96,047,813	96,048	96,047,813	96,048
Shares issued during the year				
- Ordinary shares of $1 each	43,000,000	26,748	-	-
Balance carried forward	**139,047,813**	**122,796**	**96,047,813**	**96,048**

The authorised share capital was deleted during 2013 as allowed for by the 2006 Companies Act.

21. Reconciliation of movements in shareholder's funds

	2013	2012
	£'000	£'000
Shareholder's funds at 1 January 2013	214,879	181,712
Profit for the financial year	13,220	60,939
Net foreign exchange differences (Note 22)	(5,459)	(8,957)
Share based payments (Note 6)	674	(634)
Dividend received from subsidiary undertakings (Note 14)	-	(15,938)
Issue of shares	26,748	-
Revaluation of subsidiary undertakings (Note 14)	(22,863)	(2,243)
Net addition to shareholder's funds	12,320	33,167
Shareholder's funds at 31 December 2013	227,199	214,879

22. Reserves

	REVALUATION RESERVE	CURRENCY EXCHANGE RESERVE	OTHER RESERVES	PROFIT AND LOSS ACCOUNT
	£'000	£'000	£'000	£'000
At 1 January 2013	13,787	10,648	216	94,180
Profit for the financial year	-	-	-	13,220
Net foreign exchange differences	-	(5,459)	-	-
Share based expense (Note 6)	-	-	826	-
Share based charge on exercise	-	-	(152)	-
Revaluation of subsidiary undertakings (Note 14)	(22,863)	-	-	-
At 31 December 2013	(9,076)	5,189	890	107,400

23. Equalisation provision

The effect of the equalisation provision is to reduce shareholder's funds by £38,538,000 (2012: £28,368,000) 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 £11,298,000 (2012: £10,192,000).

24. Capital commitment

There were no capital commitments contracted for but not provided for at 31 December 2013 (2012: £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 £915,562 (2012: £832,651). The accrued pension cost outstanding as at 31 December 2013 was £nil (2012: £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.

27. Post balance sheet event

On 7 March 2014, the Company issued 18,360,000 ordinary shares of $1 each to its parent HCCI Group Limited for cash of £10,976,846.

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