Annual Report 2012

inter hannover®

Overview

Inter Hannover is wholly owned by Hannover Re, one of the leading reinsurance groups in the world.

We write single risk business, including aviation, energy, marine, liability and other lines through our London and Scandinavian Branches.

We also write delegated authority business through brokers and agencies, primarily written in the UK and Europe with a growing presence in Canada and Australia.

Inter Hannover writes a wide range of business, including personal lines and commercial risks. We partner with our parent company, Hannover Re and reinsure business via quota share agreements.

Our **vision** is to be the preferred direct insurer within the Hannover Re Group, contributing to an **increasingly profitable Group result** through an **accountable organisation** with **efficient and reliable processes.**

Contents

Highlights

Financial highlights for the year ended 31st December 2012

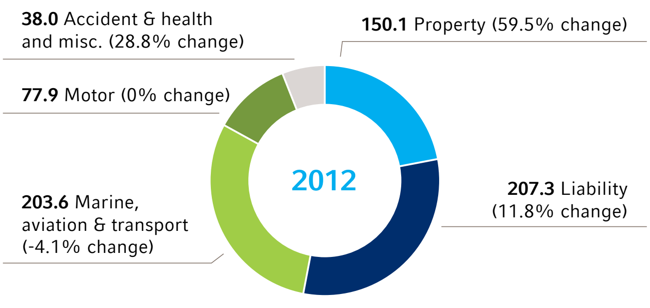
Gross written premium 13.0% increase to £677m

Premium growth has arisen from the continued expansion of Agency accounts, coupled with on-going development of the overseas branch portfolios. The strong growth in property lines is in line with efforts to develop short-tail elements within each branch portfolio.

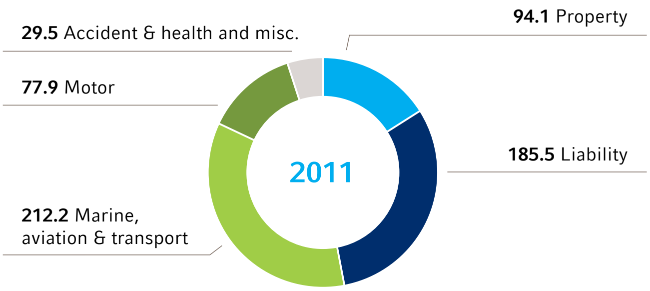
Gross loss ratio 11.3% reduction to 68.6%

The improvement in gross loss ratio was driven by the UK business (Agency and Single Risk) with notable favourable developments particularly in professional indemnity, space, aviation and mining.

Gross written premium (£m)

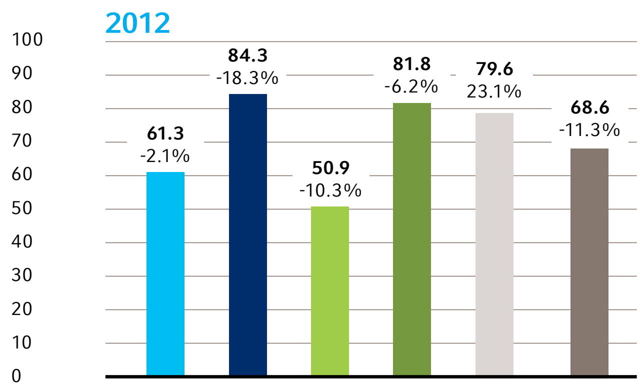


Gross written premium 2012: **£676.9m (13.0% increase)**



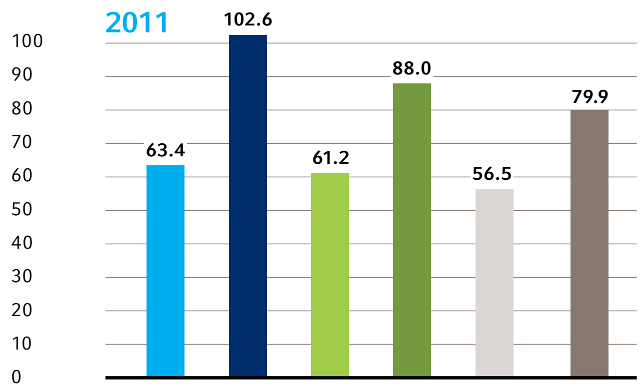
Gross written premium 2011: **£599.2m**

Gross loss ratio (%)



Gross loss ratio 2012: **68.6% (11.3% reduction)**

Property | Liability | Marine, aviation & transport | Motor
Accident & health and miscellaneous | Total business



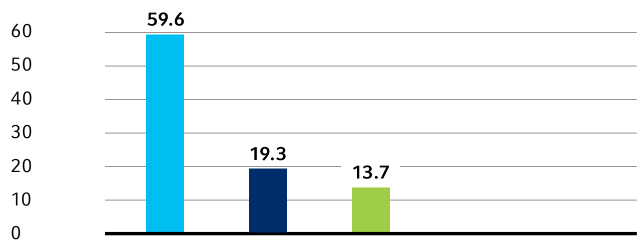
Gross loss ratio 2011*: **79.9%**

Property | Liability | Marine, aviation & transport | Motor
Accident & health and miscellaneous | Total business

* after eliminating impact of Part VII transfer (see Note 1, page 29)

Net income for the year £0.9m higher at £6.4m

Net income for the year (£m)



Net income 2012: **£6.4m (£0.9m higher)**

Gross underwriting result | Net technical result
Net investment income

Jürgen Gräber
Chairman

Chairman's statement

It should go without saying that I am very pleased with the trading results for 2012 that show a gross combined ratio before reinsurance external to our Group of 94.2%. Moreover, the indicators of continuing positive development in the strategic areas of our portfolio reflect the skills and dedication in the execution of our underwriting approach, which includes, of course, our close attention to the technical service in support of the underwriting. Nevertheless, the financial view of the accounts as a summary of the year goes only some way to describe the scale of activity that has taken place, and which sets in place our preparation for the next years of the Company's evolution and the challenges we surely face.

Such activities have focused both on the technical components of our portfolios and the way in which our teams of professionals work together and interact in order to deliver the best possible service and products for our clients and policyholders. Increasingly I am pleased to recognise that we are fast becoming valued opinion leaders in our core markets. More often than not the solutions we have been able to offer have come about through in-depth and detailed engagement with our business partners (both broking and agency partners) to work through a process together to achieve the best outcomes in all our interests.

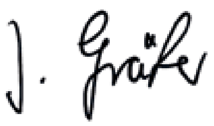
We have been actively preparing to achieve the best outcome from the centralisation of all of our UK technical services into our single 'One Roof' location at 10 Fenchurch Street, in the heart of the City of London. Therefore, since early in 2013 our teams here have enjoyed the immense advantage of working alongside each other, where skills can easily interact both formally and informally, in finding those best solutions to our clients' needs.

The commitment of our parent Hannover Re to the underwriting of Primary insurance business to complement its reinsurance activities reflects both the strength of the Inter Hannover business model and the value it brings to the Group.

All of my colleagues at Inter Hannover uphold the all-important reputation of the Hannover Re Group brand when transacting business in our various markets and to that end our client-centric culture is at the forefront of our thinking and is a real strength supporting the Inter Hannover brand.

It is with regret that I note the retirement of Robert Woods with effect from 28th February 2013 who for many years chaired Inter Hannover's Audit Committee and whose thorough contribution paved Inter Hannover's way for becoming a reliable business partner for customers, clients and reinsurance partners.

Once again this year my thanks go to our enthusiastic and loyal staff, who demonstrate a pride of purpose in belonging to the Inter Hannover team and the Hannover Re Group family.



J Gräber
Chairman
March 2013

Nick Parr
Chief Executive Officer

Chief Executive Officer's statement

I am pleased to present the results for 2012 which reflect the success of our on-going efforts to grow our contribution to the Hannover Re Group.

In 2012 we renewed our focus on refreshing our strategy that supports our future growth and development. The resulting vision, to "contribute to an increasingly profitable Group result through an accountable organisation with efficient and reliable processes", is underpinned by what we have identified as our five core strategic drivers.

Enhancing Profitability and accordingly economic value for our Group is the anticipated outcome of these activities. Our gross written premium growth of 13% in 2012 has been accompanied by an improvement in the overall gross loss ratio from 79.9% in 2011 to 68.6%. With new business performing close to plan I am confident that we can build upon the profitable results of 2012 and be in a stronger position to deliver on our strategic vision for 2013.

Delivering Customer Value is at the centre of our ethos and is a commitment that drives our culture of trust and achievement. I believe that it is our serious attention to client service and the high level of support that we can offer them that continually strengthens our reputation as their partner of choice.

This will enhance business coordination and improve the level of support available to customers. We will be rolling out programmes to enhance the Inter Hannover brand and improve our client service in order to strengthen our reputation amongst clients as their high-value partner of choice.

Driving Efficiency has led us to improve our organisational structure both to make more efficient use of our existing skills and resources, and to undertake a range of initiatives designed to strengthen our systems infrastructure, our control framework and the quality of data we use for marketing, underwriting and finance purposes. These initiatives will continue in 2013.

Developing Capability is an important commitment of the entire organisation to both developing teams and the abilities of all our people. Thus we are able to give of our best and to experience fulfilment from a growing contribution to our success. Not only are we committed to development programmes but also we enhance our fundamental approach to certain services, such as claims handling, that recognises the high level of technical expertise required to support the increasing lead underwriting positions that we take.

New Frontiers for Growth is how we have termed our initiative to identify new profitable opportunities within the markets in which we are active, including through the further development of business opportunities at our newer Branches. We have planned, and will in 2013 be introducing, a marketing function to support our underwriting and to work further with our clients to develop the bespoke solutions that I am sure will contribute to the success of this initiative.

N J Parr
Chief Executive Officer
March 2013

Report of the directors

The directors submit the annual report of the International Insurance Company of Hannover Limited ('Inter Hannover') together with the audited financial statements for the year ended 31st December 2012

Business review

The Company writes all major classes of non-life insurance business through agents and brokers out of offices in London, with Branches in Stockholm, Sydney and Toronto.

During the year Standard & Poor's maintained their rating of the Company at AA- (very strong) and A.M. Best increased theirs to A+ (superior) from A (excellent) to match that of the parent company.

We intend to use this market presence and financial strength as a platform from which to take advantage of opportunities presented by growth in existing and new niche markets.

Financial performance

Overall gross written premium has increased by 13.0% to £677.0m with the primary drivers being Agency business which has increased by 28.7%, Single Risk premiums which have reduced by 5.7% and the Branches in Sweden, Canada and Australia growing by 7.0%. The profitability focus of motor, liability and professional lines portfolios contributed to improved margins and contributed to a stronger Company result.

The gross underwriting result* has improved significantly (£72.2m), largely due to favourable developments in loss ratios relating to historical underwriting years within the London portfolios, together with more selective underwriting across both Agency and Single Risk channels.

Five Year Summary

in £m	2008	2009	2010	2011	2012
Summary technical income statement					
Gross written premium	248.6	358.9	549.7	599.2	677.0
Net written premium	46.8	7.8	32.4	39.8	41.5
Gross underwriting result*	15.8	23.4	20.3	(12.6)	59.6
Net underwriting result	1.5	2.8	19.5	14.6	19.3
Summary non-technical income statement					
Investment return	11.2	9.5	10.3	7.8	15.2
Operating profit (EBIT)	3.4	5.6	13.8	7.0	8.7
Net income for the year	1.5	3.9	11.2	4.5	6.4
Strategic ratios	%	%	%	%	%
Gross loss ratio	74.5	73.3	75.4	79.9	68.6
Gross commission ratio	18.1	19.0	20.0	22.3	22.1
Management expense ratio	7.7	5.8	5.6	4.7	6.0
Gross combined ratio**	**96.1**	**95.4**	**98.2**	**104.5**	**94.2**

Results adjusted to eliminate foreign exchange effects on investment return and impact of Part VII transaction.

* Gross underwriting result is stated net of Technical Expenses

** Gross combined ratio = gross claims costs plus acquisition and management expenses (net of hybrid capital costs), divided by gross earned premium

Investment

Improved investment returns achieved in a year of falling fixed income yields

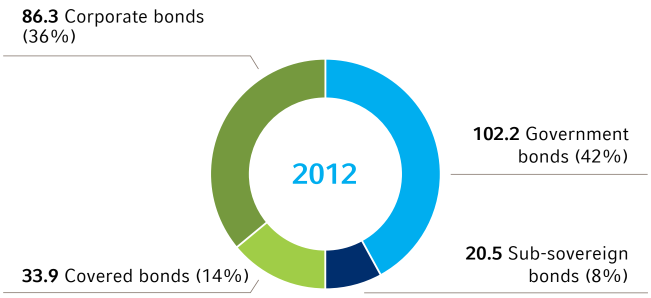
Summary:

- Total investment returns have increased to 2.7% (2011: 2.4%)
- Total investment portfolio decreased by 5% to £242.9m
- Investment portfolio realigned to improve yield within established risk tolerances

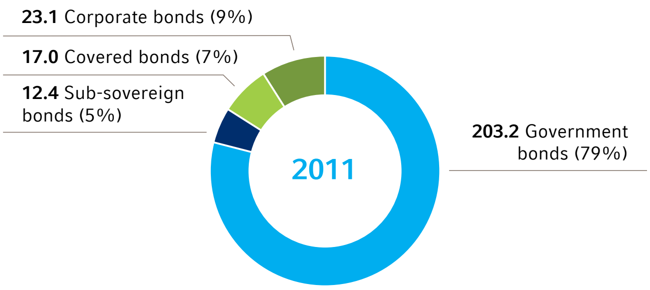
Investment portfolio

The allocation to government and sub-sovereign securities within the portfolio was reduced from 84% in 2011 to 50% in 2012. The proportion of corporate and covered bonds grew from 16% to 50%.

Portfolio composition (£m)



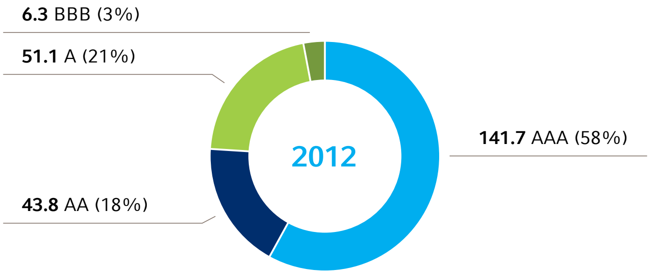
Portfolio composition 2012: **£242.9m**
Unrealised gains 2012: **£13.8m**



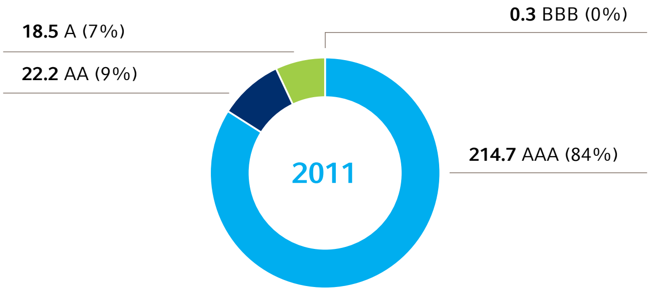
Portfolio composition 2011: **£255.7m**
Unrealised gains 2011: **£13.9m**

The portfolio continues to be maintained to provide a high level of security together with a steady and predictable investment return. The switch from government securities inevitably led to changes in credit rating across the portfolio with the average rating now at AA-.

Portfolio by credit rating (£m)



Portfolio by credit rating 2012: **£242.9m**

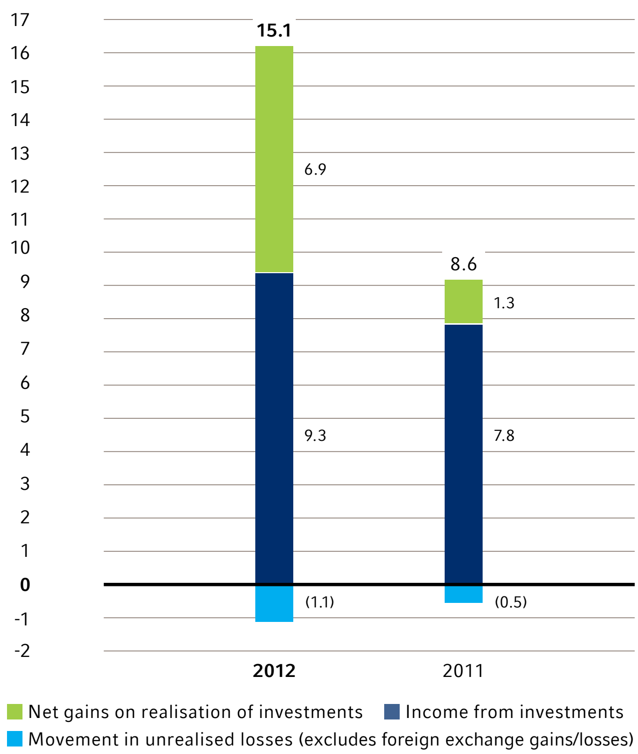


Portfolio by credit rating 2011: **£255.7m**

Investment performance

The changes in the composition of the portfolio have generated an enhanced investment return as well as a significant increase in the level of realised gains.

Investment result (£m)



Returns from covered and corporate bonds have held up reasonably well during the year but gilt yields in particular have declined. The Investment Committee will continue to keep the content of the portfolio under review.

Investment result by asset class

	Income £m	Average holding £m	Return* %
			2012
Government bonds	2.9	128.2	2.3
Sub-sovereign bonds	0.3	22.9	1.4
Covered bonds	1.0	26.8	3.9
Corporate bonds	3.3	79.9	4.1
Cash	0.7	50.7	1.3
	8.2	308.5	2.7

	Income £m	Average holding £m	Return* %
			2011
Government bonds	4.8	152.0	3.1
Sub-sovereign bonds	0.4	37.1	1.1
Covered bonds	0.4	22.2	1.8
Corporate bonds	1.0	27.4	3.7
Cash	0.7	64.6	1.2
	7.3	303.3	2.4

*Return = income from investments, net of unrealised losses, as a % of the average holding.

Foreign exchange

The Company carries on significant business in foreign currencies. The impact of exchange rate movements on the foreign exchange positions arising from this business generated an aggregated net loss of £1.1m in 2012 (2011: £0.4m) of which a loss of £0.4m (2011: £0.2m gain) is accounted for in the profit and loss account, and a loss of £0.7m (2011: £0.6m) in other recognised losses.

Staff

We ensure our people have the necessary qualifications and experience to meet current business requirements. We also support on-going personal and professional development to foster a pool of talented, career-orientated people who have the desire and commitment to seek achievement for themselves and Inter Hannover. The aim is to equip people with the ability to address the challenges arising from Inter Hannover's entrepreneurial business approach.

Resources have increased over and above that needed to support growth, with staff numbers increasing approximately 12% in 2012. The benefits of this increase are expected to be realised up to 12 months following recruitment, allowing for full training. This will increase the Company's capacity to make further progress on its strategic goals, internal systems and control and its risk management agendas.

One Roof

We worked hard in 2012 to bring about the goal of having 'One Roof' in the UK, and this is set to be realised in full by the end of March 2013. One Roof heralds in many ways a new beginning of integrated team working, and a culture of trust and achievement leading to us enhancing client service and financial performance from our present and future portfolios.

Dividends

The directors recommend that no dividend is paid (2011: £nil). The retained profit of £6,370,000 was transferred to reserves (2011: profit of £5,462,000).

Strategy and outlook

Our strategic vision is to contribute to an increasingly profitable Group result through an accountable organisation with efficient and reliable processes.

The market for niche insurance products is evolving. Our established organisation and experienced underwriters are perfectly placed to offer solutions to our clients to help them manage the diverse risks to which they are exposed. Our strategy is to pursue profitable new opportunities that fall within our risk appetite in these markets, as well as to continue to write profitable lines in existing markets.

In terms of efficiency improvements, we are undertaking a number of initiatives, including the extension of our system platform to all areas and regions of the business, and the improvement of our claims management process. Our work continues on the Solvency II project and we are ensuring we will be able to comply with the requirements of the new framework once the implementation date is finalised.

Our investment in our staff continues as we develop training programmes for directors and staff, and align individual objectives with professional development credits.

Outlook for 2013

We expect trading conditions to remain competitive in all classes of business. Our disciplined underwriting standards will continue to influence the approach we adopt when working closely with strategic partners. We remain committed to controlled and profitable growth in those niche areas which require a disciplined and technically excellent underwriting approach to manage exposures in line with our risk appetite. This will allow us to continue to make an increasingly valuable contribution to the Hannover Re Group performance.

Underwriting report

Strong underlying performance

Inter Hannover produces a good overall result following a period of high growth in a challenging and highly competitive market.

Key highlights

- Gross written premium of £677.0m, +13.0% (2011: £599.2m)
- Gross loss ratio of 68.6%, -11.3% (2011: 79.9% – excluding impact of Part VII transfer)
- Gross combined ratio of 94.2% (2011: 104.6%)
- Gross underwriting result £59.6m (2011: loss of £12.5m – excluding impact of Part VII transfer)
- Strongest growth in Canada, Australia and US markets

Inter Hannover underwrites business with a focus on lines of business in which we have built up a high level of know-how and expertise (e.g. aviation, space, marine, professional indemnity, property, energy lines etc.) but also with a focus on tightly defined portfolios of niche and non-standard business placed through the UK/Lloyd's markets and a Branch network covering Scandinavia, Canada and Australasia. The underwriting approach during 2012 was driven by maintaining the parts of our portfolio which have shown good performance over the years, but also by geographical and portfolio diversification in areas where the underwriting, local expertise and market conditions align with our underwriting philosophy.

We continued the strategy that began in 2010 to reduce earnings volatility by improving the balance in our portfolio between short and long tail classes and sought to combine this with an increase in the Specialty Lines portfolio. This led to a consolidation in motor, liability and professional lines in the UK and an expansion in aviation, title, travel bonds and the US market.

Continued tight control of claims, an on-going process of re-engineering parts of the portfolio which needed improvement in terms, conditions and pricing in combination with our willingness to reduce capacity and exit unprofitable areas where necessary have been important factors in achieving this result.

Territorially, Inter Hannover has focused its business development where strong economies and improving rating environments have been identified – specifically, North America and Australia.

Market view

Although 2012 was a relatively benign year for Catastrophe risks the results vindicate our focus on underwriting discipline, prudent risk appetite and tight control of aggregate exposure. The pressures on the UK economy proved to be difficult for infrastructure related cover, especially construction risks and there was intense competition for aviation, property, professional indemnity and motor lines. Despite this, we were able to improve results essentially across the whole book of business.

We continue to see a strengthening of the US economy and the promising rate increases reported in the US property and casualty market as lead indicators supporting further expansion in North America both directly and in those areas where our products are complimentary to this increasingly positive economic environment.

Challenges posed by the changes to the legal and regulatory environment – such as the Gender Directive coming into effect, the increasing use of Periodic Payment Orders (PPOs) by the courts for bodily injury claims, and integrating the requirements set by Solvency II – are continually being assessed and met by improvements or changes to our underwriting approach and analytical capability.

Enhanced understanding of the risk exposures of long and short tail business is recognised as being fundamental to achieving good performance in our market place. Our skilled and disciplined underwriters have sought to manage business in line with the risk appetite being set by the Board of Inter Hannover and the enhanced risk management practices we have introduced.

Underwriting performance

The overall gross losses from US Hurricane 'Sandy' for Inter Hannover were limited to US$22m, reconfirming our cautious approach of strong underwriting discipline combined with a very prudent risk appetite and a disciplined and tight control of our aggregate exposure.

In the UK we experienced one of the wettest summers in history. Nonetheless, the firm application of flood exposure management systems in the selection of risk and aggregation management alongside the introduction of our Flood Protocol and the pro-active management of flood exposure succeeded in producing a UK Property result only minimally affected by the unusual conditions.

We closely monitored our book of business, continued our work to further enhance profitability of accounts where improvements were required, but were also prepared to move away from poorly performing parts of the portfolio and accordingly the 2012 gross loss ratio reduced by 11.3% compared to the previous year. In particular the Swedish Branch and UK Single Risk showed a strong performance with very good results.

Key Losses:

- The largest single claim was the total loss of an oil rig following an explosion and resulting fire with our share being approximately US$17m
- The largest aggregate loss was caused by Hurricane 'Sandy' and is expected to be around US$22m
- Total exposure to UK floods is expected to be comfortably within attritional rates and remain under £1.5m

Risk

Inter Hannover has an established governance framework for the management of risk. The Board, supported by the Risk Committee, monitors the overall risk profile of the Company and ensures adequate financial and non-financial resources are maintained.

The key principles of this approach are based on the 'three lines of defence' model:

- First line – Line management reporting through to the Executive Board are responsible for managing the risks of the business
- Second line – The Risk Management and Compliance functions provide oversight and challenge to the business
- Third line – Internal Audit operates independently of the everyday management of the business and provides assurance on the effectiveness of the risk management and governance processes

Risk monitoring is an on-going process and takes into consideration both internal and external factors of change. The risk owner is responsible for ensuring key metrics or indicators which are established to monitor risk performance are reviewed on a regular basis. Specifically, risk owners are responsible for monitoring risk exposure against the risk appetite parameters approved by the Board. The Risk Management function reports to the Risk Committee and Inter Hannover Board on a quarterly basis. The report is supported by an internal risk MI structure, the outputs of which are tabled and discussed at the Risk Working Group (RWG). In addition, several other committees exist to monitor specific areas of risk, including the Underwriting Committee, the Reserving Committee and Branch Steering and Risk Committees.

All new and renewing Single Risk business considered is quoted with assistance from Group. This ensures that a broad portfolio of factors are considered when entering a contract. Delegated business outsources the pricing function to authorised agents within a framework of guidelines set by our underwriters and actuaries. Inter Hannover seeks to work closely with the agent during the pricing cycle to ensure that appropriate oversight is in place.

Identifying material and foreseeable risks

The process for identifying material risks to the Inter Hannover Business Plan and strategy relies on the proven collaboration between Risk Management and the directorates within its business.

Inter Hannover has established a forum where 'Risk Champions' from across each directorate can meet to discuss and challenge risk issues across the business. This forum is called the Risk Working Group (RWG). The RWG is chaired by the Head of Risk and meets on a monthly basis. The duties of the RWG are to:

- Identify and assess emerging risks and to ensure that they are treated as appropriate and in line with Inter Hannover risk appetite, policies and guidelines
- Promote the management of risk within the business
- Help form and implement the risk strategy
- Champion the adherence to internal policies and procedures and to report non-adherence via the Incident Reporting process
- Review the broader external business and regulatory environments and to assess the possible impacts on Inter Hannover, its risk profile and appetite and to make recommendations to the relevant bodies
- Support the monitoring and reporting of the key risks to the business

The current material risks to our business include:

Risk	How we manage it
Reserving risk	
There is the possibility that we do not make sufficient provision for our exposures, which could affect the Company's earnings, capital and possibly even its survival.	Provision estimates are subject to rigorous review by senior management and independent actuaries. Provision levels reflect similar business experience, trends in reserving patterns, loss payments and value of pending claims and awards, as well as any potential changes in historic rates arising from market or economic conditions.
Investment risk	
The premiums and technical funds we hold for the payment of future claims are inevitably exposed to investment risk.	Inter Hannover has a conservative investment policy, with a mandate to ensure investment security through quality and diversification, whilst ensuring there is sufficient liquidity to meet our cash needs. Our policy is designed to maximise returns within an overall risk appetite.
Liquidity risk	
The risk that Inter Hannover is unable to meet its liabilities to customers or other creditors when they fall due. Also the risk that Inter Hannover incurs excessive costs by selling assets or raising finance in a very short time to meet its obligations.	Cash flow is forecast on an annual basis, with balances invested according to the Company's investment policy. A high proportion of Inter Hannover's investments are in liquid assets, which reduces the risk of incurring losses through the need to sell assets quickly.
Regulatory compliance	
The insurance industry is undergoing a period of unprecedented regulatory change, which may impact the capital Inter Hannover is required to hold.	Inter Hannover has a dedicated team assessing and developing new internal arrangements compliant with new regulations, operating under the guidance of the Company Chief Risk Officer. Inter Hannover also has the facility to leverage the Group knowledge, experience and capacity to support us in times of significant change.
Agency business	
Inter Hannover generates almost half of its premium income via agents to whom it grants binding authority to underwrite insurance policies on its behalf. Agents may write outside of Inter Hannover's guidelines.	Inter Hannover completes appropriate due diligence on all of its agents prior to granting binding authority. Underwriting guidelines are agreed and provided to all agents and regular underwriting reviews and audits are completed to monitor compliance.
Credit risk – intra group counterparty risk	
Inter Hannover buys reinsurance to protect itself from large single losses as well as the combined effect of smaller multiple claims arising from catastrophes. The risk is that our reinsurers are unable to meet their obligations.	The Inter Hannover Board has established mechanisms which allow the Company to monitor the reinsurance exposure to the Group. Every quarter the Board, through the Risk Committee and Capital Committee, assesses the strength of its reinsurers in order to assess the possible impact on Inter Hannover.
IT continuity	
Inter Hannover is unable to transact with its customers due to an IT failure or an external event.	Inter Hannover has a formal disaster recovery plan in place which deals with the recovery of the workspace as well as all critical infrastructure. The arrangements allow the Company the capability to move affected business operations to an alternative site. The plan is tested regularly.

Directors

The directors who served during the financial year and up to the date of this report are disclosed on page 16.

Statement of disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he or she ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office.

The report was approved by the Board of Directors and signed on its behalf on 19th March 2013 by:

N J Parr
Chief Executive Officer

Statement of directors' responsibilities in respect of the directors' report and the financial statements

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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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 estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

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

The statement was approved by the Board of Directors on 19th March 2013 and was signed on its behalf by:

J. Gräber

J Gräber
Chairman

N J Parr
Chief Executive Officer

Company information

Board of directors

Executive directors
N J Parr
A J Chapman (resigned 7th December 2012)
R D Winter (resigned 26th October 2012)
R Boddy
R M Beutter (appointed 1st January 2012)
T Barenthein (appointed 2nd April 2012)
S J Blease (appointed 29th October 2012)

Non-Executive directors
J Gräber (Chairman)
T A Ablett (Independent)
R Vogel
R T R Woods (Independent) (resigned 28th February 2013)

Company Secretary
C Gibson (resigned 21st June 2012;
re-appointed 18th March 2013)
J Eaglen (appointed 21st June 2012;
resigned 18th March 2013)

Registered number
1453123

Auditors
KPMG Audit Plc
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135 Bishopgate
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Registered and administration office
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United Kingdom

Australian branch office
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Ontario M5X 1A4
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Via della Moscova, 3
20121 Milano
Italy

Scandinavian branch office
Hantverkargatan 25
P.O. Box 22085
S-104 22 Stockholm
Sweden

London

Stockholm

'One Roof' – 10 Fenchurch Street

Sydney

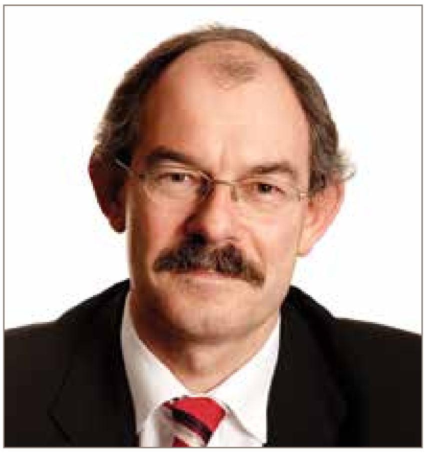
Toronto

The Board of Directors

Nick Parr
Chief Executive Officer
Leads the executive team in developing the strategy and embedding the strategic drivers of the Company. Over 38 years of experience in the insurance and reinsurance industry, and is committed to developing team-based working and partnership models with our clients.

Richard Boddy
Chief Financial Officer
Responsible in the business for financial reporting, data quality and process strategies. Significant prior experience of the UK and Gulf-region insurance industry, and investment banking. Leads the development standards in financial control and client service.

Ralph Beutter
Chief Underwriting Officer
Leads the underwriting of Single Risk and Agency Underwriting, ensuring that business is accepted in line with the strategy of the Company. Over 25 years of experience in the insurance and reinsurance industry.



Jürgen Gräber
Non-Executive Director (Chairman)
Senior Group Non-Executive Director and member of the Hannover Re Group Executive Board. Closely connected with the business development objectives, providing expert underwriting guidance and support to the Inter Hannover executive management.

Roland Vogel
Non-Executive Director
As Hannover Re Group CFO and member of its Executive Board provides close oversight of the Company's financial standards and provides Group expertise to optimise the quality of our results. Chairman of the Investment Committee.

Steve Blease

Chief Risk Officer

Provides a robust assessment of the insurance liabilities of the Company, and responsible for ensuring risks are identified and either mitigated or accepted in an informed and controlled way. Career includes over 30 years with Norwich Union followed by senior positions within the FSA.

Thomas Barenthein

Chief Branch Officer and Managing Director of Inter Hannover Scandinavia

Responsible for the overseas Branches of the Company and heads the Scandinavian Branch. Committed to maintaining and further developing profitable business within Single Risk and Agency Underwriting. Over 20 years of experience in the insurance and reinsurance industry.

Tim Ablett

Independent Non-Executive Director

An experienced insurance entrepreneur, building successful ventures at CEO level. Such experience is an invaluable sounding board for guiding business opportunities within the Board and executive team. Chairman of the Risk Committee.

Tony Hulse

Independent Non-Executive Director

An experienced insurance non-executive with particular focus on finance, control and regulation, having previously been a partner at KPMG specialising in auditing and advising UK and international insurers and brokers. Will join the Board during 2013 and chair the Audit Committee (subject to FSA approval).

Neil Macmillan

Independent Non-Executive Director

An experienced insurance executive, having previously held director positions of both internal audit and risk management in the insurance industry. Such experience supports the specialist nature of the Company's business model. Will join the Board during 2013 (subject to FSA approval).

Independent auditor's report to the members of International Insurance Company of Hannover Limited

We have audited the financial statements of International Insurance Company of Hannover Limited for the year ended 31st December 2012 set out on pages 21 to 48. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 15, the directors are responsible for preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate

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 31st December 2012 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Jonathan Bell (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

Dated: 19th March 2013

Financial statements

For the year ended 31st December 2012

Profit & loss account

for the year ended 31st December 2012

Technical account – general business

in £000	Notes	2012	2011
Earned premiums, net of reinsurance			
Gross premiums written	3	676,980	599,203
Outward reinsurance premiums	1	(635,456)	(561,796)
		41,524	37,407
Change in the gross provision for unearned premiums	21	(40,317)	(33,209)
Change in the provision for unearned premiums, reinsurers' share	21	37,601	31,959
		(2,716)	(1,250)
Earned premiums, net of reinsurance	1	**38,808**	**36,157**
Claims incurred, net of reinsurance			
Claims paid – Gross amount	21	(336,140)	(239,472)
– Reinsurers' share	1 & 21	309,829	226,979
		(26,311)	(12,493)
Change in the provision for claims – Gross amount	21	(100,647)	(136,619)
– Reinsurers' share	1 & 21	94,215	119,463
		(6,432)	(17,156)
Claims incurred, net of reinsurance	1	**(32,743)**	**(29,649)**
Net operating expenses	1 & 7	13,082	9,615
Change in equalisation provisions	22	201	(201)
Sub-total (balance on the technical account for general business)		**19,348**	**15,922**

The notes on pages 28 to 48 form part of these financial statements

Non-technical account

in £000	Notes	2012	2011
Balance on the general business technical account	1	19,348	15,922
Investment income	5	16,235	9,139
Unrealised losses on investments	5	(2,570)	(913)
Investment expenses and charges	6	(397)	(362)
Foreign exchange gains/(losses)		1,059	(207)
Other charges		(24,946)	(15,793)
Profit on ordinary activities before tax	1 & 8	8,729	7,786
Tax charge on profit on ordinary activities	1 & 11	(2,359)	(2,324)
Retained profit for the financial year after tax		**6,370**	**5,462**

All profits are derived from continuing activities.

Statement of total recognised gains and losses

for the year ended 31st December 2012

in £000	Notes	2012	2011
Profit on ordinary activities after tax	19	6,370	5,462
Exchange movements arising on consolidation of overseas Branches	19	(665)	(667)
Total recognised gains arising in the year		**5,705**	**4,795**
Total recognised gains arising in the year		5,705	4,795
Prior year adjustments		-	(8,078)
Total recognised gains and losses since the last annual report		**5,705**	**(3,283)**

Reconciliation of movements in shareholder’s funds

for the year ended 31st December 2012

in £000	Notes	2012	2011
Shareholder’s funds at beginning of year as originally stated		116,166	119,449
Prior year adjustments		-	(8,078)
Shareholder’s funds at beginning of year as restated		**116,166**	**111,371**
Total recognised gains in the year		5,705	4,795
Shareholder’s funds at end of year		**121,871**	**116,166**

The notes on pages 28 to 48 form part of these financial statements.

Balance sheet

as at 31st December 2012

Assets in £000	Notes	2012	2011
Investments			
Investment in group undertakings	12	545	45
Other financial investments	1 & 13	253,554	275,048
		254,099	**275,093**
Reinsurers' share of technical provisions			
Provision for unearned premiums	21	343,974	311,809
Claims outstanding	1 & 21	1,050,462	973,056
		1,394,436	**1,284,865**
Debtors			
Debtors arising out of direct insurance operations	1 & 14	275,166	294,573
Debtors arising out of reinsurance operations	15	5,498	77
Other debtors	16	2,787	7,054
		283,451	**301,704**
Other assets			
Tangible assets	17	2,872	3,659
Cash at bank and in hand		23,834	19,910
		26,706	**23,569**
Prepayments and accrued income			
Accrued interest and rent		3,005	3,295
Deferred acquisition costs	21	70,897	61,076
Other prepayments and accrued income		420	316
		74,322	**64,687**
Total assets		**2,033,014**	**1,949,918**

Liabilities

in £000	Notes	2012	2011
Capital and reserves			
Called up share capital	18	65,000	65,000
Profit and loss account	1 & 19	56,871	51,166
Shareholder's funds attributable to equity interests		**121,871**	**116,166**
Subordinated liabilities	20	51,000	51,000
Technical provisions			
Provision for unearned premiums	21	368,343	333,594
Claims outstanding	21	1,122,967	1,039,475
Equalisation provisions	22	-	201
		1,491,310	**1,373,270**
Creditors			
Creditors arising out of direct insurance operations	23	264,828	322,814
Other creditors including taxation and social security	1 & 24	14,900	12,946
		279,728	**335,760**
Accruals and deferred income	1 & 25	89,105	73,722
Total liabilities		**2,033,014**	**1,949,918**

The notes on pages 28 to 48 form part of these financial statements.

These financial statements were approved by the Board of Directors on 19th March 2013 and were signed on its behalf by:

J Gräber
Chairman

N J Parr
Chief Executive Officer

Mission statement

At Inter Hannover:

- We are solution driven and responsive, and are determined to be the best insurance option for our customers.
- We empower our business partners and build true partnerships based on reliable and sustainable foundations.

Notes to the accounts

Forming part of the financial statements

1. Basis of preparation

a) The financial statements have been prepared in accordance with the provisions of Section 255 of, and Part 1 of Schedule 3 to, the Companies Act 2006. The financial statements have also been prepared in accordance with applicable accounting standards and under the historical cost accounting rules, and comply with the revised Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers ('The ABI SORP') in December 2005 (as amended in December 2006).

The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group accounts. These financial statements present information about the Company as an individual undertaking and not about its group.

Under FRS 1, the Company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary undertaking of Haftpflichtverband der Deutschen Industrie V.a.G. whose financial statements are publicly available.

b) The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Report of the directors' on pages 8 to 15 which include the Company's risks and uncertainties. The Company has considerable financial resources together with very prudent investment guidelines and high quality of assets, sound underwriting procedures, controls and risk mitigating processes (including, but not limited to, reinsurance). As a consequence, the directors believe that the group is well placed to manage its business risks successfully despite the current uncertain economic outlook. The directors are confident that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

c) An agreement entered into in December 2010 to transfer a substantial proportion of the Company's run off business to a third party received High Court sanction with effect from 1st October 2011. Accordingly the liabilities and related reinsurance assets were transferred to the third party on that date. There was no impact on the profit and loss for the year and balance sheet as at 31st December 2012. The impact of the transfer on the profit and loss for the prior year and balance sheet as at 31st December 2011 was as follows:

2011 in £000	Reported amount	Impact of Part VII Agreement	Amount excluding Part VII Agreement
Profit and loss account			
Change in the provision for unearned premiums – reinsurers' share	31,959	16	31,943
Claims paid – gross amount	(239,472)	(6,510)	(232,962)
Change in provision for claims – gross amount	(136,619)	82,360	(218,979)
Change in provision for claims – reinsurers' share	119,463	(74,953)	194,416
Net operating expenses	9,615	408	9,207
Balance on the technical account	15,922	1,321	14,601
Profit on ordinary activities before tax	7,786	1,321	6,465
Tax on profit on ordinary activities	(2,324)	(350)	(1,974)
Retained profit for the financial year after tax	**5,462**	**971**	**4,491**
Balance sheet			
Reinsurers' share of technical provisions – provision for unearned premiums	311,809	16	311,793
Reinsurers' share of technical provisions – claims outstanding	973,056	(74,953)	1,048,009
Debtors arising out of direct insurance operations	294,573	(3,234)	291,339
Capital and reserves – profit and loss account	51,166	971	50,195
Shareholder's funds attributable to equity interests	116,166	971	115,195
Technical provisions – claims outstanding	1,039,475	(82,360)	1,121,835
Creditors arising out of direct insurance operations	322,814	3,245	319,569
Other creditors including taxation and social security	12,946	(27)	12,973

2. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material to the Company's financial statements.

Basis of accounting for underwriting activities

All lines of business are accounted for on the annual basis of accounting.

Premiums

Written premiums comprise the premiums on contracts entered into during the year. Premiums are disclosed gross of commission and exclude taxes and levies based on premiums. Premiums written include adjustments to premiums written in prior accounting periods and estimates for 'pipeline' premiums.

Proportional reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance or inwards reinsurance business. The cost of excess of loss reinsurances, purchased on an accident year basis, is borne in the financial year. For other excess of loss reinsurances the cost is matched with the premium earned.

Unearned premiums

The provision for unearned premiums represents that part of premiums written which is estimated to be earned in the following or subsequent financial years, computed separately for each insurance contract using the daily pro-rata method except for some schemes where the monthly pro-rata method is applied to premium bordereaux.

Acquisition costs

Acquisition costs comprise all direct and indirect costs, arising from the conclusion of insurance contracts during the financial year. Deferred acquisition costs represent the proportion of acquisition costs incurred which corresponds to the unearned premium provision.

Overrider commission is taken to the profit and loss account over the life of the related insurance contracts. A provision for deferred overrider commission is computed separately for each contract consistently with the calculation of unearned premium, and included under accruals and deferred income on the balance sheet.

Claims incurred

Claims incurred consist of claims and external claims handling expenses paid during the financial year and the movement in provisions for outstanding claims, including an allowance for the cost of claims incurred by the balance sheet date but not reported until after the year end. Provisions include an element to reflect anticipated future claims handling costs.

Claims outstanding

Outstanding claims comprise provisions for the estimated cost of settling all claims incurred but not paid at the balance sheet date whether reported or not, together with related claims handling expenses. The provision included in respect of claims incurred but not reported (IBNR) is based on statistical techniques of estimation applied by external and in-house actuaries. These techniques generally involve projecting from past experience the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions. Accordingly the two most critical assumptions as regards estimating claims provisions are that the past is a reasonable predictor of claims development and that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred.

The reinsurers' share of provisions for claims is based on calculated amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved.

Anticipated reinsurance recoveries and estimates of salvage and subrogation recoveries are shown in the balance sheet as assets.

The directors consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

Equalisation provisions

Equalisation provisions are established in accordance with the requirements of INSPRU 1.4 of the Prudential Sourcebook for insurers to mitigate exceptionally high loss ratios for classes of business displaying a high degree of claims volatility.

Unexpired risks

Provision is made for unexpired risks where the claims and administrative expenses likely to arise after the end of the financial year in respect of contracts entered into before that date are expected to exceed the unearned premiums and premiums receivable under these contracts. Provision for unexpired risks is calculated separately by classes, which are managed together, after taking into account relevant investment return.

Allocation of investment return

Investment income, realised gains and losses, expenses and charges are reported in the non-technical account.

Investment income, expenses and charges

Investment income is accounted for on an accruals basis. Realised gains and losses represent the difference between net sales proceeds and the amortised cost of acquisition. Unrealised gains and losses on investments represent the difference between the amortised cost of investments at the balance sheet date and their original cost. Both realised and unrealised gains and losses include currency gains and losses. The movement in unrealised investment gains and losses recognised in the profit and loss account includes an adjustment for previously unrealised gains and losses on investments disposed of in the accounting period.

Differences between the cost and amount receivable on maturity of redeemable fixed interest securities are charged and released to the profit and loss account in equal instalments over the period remaining until redemption.

Investments

Financial investments other than redeemable fixed interest securities are stated at the market value ruling at the balance sheet date using the bid price, whilst deposits with credit institutions are stated at cost.

Redeemable fixed interest securities are stated at amortised cost.

Depreciation

Depreciation is calculated to write off the cost of tangible fixed assets to their estimated residual value, on a straight line basis over the estimated useful life as follows:

Computer equipment (including related software) – 3 to 5 years
Motor vehicles – 5 years
Furniture, fixtures and fittings – 5 years

Foreign currencies

Transactions in foreign currencies are translated into sterling using average rates of exchange ruling during the year. Assets and liabilities denominated in foreign currencies are translated into sterling using the rate of exchange ruling at the balance sheet date. Foreign currency insurance funds at the beginning of the year have been revalued at closing exchange rates. Gains or losses on translation of insurance funds are included in the non-technical account.

The branch profit and loss accounts are translated into sterling using average exchange rates for the year. Assets and liabilities of branches are translated into sterling using the rate of exchange ruling at the balance sheet date. The impact of these currency translations is recorded as a component of shareholder's funds within the statement of total recognised gains and losses.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred, which arises because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax assets and liabilities are recognised in accordance with the provisions of FRS 19. Except as set out in FRS 19, deferred tax is recognised on all material timing differences that have originated but not reversed by the balance sheet date. Deferred tax assets are recognised to the extent that it is considered more likely than not that they will be recovered.

Mission statement

At Inter Hannover:

- We take accountability for the profitability and growth of our business as a leading primary insurance carrier within the Hannover Re Group.

3. Segmental reporting

Analysis of gross premiums written by region

2012 in £000	In the UK	In other EU states	In other countries	Total
Accident and health	7,889	2,362	27	10,278
Fire and other damage to property	141,975	6,196	1,972	150,143
Third party liability	192,388	4,491	10,421	207,300
Marine, aviation and transport	102,050	98,892	2,638	203,580
Motor	54,446	7,588	15,884	77,918
Miscellaneous	17,328	9,581	852	27,761
Total	**516,076**	**129,110**	**31,794**	**676,980**

Analysis by business segment

2012 in £000	Gross premiums earned	Gross claims incurred	Gross operating expenses	Gross technical result	Reinsurance balance	Equalisation provisions	Net technical result	Net insurance funds
Accident and health	11,040	(7,433)	(3,522)	85	735	-	820	3,247
Fire and other damage to property	124,305	(76,170)	(34,486)	13,649	(11,240)	201	2,610	19,211
Third party liability	203,365	(171,506)	(41,267)	(9,408)	15,754	-	6,346	42,047
Marine, aviation and transport	204,001	(103,843)	(34,958)	65,200	(56,184)	-	9,016	8,242
Motor	76,537	(62,630)	(20,966)	(7,059)	7,754	-	695	13,745
Miscellaneous	17,415	(15,205)	(5,121)	(2,911)	2,772	-	(139)	5,172
Total	**636,663**	**(436,787)**	**(140,320)**	**59,556**	**(40,409)**	**201**	**19,348**	**91,664**

Analysis by geographical location

2012 in £000	UK	Foreign branches	Total
Gross written premium	516,076	160,904	676,980
Profit before tax	5,239	3,490	8,729
Net assets	91,493	30,378	121,871

Analysis of gross premiums written by region

2011 in £000	In the UK	In other EU states	In other countries	Total
Accident and health	14,137	1,979	(294)	15,822
Fire and other damage to property	91,391	3,237	(480)	94,148
Third party liability	175,239	4,480	5,755	185,474
Marine, aviation and transport	100,243	111,355	585	212,183
Motor	60,030	4,923	12,993	77,946
Miscellaneous	7,494	6,136	-	13,630
Total	**448,534**	**132,110**	**18,559**	**599,203**

Analysis by business segment

2011 in £000	Gross premiums earned	Gross claims incurred	Gross operating expenses	Gross technical result	Reinsurance balance	Equalisation provisions	Net technical result	Net insurance funds
Accident and health	17,554	(9,652)	(6,595)	1,307	643	-	1,950	3,934
Fire and other damage to property	74,029	(46,067)	(20,177)	7,785	(9,740)	(201)	(2,156)	16,142
Third party liability	206,649	(188,997)	(49,968)	(32,316)	33,624	-	1,308	37,409
Marine, aviation and transport	182,043	(83,853)	(32,018)	66,172	(55,231)	-	10,941	4,427
Motor	74,165	(41,515)	(15,562)	17,088	(14,417)	-	2,671	18,142
Miscellaneous	11,554	(6,007)	(2,236)	3,311	(2,103)	-	1,208	3,763
Total	**565,994**	**(376,091)**	**(126,556)**	**63,347**	**(47,224)**	**(201)**	**15,922**	**83,817**

Analysis by geographical location

2011 in £000	UK	Foreign branches	Total
Gross written premium	448,534	150,669	599,203
Profit before tax	4,624	3,162	7,786
Net assets	88,447	27,719	116,166

4. Prior years' net claims provisions

Over/(under) provisions for claims at the beginning of the year compared to payments and provisions at the end of the year in respect of prior years' claims are shown in the table below.

in £000	2012	2011
Accident and health	888	656
Fire and other damage to property	(27)	(60)
Third party liability	940	521
Marine, aviation and transport	(537)	677
Motor	4,932	(1,038)
Miscellaneous	1,380	1,776
Total	**7,576**	**2,532**

The figures for 2011 are stated after adjusting for the impact of the Part VII transactions described in Note 1.

5. Investment income

in £000	2012	2011
Income from other investments	9,304	7,835
Gains on the realisation of investments	6,931	1,304
	16,235	9,139
Movement in unrealised losses on investments	(2,570)	(913)
Total investment return	**13,665**	**8,226**

Realised and unrealised gains and losses include foreign exchange losses of £1,502,586 (2011: gains of £435,020).

6. Investment expenses and charges

in £000	2012	2011
Investment management expenses, including interest	397	362

7. Net operating expenses

2012 in £000	Gross	Reinsurance	Net
Acquisition costs	145,931	(138,272)	7,659
Deferred acquisition costs carried forward	(70,897)	65,687	(5,210)
Deferred acquisition costs brought forward	61,076	(56,689)	4,387
Change in deferred acquisition costs	(9,821)	8,998	(823)
Incurred acquisition costs	136,110	(129,274)	6,836
Administration costs	4,210	46	4,256
Total operating expenses	140,320	(129,228)	11,092
Overrider commission (net of deferral)	-	(24,174)	(24,174)
	140,320	(153,402)	(13,082)

2011 in £000	Gross	Reinsurance	Net
Acquisition costs	125,773	(118,982)	6,791
Deferred acquisition costs carried forward	(61,076)	56,689	(4,387)
Deferred acquisition costs brought forward	57,740	(53,094)	4,646
Change in deferred acquisition costs	(3,336)	3,595	259
Incurred acquisition costs	122,437	(115,387)	7,050
Administration costs	4,119	445	4,564
Total operating expenses	126,556	(114,942)	11,614
Overrider commission (net of deferral)	-	(21,229)	(21,229)
	126,556	(136,171)	(9,615)

8. Profit on ordinary activities before tax

Profit on ordinary activities before tax is stated after charging:

in £000	2012	2011
Depreciation	2,537	1,155
Operating lease rentals – land and buildings	629	557
Auditors' remuneration:		
Audit of statutory accounts	322	380
Audit of regulatory returns	133	85
Other services	90	53

Mission statement

At Inter Hannover:

- We underwrite selectively for our own account and also facilitate and service business efficiently for the benefit of the Hannover Re Group.
- We have strong professional and technical capabilities and use these to deliver a valuable service.

9. Directors' emoluments

During the year nine directors (2011: seven) received total remuneration of £1,517,829 (2011: £887,332) for their qualifying services as directors of the Company and in connection with the management of the Company's affairs. No other directors received remuneration in respect of their services to the Company. Contributions were made to a defined contribution scheme on behalf of six directors (2011: five) in the sum of £142,390 (2011: £90,833).

These costs were paid by Hannover Services (UK) Limited and recharged to the Company. The total amount of the recharge is shown in Note 10 below. Two directors of the Company were also directors of Hannover Services (UK) Limited during the financial year.

Highest paid director

in £000	2012	2011
Aggregate emoluments	353	278

10. Staff numbers and costs

Staff numbers and costs for employees in the Scandinavian, Australian and Canadian branches:

Average number of employees

	2012	2011
Business acquisition	19	19
Claims handling	5	6
Administration	21	19
	45	44

Full time equivalent number of employees

	2012	2011
Business acquisition	19	19
Claims handling	5	6
Administration	21	18
	45	43

Aggregate payroll costs

in £000	2012	2011
Wages and salaries	3,712	3,241
Social security	1,010	926
Other pension costs	1,133	736
	5,855	4,903

The Company employs no staff in the UK. A charge for staff costs for the day-to-day administration and operations has been included in the profit and loss account for the year in the sum of £11,331,930 (2011: £8,027,000) for UK staff. These costs were paid by Hannover Services (UK) Limited and recharged to the Company. This charge reflects services provided for an average of 95 (2011: 81) employees during the year. Full disclosure of staff numbers and costs has been made in the accounts of Hannover Services (UK) Limited. There were no staff costs incurred in the Italian branch.

11. Tax on profit on ordinary activities

Analysis of charge in the period

in £000	2012	2011
Current tax		
UK corporation tax	1,458	600
Adjustments in respect of prior periods	72	67
Double tax relief	(1,005)	(600)
	525	67
Overseas taxation	1,026	600
Adjustments in respect of prior periods	29	(30)
Tax charge on profit on ordinary current activities	1,580	637
Deferred tax		
Origination and reversal of timing differences	905	1,763
Adjustments in respect of prior periods	(126)	(76)
Total deferred tax charge	779	1,687
Tax charge on profit on ordinary activities	**2,359**	**2,324**

The standard rate of current tax applied for the year is 24.5% (2011: 26.5%). The tax assessed is lower than that resulting from applying the standard rate of current tax in the UK and the differences are explained below.

Tax reconciliation

in £000	2012	2011
Profit on ordinary activities before tax	8,729	7,786
Profit on ordinary activities multiplied by the standard rate of current tax of 24.5% (2011: 26.5%)	2,139	2,064
Effects of:		
Expenses not deductible for tax purposes	114	88
Difference in overseas tax rates	21	(17)
Prior year corporation tax adjustments	101	37
Timing differences:		
Depreciation in excess of capital allowances	206	(22)
Loss/(gain) on sale of assets	233	(4)
Accruals and provisions	(35)	223
Tax losses utilised	(1,199)	-
Tax losses carried forward	-	1,181
Accounting policy change adjustments	-	(2,913)
Current tax charge on ordinary activities for the period	**1,580**	**637**

Deferred tax asset

in £000	2012	2011
Asset brought forward	(1,869)	(3,556)
Effect of change in rates	60	48
Deferred tax charge for the year	719	1,639
Asset at end of year	**(1,090)**	**(1,869)**

The full potential deferred tax asset at 31st December 2012 was £1,090,000 (2011: £1,869,000), which included an unrecognised amount of £nil (2011: £nil).

The Finance Act 2012 provides for a reduction in the main rate of UK corporation tax from 24% to 23% with effect from 1st April 2013. The impact of the rate reduction to 23% is reflected in the closing deferred tax asset. The Government has also indicated that the rate will be reduced to 21% from 1st April 2014; however this further reduction was not substantively enacted at 31st December 2012 and has therefore not been reflected in the deferred tax asset.

12. Investment in group undertakings

in £000	2012	2011
Investment in group undertakings at cost	545	45
Investment in associated undertaking at cost	526	526
Less: provision for impairment	(526)	(526)
	545	**45**

The Company became the 100% shareholder of International Mining Industry Underwriters Limited (IMIU Ltd) in 2003, when the shares of the other members were redeemed. IMIU Ltd is an insurance agency incorporated in England and Wales.

Since 31st December 2010 the directors have been of the opinion that the investment in the associated undertaking Hannover Care AB, an insurance agency incorporated in Sweden, no longer has long term value and accordingly full provision is held against the cost. The company holds 30% of the issued share capital of Hannover Care AB.

In 2010 the Company acquired 100% of the issued share capital of Inter Hannover (No.1) Limited (formerly Apollo Underwriting No. 6 Limited), a company incorporated in England and Wales.

In 2011 the Company acquired 100% of the issued share capital of International Hannover Holding AG, a company incorporated in Germany.

On 31st July 2012 the company acquired 100% of the share capital of L & E Holdings Ltd, a company that owns 100% of the share capital of London & European Title Insurance Services Ltd (LETIS) which arranges both Title insurance and Legal Indemnity cover. L & E Holdings Ltd is a company incorporated in England and Wales.

13. Other financial investments

in £000	Carrying value 2012	Carrying value 2011	Historical cost 2012	Historical cost 2011
Debt securities and other fixed income securities at amortised cost – listed	229,087	241,944	231,193	243,275
Deposits with credit institutions	24,467	33,104	24,467	33,104
	253,554	275,048	255,660	276,379

Debt securities and other fixed income securities, which are shown at amortised cost, are analysed below:

in £000	2012	2011
Cost	231,193	243,275
Cumulative amortisation	(2,106)	(1,331)
Carrying value – amortised cost	**229,087**	**241,944**
Market value	242,933	255,877

The redemption value of investments held at the end of the year was £5,606,930 less (2011: £5,503,585 less) than the amortised cost.

Market valuations are provided for debt and other fixed income securities by the Company's investment manager, Talanx Asset Management GmbH. At 31st December 2012 the portfolio comprised only highly-rated debt securities in which liquid markets have continued to be maintained and included no derivatives or other complex instruments. Management monitor market values on a weekly basis in accordance with the Company's risk management procedures. The directors are therefore confident that the market values shown above are a reasonable reflection of achievable prices at the balance sheet date.

14. Debtors arising out of direct insurance operations

in £000	2012	2011
Amounts owed by intermediaries	250,242	272,395
Amounts due from group undertakings	24,924	22,178
	275,166	294,573

15. Debtors arising out of reinsurance operations

in £000	2012	2011
Amounts owed by intermediaries	5,498	77

16. Other debtors

in £000	2012	2011
Amounts due from group undertakings	510	3,118
Deferred tax	1,090	1,869
Corporation tax	658	1,103
Other debtors	529	964
	2,787	**7,054**

17. Tangible fixed assets

2012 in £000	Computer hardware	Computer software	Motor vehicles	Furniture fixtures and fittings	Total
Cost					
At beginning of year	453	8,630	112	1,621	10,816
Additions	88	820	67	794	1,769
Disposals	-	-	(30)	-	(30)
Foreign exchange rate movements	-	-	-	-	-
At end of year	541	9,450	149	2,415	12,555
Depreciation					
At beginning of year	317	6,285	33	522	7,157
Charged in year	95	1,655	33	754	2,537
Disposals	-	-	(18)	-	(18)
Foreign exchange rate movements	5	(1)	(2)	5	7
At end of year	417	7,939	46	1,281	9,683
Net book value					
At end of year	124	1,511	103	1,134	2,872
At beginning of year	136	2,345	79	1,099	3,659

18. Called-up share capital

in £000	2012	2011
Authorised: 65,000,000 (2011: 65,000,000) ordinary shares of £1 each	65,000	65,000
Allotted, called-up and fully paid: 65,000,000 (2011: 65,000,000) ordinary shares of £1 each	65,000	65,000

19. Reserves

Profit and loss account

in £000	2012	2011
At beginning of year as originally stated	51,166	54,449
Prior year adjustments	-	(8,078)
Retained profit for the year	6,370	5,462
Other recognised (loss) for the year	(665)	(667)
At end of year	**56,871**	**51,166**

20. Subordinated liabilities

Subordinated loans from Hannover Re

in £000			2012	2011
Current Interest Rate	Earliest repayment date	Latest repayment date		
3.14%	29th July 2010	29th July 2035	8,000	8,000
3.28%	9th December 2010	9th December 2035	11,300	11,300
3.77%	16th February 2011	16th February 2036	6,700	6,700
1.94%	22nd June 2012	22nd June 2037	5,000	5,000
6.42%	1st October 2015	1st October 2040	5,000	5,000
6.40%	15th November 2015	15th November 2040	15,000	15,000
			51,000	**51,000**

All six loans are unsecured on fixed interest terms subject to five-yearly interest rate reviews.

21. Technical provisions and deferred acquisition costs

2012 in £000	Provision for unearned premiums	Claims outstanding	Total
Gross amount			
At beginning of year	333,594	1,039,475	1,373,069
Movement in provision	40,317	100,647	140,964
Foreign exchange rate movements	(5,568)	(17,155)	(22,723)
At end of year	368,343	1,122,967	1,491,310
Reinsurance amount			
At beginning of year	311,809	973,056	1,284,865
Movement in provision	37,601	94,215	131,816
Foreign exchange rate movements	(5,436)	(16,809)	(22,245)
At end of year	343,974	1,050,462	1,394,436
Net technical provisions			
At end of year	24,369	72,505	96,874
At beginning of year	21,785	66,419	88,204

There is no unexpired risk reserve included in claims outstanding at the end of the year (2011: £nil).

in £000	2012	2011
Net technical provisions at end of year	96,874	88,204
Deferred acquisition costs:		
Gross	(70,897)	(61,076)
Reinsurance commission	65,687	56,689
	(5,210)	(4,387)
Net insurance funds	**91,664**	**83,817**

Equalisation provisions are established in accordance with the requirements of the Insurance Companies (Reserves) Regulations 1996. These provisions are in addition to the provisions which are required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date. They are required by schedule 3 to the Companies Act 2006 to be included within technical provisions in the balance sheet notwithstanding that they do not represent liabilities at the balance sheet date. The equalisation provisions established are set out in Note 22.

22. Equalisation provisions

As explained in Note 2, an equalisation provision is established in the financial statements. The effect of this provision is to reduce shareholder's funds by £0.0m (2011: £0.2m). The provision made during the year had the effect of increasing the balance on the technical account for general business and the profit on ordinary activities before taxation by £0.2m (2011: £0.2m reduction).

23. Creditors arising out of direct insurance operations

in £000	2012	2011
Amounts due to group undertakings	168,931	219,682
Other	95,897	103,132
	264,828	322,814

24. Other creditors including taxation and social security

in £000	2012	2011
Amounts due to group undertakings	918	2,618
Social security and other taxes	4,825	3,610
Other	9,157	6,718
	14,900	12,946

25. Accruals and deferred income

in £000	2012	2011
Deferred reinsurance commission	65,687	56,689
Deferred overrider commission	12,673	12,587
Other accruals and deferred income	10,745	4,446
	89,105	73,722

26. Contingencies and related obligations

In accordance with FRS 12, 'Provisions, contingent liabilities and contingent assets', appropriate provision has been made in the financial statements where the Company has an obligation arising from events or activities where an estimate of the obligation can be made, but not for contingent liabilities.

Contingent liabilities

In common with the insurance industry in general, the Company is subject to litigation, mediation and arbitration in the normal course of its business. The directors do not believe that any current mediation, arbitration pending or threatened litigation or dispute will have a material adverse effect on the Company's financial position, although there can be no assurance that any losses resulting from any pending mediation, arbitration and threatened litigation or dispute will not materially affect the Company's financial position or cash flows for any period.

As security for the Company's technical liabilities the Company's parent has arranged for financial institutions to furnish sureties on behalf of the Company in the form of letters of credit. The total amount of the letters of credit as at the balance sheet date was US$52,938,728 (2011: US$53,736,693). Included within this amount is £334,544 (2011: £334,544) recognised in the balance sheet in respect of a rental liability.

Capital commitments

The Company has no future capital commitments at the balance sheet date (2011: £nil).

Operating leases

The Company benefits from operating lease agreements entered into by Hannover Services (UK) Limited for land and buildings, for one of which it is guarantor. The annual commitments under those operating leases are as follows:

in £000	2012	2011
Expiry date:		
– in the second to fifth years inclusive	806	791
	806	791

27. Related party transactions

As the Company is a wholly owned subsidiary of Hannover Rückversicherung AG it has taken advantage of the exemption under FRS 8 'Related Party Transactions' not to disclose transactions with other entities within the Hannover Re Group.

28. Parent company

The Company is a subsidiary undertaking of HDI Haftpflichtverband der Deutschen Industrie V.a.G., which is incorporated in Germany.

The largest group in which the results of the Company are consolidated is that headed by HDI Haftpflichtverband der Deutschen Industrie V.a.G., which is incorporated in Germany.

The smallest group in which they are consolidated is that headed by Hannover Rückversicherung AG, which is also incorporated in Germany.

The consolidated accounts of these groups are available to the public and may be obtained from:

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Published by
International Insurance Company of Hannover Limited
10 Fenchurch Street
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Tel +44 (0)20 7015 4000
Fax +44 (0)20 7015 4001
Registered in England No. 1453123
Authorised and regulated by the Financial Services Authority
FSA Register No. 202640