somewhat different

Annual Report 2013

inter hannover

Overview

International Insurance Company of Hannover plc ("Inter Hannover"), "the Company" is a subsidiary of 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 variety of classes of business, including personal lines and commercial risks. We partner with our parent company, Hannover Re, to provide integrated solutions to clients.

Company information

Board of directors

T Barenthein
R M Beutter
J D R Dear
H M Fuchs
J Gräber
A P Hulse
A Larsson
N S Macmillan (Chairman)
N J Parr
R H Vogel

Company Secretary

J VV Eaglen

Registered office

10 Fenchurch Street
London
EC3M 3BE
United Kingdom

Registered number

01453123

Parent company

Hannover Rück SE (“Hannover Re”)
Karl-Wiechert-Allee 50
30625 Hannover
Germany

Australian branch office

Level 12
20 Bond Street
Sydney NSW 2000
Australia

Canadian branch office

130 King Street, West
Suite 2125
Toronto
Ontario M5X 1A4
Canada

Italian branch office

Via della Moscova, 3
20121 Milano
Italy

Scandinavian branch office

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

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Chairman's Statement

When Jürgen Gräber handed over the Chairman responsibilities to me on 1st October 2013, the Inter Hannover Board had already established a clearly articulated strategy for the next three years to 2015. I am pleased to report that a number of the key deliverables of our strategy have been successfully implemented during 2013.

Firstly, the 'One Roof' project to bring all our operations together in one location in the City of London was fully completed in the spring of 2013. The advantages of that move have been increasingly apparent during the year, and I believe we have a stronger and more efficient operating environment as a result.

Secondly, the reshaping of the insurance portfolio to reduce earnings volatility is now substantially complete and there has been a need to strengthen reserves in some of the lines of business from which we have chosen to disengage. This has been the key factor in our overall poor financial result for 2013, but the Board is confident that the action taken is prudent and will provide a solid platform for future income growth.

Thirdly, the continuing development of our systems infrastructure is extending the benefits of an increasingly efficient processing environment to all areas of our business. Significant improvements have already been made and we expect this development to be completed during the current year.

We also took the opportunity during 2013 to review our Board Committee structures and have made a number of improvements to our corporate governance processes. These have brought a sharper focus to the Board of Inter Hannover at a time when strategic change is most prevalent.

Inter Hannover continues to receive the substantial support of our parent, Hannover Re, through the provision of comprehensive reinsurance support across all areas of the portfolio and the appropriate capital support to enable the on-going development of our business.

It is increasingly clear that the strength and market position of Hannover Re is central to our strategic ambitions and with this in mind, the Board has investigated the potential benefits of a closer geographic alignment of the two companies. During 2013, the Board carried out a feasibility study into the possibility of converting the company to a European SE and moving its domicile to Germany. The results of that study have been encouraging and a final decision will be made in July 2014 whether to re-domicile, subject to the required regulatory approvals. Certain preparatory costs are reflected in the financial results for 2013.

Our commitment to the UK market will remain unchanged and post a potential re-domicile, we would continue to retain substantial underwriting and administrative operations in London. We are very fortunate to have an excellent client base across all our geographies, both directly and through our supportive network of agencies. We will continue to provide them with the excellent customer service that they quite rightly demand.

It was with much sadness that we learned of the death of Tim Ablett in May of last year. Tim brought to his role on the Board an enormous experience of international insurance markets and dedication to the company's development. He will be greatly missed by his colleagues at Inter Hannover and by his many friends across the industry.

Finally, the coming year will be another of significant change for our business and we would not be able to achieve this without the experience and commitment of all our staff. On behalf of the Board, I would like to thank them for their continuing dedication and commitment to Inter Hannover and the Hannover Re Group.

N S Macmillan
Chairman
March 2014

Strategic Report

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

Strategy and Business Model

The business model of the Company is to access and underwrite profitable direct insurance business, utilising reinsurance arrangements through its parent, Hannover Re and its fellow subsidiary companies (the Group) in order to align direct opportunities with the Group's reinsurance activity. In so doing the Company seeks to make a growing contribution to the overall result of the Group. In order to implement the strategy, we continue our program of 5 strategic drivers which are: Enhance Profitability; New Frontiers for Growth; Delivering Customer Value; Driving Efficiency; and Developing Capability. Each project undertaken by the company must be directed towards one or more of these drivers.

The Company has developed a three year strategy period, which is at the heart of the organisation and its governance. 2013 represents the first year of this three year period. The results for this year are disappointing as a result of significant deterioration in a small number of legacy accounts. Notwithstanding this, in all material aspects our strategy is on track. This strategy puts our customers at the heart of what we do, and risk allocated capital derived from the strategy informs our pricing. Progress of the initiatives which comprise the strategy is monitored using Performance Excellence methodology.

Our focus on profitability has driven the selection of new business, including new portfolios established through binder acceptances, and has required some decisive underwriting actions for elements of liability and motor business that have underperformed. With these actions taken and with run off business stabilised, the underlying trend of results is positive. Continuing investment in underwriting tools and in systems improvements support the level of analysis and data quality that the diversity of our portfolio demands.

Our mid-term goals are for modest premium growth in 2014 as a consequence of underwriting decisions taken over the last year. We are investing in a number of initiatives to improve the efficiency of our business and whereas these have an immediate cost, in the medium term they will contribute to our focus on lean structures that assist an effective cost ratio.

Our work will continue around our preparedness for Solvency II and refining our ORSA processes through integrated risk and capital management.

Our employees are empowered at all working levels which we support through personal development. We also encourage a working environment and culture that aligns with our strategic objectives.

In order to keep our strategy at the forefront, we are considering converting the Company to a European SE and aligning its domicile with that of the parent company in Hannover. We anticipate that this will reinforce our ability to support our clients through a better integration into the Hannover Re Group, providing both greater access to additional specialist technical underwriting skills available there and more immediate access to the reinsurance solutions which complement the direct insurance solutions we offer. Further, a change in domicile allows for common use of the existing infrastructure of Hannover Re Group in Hannover and for an effective and uniform control and monitoring of the branch offices. The change in domicile will not of course constitute a reduction in our focus on the London market. If it proceeds, the UK business will become by a significant margin the largest of the Company's branches and the growth plans for that business will be maintained.

The results of a feasibility study into the proposed restructuring have been encouraging and the Board is moving forward with the administrative work to prepare for a final decision and implementation during 2014. Provision has been made in these financial statements for estimated costs of £2.81 million relating to the work undertaken in 2013.

Looking further ahead to 2015 and the third year of our current strategy plan period, we are planning for renewed premium growth. The current investment programmes to develop our underwriting systems will be largely completed and this, together with our continued focus on underwriting disciplines and our ever closer alignment with Hannover Re following the re-domicile of our head office to Hannover referred to in the Chairman's statement, should enable us to achieve combined ratios trending to below 90% for short tail and 95% for long tail business.

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 the Company's financial strength ratings were affirmed by Standard and Poor's at AA- (very strong) and by A M Best at A+ (superior). Both ratings 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 in existing and new niche markets.

Financial performance

Overall gross written premium has increased by 6.0% to £717.4m with the primary drivers being the Agency business which has increased by 4.1%, Single Risk premiums have increased by 2.4% and the branches in Sweden, Canada and Australia growing by 13.9%.

The Key Performance Indicators used by the Board to monitor the business are shown below in the Five Year Summary and in the Investment Performance review on pages 10 and 11.

Five Year Summary

in £m	2009	2010	2011	2012	2013
Summary technical income statement					
Gross written premium	358.9	549.7	599.2	677.0	717.4
Net written premium	7.8	32.4	39.8	41.5	52.0
Gross underwriting result [1]	23.4	20.3	(12.6)	59.6	(49.7)
Net underwriting result	2.8	19.5	14.6	19.3	12.8
Summary non-technical income statement					
Investment return	9.5	10.3	7.8	15.1	8.3
Operating profit/(loss) (EBIT)	5.6	13.8	7.0	8.7	(4.5)
Net income/(loss) for the year	3.9	11.2	4.5	6.4	(6.0)
Strategic ratios	%	%	%	%	%
Gross loss ratio	73.3	75.4	79.9	68.6	82.6
Gross commission ratio	19.0	20.0	22.3	22.1	24.6
Management expense ratio	5.8	5.6	4.7	6.0	5.9
Gross combined ratio [2]	**95.4**	**98.2**	**104.5**	**94.2**	**107.3**

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

[1] Gross underwriting result is stated net of Technical Expenses

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

Underwriting report

A year of transformation

Inter Hannover has continued to steer the balance of its portfolio towards its strategic target of having an improved balance of shorter tail exposure, and has accordingly sought to ring-fence its run off portfolio with conservative reserving in order that the future results of its strategy are unencumbered by the past portfolio.

Key highlights

- Gross written premium of £717.4m, +6.0% (2012: £677.0m)
- Gross loss ratio of 82.6% (2012: 68.6%; excluding business transferred to run-off in 2013: 67.7% (2012: 61.1%)
- Gross combined ratio of 107.3% (2012: 94.2%); excluding business transferred to run-off in 2013: 95.5% (2012: 86.7%)
- 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/Lloyds markets and a Branch network with locations in Sweden, Canada and Australia. The underwriting approach during 2013 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. It also meant that we continued to evaluate the long term profitability of our portfolios and have as a result discontinued, only after extensive remedial actions, certain of our Agency relationships.

We continued the strategy that began in 2012 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 an expansion in property, energy aviation, title, travel bonds and the US market.

Continued tight control of claims, and underwriting terms and conditions in combination with our willingness to exit unprofitable areas where necessary have been important factors in achieving a portfolio of the target shape.

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

Market view

2013 was a relatively benign year for Catastrophe risks and in most areas we are faced with a soft market due to an oversupply of capacity. We continued to focus on underwriting discipline, prudent risk appetite and tight control of aggregate exposure. The pressures on the UK economy proved to be difficult for construction risks and there was intense competition for aviation, property, energy professional indemnity and motor lines.

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.

There are continued challenges posed to us 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. These 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 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 review and where necessary re-engineering of the portfolio in the last two years is completed. Accordingly our exposure to long tail classes has reduced substantially, but we are still keen to develop good new long tail opportunities which meet our standards and criteria.

For the short tail classes we continue 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 a very stormy last three months of the year which were punctuated with greater adverse weather related incidents than has been experienced for many years. 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. As regards the floods in the early part of the current year, it is too early to comment with confidence. Nonetheless, we do not have large exposures in the worst affected areas and early indications are that again the Company will not be significantly affected.

We closely monitor our book of business, continue to work to further enhance profitability of accounts where improvements are required, but have also been prepared to take decisive underwriting actions where parts of the portfolio have underperformed. In particular, our UK results were adversely affected by large deteriorations in a book of business providing professional indemnity cover to personal finance advisors and in a book providing medical malpractice cover, both of which were placed into run off in previous years. Further, two of our largest agencies have delivered unacceptable results and as a result we terminated our relationship with them at the end of the current year. The results of the current year reflect the costs of strengthening the reserves in respect of these accounts. However, the Swedish branch and the UK Single Risk portfolio showed a strong performance with very good results. Overall, the underlying trend of our continuing business is in line with the expectations of our strategy.

Investment report

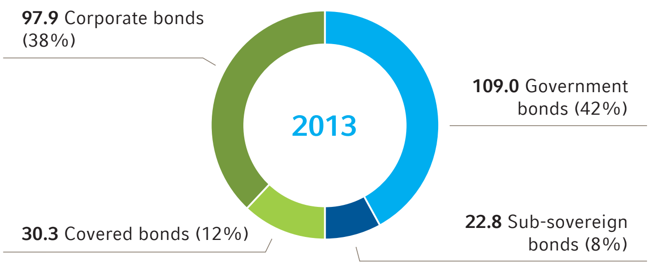
Summary:

- Increase in income from investments to 3.1% from 2.9% (excluding cash holdings)
- Total market value of investment portfolio increased by 3% (£7.8m) in 2013
- Increase in market yields has led to a reduction in the unrealised gains of the portfolio.

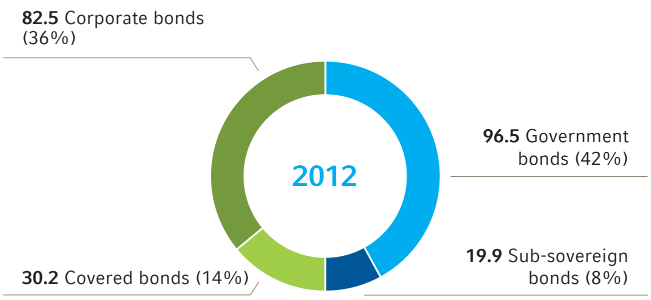
Investment portfolio

There have been no material changes in the composition of the investment portfolio during the year.

Portfolio composition (book value) (£m)



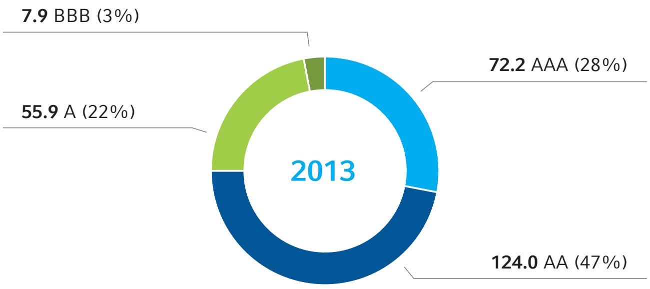
Portfolio composition 2013: **£260.0m**
Unrealised gains 2013: **£4.5m**



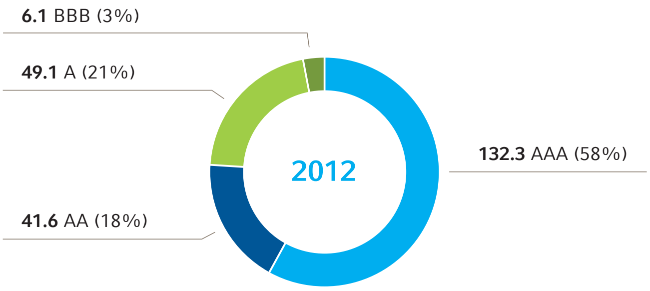
Portfolio composition 2012: **£229.1m**
Unrealised gains 2012: **£13.8m**

The portfolio continues to be maintained to provide a steady and calculable investment return together with a high level of security and a broad currency and duration match to the Company's liabilities. The downgrade of UK government and other bonds inevitably led to a reduction in average credit rating. The average of the portfolio is AA rated, with 97% of the portfolio rated A or above.

Portfolio by credit rating (book value) (£m)



Portfolio by credit rating 2013: **£260.0m**

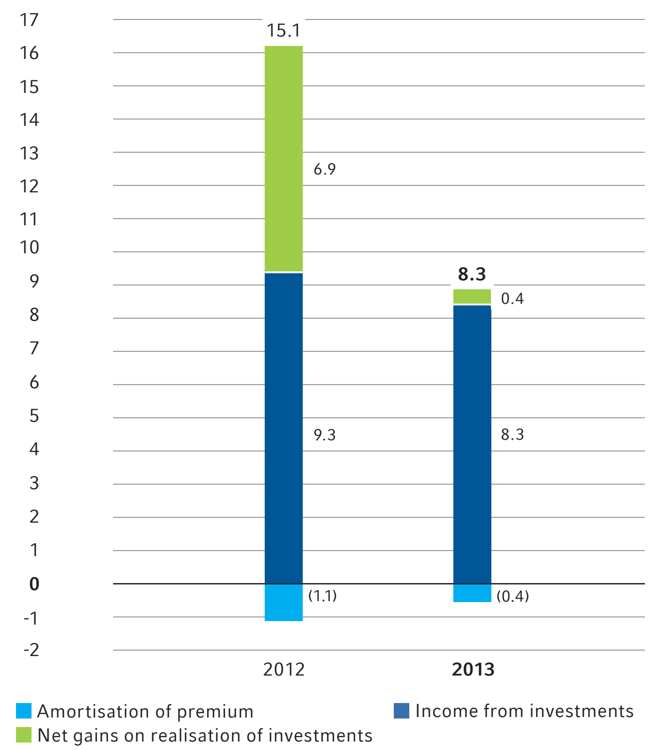


Portfolio by credit rating 2012: **£229.1m**

Investment performance

The level of realised gains is significantly lower than in 2012 when a major readjustment of the portfolio led to a significant level of disposal and re-investment.

Investment result (£m)



Investment result (excluding cash) has increased to 3.1% from 2.9%. Total investment result (including cash) has reduced slightly to 2.6% from 2.7%. 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 [1] %
			2013
Government bonds	2.6	94.8	2.7
Sub-sovereign bonds	0.4	22.3	1.8
Covered bonds	0.9	32.8	2.7
Corporate bonds	3.7	92.5	3.9
Total (excl cash)	**7.6**	**242.4**	**3.1**
Cash	0.3	56.8	0.5
Total (inc cash)	**7.9**	**299.2**	**2.6**

	Income £m	Average holding £m	Return [1] %
			2012
Government bonds	2.9	128.2	2.3
Sub-sovereign bonds	0.3	22.9	1.3
Covered bonds	1.0	26.8	3.7
Corporate bonds	3.3	79.9	4.1
Total (excl cash)	**7.5**	**257.8**	**2.9**
Cash	0.7	50.7	1.4
Total (inc cash)	**8.2**	**308.5**	**2.7**

[1] 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 £2.4m in 2013 (2012: £1.1m) of which none (2012: £0.4m) is accounted for in the profit and loss account, and £2.4m (2012: £0.7m) in other recognised gains and 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.

Risk

Managing risk is central to the sustainability of Inter Hannover's business and delivery of value to shareholders. Inter Hannover has an established governance structure for the management of risk.

Inter Hannover's risk management framework is a core part of the governance structure and includes internal policies, key management processes and culture. The Board, supported by the Risk Compliance & Capital Committee, monitors the overall risk profile of the Company by reference to the Company´s risk appetite and ensures adequate financial and non-financial resources are maintained.

Inter Hannover's approach to managing risk is 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; and
- **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.

The key underlying principles that influence this approach to managing risk are as follows:

- Managing risk is an integral part of achieving Inter Hannover's strategic objectives and decision making;
- Accepting risk management is not trying to avoid all risks, but rather, risks need to be identified, understood and assessed against the levels of risk Inter Hannover and its holding company, Hannover Re, are willing to take and ensuring those risks are appropriately managed and monitored;
- To consider the reasonable expectations of all external stakeholders including policyholders, shareholders and regulators; and
- To comply with Inter Hannover's legal, regulatory and statutory obligations.

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 operational departments within the business.

Inter Hannover has established a forum where 'Risk Champions' from across each department can meet to discuss and challenge risk issues across the business. This forum is called the Risk Working Group (RWG).

The key risk categories identified by Inter Hannover's Risk Management Framework are:

1. Insurance Risk

This is the key risk arising from underwriting general insurance contracts – Inter Hannover's core business activity. The insurance contracts transfer risk to the insurer by indemnifying the policyholders against adverse effects arising from the occurrence of specified uncertain future events. There is a risk that the actual amount of claims to be paid in relation to contracts will be different to the amount estimated at the time a product was designed and priced. Inter Hannover is exposed to this risk as the price for a contract must be set before the losses relating to the product are known. Hence the insurance business involves inherent uncertainty. Inter Hannover also faces other risks relating to the conduct of the general insurance business including financial risks and risk of inadequate capital management described below.

A fundamental part of Inter Hannover's approach to managing insurance risk is the effective governance and management of the risks that impact the amount, timing and certainty of cash flows arising from insurance contracts.

Insurance risk may arise from the following:

- **Underwriting**: The risk of a change in value due to a deviation of the actual claims payments from the expected amount of claims payments;
- **Reserving:** Inadequate or inappropriate reserving including unforeseen, unknown or unintended liabilities that may arise; and
- **Insurance Concentration Risk:** Adverse concentration exposure. For example, geographical catastrophe exposure, underwriting segment factor, industry or distribution channels.

Risk	How we manage it
Insurance Risk – Underwriting risk	Business divisions are set underwriting criteria covering the types of risks they are licensed to underwrite. Maximum limits are set for the acceptance of risk both on an individual contract basis and for classes of business and specific risk groupings. In particular, Inter Hannover's exposure to catastrophes is managed centrally through allocating underwriting capacities modelled by the Group down to agencies/lines of business. Management information systems are maintained that provide up to date, reliable data on the risks to which the business is exposed at any point in time. Reinsurance is used to limit exposure to large single claims as well as accumulation of claims that arise from the same or similar events. Risks underwritten are also reinsured in order to stabilise earnings and protect capital resources. In particular, Inter Hannover currently transfers approximately 90% of risk undertakings to the Group via quota share reinsurance arrangements.
Insurance Risk – Reserving risk	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.
Operational Risk – Regulatory compliance	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. Inter Hannover monitors its regulatory capital position and applies controls and measures to prevent capital breaching the minimum capital requirements.
Operational Risk – Agency Management	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.
Operational Risk – IT continuity	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.
Financial Risk – Credit risk Intra group counterparty risk	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 Compliance and Capital Committee, assesses the strength of its reinsurers in order to assess the possible impact on Inter Hannover. Intra group counterparty risk is being actively managed. Over the last year a collateralisation agreement has been put in place between Inter Hannover and Hannover Re Group.
Financial Risk – 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.
Financial Risk – Liquidity risk	Regular cash flow forecasting enables the Company to manage its short term liquidity requirements. Surplus funds are held in investments with a maturity profile aligned with that of the Company's insurance liabilities.

2. Financial Risk

Financial risk may arise from the following sub-categories:

- **Market Risk**: The risk of adverse financial impact due to changes in the value or future cash flows of financial instruments from fluctuations in foreign currency exchange rates, interest rates and equity prices;
- **Liquidity Risk:** Insufficient cash resources to meet financial obligations as and when they fall due; and
- **Credit Risk:** The risk arising from a counterparty's failure to meet its obligations in accordance with the agreed terms. These counterparties include investments, reinsurers and premium debtors.

3. Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

Quantifying risks – Our internal capital model

The materiality of the risks in terms of the capital attributed to each as quantified for the Company's internal capital model is as follows:

Risk	Capital Attribution %
Reserve risk	42.3
Operational risk	24.0
Underwriting risk	22.5
Credit risk	6.6
Liquidity risk	3.0
Market risk	1.6
	100.0

The risks we accept are measured and analysed within our internal capital model. Our model is aligned with the Group's model and forms a sub component of the Hannover Re internal model. Substantial underwriting risk is transferred through reinsurance to Hannover Re and this is reflected in the capital attribution above.

We use our internal model to:

- understand the risks and their dependencies within our business
- assess the risks to the business and therefore the capital we require
- support our risk appetite
- perform solvency calculations

We are careful to ensure that our Company is appropriately capitalised at the local level. Through our economic capital modelling process, we ensure that the probability of a complete loss of shareholders equity does not exceed 0.5%. This satisfies regulatory requirements and provides security for our policyholders.

In conjunction with the Group's model our model is used to:

- understand the risks we take in the Group context
- set risk adjusted pricing margins
- assess the risk adjusted profit to the group
- determine the additional capital the group must hold to support our business

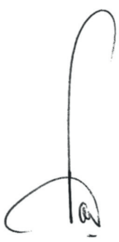
We aim to maximise our risk adjusted profit. This is embedded within our business through our pricing metrics and margin calculations. Group capital cost allocation is included in our intrinsic value creation system.

Managing and monitoring all material risks

Following risk identification and quantification we ensure appropriate systems and processes are in place to control, manage and monitor all material risks.

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 Compliance & Capital 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.

This Strategic Report was approved by the Board of Directors on 21 March 2014 and signed on its behalf by:



N J Parr
Chief Executive Officer

Directors' Report

The directors submit the annual report of International Insurance Company of Hannover Plc ("Inter Hannover") together with the audited financial statements for the year ended 31 December 2013.

Change in legal status

Following the passing of a special resolution on 21 July 2013, Inter Hannover was re-registered as a public company on 1 August 2013 and changed its name from International Insurance Company of Hannover Limited to International Insurance Company of Hannover Plc.

Financial performance and risk management

The Strategic Report on pages 6 to 14 includes information about the Company's financial performance for the year, its risk management framework and future developments.

Branches

The Company operates branches in Australia, Canada, Italy and Sweden.

Directors

The directors who served during the financial year and up to the date of this report are as follows:

T Ablett	deceased 28 May 2013
T Barenthein	
R M Beutter	
S J Blease	resigned 17 January 2014
R Boddy	resigned 25 July 2013
J D R Dear	appointed 28 February 2014
H M Fuchs	appointed 1 October 2013
J Gräber	
A P Hulse	appointed 13 September 2013
A Larsson	appointed 22 November 2013
N S Macmillan	appointed 6 June 2013
N J Parr	
R H Vogel	

COMPANY SECRETARY

C Gibson	appointed 19 March 2013; resigned 29 July 2013
J Eaglen	resigned 19 March 2013; re-appointed 29 July 2013

Dividends

The directors recommend that no dividend is paid (2012: £nil). The retained loss of £6.0m was transferred to reserves (2012: profit of £6.4m).

Third Party qualifying indemnity

The Company's parent company, Hannover Re maintains directors' and officers' liability insurance for the benefit of the Company's directors. Such policy was in force during the financial year and as at the date of the Directors' Report and is a qualifying third party indemnity provision as defined by section 236 of the Companies Act 2006.

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.

Auditors

Our auditors, KPMG Audit Plc, have instigated an orderly wind down of business. The Board has decided to put KPMG LLP forward to be appointed as auditors and a resolution concerning their appointment will be put to the forthcoming annual general meeting of the Company.

The report was approved by the Board of Directors on 21 March 2014 and signed on its behalf by:

N J Parr
Chief Executive Officer

Statement of directors' responsibilities in respect of the Strategic Report, Directors' Report and the financial statements

The directors are responsible for preparing the Strategic Report, 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 21 March 2014 and was signed on its behalf by:

N S Macmillan
Chairman

N J Parr
Chief Executive Officer

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

We have audited the financial statements of International Insurance Company of Hannover Plc for the year ended 31 December 2013 set out on pages 20 to 40. 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 17, 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 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 31 December 2013 and of its loss 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 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.

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

Dated: 21 March 2014

Financial statements

For the year ended 31 December 2013

Profit & loss account for the year ended 31 December 2013

Technical account – general business

in £000		Notes	2013	2012
Earned premiums, net of reinsurance				
Gross premiums written		3	717,369	676,980
Outward reinsurance premiums			(665,395)	(635,456)
			51,974	41,524
Change in the gross provision for unearned premiums		21	(26,737)	(40,317)
Change in the provision for unearned premiums, reinsurers' share		21	19,065	37,601
			(7,672)	(2,716)
Earned premiums, net of reinsurance			**44,302**	**38,808**
Claims incurred, net of reinsurance				
Claims paid	– Gross amount	21	(396,471)	(336,140)
	– Reinsurers' share	21	369,495	309,829
			(26,976)	(26,311)
Change in the provision for claims	– Gross amount	21	(173,902)	(100,647)
	– Reinsurers' share	21	161,321	94,215
			(12,581)	(6,432)
Claims incurred, net of reinsurance			**(39,557)**	**(32,743)**
Net operating expenses		7	9,055	13,082
Change in equalisation provisions		22	(1,044)	201
Sub-total (balance on the technical account for general business)			**12,756**	**19,348**

The notes on pages 24 to 40 form part of these financial statements

Non-technical account

in £000	Notes	2013	2012
Balance on the general business technical account	3	12,756	19,348
Investment income	5	8,721	16,235
Unrealised losses on investments	5	(1,757)	(2,570)
Investment expenses and charges	6	(361)	(397)
Foreign exchange gains		1,325	1,059
Other charges		(25,211)	(24,946)
(Loss)/profit on ordinary activities before tax	8	(4,527)	8,729
Tax charge on (loss)/profit on ordinary activities	11	(1,479)	(2,359)
Retained (loss)/profit for the financial year after tax		**(6,006)**	**6,370**

All profits are derived from continuing activities.

Statement of total recognised gains and losses for the year ended 31 December 2013

in £000	Notes	2013	2012
(Loss)/profit on ordinary activities after tax	19	(6,006)	6,370
Exchange movements arising on investments in overseas Branches	19	(2,438)	(665)
Total recognised (loss)/gains arising in the year		**(8,444)**	**5,705**
Total recognised (loss)/gains arising in the year		(8,444)	5,705
Total recognised (losses)/gains since the last annual report		**(8,444)**	**5,705**

Reconciliation of movements in shareholder's funds for the year ended 31 December 2013

in £000	Notes	2013	2012
Shareholder's funds at beginning of year as originally stated		121,871	116,166
Total recognised (loss)/gains in the year		(8,444)	5,705
Increase in ordinary share capital		30,000	–
Shareholder's funds at end of year		**143,427**	**121,871**

The notes on pages 24 to 40 form part of these financial statements.

Balance sheet as at 31 December 2013

Assets

in £000	Notes	2013	2012
Investments			
Investment in group undertakings	12	545	545
Other financial investments	13	271,429	253,554
		271,974	**254,099**
Reinsurers' share of technical provisions			
Provision for unearned premiums	21	356,654	343,974
Claims outstanding	21	1,195,270	1,050,462
		1,551,924	**1,394,436**
Debtors			
Debtors arising out of direct insurance operations	14	251,062	275,166
Debtors arising out of reinsurance operations	15	3,687	5,498
Other debtors	16	3,346	2,787
		258,095	**283,451**
Other assets			
Tangible assets	17	3,797	2,872
Cash at bank and in hand		32,432	23,834
		36,229	**26,706**
Prepayments and accrued income			
Accrued interest and rent		3,148	3,005
Deferred acquisition costs	21	89,414	70,897
Other prepayments and accrued income		616	420
		93,178	**74,322**
Total assets		**2,211,400**	**2,033,014**

Liabilities

in £000	Notes	2013	2012
Capital and reserves			
Called up share capital	18	95,000	65,000
Profit and loss account	19	48,427	56,871
Shareholder's funds attributable to equity interests		**143,427**	**121,871**
Subordinated liabilities	20	71,000	51,000
Technical provisions			
Provision for unearned premiums	21	387,829	368,343
Claims outstanding	21	1,278,423	1,122,967
Equalisation provisions	22	1,044	–
		1,667,296	**1,491,310**
Creditors			
Creditors arising out of direct insurance operations	23	208,516	264,828
Other creditors including taxation and social security	24	8,378	14,900
		216,894	**279,728**
Accruals and deferred income	25	112,783	89,105
Total liabilities		**2,211,400**	**2,033,014**

The notes on pages 24 to 40 form part of these financial statements.

These financial statements were approved by the Board of Directors on 21 March 2014 and were signed on its behalf by:

N S Macmillan
Chairman

N J Parr
Chief Executive Officer

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 UK 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 Strategic Report and Directors' Report on pages 6 to 18 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 Company 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.

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

Premiums are earned over the period for which risk has been accepted under the underlying insurance contracts and the provision for unearned premiums corresponds to the risk arising in future accounting periods, computed separately for each contract. The daily pro-rata method is used except where this method would not properly represent the pattern of insurance risk, in which case a tailored earnings pattern is applied.

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 external 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 the 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 insurance class, 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 comprise:

a) Redeemable fixed interest securities which are stated at amortised cost.

b) Deposits with credit institutions which are stated at cost.

Other charges

Overhead expenses related to the underwriting and management of direct insurance contracts are allocated to the Technical account. Other overhead expenses are included in the Non-technical account under Other charges or Investment expenses and charges.

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.

3. Segmental reporting

Analysis of gross premiums written by region

2013 in £000	In the UK	In other EU states	In other countries	Total
Accident and health	5,679	777	191	6,647
Fire and other damage to property	195,268	12,576	3,669	211,513
Third party liability	174,818	6,298	13,592	194,708
Marine, aviation and transport	106,823	98,297	3,231	208,351
Motor	44,362	12,192	16,931	73,485
Miscellaneous	10,782	10,925	958	22,665
Total	**537,732**	**141,065**	**38,572**	**717,369**

Analysis by business segment

2013 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	8,890	(6,598)	(2,833)	(541)	765	–	224	2,777
Fire and other damage to property	173,099	(93,255)	(55,841)	24,003	(20,343)	(542)	3,118	17,457
Third party liability [1]	190,779	(258,563)	(49,332)	(117,116)	116,392	–	(724)	52,745
Marine, aviation and transport	213,021	(122,222)	(38,265)	52,534	(44,195)	(431)	7,908	10,261
Motor	81,655	(72,459)	(18,434)	(9,238)	11,629	–	2,391	18,304
Miscellaneous	23,188	(17,276)	(5,281)	631	(721)	(71)	(161)	5,887
Total	**690,632**	**(570,373)**	**(169,986)**	**(49,727)**	**63,527**	**(1,044)**	**12,756**	**107,431**

[1] The results of this category include a strengthening of reserves for business lines which have been transferred to run-off as part of the Company's strategy to reduce earnings volatility. The gross technical result of this category excluding these lines of business would be a loss of £29,743,000.

Analysis by geographical location

2013 in £000	UK	Foreign branches	Total
Gross written premium	537,732	179,637	717,369
(Loss)/profit before tax	(7,211)	2,684	(4,527)
Net assets	111,265	32,162	143,427

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	(103,813)	(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

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	2013	2012
Accident and health	126	888
Fire and other damage to property	(666)	(27)
Marine, aviation and transport	(9)	(537)
Miscellaneous	(66)	1,380
Motor	(47)	4,932
Third party liability	(3,148)	940
Total	**(3,810)**	**7,576**

5. Investment income

in £000	2013	2012
Income from other investments	8,326	9,304
Gains on the realisation of investments	395	6,931
	8,721	16,235
Movement in unrealised losses on investments	(1,757)	(2,570)
Total investment return	**6,964**	**13,665**

Realised and unrealised gains and losses include foreign exchange losses of £(1,340,335) (2012: losses of £(1,502,586)). The movement in unrealised losses includes amortisation of premium amounting to £379,000 (2012: £1,127,000).

6. Investment expenses and charges

in £000	2013	2012
Investment management expenses, including interest	361	397

7. Net operating expenses

2013 in £000	Gross	Reinsurance	Net
Acquisition costs	180,790	(161,055)	19,735
Deferred acquisition costs carried forward	(89,414)	82,517	(6,897)
Deferred acquisition costs brought forward	70,897	(65,687)	5,210
Change in deferred acquisition costs	(18,517)	16,830	(1,687)
Incurred acquisition costs	162,273	(144,225)	18,048
Administration costs	7,713	(4,646)	3,067
Total operating expenses	169,986	(148,871)	21,115
Overrider commission (net of deferral)	–	(30,170)	(30,170)
	169,986	**(179,041)**	**(9,055)**

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)**

8. (Loss)/profit on ordinary activities before tax

(Loss)/profit on ordinary activities before tax is stated after charging:

in £000	2013	2012
Depreciation	1,181	2,537
Operating lease rentals – land and buildings	803	629
Auditors' remuneration:		
Audit of statutory accounts	350	322
Audit of regulatory returns	154	133
Other services	132	90

9. Directors' emoluments

During the year eleven directors (2012: nine) received total remuneration of £1,401,661 (2012: £1,517,829) for their qualifying services as directors of the Company and in connection with the management of the Company's affairs. No other director received remuneration in respect of their services to the Company. Contributions were made to a defined contribution scheme on behalf of four directors (2012: six) in the sum of £109,404 (2012: £142,390).

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	2013	2012
Aggregate emoluments	353	353

10. Staff numbers and costs

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

Average and full time equivalent number of employees

	2013	2012
Business acquisition	20	19
Claims handling	6	5
Administration	25	21
	51	45

Aggregate payroll costs

in £000	2013	2012
Wages and salaries	4,907	3,712
Social security	1,443	1,010
Other pension costs	1,611	1,133
	7,961	5,855

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 £15,495,377 (2012: £11,331,930) 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 121 (2012: 95) 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 (loss)/profit on ordinary activities

Analysis of charge in the period

in £000	2013	2012
Current tax		
UK corporation tax	1,049	1,458
Adjustments in respect of prior periods	35	72
Double tax relief	(1,049)	(1,005)
	35	525
Overseas taxation	1,055	1,026
Adjustments in respect of prior periods	(101)	29
Tax charge on profit on ordinary current activities	989	1,580
Deferred tax		
Origination and reversal of timing differences arising in the year	463	905
Effect of change in rates	152	–
Adjustments in respect of prior periods	(67)	(126)
Foreign exchange differences	(58)	–
Total deferred tax charge	490	779
Tax charge on profit on ordinary activities	**1,479**	**2,359**

The standard rate of current tax applied for the year is 23.25% (2012: 24.5%). 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	2013	2012
(Loss)/profit on ordinary activities before tax	(4,527)	8,729
(Loss)/profit on ordinary activities multiplied by the standard rate of current tax of 23.25% (2012: 24.5%)	(1,053)	2,139
Effects of:		
Expenses not deductible for tax purposes	91	114
Prior year corporation tax adjustments	(66)	101
Tax losses not recognised	1,051	–
Other timing differences	670	(35)
Differences in rates of foreign tax	(106)	21
Timing differences:		
Capital allowances in excess of depreciation	38	439
Tax losses utilised	–	(1,199)
Tax losses carried forward	364	–
Current tax charge on ordinary activities for the period	**989**	**1,580**

Deferred tax asset

in £000	2013	2012
Asset brought forward	1,090	1,869
Effect of change in rates	(151)	(60)
Deferred tax charge for the year	(397)	(719)
Asset at end of year	**542**	**1,090**

Analysis of deferred tax balance

in £000	2013	2012
Accelerated capital allowances	–	891
Other timing differences	158	199
Trading losses	384	–
	542	**1,090**

No deferred tax asset has been recognised in respect of the UK tax losses carried forward or other timing differences of £6,088,000 and £4,712,000 respectively (2012: No unrecognised deferred tax asset).

With effect from 1 January 2014 the Company has elected, under section 18A of the Corporation Tax Act 2009, to exclude the results of its overseas branches from the charge to UK corporation tax. As a consequence, deferred tax assets arising from the branch operations and amounting to £603,000 have been written-off in these accounts. With this exception the unrecognised deferred tax assets will be available for offset against future trading profits of the UK business.

The Budget 2013 announced that the UK corporation rate will reduce to 21% at 1 April 2014, with a further reduction to 20% in 2015. The reductions in the UK tax rate to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted in 2 July 2013.

12. Investment in group undertakings

in £000	2013	2012
Investment in group undertakings at cost	545	545
Investment in associated undertaking at cost	526	526
Less: provision for impairment	(526)	(526)
	545	**545**

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 31 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 31 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 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 2013	Carrying value 2012	Historical cost 2013	Historical cost 2012
Debt securities and other fixed income securities at amortised cost – listed	260,034	229,087	264,099	231,193
Deposits with credit institutions	11,395	24,467	11,395	24,467
	271,429	253,554	275,494	255,660

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

in £000	2013	2012
Cost	264,099	231,193
Cumulative amortisation	(4,065)	(2,106)
Carrying value – amortised cost	**260,034**	**229,087**
Market value	264,419	242,933

The redemption value of investments held at the end of the year was £6,205,533 less (2012: £5,606,930 less) than the amortised cost.

14. Debtors arising out of direct insurance operations

in £000	2013	2012
Amounts owed by intermediaries	232,791	250,242
Amounts due from group undertakings	18,271	24,924
	251,062	275,166

15. Debtors arising out of reinsurance operations

in £000	2013	2012
Amounts owed by intermediaries	3,687	5,498

16. Other debtors

in £000	2013	2012
Amounts due from group undertakings	2,022	510
Deferred tax	542	1,090
Corporation tax	782	658
Other debtors	–	529
	3,346	2,787

17. Tangible fixed assets

2013 in £000	Computer hardware	Computer software	Motor vehicles	Furniture fixtures and fittings	Total
Cost					
At beginning of year	541	9,450	149	2,415	12,555
Additions	298	233	–	1,689	2,220
Disposals	(91)	(94)	–	(5)	(190)
At end of year	748	9,589	149	4,099	14,585
Depreciation					
At beginning of year	417	7,939	46	1,281	9,683
Charged in year	132	606	26	417	1,181
Disposals	(73)	–	–	(3)	(76)
At end of year	476	8,545	72	1,695	10,788
Net book value					
At end of year	272	1,044	77	2,404	3,797
At beginning of year	124	1,511	103	1,134	2,872

18. Called-up share capital

in £000	2013	2012
Issued and fully paid: 95,000,000 (2012: 65,000,000) ordinary shares of £1 each	95,000	65,000

During the year the Company increased its share capital by the following share issues:

in £000	2013
27 July 2013: 20 million ordinary shares of £1 each fully paid	20,000
12 September 2013: 10 million ordinary shares of £1 each fully paid	10,000

19. Reserves

Profit and loss account

in £000	2013	2012
At beginning of year as originally stated	56,871	51,166
Retained (loss)/profit for the year	(6,006)	6,370
Other recognised (loss) for the year	(2,438)	(665)
At end of year	**48,427**	**56,871**

20. Subordinated liabilities

Subordinated loans from Hannover Re

in £000			2013	2012
Current Interest Rate	**Earliest repayment date**	**Latest repayment date**		
3.14%	29 July 2010	29 July 2035	8,000	8,000
3.28%	9 December 2010	9 December 2035	11,300	11,300
3.77%	16 February 2011	16 February 2036	6,700	6,700
1.94%	22 June 2012	22 June 2037	5,000	5,000
6.42%	1 October 2015	1 October 2040	5,000	5,000
6.40%	15 November 2015	15 November 2040	15,000	15,000
5.22%	10 July 2018	10 July 2043	10,000	–
5.22%	11 September 2018	11 September 2043	10,000	–
			71,000	51,000

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

No loan is repayable prior to the latest repayment date shown above other than at the request of the Company and subject to the Company being in compliance with certain key regulatory capital requirements.

21. Technical provisions and deferred acquisition costs

2013 in £000	Provision for unearned premiums	Claims outstanding	Total
Gross amount			
At beginning of year	368,343	1,122,967	1,491,310
Movement in provision	26,737	173,902	200,639
Foreign exchange rate movements	(7,251)	(18,446)	(25,697)
At end of year	387,829	1,278,423	1,666,252
Reinsurance amount			
At beginning of year	343,974	1,050,462	1,394,436
Movement in provision	19,065	161,321	180,386
Foreign exchange rate movements	(6,385)	(16,513)	(22,898)
At end of year	356,654	1,195,270	1,551,924
Net technical provisions			
At end of year	31,175	83,153	114,328
At beginning of year	24,369	72,505	96,874

There is no unexpired risk reserve included in claims outstanding at the end of the year (2012: £nil).

in £000	2013	2012
Net technical provisions at end of year	114,328	96,874
Deferred acquisition costs:		
Gross	(89,414)	(70,897)
Reinsurance commission	82,517	65,687
	(6,897)	(5,210)
Net insurance funds	**107,431**	**91,664**

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

The equalisation provision required in accordance with the requirement of INSPRU 1.4 of the Prudential Sourcebook for insurers:

in £000	2013	2012
At 1 January	–	201
Transfers in	1,044	–
Transfers out	–	(201)
At 31 December	1,044	–

As explained in Note 1, an equalisation provision is established in the financial statements. The effect of this provision is to reduce shareholder's funds by £1,044,000 (2012: £nil). The provision made during the year had the effect of reducing the balance on the technical account for general business and the profit on ordinary activities before taxation by £1,044,000 (2012: increase of £201,000)).

23. Creditors arising out of direct insurance operations

in £000	2013	2012
Amounts due to group undertakings	160,864	168,931
Other	47,652	95,897
	208,516	264,828

24. Other creditors including taxation and social security

in £000	2013	2012
Amounts due to group undertakings	1,115	918
Social security and other taxes	4,742	4,825
Other	2,521	9,157
	8,378	14,900

25. Accruals and deferred income

in £000	2013	2012
Deferred reinsurance commission	82,517	65,687
Deferred overrider commission	17,247	12,673
Other accruals and deferred income	13,019	10,745
	112,783	89,105

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$50,732,788 (2012: US$52,938,728). Included within this amount is £334,544 (2012: £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 (2012: £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	2013	2012
Expiry date – in the second to fifth years inclusive	806	806
	806	**806**

27. Related party transactions

As the Company is a wholly owned subsidiary of Hannover Rück SE 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 Re, which is also incorporated in Germany.

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

The Company Secretary
International Insurance Company of Hannover Plc
10 Fenchurch Street
London
EC3M 3BE
United Kingdom

Published by
International Insurance Company of Hannover Plc
10 Fenchurch Street
London
EC3M 3BE
United Kingdom

Tel +44 (0)20 7015 4000
Fax +44 (0)20 7015 4001
contact@inter-hannover.com

Registered in England No. 01453123

Authorised by the Prudential Regulation Authority and regulated by
the Financial Conduct Authority and the Prudential Regulation Authority

Financial Services Register No. 202640