

LDG RE (LONDON) LIMITED

FINANCIAL STATEMENTS

Year ended 31 December 2011

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40, Lime Street,
London EC3M 5BS

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COMPANIES HOUSE

LDG RE (LONDON) LIMITED

COMPANY INFORMATION

DIRECTORS

B T Irick
R D Rmicella

COMPANY SECRETARY

R L Hughes

REGISTERED NUMBER

03525586

REGISTERED OFFICE

40, Lime Street,
London EC3M 5BS

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
7 More London Riverside,
London SE1 2RT

LDG RE (LONDON) LIMITED

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LDG RE (LONDON) LIMITED REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the company for the year ended 31 December 2011

The company reference number is 03525586

Directors

The directors set out below have held office from 1 January 2011 to the date of this report unless otherwise stated

B T Irick (appointed 13 September 2011)

R D Rinicella

W T Whamond (resigned 13 September 2011)

Principal activity

The principal activity of the company is that of a provider of underwriting services for insurance companies. The company no longer deals with new or renewal business. Agreement was reached in 2007 with the HCC group member, Houston Casualty Company (London Branch), that had underwritten the underlying business that they would assume full responsibility for all the risks and rewards relating to the collection and settlement of the outstanding insurance balances, accordingly the insurance balances and related cash had been transferred into the books and records of that company. This company continued to retain its entitlement to commissions arising from the underlying business.

Business review

Results and performance

The results of the company for the year, as set out on page 6, show a loss on ordinary activities before tax of \$704 (2010 profit \$8,716)

Key performance indicators

The directors do not consider that, in the above-mentioned circumstances, key performance indicators are applicable to the company.

Future outlook

As the business continues in run-off the level of activity is likely to reduce over the next few years.

Financial risk management

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

- **Currency risk**
The company is exposed to currency risk in respect of assets and liabilities denominated in currencies other than US Dollars. The risk is controlled by matching assets with liabilities in the relevant currency.
- **Interest rate risk**
This is the risk that the company's income from investments in bank deposits will drop if interest rates drop. When setting its budgets the company takes a conservative view of future interest rates so as to minimise the risk.

Dividend

No dividends have been paid in the year and the directors do not recommend the payment of a final dividend (2010 - \$nil)

LDG RE (LONDON) LIMITED
REPORT OF THE DIRECTORS (continued)

Charitable and political donations

No charitable or political donations were made during the year (2010 - \$nil)

Statement of disclosure of information to auditors

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

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

Independent auditors

The Company has passed an elective resolution dispensing with the requirement to hold an Annual General Meeting, PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditors and the directors have approved their reappointment

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

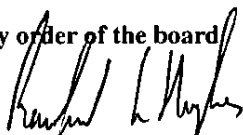
Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the board



R L Hughes
Company Secretary
LDG Re (London) Limited
40, Lime Street,
London, EC3M 5BS

21 June 2012

LDG RE (LONDON) LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LDG RE (LONDON) LIMITED

We have audited the financial statements of LDG Re (London) Limited for the year ended 31 December 2011 which comprise the Profit and Loss Account, the Balance Sheet, the Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2011 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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



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

27 June 2012

LDG RE (LONDON) LIMITED
PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2011

	Notes	Year ended 31 December 2011 \$	Year ended 31 December 2010 \$
Turnover		-	-
		<hr/>	<hr/>
Total revenue		-	-
Operating expenses	1	-	-
Interest receivable		-	-
(Loss)/gain on foreign exchange		(704)	8,716
		<hr/>	<hr/>
(Loss)/profit on ordinary activities before tax		(704)	8,716
Tax on (loss)/profit on ordinary activities	3	-	-
		<hr/>	<hr/>
Retained (loss)/profit for the financial year		(704)	8,716
		<hr/>	<hr/>

The Company has no recognised gains and losses other than the loss for the year
All items in the profit and loss account relate to continuing operations

There are no material differences between the loss on ordinary activities before taxation and the retained loss for the financial year stated above and their historical cost equivalents

LDG RE (LONDON) LIMITED
BALANCE SHEET

As at 31 December 2011

	Notes	31 December 2011 \$	31 December 2010 \$
Current assets			
Debtors	4	814,728	847,520
		<u> </u>	<u> </u>
		814,728	847,520
		<u> </u>	<u> </u>
Creditors amounts falling due within one year	5	(56)	(32,144)
		<u> </u>	<u> </u>
Net current assets		814,672	815,376
		<u> </u>	<u> </u>
Net assets		814,672	815,376
		<u> </u>	<u> </u>
Capital and reserves			
Called-up share capital	6	1,146,018	1,146,018
Profit and loss account	7	(331,346)	(330,642)
		<u> </u>	<u> </u>
Total shareholder's funds		814,672	815,376
		<u> </u>	<u> </u>

The financial statements on pages 6 to 11 were approved by the board of directors on ~~11~~¹⁴ June 2012 and were signed on its behalf by



B T Irick
 Director

LDG RE (LONDON) LIMITED ACCOUNTING POLICIES

Basis of accounting

The financial statements are prepared on the going concern basis under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies which have been applied consistently throughout the year are set out below.

Cash flow statement and related party disclosures

The Company is a wholly owned subsidiary of HCC Insurance Holdings Inc. and is included in the consolidated financial statements of that company which are publicly available; the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS1. The Company is also exempt under the terms of FRS8 from disclosing related party transactions with entities that are part of the HCC Insurance Holdings Inc. Group, or investees of the HCC Insurance Holdings Inc. Group.

Functional currency

A substantial proportion of the group's income and certain expenses are paid in US Dollars. The group is also financed largely in US Dollars with inter-group debt and pays dividends in US Dollars; additionally, the ultimate parent of this company and its subsidiaries is based in the USA and all group reporting is in US Dollars. In the opinion of the directors, the US Dollar is the currency of the primary economic environment in which the group operates; accordingly, the accounts are prepared using the US Dollar as the functional currency.

Exchange rates

The Company records transactions in currencies other than its functional currency ("foreign currencies") at the rate of exchange at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates ruling at the balance sheet date, which for Sterling was £1 = \$1.5456 (2010: \$1.5417) and Canadian Dollar was Can\$1 = \$0.9807 (2010: \$1.0001). The accounting records are maintained in US Dollars; daily rates have been applied to transactions in foreign currencies included in the profit and loss account. Gains and losses arising from the translation of foreign currency transactions are taken to the profit and loss account in the period in which they arise.

Insurance debtors and creditors

The Company acts as a provider of services to insurance companies and, generally speaking, is not liable as a principal for premiums due to underwriters or claims payable to clients. The Company has followed the generally accepted accounting practice and where it accounts for premiums and claims to clients and insurance companies, it has shown the debtors, creditors and cash balances as if they were assets of the Company itself. As explained in the Directors' Report, the contractual relationship relating to these transactions was changed in 2007.

Revenue

Turnover represents the invoiced value of the fees relevant to the underwriting services supplied by the Company, all of which are in the United Kingdom, net of value added tax and trade discounts. Adjustments are made to the management fee for returned premiums and are accounted for when notified.

Dividends

Dividends are accounted for in the year in which they are paid.

Taxation

Corporation tax is provided at the current rate of taxation on the result for the year as adjusted for items of income and expenditure which are disallowed for taxation purposes.

LDG RE (LONDON) LIMITED
NOTES TO THE FINANCIAL STATEMENTS

4. Debtors	31 December 2011	31 December 2010
	\$	\$
Amounts falling due within one year		
Amounts due from group companies	814,728	847,520
	<hr/>	<hr/>
There are no amounts falling due after more than one year		

5. Creditors	31 December 2011	31 December 2010
	\$	\$
Amounts falling due within one year		
Corporation tax	6	-
Other amounts due to group companies	50	32,144
	<hr/>	<hr/>
	56	32,144
	<hr/>	<hr/>
There are no amounts falling due after more than one year		

6. Share capital	31 December 2011	31 December 2010
	£	£
Authorised		
1,000,000 Ordinary shares at £1 each	1,000,000	1,000,000
Issued and fully paid		
800,000 Ordinary shares at £1 each	800,000	800,000
Translated to US Dollars	31 December 2011	31 December 2010
	\$	\$
Issued and fully paid		
800,000 Ordinary shares at £1 each	1,146,018	1,146,018

The issued and fully paid share capital was converted to Dollars at the rate of 1.4325 at the date of issue

7. Reconciliation of movement in shareholder's funds	Share capital	Profit and loss account	Total
	\$	\$	\$
At 1 January 2010	1,146,018	(339,358)	806,660
Profit for the year		8,716	8,716
	<hr/>	<hr/>	<hr/>
At 31 December 2010	1,146,018	(330,642)	815,376
	<hr/>	<hr/>	<hr/>
At 1 January 2011	1,146,018	(330,642)	815,376
(Loss) for the year		(704)	(704)
	<hr/>	<hr/>	<hr/>
At 31 December 2011	1,146,018	(331,346)	814,672
	<hr/>	<hr/>	<hr/>

LDG RE (LONDON) LIMITED
NOTES TO THE FINANCIAL STATEMENTS

8 Ultimate parent company

HCC Insurance Holdings, Inc , incorporated in the USA and listed on the New York Stock Exchange, is regarded by the directors of the Company as the Company's ultimate parent company and controlling party

The largest and smallest group in which the results of the Company are consolidated is that of which HCC Insurance Holdings, Inc is the parent company The consolidated accounts of HCC Insurance Holdings, Inc may be obtained from that company's principal office at 13403 Northwest Freeway, Houston, Texas 77040-6094, USA

Houston Casualty Company, incorporated in the USA, is the immediate parent company of this company