

HCC INSURANCE HOLDINGS (INTERNATIONAL) LIMITED

FINANCIAL STATEMENTS

Year ended 31 December 2011

Walsingham House,
35, Seething Lane,
London EC3N 4AH

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HCC INSURANCE HOLDINGS (INTERNATIONAL) LIMITED

COMPANY INFORMATION

DIRECTORS

B J Cook
R L Hughes
B R A Merriman
R D Rinicella

COMPANY SECRETARY

R L Hughes

REGISTERED NUMBER

03671966

REGISTERED OFFICE

Walsingham House,
35, Seething Lane,
London EC3N 4AH

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
7, More London Riverside,
London SE1 2RT

HCC INSURANCE HOLDINGS (INTERNATIONAL) LIMITED

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HCC INSURANCE HOLDINGS (INTERNATIONAL) 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 03671966

Directors

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

B J Cook
R L Hughes
B R A Merriman
R D Rinicella

Principal activity

The Company acts as a holding company. The principal subsidiaries are -

- HCC International Insurance Company PLC, an international insurance company authorised under the Financial Services Act to underwrite various classes of insurance business including Accident & Health, Marine and Transport, Property, Fire and Natural Sources, Credit, Surety and Miscellaneous Financial Loss and General Liability
- HCCI Credit Services Limited (formerly Credit Shield Limited), an information provider to the credit insurance market
- Houston Casualty Company Europe, Seguros y Reaseguros, S A, a company domiciled in Spain and underwriting a wide portfolio of domestic and international risks

Business Review

Results and dividends

The results of the Company for the year, as set out on page 6, show a profit on ordinary activities before tax of \$41,821,828 (2010 \$73,385,503). The Company acts as a holding company within the HCC group structure, it does not actively trade on its own account but allows for the flow of dividends, when appropriate, from its subsidiaries up to its parent. Interim dividends of \$42,000,000 were paid during the year (2010 \$68,289,487) and the directors do not recommend the payment of a final dividend.

Key performance indicators

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

Future outlook

The Company's subsidiaries continue to generate a satisfactory rate of return thereby justifying the cost of the investments. Whether or not dividends will be declared at any time is a strategic decision resting with the Company's ultimate parent. At this time there are no known circumstances which would result in a material change to the present operations of this company.

Going concern

The directors consider that the going concern basis is appropriate despite the existence of net current liabilities on the Balance Sheet. Their reasoning is set out in Note 11 to the Accounts.

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 mitigated by holding matching liabilities and assets in the relevant currency wherever possible.
- **Investment risk**
The Company is exposed to investment risk in respect of impairment of investments held in subsidiary undertakings. The risk is controlled by regular management review of the trading results of the subsidiaries held.

HCC INSURANCE HOLDINGS (INTERNATIONAL) LIMITED REPORT OF THE DIRECTORS

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.

Charitable and political donations

The Company did not make any political or charitable donations during the year ended 31 December 2011 (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

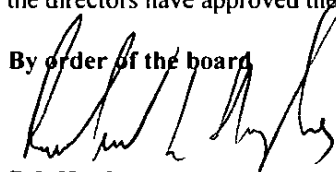
- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- he has taken all steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are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

This confirmation is given and should be interpreted in accordance with the provisions of s418(2) of the CA 2006.

Independent auditors

In accordance with the provisions of Companies Act 2006 the Company has dispensed with the holding of an Annual General Meeting. PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditors and the directors have approved their reappointment.

By order of the board



R L Hughes
Company Secretary
Walsingham House,
35, Seething Lane,
London EC3N 4AH

27 July 2012

**HCC INSURANCE HOLDINGS (INTERNATIONAL) LIMITED
INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HCC INSURANCE HOLDINGS
(INTERNATIONAL) LIMITED**

We have audited the financial statements of HCC Insurance Holdings (International) 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 set out on page 4 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 the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

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

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

23 August 2012

HCC INSURANCE HOLDINGS (INTERNATIONAL) LIMITED
PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2011

	Notes	Year ended 31 December 2011 \$	Year ended 31 December 2010 \$
Revenue			
Income from shares in group undertakings		45,924,715	76,000,000
Total revenue		45,924,715	76,000,000
Foreign exchange gains/(losses)		79,745	(40,476)
Other interest receivable and similar income		535	1,959
Interest payable and similar charges		(530,024)	(701,299)
Administrative expenses		(3,653,143)	(1,874,681)
Profit on ordinary activities before taxation	1	41,821,828	73,385,503
Tax on profit on ordinary activities	4	-	-
Profit for the financial year		41,821,828	73,385,503

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

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

HCC INSURANCE HOLDINGS (INTERNATIONAL) LIMITED

BALANCE SHEET

As at 31 December 2011

	Notes	31 December 2011 \$	31 December 2010 \$
Fixed assets			
Investment in group undertakings	6	213,344,725	213,344,725
Current assets			
Debtors	7	1,566	64,336
Cash at bank and in hand		1,881,143	82,660
		1,882,709	146,996
Creditors: amounts falling due within one year	8	(2,855,405)	(941,520)
Net current liabilities		(972,696)	(794,524)
Total assets less current liabilities		212,372,029	212,550,201
Creditors: amounts falling due after one year	8	(27,044,926)	(27,044,926)
Net assets		185,327,103	185,505,275
Capital and reserves			
Called-up share capital	9	160,832,447	160,832,447
Profit and loss account	10	24,494,656	24,672,828
Total shareholder's funds		185,327,103	185,505,275

The financial statements on pages 6 to 13 were approved by the board of directors on 27 July 2012 and were signed on its behalf by



BRA Merriman
Director

HCC INSURANCE HOLDINGS (INTERNATIONAL) 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.

Revenue

Income from shares in group undertakings relates to dividends which are credited when received.

Interest receivable

Interest on deposits and fixed interest investments is credited as it is earned.

Functional currency

The Company's income and major expenses are paid in US Dollars. The Company 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 are 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 Company operates; accordingly the accounts are prepared using the US Dollar as the functional currency.

Exchange rate

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 = \$1.545595 (2010 \$1.5471). 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.

Dividends

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

Investments in group undertakings

Investments in group undertakings are stated in the balance sheet of the Company at cost less any provisions for impairment.

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.

Interest payable and similar charges

Interest on long term loans is accounted for in the year in which it is payable.

HCC INSURANCE HOLDINGS (INTERNATIONAL) LIMITED
NOTES TO THE FINANCIAL STATEMENTS

1. Profit on ordinary activities before taxation

	2011	2010
	\$	\$
Profit on ordinary activities before taxation of the Company is stated after charging -		
Audit services – fees payable to the Company’s auditor for -		
Company accounts	9,521	9,530
HCC Specialty Holdings (No1) Limited company accounts	5,765	7,540

Staff costs

The Company has no employees (2010 Nil) and no remuneration is charged in the accounts

2 Directors' remuneration

Directors’ emoluments consist of direct allocations of their costs, including any benefits accrued under any pension schemes, to this company together with emoluments in respect of services provided to subsidiary companies

Aggregate emoluments of directors borne by the Company and subsidiaries are as follows

	2011	2010
	\$	\$
Aggregate emoluments	1,882,243	1,884,427
Pension contributions to Company’s pension scheme	59,852	35,160

Retirement benefits are accruing to two directors (2010 two) under the Company’s defined contribution pension scheme

Two directors exercised share options in the year (2010 one) and one director is entitled to receive shares under a long term incentive scheme

Highest paid director

	2011	2010
	\$	\$
Aggregate emoluments and benefits	1,395,816	1,572,070
Defined contribution pension scheme	-	-

3. Auditors’ remuneration

During the year the Company obtained the following services from the Company’s auditor at costs as detailed below

	2011	2010
	\$	\$
Non-audit services		
Tax services	60,258	30,127

HCC INSURANCE HOLDINGS (INTERNATIONAL) LIMITED
NOTES TO THE FINANCIAL STATEMENTS

4. Taxation

	2011 \$	2010 \$
Factors affecting tax charge for year		
Profit on ordinary activities before tax	41,821,828	73,385,503
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 26.5% (2010: 28%)	11,082,784	20,547,941
Effects of -		
Non-taxable income UK group dividends	(12,170,049)	(21,280,000)
Amount available for group relief	1,087,265	732,059
Current tax charge for the year (note 4a)	-	-

The tax assessed for the year is lower (2010: lower) than the standard effective rate of corporation tax in the UK for the year ended 31 December 2011 of 26.5% (2010: 28%)

5. Dividends

	2011	2010
Dividends on equity shares -	Cents per share	Cents per share
	Total \$	Total \$
First interim dividend		
Ordinary shares of £1 each	13.072548	30.166025
Ordinary shares of \$1 each	8.082946	18.653049
	13,000,000	30,000,000
Second interim dividend		
Ordinary shares of £1 each	29.161839	16.089293
Ordinary shares of \$1 each	18.031187	9.948241
	29,000,000	22,289,487
Third interim dividend		
Ordinary shares of £1 each		22.413879
Ordinary shares of \$1 each		13.858825
		16,000,000
Total dividends	42,000,000	68,289,487

HCC INSURANCE HOLDINGS (INTERNATIONAL) LIMITED
NOTES TO THE FINANCIAL STATEMENTS

6 Investment in group undertakings

	2011	2010
	\$	\$
Cost at 31 December	213,344,725	213,344,725

The directors believe that the carrying value of the investments is supported by their underlying net assets

Investments comprise the equity holdings, at cost, in the following subsidiary companies -

Name	Principal activity	Class of shares	Effective % held
HCC Specialty Holdings (No 1) Limited	Holding Company	Ordinary	100%
Pepys Holdings Limited*	Holding Company	Ordinary	100%
Houston Casualty Company Europe Seguros y Reaseguros SA, (incorporated in Spain) *	Insurance Company	Class A and Class B	100%
HCCI Group Limited*	Holding Company	Ordinary	100%
HCC International Insurance Company PLC*	Insurance Company	Ordinary	100%
HCC Trustees Limited *	Trustee Company	Ordinary	100%
Rattner Mackenzie Limited (RML) (Jordan Exempt Company)* (incorporated in Jordan)	Insurance Broking	Ordinary	100%
Manchester Dickson Holdings Limited*	Holding Company	Ordinary	100%
Dickson Manchester & Company Limited*	Insurance Broking	Ordinary	100%
HCC Diversified Financial Products Limited*	Insurance Agency	Ordinary	100%
HCCI Credit Services Limited*	Information Provider	Ordinary	100%
Pepys Management Services Limited*	Management Services	Ordinary	100%

* Indirect holding via subsidiary

All subsidiary companies are incorporated in England and Wales unless stated above

Pepys Management Services Limited applied for dissolution in the year and this was granted on 07 February 2012

7. Debtors

	31 December 2011	31 December 2010
	\$	\$
Amounts falling due within one year -		
Amounts owed by group undertakings	-	63,400
Other debtors	1,566	936
	<u>1,566</u>	<u>64,336</u>

There are no amounts falling due after more than one year

8. Creditors

	31 December 2011	31 December 2010
	\$	\$
Amounts falling due within one year -		
Amounts owed to group undertakings	2,855,405	941,520
	<u>2,855,405</u>	<u>941,520</u>
Amounts falling due after more than one year		
Amounts owed to group undertakings	27,044,926	27,044,926
	<u>27,044,926</u>	<u>27,044,926</u>

HCC INSURANCE HOLDINGS (INTERNATIONAL) LIMITED
NOTES TO THE FINANCIAL STATEMENTS

8. Creditors (continued)

Amounts falling due after more than one year represent a loan from the Company's parent in connection with the acquisition of Manchester Dickson Holdings Limited. The loan attracts interest at 1.5% above the three month US Dollar LIBOR rate and is repayable on or before 28 February 2015 although there is an option to extend the loan.

9. Share capital

	Authorised		Issued and fully paid	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
Number of shares				
Ordinary voting shares of £1 each	10,049,385	10,049,385	10,049,385	10,049,385
Ordinary voting shares of \$1 each	144,579,577	144,579,577	144,579,577	144,579,577
Translated to US Dollars			\$	\$
Ordinary voting shares of £1 each			16,252,870	16,252,870
Ordinary voting shares of \$1 each			144,579,577	144,579,577
Ordinary shares			160,832,447	160,832,447

The £1 Ordinary shares are translated to US\$ at the rates of exchange ruling on the dates the shares were issued.

10. Reconciliation of movement in shareholder's funds

	Share capital \$	Profit and loss account \$	Total \$
At 1 January 2010	160,832,447	19,576,812	180,409,259
Profit for the year		73,385,503	73,385,503
Dividends		(68,289,487)	(68,289,487)
At 31 December 2010	160,832,447	24,672,828	185,505,275
At 1 January 2011	160,832,447	24,672,828	185,505,275
Profit for the year		41,821,828	41,821,828
Dividends		(42,000,000)	(42,000,000)
At 31 December 2011	160,832,447	24,494,656	185,327,103

HCC INSURANCE HOLDINGS (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

11. Going concern

The financial statements are prepared on the going concern basis despite the existence of net current liabilities primarily arising from balances due to fellow group companies within one year. Its parent company, HCC Insurance Holdings Inc, has indicated its present intention to support the Company by providing or procuring such finance as is necessary in order that the Company is able to meet its obligations as and when they fall due. Accordingly the directors believe that the preparation of the financial statements on the going concern basis is appropriate.

12. Ultimate parent company

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

The largest and smallest group in which the results of the Company are consolidated is that of which 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.

Consolidated accounts are not prepared by this company as it claims exemption from the requirement to produce such accounts by virtue of s401 CA2006 in that the ultimate parent company's published accounts are considered to be compatible with the requirements of the European Union's 7th Directive.