HCC

HCC International

2014 Annual Review

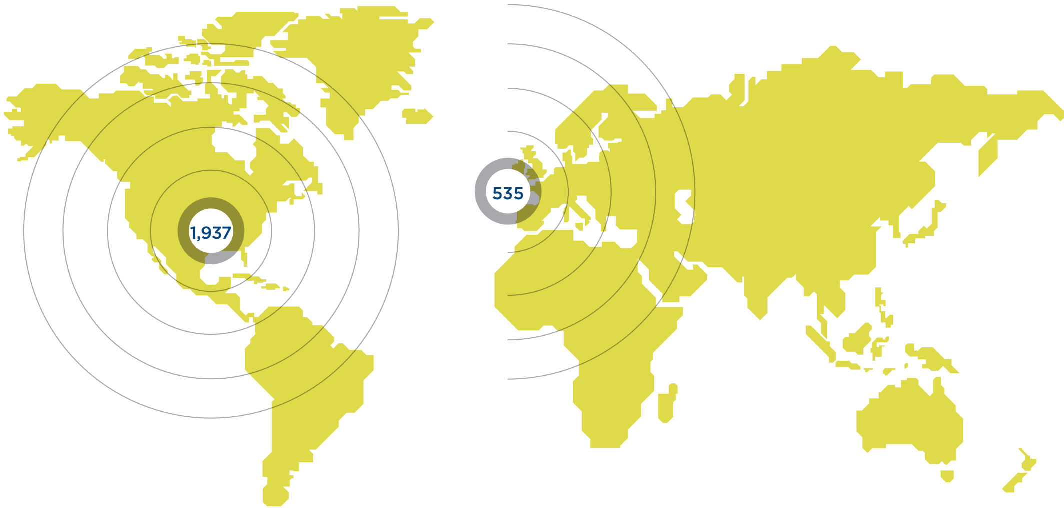
Including HCC International Insurance Company PLC Report & Accounts

We thrive in a financial world that constantly places extreme challenges in the path of exciting rewards. To win this game of intelligence, strength, expertise and persistence, we bring our A team, our only team, to the field every day.

For more than 40 years, HCC has consistently achieved an outstanding record of growth and profitability, earning the coveted AA financial strength rating year after year.

Adept

HCC Insurance Holdings, Inc. is a leading international Specialty Insurance group with offices in the United States, the United Kingdom, Spain and Ireland.

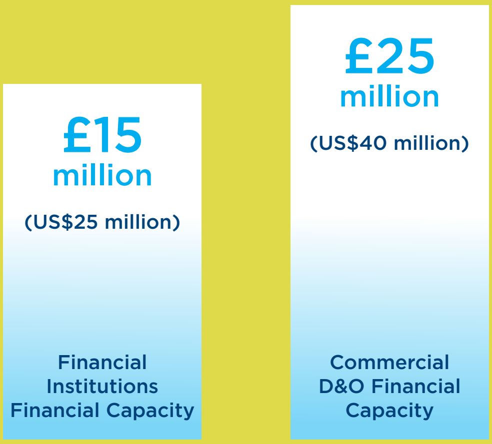


Employees

Agile

Financial Strength

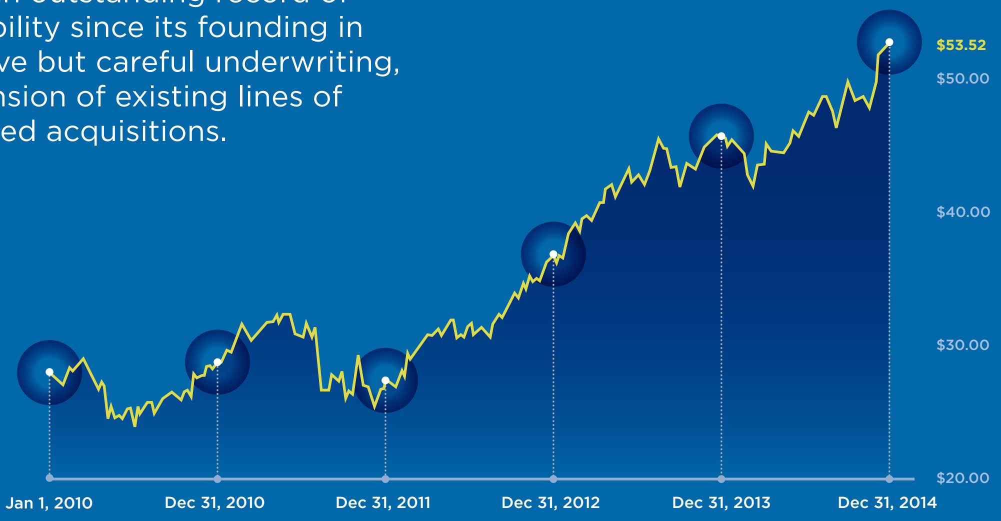
- Financial Institutions financial capacity of up to £15 million (US$25 million)
- Commercial D&O financial capacity of up to £25 million (US$40 million)



Ambitious

Record Growth and Profitability

HCC has achieved an outstanding record of growth and profitability since its founding in 1974 through creative but careful underwriting, opportunistic expansion of existing lines of business and targeted acquisitions.



Acclaimed

Financial Ratings

HCC maintains financial strength ratings that are among the highest within the Property & Casualty insurance industry.

HCC's international insurance company has a financial strength rating of AA (Very Strong) from Standard & Poor's Financial Services LLC.

AA
(Very Strong)
Standard & Poor's

HCC International Group

HCCIG's diverse portfolio of businesses is largely non-correlated and designed to generate consistent underwriting results, regardless of market cycles.

Each of the company's highly entrepreneurial businesses is equipped to underwrite special situations, companies and individuals and acts autonomously to deliver effective solutions.

HCCIG has achieved an outstanding record of growth and profitability since its founding in 1974 through creative but careful underwriting, strong risk management practices, opportunistic expansion of existing lines of business and targeted acquisitions. HCCIG is well capitalised and positioned to continue its success and attracts quality people who seek to build and create expert teams with a reputation for underwriting excellence.

With some of the highest ratings in the industry we continue to strengthen our modelling and risk management capabilities.

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

To ensure our underwriters are able to offer insurance and reinsurance products across the globe to all brokers, three underwriting platforms are used:

HCC International Insurance Company plc (HCCI), authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA

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

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

HCCIG includes the following agency operations:

HCC Specialty Limited acts as an underwriting agency writing Sports Disability, Contingency and Entertainment business on behalf of HCCI and other third party insurance carriers.

HCC Global Financial Products S.L. acts as an underwriting agency writing Directors' & Officers' Liability and other financial lines on behalf of HCCI.

HCC Medical Insurance Services (HCCMIS), based in Indianapolis, Indiana, writes Travel Medical business for worldwide policyholders, both individual and groups, on behalf of Syndicate 4141.

HCCIG is part of HCC Insurance Holdings, Inc. (HCC), a leading international Specialty Insurance group. HCC has assets exceeding US$10.3bn and shareholders' equity of US$3.7bn. The major U.S. and international insurance company subsidiaries of HCC are rated 'AA' (Very Strong) by Standard & Poor's.

Spotlight:

Financial Lines

These days, directors and officers find themselves evermore risk-exposed as international trade brings with it increased regulation and tighter compliance controls. As such, they look to sophisticated insurance products that allow them to continue with their business visions whilst affording them the protection they need.

For the last 12 years, HCC International Insurance Company PLC (HCC International) has provided directors and officers liability insurance (D&O) and other financial lines insurance (FL) to both commercial and financial institutions worldwide; serving the international markets from its offices in Barcelona, Spain and London, England.

Our portfolio of bespoke FL insurance products includes D&O, Cyber, Professional Indemnity Liability (PI), Crime and Warranty & Indemnity Insurance (W&I), all underwritten by our dedicated international team of experts. The underwriting team is organised according to market territory, and in this way we are able to serve local markets as well as gain the insight to implement global programmes.

London Management Team (left to right)

Paul Rayner
Underwriting Director - UK
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Renette Pretorius
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Alan Wright
Underwriting Manager - Commercial
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hcc.com/international/dando

Our Financial Lines Team

Our team of underwriters in London and Barcelona are specialised and experienced in financial lines and possess a proven, thoughtful approach to covering business risk.

By asking the right questions and investing in the right professionals, we provide bespoke solutions to help mitigate business risk issues worldwide for large companies, financial institutions and SMEs.

These market-specific teams are fluent in the local languages, consult with local legal counsel to ensure compliance with regulations and are adept in local culture. As such, we are able to develop each policy according to our clients' unique risks and issue it in the local language.

Thanks to this organisation and our dedicated focus on financial lines, we are able to cater to small to medium sized enterprise (SME) insurance needs right up to the more complex risks of larger corporations regardless of jurisdiction.

We also count on our in-house claims team who have an excellent reputation for claims handling and who work together with our underwriters on loss development.

HCC International counts on a stable financial strength rating of 'AA' (Very Strong) by Standard and Poor's and offers a long-term, stable financial capacity of up to €40 million per policy depending on line of business.

Barcelona Management Team (left to right)

Henk Bakker
Chief Underwriting Officer
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Christian Kanu
Underwriting Director - International
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Philippe Vézio
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hcc.com/global

Directors and Officers Insurance (D&O)

D&O covers the personal assets and liability of past, present and future directors, officers and senior management against claims arising from actions or decisions made in their capacity as leaders and decision makers. We customise comprehensive D&O insurance programmes so that corporate leaders can proceed confidently in their roles.

Coverage:

Today's directors and officers owe a duty to a number of parties, including the company, creditors, regulators, shareholders, employees, liquidators, administrators and receivers following insolvency. A breach of duty can result in disqualification, penalties, damages and, in rare cases, imprisonment. Even if a claim brought against a director proves unfounded, defence costs and expert legal advice alone can be financially damaging.

Coverage, therefore, can also extend to defence costs arising out of criminal and regulatory investigations and trials; in fact, often civil and criminal actions are brought against directors and officers simultaneously.

Directors and officers in the UK and worldwide are increasingly exposed to the risk of being sued for issues such as:

- Accounting irregularities
- Breaches of competition law
- Corporate manslaughter / breaches of health and safety legislation
- Employment-related claims
- Environment liability
- Insolvency-related proceedings (wrongful trading / disqualification)
- Internal board disputes
- Mergers and acquisitions
- Overseas tax and regulatory liabilities
- Regulatory scrutiny and investigation costs
- Shareholder activism

HCC International has a dedicated team of financial lines insurance underwriters who are experts in devising and providing both standard and bespoke solutions. Understanding that the continuous development of sophisticated corporate guidelines, stringent regulations and general awareness of individual rights present fresh challenges for managers, we provide insurance solutions that give corporate leaders peace of mind.

Keys to Our Success

- Dedicated team of underwriters, experts in financial lines
- Market leader with a focus on a select portfolio of products
- In-house claims authority for swift claims handling
- Speed and quality of service
- Wholly owned subsidiary of HCC enjoying a financial capacity that enhances our strength in the global market
- HCC is rated AA (Very Strong) by Standard & Poor's

Our D&O UK offering for SME

Early D&O insurance policies were not particularly user-friendly, being more about exclusions and limitations rather than coverage benefits.

However, after The Companies Act 2006 was introduced, the market saw a much wider range of responsibilities imposed upon company directors, and D&O policies began to be constructed differently and accordingly. Nowadays, D&O covers a broad spectrum of potential coverage requirements relevant to the current environment, to the extent that today we see the opposite: policies being much more about their benefits rather than their exclusions.

This transformation is most evident in, and has had the most impact on, SME business. By its very nature, SME business generally offers more risk certainty, having simpler trading models in usually very clearly identifiable domiciles; although it does require more specialist support as SMEs do not hire sophisticated risk managers to manage their insurance portfolios.

Therefore, to cater to our UK SME clients' D&O requirements, not only do we offer up to £15 million in financial strength capacity per policy on a primary or excess basis, but we have also strived to make its purchase efficient. On the one hand we have simplified the underwriting process, as well as standardised wordings where possible, and on the other we have found ways to make the product more accessible to market. We now reach out to clients over online platforms for its purchase; making not only underwriting this kind of business easier but also making its purchase more amenable. This online quote & buy approach has proved to be a great success.

So, when we speak to our brokers about this product, our advice is simple: D&O is now a must-have policy and can be taken up easily. It should be seen as a good point of entry to any client business, as by its nature it affects the board of the company and its management by offering key protection for their specific liabilities and ultimately their personal assets.

Other
Financial Lines Products

Our D&O products are part of our extended offer of financial lines insurance solutions.

We have a full range of products catering to large corporations or SME exposures, including pension trustee liability, employment practices liability, crime and transaction risk insurance:

Pension Trustee Liability

D&Os act as trustees and fiduciaries and are more accountable for their actions when managing employee benefit plans than ever before. This insurance protects them in case of a breach of responsibilities which can result in a loss to their personal assets as well as those of the corporations they represent. The scale of these sort of potential claims has risen dramatically over the years.

Employment Practices Liability

Growing awareness of individual employment rights and more stringent legislation provides employees a platform to sue for wrongful employment practices, with ever increasing success and can result in losses of company assets.

Employment practices liability insurance programmes provide protection that covers the company, its management and employees against claims brought by the company's past, present and prospective employees alleging wrongful employment practices.

Crime Insurance

Crime related losses, particularly those arising from employee dishonesty, have grown in recent years. Global expansion, mergers and acquisitions as well as technological development are exposing corporations to new kinds of employee infidelity, fraud, theft, forgery and computer-related crime.

Banks and financial institutions are especially susceptible to these criminal activities and their effects can be devastating. In this case, we offer fidelity bonds which are designed to protect banks against losses from a variety of dishonest and criminal acts carried out by employees, such as theft or forgery.

Whether a corporate entity or financial institution we offer crime insurance that covers financial losses arising from employee dishonesty or criminal acts.

Transaction Risk Insurance (TRI) - Warranty and Indemnity Insurance (W&I)

Corporate-level transactions, such as mergers and acquisitions, carry risks for buyer and seller alike which can be transferred to an insurer:

Financial loss arising due to breach of warranty can put the buyer in a vulnerable position. Direct pursuit of the vendor can be inconvenient, time consuming, costly and sometimes damaging to business relationships. Also indemnification for the loss cannot always be secured, even where a contractual obligation to pay exists.

On the flipside, the smooth negotiation of a deal can be threatened by the vendor's uncertainties regarding their future contractual obligations and their potential liabilities stemming from inaccuracies in warranties, or claims under the tax covenant. In addition, buyers are likely to seek some form of security for future claims, which can tie up sales proceeds and hinder a quick and clean exit.

TRI - W&I insurance offers a convenient method of risk transfer as well as presenting certain advantages that facilitate and can enhance the sales and purchase process itself.

Professional Indemnity Liability (PI)

Independent consultants and businesses are easily sued for their acts, errors or omissions when providing a service to their clients. The risk of losing money and reputation is high and the effects can be devastating.

We provide cover to the service provider and its management and employees in the event of a claim arising from professional negligence in the performance of services. Our comprehensive insurance programmes cover both commercial entities and financial institutions, such as: accountants; architects; bankers and dealers; consultants; engineers; insurance agents / brokers and solicitors; banks insurers; investment advisors; lawyers; real estate professionals; securities brokers and dealers.

Professional Cyber Liability

In the corporate world, daily business operations are more reliant on technology than ever before. The threat of data breach and cyber-attack is rising along with the spread of technology. Our underwriters have a unique understanding of these risks and can provide tailored coverage to help manage cyber exposures, from loss of digital assets, non-physical business interruption and cyber extortion and terrorism to network security and privacy liability.

Claims

Claims are unpredictable and tend to be severe rather than frequent. The time it takes for a claim to be finalised can be long and drawn out with a heavy drain on the company's management resources.

Our team has experience in handling claims for all types and sizes of organisations all over the world – from large, sophisticated multinational companies to small companies that may have scarce experience with claims. In every case, our claims professionals work closely with the insured and their advisors to develop a solution-oriented strategy for achieving a fair and efficient resolution of any claim.

We are proud of our ratings, whereby credit agencies give credence to our strength and ability to pay claims today, tomorrow and for years to come.

HCC International Insurance Company PLC

Financial Statements

Year ended
31 December 2014

COMPANY INFORMATION

Directors	S A Button B J Cook (Chief Executive Officer) K J Cordier T J G Hervy N I Hutton-Penman BSc, ACA K L Letsinger BSc, CPA N C Marsh (non-executive Chairman) J L T Newbegin (non-executive) H-D Rohlf (non-executive) W R Treen BSc, FIA (non-executive)
Company Secretaries	D R Feldman R L Hughes FCA N J Walklett ACA
Registered Number	1575839
Registered Office	Walsingham House 35 Seething Lane London EC3N 4AH
Independent Auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 7 More London Riverside London SE1 2RT

CONTENTS

STRATEGIC REPORT

The directors present their Strategic Report for the year ended 31 December 2014.

Principal activities

The principal activity of the Company is the transaction of general insurance business in the United Kingdom and Continental Europe where it benefits from the European Union Freedom of Services charter to write across the European Union member states. The Company operates from a number of offices across the UK and also has branches in Spain, Ireland, France and Switzerland. The Company is authorised by the Prudential Regulation Authority and regulated by both the Financial Conduct Authority and the Prudential Regulation Authority.

The Company's ultimate parent is HCC Insurance Holdings, Inc. (HCC), whose head office is in Houston, Texas. HCC is a leading international specialty insurance group with offices across the United States and internationally. As of 31 December 2014, HCC had assets of US$10.7 billion and shareholders' equity of US$3.9 billion. HCC and the Company have a financial strength rating of AA (Very Strong) from Standard & Poor's Financial Services LLC.

The Company is the principle insurance platform within HCC's international operations and is one of three UK insurance platforms, the other two being Houston Casualty Company (London Branch) and the wholly-aligned Lloyd's Syndicate 4141. HCC underwriters write business based on prescribed rules that determine which UK insurance platform is utilised, the main determinate of carrier being licensing, distribution or client choice. The Company has grown significantly in recent years as HCC has added to its international product offerings and made increasing use of its European licenses.

The Company owns 100% of the voting share capital of Houston Casualty Company Europe, Seguros y Reaseguros, S.A. (HCCE), an insurance carrier domiciled in Spain. This subsidiary underwrites Surety and Professional Indemnity business. Effective from 31 March 2015, the assets, liabilities and operations of HCCE will be merged into the Company's operations and HCCE will be dissolved.

Strategy

The Company's business philosophy is to maximise underwriting profits and earnings whilst limiting risk in order to preserve shareholder's equity. Our strategic focus is to generate underwriting profit which meets HCC's risk adjusted return on capital target. Insurance underwriting is concentrated in select, narrowly defined, speciality lines of business where underwriting profit and target returns can be achieved. Our experienced underwriting personnel, with access to, and expertise in, the insurance and reinsurance marketplace, coupled with good distribution access and a strong financial rating, have enabled the Company to achieve its strategic objectives.

Business environment

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

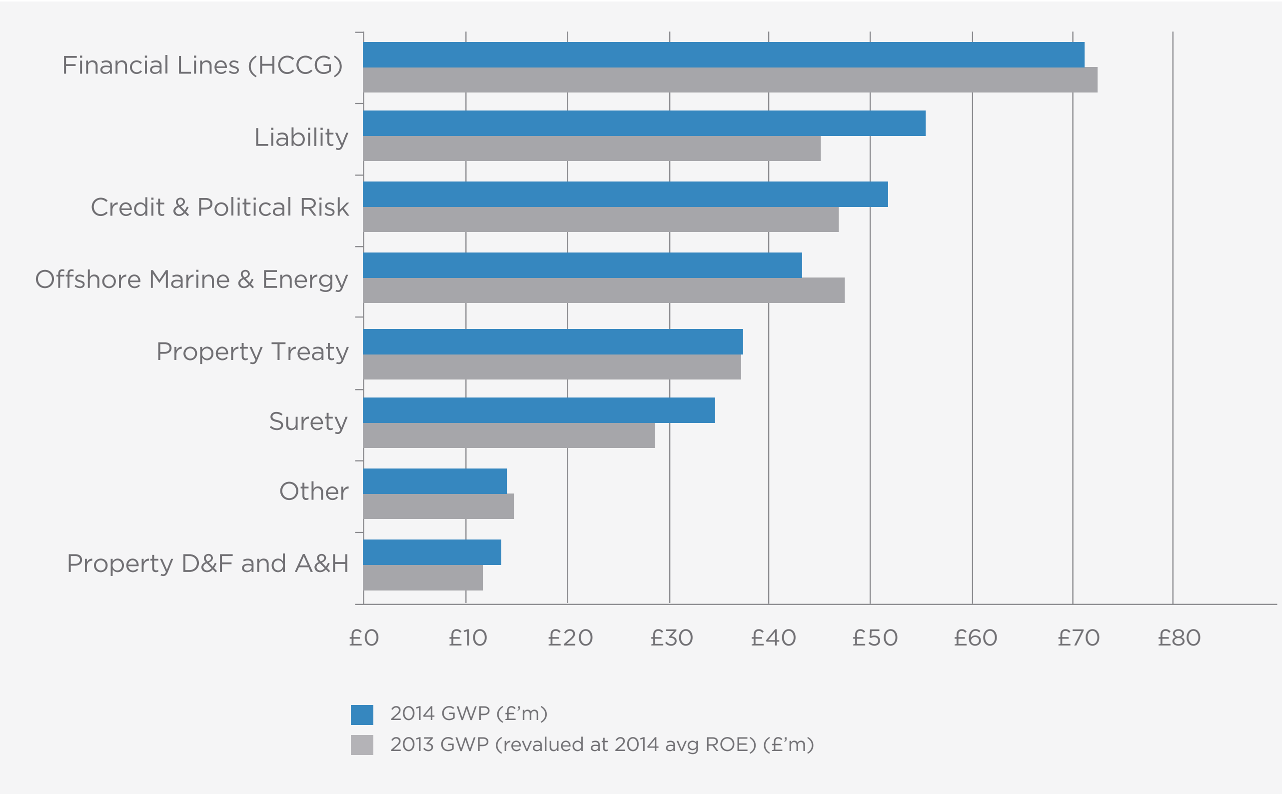
Results and performance

The Company made a net profit for the financial year of £49.2m (2013: £13.2m), as set out on pages 27 and 28. The increase in profit was driven by a decrease in the loss ratio, an increase in investment return and an increase in foreign exchange gains. The decrease in loss ratio to 34.8% (2013: 45.0%) is largely due to the prior year having been impacted by catastrophe losses comprising the European Flood and German Hail events which represented 8.8% of the loss ratio. There were no large catastrophe losses in 2014. Reserve releases in 2014 were £11.0m compared to £20.4m in 2013 and contributed positively to the loss ratio (4.9% and 9.3% in 2014 and 2013, respectively).

The US dollar average exchange rate weakened in 2014 to $1.65 = £1, from $1.57 in 2013. This reduced the value of US dollar income (which comprises 30.5% of total gross written premium) and expenses when translated into reporting pounds sterling.

Gross written premium totalled £322.0m, compared to £320.9m in 2013 or £305.0m at current year average FX rates. The £17.0m increase in premium was spread across a number of lines of business underwritten by the Company, with the largest increases in Liability, Surety and Credit and Political Risk, offset by decreases in Offshore Marine and Energy. The growth achieved in 2014 was principally in the non-London Market lines of business which has a relatively stable, but competitive rating environment. The London Market lines, which includes the Energy business, continue to be challenging due to the benign industry loss experience and excess capacity in the market.

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



Investment return was £14.4m higher in 2014 at £12.3m (2013: £(2.1)m). Investment income from the bond portfolio was £0.9m higher at £11.9m (2013: £11.0m) due to the increase in the size of the portfolio. Realised and unrealised investment losses were £11.1m lower at £1.3m (2013: £12.4m losses). In addition, the Company received a £2.6m dividend from one of its subsidiary companies (2013: £nil).

Shareholder's equity increased £56.3m to £283.5m largely due to net income of £49.2m and an increase in share capital of £11.0m.

Dividends

No dividends were paid during the year (2013: £nil). No dividend is recommended.

Key performance indicators ('KPI')

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

		YEAR ENDED 31 DECEMBER 2014	YEAR ENDED 31 DECEMBER 2013
Total shareholder's funds		£283.5m	£227.2m
Cash and investments	Excluding investment in subsidiaries and land and buildings	£600.6m	£487.1m
Gross premiums written		£322.0m	£320.9m
Net premiums written	Net of reinsurance	£239.8m	£231.4m
Underwriting result	Balance on technical account before investment income and equalisation provision	£64.3m	£33.2m
Net loss ratio	Ratio of net incurred claims (excluding equalisation reserve) to net earned premiums	34.8%	45.0%
Net combined ratio	Ratio of total technical charges (excluding investment income and equalisation provision) to net earned premiums	71.2%	84.8%
Investment return	Total investment return (excluding intercompany dividends)	£9.7m	£(2.1)m

Overall, the directors are satisfied with the Company's operations and the financial position of the Company as at the end of the year.

Business Line Synopsis

Financial Lines (HCCG)

Financial Lines premium decreased by 7% to £71.2m (2013: £76.2m). The Financial Lines business consists of: Directors and Officers liability, Financial Institutions bonds and Commercial crime, Excess Professional Indemnity and Transaction Risk Insurance business. Despite the difficult economic environment and the claims development experienced by some of our peers on previous underwriting years, the market continued to see rate decreases with the exception of a few risk segments.

Liability

Liability premium increased by 17% to £55.5m (2013: £47.4m) through product development and increased regional presence. The business is comprised of UK Professional Indemnity and UK Casualty business. The Professional Indemnity business is high volume, low premium business underwritten through UK brokers with a focus on client service. Our target clients are smaller, lower risk businesses. The UK Casualty business comprises niche products covering lower risk trades and is made up of single risk and select affinity business.

Credit & Political Risk

Credit & Political Risk premium increased by 5% to £51.9m (2013: £49.3m) despite the challenging environment due to increased competition and fewer insolvencies due to the upturn in the economy.

Our niche Credit products and high service standards place us in a strong position with our clients and we would expect to retain a high level of business. We continue to prosper in the Political Risk arena with the benefit of our financial rating.

Offshore Marine & Energy

Offshore Marine & Energy premium decreased by 14% to £43.2m (2013: £50.0m). The Energy market remains very competitive both onshore and offshore driven by the competitive rating environment compounded by the effect of lower oil prices and resulting lower production and investment in the industry which leads to reduced demand for insurance coverage. We anticipate this will continue for the foreseeable future.

Property Treaty

Property Treaty premium decreased by 5% to £37.6m (2013: £39.5m) due to continuing significant pressure on rates and conditions. The inflows of the collateralised markets are a substantial contributor to the competitive environment.

Surety

Surety premium increased by 14% to £34.7m (2013: £30.4m) benefiting from improved economic conditions in the UK resulting in increased construction activity. The Company's position in the market and its AA rating give us good opportunities to sell bond cover to support large multi-national companies with significant infrastructure projects.

Property Direct & Facultative and Accident & Health

Property Direct & Facultative and Accident & Health premium increased by 10% to £13.7m (2013: £12.5m). While the Property business is experiencing substantial rate pressure, the Accident and Health business is experiencing a more stable environment.

Other

HCC owns a managing general agent, HCC Specialty Ltd., which is a market leader in the Contingency, Sports Disability and Entertainment business. Total gross premium written in 2014 was £14.2m (2013: £15.6m) with all market sectors remaining extremely competitive.

Reinsurance

The reinsurance programme comprises a variety of excess of loss and quota share covers. Reinsurance premiums on excess of loss programmes are allocated across HCC international platforms based on gross written premiums which are used as a proxy for exposure. Reinsurance recoveries including reinstatement premiums are allocated based on the share of gross losses suffered by each carrier. Purchases of the shared reinsurance programme are advised to the Prudential Regulation Authority. In addition, the Company purchases facultative reinsurance to balance line size and premium where it is prudent to do so.

Investment policy and management

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

General Re-New England Asset Management has been investment managers for the US dollar, Sterling and Euro funds throughout the year. The funds consist primarily of a portfolio of highly rated Corporate Bonds, which are BBB rated and above, including Bonds guaranteed by the US, UK, German and Canadian governments. The average duration of the aggregate portfolios at the year-end was 3.53 years (2013: 3.96 years).

The annualised investment return on managed funds was 4.56% for the US dollar portfolio, 4.85% for the Sterling portfolio and 4.42% for the Euro portfolio. The US dollar portfolio outperformed the benchmark due mainly to the good performance of the credit and structured sectors, to which the portfolio had a strategic overweight. Investment in these sectors allowed for increased levels of income as well as a positive price performance. The return on the Sterling and Euro portfolios lagged that of the benchmark. The higher exposure to Corporate Bonds did contribute positively to the returns but could not offset the slightly short duration stance versus the benchmark, which limited the upside in a rallying bond market.

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

Future outlook
The Company continues to consider profitable opportunities in new lines of business, through both teams and potential acquisitions. In addition, the Company looks to organically grow its existing lines of business. The directors continually appraise the current portfolio and ways to expand into complementary lines. The Company is also exploring opportunities in new territories, setting up branches in Germany and Italy.

Principal risks and uncertainties

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

Insurance risk

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

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

The process of risk acceptance and risk management is addressed through a framework of policies, procedures and internal controls. These policies are subject to Board approval and on-going review by the Risk and Capital Management Committee. Compliance with regulation, legal and ethical standards is a high priority for the Company and its Enterprise Risk, Compliance and Finance teams undertake an important oversight role in this regard.

A framework has been developed for identifying the risks that each business sector is exposed to and their impact on economic capital through the Risk and Capital Management Committee. This process is risk-based and utilises capital assessment principles to manage capital requirements and to ensure the Company has the financial strength and capital adequacy to support the business and its future development and to meet the requirements of our shareholder as well as policyholders, regulators and rating agencies.

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

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

Credit risk – this is where a counterparty is deemed unable to pay amounts in full when they fall due. Key areas where the Company is exposed to credit risk are:
- amounts due from policyholders;
- amounts due from intermediaries (e.g. brokers);
- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of claims already paid; and
- investments in fixed income securities and cash and deposits held at banks.

The Company places a limit on its exposures to a single counterparty or group of counterparties. The payment history and financial security of the policyholders and intermediaries are reviewed when assessing credit risk.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim, the Company remains liable for the payment to the policyholder. The Company will only reinsure with reinsurers that are either on HCC's approved security listing or are specially accepted by the HCC Security Committee. All new reinsurers are assessed before business is placed with them. The creditworthiness of reinsurers is considered on an on-going basis, not just prior to finalisation of any contract. See accounting policy (f).

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

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

Operational risk - the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. The Company seeks to manage this risk through the use of detailed procedure manuals and a structured programme of testing of processes and systems by Internal Audit.

Group risk – this risk is the potential impact of risk events, of any nature, arising elsewhere in HCC which could adversely affect the Company's business, reputation and financial position.

STRATEGIC REPORT (continued)

Regulatory risk – the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. The Company is required to comply with the requirements of the Prudential Regulation Authority, the Financial Conduct Authority and regulatory bodies in other territories in which it carries on business. The Company has a Compliance team that monitors regulatory developments and assesses the impact on Company policy.

Post balance sheet events

Effective from 31 March 2015, the assets, liabilities and operations of the Company's subsidiary company, Houston Casualty Company Europe, Seguros y Reaseguros S.A. (HCCE), will be merged into the Company's operations and HCCE will be dissolved.

On behalf of the board

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

27th March 2015

DIRECTORS’ REPORT

The directors present their Directors’ Report and the audited financial statements of the Company for the year ended 31 December 2014.

Directors

The directors set out below have held office from 1 January 2014 to the date of this report unless otherwise stated:

J H Bishop FIA (resigned 31 March 2014)

S A Button

B J Cook

K J Cordier

J R Davidson FCIOB MRICS FinstD (resigned 30 June 2014)

T J G Hervy

N I Hutton-Penman BSc, ACA

K L Letsinger BSc, CPA

N C Marsh (appointed 1 April 2014)

J L T Newbegin

H-D Rohlf (appointed 16 January 2014)

W R Treen BSc, FIA

Matters disclosed in the Strategic Report

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

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

Independent Auditors

The auditors, PricewaterhouseCoopers LLP, have expressed their willingness to continue in office as auditors and accordingly a resolution to propose their reappointment will be submitted at the forthcoming annual general meeting.

Statement of disclosure of information to auditors

Each of the persons who are a director at the date of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company’s auditors are not aware, and
- the director has taken all steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company’s auditors are aware of that information.

Statement of directors' responsibilities

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

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

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

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

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom concerning the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board

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

27th March 2015

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

Report on the financial statements

Our opinion

In our opinion, HCC International Insurance Company plc's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2014 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.

What we have audited

HCC International Insurance Company plc's financial statements comprise:

- the profit and loss account and statement of total recognised gains and losses for the year ended 31 December 2014;
- the balance sheet as at 31 December 2014;
- the accounting policies; and
- the notes to the financial statements, which include other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit;
- 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.

We have no exceptions to report arising from this responsibility.

Directors remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of the Directors' Responsibilities set out on page 24, 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) ("ISAs (UK & 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.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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

27th March 2015

PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2014

	NOTE	2014	2013
		£'000	**£'000**
Technical account – general business			
Earned premiums, net of reinsurance			
Gross premiums written	1	322,014	320,903
Outward reinsurance premiums		(82,260)	(89,484)
Net premiums written		239,754	231,419
Change in the gross provision for unearned premiums		(18,350)	(21,663)
Change in the provision for unearned premiums, reinsurers' share		2,108	9,424
Change in the net provision for unearned premiums		(16,242)	(12,239)
Earned premiums, net of reinsurance		223,512	219,180
Investment return transferred from the non-technical account	5	12,418	10,511
Total technical income		235,930	229,691
Claims incurred, net of reinsurance			
Claims paid:			
- gross amount		80,016	78,405
- reinsurers' share		(15,870)	(25,357)
Net claims paid		64,146	53,048
Change in the provisions for claims:			
- gross amount		32,960	29,025
- reinsurers' share		(19,261)	16,568
Change in the net provision for claims		13,699	45,593
Claims incurred, net of reinsurance	2	77,845	98,641
Net operating expenses	3	81,415	87,310
Change in equalisation provision	23	10,101	11,298
Total technical charges		169,361	197,249
Balance on the technical account for general business	1	66,569	32,442

All amounts relate to continuing operations.

PROFIT AND LOSS ACCOUNT (continued)

For the year ended 31 December 2014

	NOTE	2014	2013
		£'000	**£'000**
Non-technical account			
Balance on the technical account for general business		66,569	32,442
Investment income	4	16,728	11,274
Unrealised gains on investments	4	9,524	4,593
Investment expenses and charges	4	(1,677)	(997)
Unrealised losses on investments	4	(12,230)	(16,920)
Investment return transferred to general business technical account	5	(12,418)	(10,511)
Other charges	6	(801)	(826)
Profit on ordinary activities before tax		65,695	19,055
Tax on profit on ordinary activities	11	(16,510)	(5,835)
Profit for the financial year		49,185	13,220

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 December 2014

	NOTE	2014	2013
		£'000	**£'000**
Profit for the financial year		49,185	13,220
Currency translation differences	22	19,651	(5,459)
Dividend received from subsidiary undertakings	14	(2,623)	-
Revaluation of subsidiary undertakings	14	(20,252)	(22,863)
Total recognised gains/(losses) for the year		45,961	(15,102)

BALANCE SHEET

As at 31 December 2014

	NOTE	2014	2013
		£'000	**£'000**
Assets			
Intangible assets			
Goodwill	12	6,962	7,495
Investments			
Land and buildings	13	154	154
Investments in subsidiary undertakings	14	28,730	45,650
Other financial investments	15	577,017	453,261
		605,901	499,065
Reinsurers' share of technical provisions			
Provision for unearned premiums		43,975	39,010
Claims outstanding		93,991	74,195
		137,966	113,205
Debtors			
Debtors arising out of direct insurance operations			
- Policyholders		16,757	11,958
- Intermediaries		29,974	30,394
Debtors arising out of reinsurance operations		33,256	27,332
Other debtors	16	7,980	2,882
		87,967	72,566
Other assets			
Tangible assets	17	2,479	2,722
Deposits from third parties		31,427	31,714
Cash at bank and in hand		23,552	33,829
		57,458	68,265
Prepayments and accrued income			
Accrued interest and rent		4,803	4,833
Deferred acquisition costs		43,588	36,901
Other prepayments and accrued income		39	119
		48,430	41,853
Total assets		944,684	802,449

BALANCE SHEET (continued)

As at 31 December 2014

	NOTE	2014	2013
		£'000	**£'000**
Liabilities			
Capital and reserves			
Called up share capital	20	133,798	122,796
Revaluation reserve	22	(31,951)	(9,076)
Currency exchange reserve	22	24,840	5,189
Other reserves	22	214	890
Profit and loss account	22	156,585	107,400
Total shareholders' funds	21	283,486	227,199
Technical provisions			
Provision for unearned premiums		179,197	150,508
Claims outstanding		318,952	285,677
Equalisation provision	23	51,604	38,538
		549,753	474,723
Provisions for other risks and charges	19	-	-
Creditors			
Creditors arising out of direct insurance operations		3,733	2,396
Creditors arising out of reinsurance operations		31,946	33,257
Other creditors including taxation and social security	18	22,523	14,660
Deposits from third parties		31,428	31,714
		89,630	82,027
Accruals and deferred income		21,815	18,500
Total liabilities		944,684	802,449

The financial statements on pages 27 to 46 were approved by the Board of Directors and were signed on its behalf by

K L Letsinger
Group Chief Financial Officer

27th March 2015

ACCOUNTING POLICIES

Basis of presentation

The financial statements have been prepared under the provision of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410) relating to insurance companies and in accordance with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers ("the ABI SORP") dated December 2005 (as amended in December 2006), except for the inclusion of foreign exchange gains and losses in the technical account.

The financial statements have been prepared in accordance with applicable accounting standards. A summary of the Company's accounting policies is set out below.

Compliance with Statement of Standard Accounting Practice ("SSAP") 19, "Accounting for Investment Properties", requires departure from the requirements of the Companies Act 2006 applicable in the United Kingdom and historical cost convention relating to depreciation. An explanation of the departure has been given in the Accounting policies relating to investments below.

Cash flow statement and related party disclosures

As a wholly owned subsidiary, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS1 (revised 1996). The Company is also exempt from disclosing related party transactions with entities that are part of the HCC Insurance Holdings, Inc. group or investees of the HCC Insurance Holdings, Inc. group under the terms of FRS8.

Basis of consolidation

The Company is exempt from the obligation to prepare and deliver group financial statements by virtue of Schedule 4 to SI 2008/410 in that the Company is included in the consolidated financial statements of its ultimate parent company whose published financial statements are considered to be compatible with the requirements of the European Union's Seventh Directive.

The financial statements present information about the Company as an individual undertaking and not about its group, except for accounting for its investment in subsidiary undertakings at current net asset value (see Note 14), and the disclosure of auditors' remuneration (see Note 7).

Comparatives

Where necessary, comparative amounts have been adjusted to conform to changes in presentation in the current year.

Basis of accounting

Insurance contracts

The underwriting results are determined on an annual basis whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance, as follows:

(a) Premiums written

Premiums written relate to business incepted during the year, together with any differences between booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet receivable or notified to the Company.

Outward reinsurance premiums are accounted for in the same accounting year as the premiums for the related inwards business.

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

(b) Unearned premiums

Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on a time apportionment basis, or on an exposure basis where appropriate.

(c) Acquisition costs

Acquisition costs, which represent commission and other related direct expenses, are expensed in the year in which the related premiums are earned.

(d) Claims incurred

Claims incurred comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and related loss adjustment expenses, together with any other adjustments to claims for previous years. Where applicable, deductions are made for salvage and other recoveries.

(e) Claims provisions

Provision is made at the year-end for the estimated costs of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the Company. The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries. The Company takes all reasonable steps to ensure it has appropriate information regarding its claims exposures; however, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims incurred but not reported ("IBNR") is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about a claim is generally available. Claims IBNR may often not be apparent to the insurer until many years after the event giving rise to the claim has happened. Classes of business where claims are typically reported relatively quickly after the event tend to display lower levels of volatility in the claims tail. In calculating the cost of unpaid claims the Company uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- changes in Company processes which might accelerate or slow down the development and/or recording of paid or incurred claims compared with the statistics from previous periods;
- the effects of inflation and market environment (e.g. legal and societal factors);
- changes in the mix of business;
- the impact of large losses; and
- movements in industry benchmarks.

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these, the Company has regard to the claim circumstances as reported, any information available from loss adjusters, and information on the cost of settling claims with similar characteristics in previous periods.

Large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

Where possible the Company adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by various methodologies also assist in assessing the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

Credit and Surety, London Market and Other Business
The majority of this business is "short tail", that is, where claims are usually made during the term of the policy or shortly after the policy has expired. The cost of claims notified to the Company at the balance sheet date is estimated on a case-by-case basis to reflect the individual circumstances of each claim. The ultimate expected cost of claims is projected from this data by reference to statistics which show how estimates of claims incurred in previous years have developed over time to reflect changes in the underlying estimates of the cost of notified claims and late notifications.

Professional Indemnity and Financial Lines
These claims are longer tail than those of the other classes of business described above and so a larger element of the claims provision relates to IBNR. Claims estimates for the Company's Professional Indemnity business are derived from a combination of loss ratio based estimates and an estimate based upon actual claims experience. The initial estimate of the loss ratio is based on the experience of previous years, adjusted for factors such as premium rate changes, claims inflation and market environment. The estimate of claims inflation and anticipated market environment is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract.

(f) Reinsurance

Contracts entered into by the Company under which the Company is compensated for losses on one or more contracts issued by the Company (outwards reinsurance) and that meet the classification requirements for insurance contracts are classified as reinsurance contracts.

The amounts that will be recoverable from reinsurers are estimated based on gross loss provisions, having due regard to collectability. Reinsurance recoveries in respect of estimated claims incurred but not reported are assumed to be consistent with the historical pattern of such recoveries, adjusted to reflect changes in the nature and extent of the Company's reinsurance programme over time. The recoverability of reinsurance recoveries is assessed having regard to market data on the financial strength of each of the reinsurance companies. The reinsurers' share of claims incurred in the profit and loss account reflects the amounts received or receivable from reinsurers in respect of those claims incurred during the year. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised in the Profit and Loss Account as "outwards reinsurance premiums".

(g) Unexpired risk provisions

Provision is made for any deficiencies arising when unearned premiums, net of associated acquisition costs, are insufficient to meet expected claims and expenses. The expected claims are calculated based on information available at the balance sheet date.

Unexpired risk surpluses and deficits are offset where business classes are managed together and a provision is made if an aggregate deficit arises. The unexpired risk provision is included within other technical provisions.

(h) Equalisation provision

An amount is set aside as equalisation provision in accordance with the FSA's Handbook for the purpose of mitigating exceptionally high loss ratios in future years. The amounts provided are not liabilities because they are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date. Notwithstanding this, they are required by Schedule 3 to SI 2009/410 to be included within technical provisions.

Goodwill

Goodwill is capitalised at cost and amortised over its useful economic life on a straight line basis over 15 years. No amortisation is charged in the year of acquisition. As goodwill is amortised over a period of less than 20 years, annual impairment reviews are not undertaken. However on an annual basis the directors consider whether there are any events or changes in circumstances which indicate that the carrying value of goodwill may not be recoverable. The gain or loss on any subsequent disposal will include any unamortised goodwill.

Investments

(a) Land and buildings

Land and buildings are valued at open market valuation. Full valuations are made by independent and professionally qualified valuers every five years. In the intervening years the valuations are updated by the directors with the assistance of independent professional advice where it is considered necessary.

In accordance with SSAP19, no depreciation or amortisation is provided in respect of freehold investment properties and leasehold investment properties with over 20 years term remaining. The requirement of the Companies Act 2006 is to depreciate all properties. This requirement conflicts with the generally accepted accounting principle set out in SSAP19. The directors consider that, as these properties are held for investment, to depreciate them would not give a true and fair view, and that it is necessary to adopt SSAP19 in order to give a true and fair view.

(b) Subsidiary undertakings

Investments in subsidiary undertakings are stated in the Balance Sheet at current net asset value.

(c) Other financial investments

Other financial investments are stated at market value, with unrealised gains and losses taken to the non-technical account, except where there is a positive intention to hold to maturity in which case the investments are carried at amortised cost. For fixed interest securities, amortisation is calculated so as to write off the difference between the purchase price and the maturity value over the life of the security using the effective interest method.

Investment return

Investment return, which is reported in the Profit and Loss Account, comprises all investment income (including the amortisation of premium or discount for fixed income securities), realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses and interest payable. Interest, rent from investment property and expenses are accounted for on an accrual basis.

Realised gains and losses on investments carried at fair value are calculated as the difference between net sale proceeds and purchase price, or amortised cost for fixed income securities. Unrealised gains and losses on investments represent the difference between the fair value and purchase price, or amortised cost for fixed income investments, together with the reversal of unrealised gains and losses recognised in earlier years in respect of investment disposals in the current year.

Investment return is recorded in the non-technical account, except that investment return resulting from financial investments attributable to the general insurance business is transferred from non-technical to technical account.

ACCOUNTING POLICIES (continued)

Tangible assets

Tangible assets are capitalised and depreciated by equal instalments over their estimated useful lives. The principal annual rates used for this are as follows:

• Computer equipment	33%
• Fixtures, fittings and office equipment	20%
• Leasehold improvements	10%

The requirement of the Companies Act 2006 is to depreciate all tangible assets. However, the owner occupied freehold property is not depreciated on the basis that the depreciation charge is immaterial as the net realisable value of the property is greater than the carrying value. The carrying value is reviewed annually for impairments or changes in circumstances which might indicate that such value may not be fully recoverable. Any impairment in the value of the asset below the carrying value is charged to the Profit and Loss Account.

Taxation

Current tax is provided at the current rate of corporation taxation on the results for the year as adjusted by items of income and expenditure which are disallowed for taxation purposes.

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is calculated at the rates at which it is expected that the tax will arise. Deferred tax is recognised in the Profit and Loss Account for the period, except to the extent that it is attributable to a gain or loss that is recognised directly in the Statement of Recognised Gains and Losses. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax balances are not discounted.

Pension costs

HCC's International operations operate a Group Self Invested Personal Pension Scheme. Pension costs are expensed in full in the year to which they relate.

Foreign currencies

The accounting records are maintained in US Dollars, which is the Company's functional currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of transactions. Monetary assets and liabilities are revalued at year end rates and non-monetary assets and liabilities are recorded at historic rates. Foreign exchange gains and losses arising from the revaluation of foreign currencies into the Company's functional currency, together with settlement of foreign currency transactions, are recognised in the Profit and Loss Account.

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

a) assets and liabilities at the closing rate at the balance sheet date which for Sterling was £1 = $1.5535 (2013: $1.6491).

b) income and expenses at the average rate during the year which for Sterling was £1 = $1.6450 (2013: $1.5653).

Dividends

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

Share based payments

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

NOTES TO THE FINANCIAL STATEMENTS

1. Segmental information

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

	GROSS PREMIUMS WRITTEN		GROSS PREMIUMS EARNED		GROSS CLAIMS INCURRED	
	2014	2013	2014	2013	2014	2013
	£'000	£'000	£'000	£'000	£'000	£'000
Direct insurance						
Accident and health	8,429	9,822	8,837	9,957	4,714	7,150
Credit, political risk and suretyship	84,552	76,967	75,880	69,834	23,797	24,920
Fire and other damage to property	597	296	562	552	(1,503)	(7,742)
Marine, aviation and transport	20,128	24,229	20,822	23,339	3,668	13,968
Miscellaneous	5,497	4,236	4,672	3,623	2,809	890
Third party liability	113,975	110,107	106,430	102,421	48,292	27,614
	233,178	225,657	217,203	209,726	81,777	66,800
Reinsurance acceptances	88,836	95,246	86,461	89,514	31,199	40,630
	322,014	320,903	303,664	299,240	112,976	107,430

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

	GROSS OPERATING EXPENSES		REINSURANCE BALANCE INCOME (EXPENSE)		NET UNDERWRITING RESULT	
	2014	2013	2014	2013	2014	2013
	£'000	£'000	£'000	£'000	£'000	£'000
Direct insurance						
Accident and health	3,385	3,596	1,119	(906)	1,857	(1,695)
Credit, political risk and suretyship	24,542	26,710	(7,006)	(9,201)	20,535	9,003
Fire and other damage to property	21	92	(82)	(5,303)	1,962	2,899
Marine, aviation and transport	5,059	4,773	2,216	(8,136)	14,311	(3,538)
Miscellaneous	4,493	5,062	(51)	(1,087)	(2,681)	(3,416)
Third party liability	35,859	38,386	(1,900)	(22,163)	20,379	14,258
	73,359	78,619	(5,704)	(46,796)	56,363	17,511
Reinsurance acceptances	23,166	24,674	(24,207)	(8,492)	7,889	15,718
	96,525	103,293	(29,911)	(55,288)	64,252	33,229
Investment return					12,418	10,511
Equalisation provision					(10,101)	(11,298)
					66,569	32,442

The reinsurance balance represents the aggregate of all items relating to reinsurance outwards.

1. Segmental information (continued)

(c) Geographical location of underwriting operations

	GROSS PREMIUMS WRITTEN		PROFIT BEFORE TAXATION		NET ASSETS	
	2014	2013	2014	2013	2014	2013
	£'000	£'000	£'000	£'000	£'000	£'000
United Kingdom	258,388	255,169	66,820	13,752	267,997	212,201
Rest of Europe	63,626	65,734	(1,125)	5,303	15,490	14,998
	322,014	320,903	65,695	19,055	283,486	227,199

(d) Geographical location of gross premiums written by destination

	GROSS PREMIUMS WRITTEN	
	2014	2013
	£'000	£'000
United Kingdom	156,292	146,870
Rest of Europe	107,101	114,462
Rest of the World	58,621	59,571
	322,014	320,903

2. Movement in prior years' provision for claims outstanding

	2014	2013
	£'000	£'000
Surplus/(deficit) arising on prior years' provision, net of reinsurance		
Accident and health	(59)	(2,536)
Credit and suretyship	1,930	7,187
Fire and other damage to property	2,990	4,717
Marine, aviation and transport	618	(1,330)
Third party liability	5,510	12,403
	10,989	20,441

3. Net operating expenses

	2014	2013
	£'000	£'000
Commission costs	67,168	64,127
Reinsurance commissions and profit participation	(15,110)	(15,984)
Change in deferred acquisition costs	(4,171)	(4,947)
Administrative expenses	45,911	40,900
Foreign exchange losses/(gains)	(12,383)	3,214
	81,415	87,310

Total commission written during the year in respect of direct insurance was £51,754,379 (2013: £49,521,959).

4. Investment return

	2014	2013
	£'000	£'000
Investment income		
Income from other financial investments	11,922	11,018
Bank interest receivable and similar income	1	1
Investment property rental income	9	11
Dividend from group undertakings	2,623	-
Gains on the realisation of investments	2,173	244
	16,728	11,274
Investment expenses and charges		
Investment management fees and charges	(880)	(721)
Losses on the realisation of investments	(797)	(276)
	(1,677)	(997)
Net unrealised gains (losses) on investments		
Unrealised gains on investments	9,524	4,593
Unrealised losses on investments	(12,230)	(16,920)
	(2,706)	(12,327)
Total investment return	12,345	(2,050)

5. Allocation of investment return

	2014	2013
	£'000	£'000
Total investment return (Note 4)	12,345	(2,050)
Investment return transferred to the general business technical account	(12,418)	(10,511)
Investment income retained in the non-technical account	(73)	(12,561)

6. Share based payments

Some staff have been granted share options and restricted stock awards and units in HCC Insurance Holdings, Inc. (HCC), the ultimate holding company. These options and awards are part of the HCC Group's 2008 Flexible Incentive Plan which is administered by the Compensation Committee of HCC.

Each option granted under the plan may be used to purchase one share of common stock in HCC. Outstanding options vest over a period of up to five years, which is the requisite service period, and expire six to ten years after grant date.

Each restricted stock award and unit entitles the recipient to one share or equivalent unit of common stock in HCC. Outstanding restricted stock awards and units vest over a period of up to five years, which is the requisite service period.

The Company has applied FRS 20 in its accounting for the options and awards which requires recognition at fair value. Fair value for options is calculated using the Black Scholes option pricing model and for restricted stock awards is the grant date closing market price. Fair value is expensed to the Profit and Loss Account over the vesting period of the option or award. In 2014 £800,614 (2013: £826,000) of stock based compensation was expensed for all staff working for the Company participating in the Plan.

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

7. Auditors' remuneration

During the year the Company and its subsidiary undertakings obtained the following services from the Company's auditors at costs as detailed below:

	2014	2013
	£'000	£'000
Audit of the Company's financial statements	232	240
Audit of the Company's subsidiary undertakings' financial statements	8	118
Audit-related assurance services	117	38
Tax compliance services	18	18
Tax advisory services	53	17
	428	431

8. Staff costs

All staff are employed by HCC Service Company Inc. (UK branch). The 2014 disclosures for staff costs below relate to underwriting and other direct staff only as, effective 1 January 2014, claims and underwriting staff that also work for other HCC group companies were categorised as central services. The costs of staff providing central services for group entities are allocated and recharged to the Company as a management fee. These employees are not included in salary costs and average staff numbers, as for disclosure purposes, it is not practical to allocate these amounts to the underlying entities to which the staff provide services.

8. Staff costs (continued)

	2014	2013
	£'000	£'000
Wages and salaries	12,633	13,136
Social security costs	1,535	1,623
Other pension costs (Note 25)	871	916
	15,039	15,675

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

	2014	2013
	Number	Number
Underwriting	97	91
Claims	19	40
Administration and finance	30	43
	146	174

9. Directors' emoluments

	2014	2013
	£'000	£'000
Aggregate emoluments (excluding share options and awards)	2,639	2,004
Pension contributions	360	93
	2,999	2,097

Pension benefits are accruing to five directors (2013: five) under the Group's defined contribution pension scheme (see Note 25). No directors exercised share options in the year and six directors are entitled to receive shares under a long-term incentive scheme (see Note 6).

Highest paid director

	2014	2013
	£'000	£'000
Aggregate emoluments (excluding share options and awards)	695	737
Pension contributions	-	-
	695	737

The highest paid director did not exercise stock options during the year and is entitled to receive shares under a long-term incentive scheme (see Note 6).

10. Dividends

	2014	2013
	£'000	£'000
Dividends paid on ordinary shares	-	-

11. Tax on profit on ordinary activities

	2014	2013
	£'000	£'000
Current UK corporation tax on income for the year	16,169	4,008
Adjustment in respect of prior years	201	2,104
Current tax charge for the year	16,370	6,112
Deferred tax – origination and reversal of timing differences	140	(277)
Tax on profit on ordinary activities	16,510	5,835

The tax assessed for the year is higher (2013: higher) than the standard rate of corporation tax in the UK. The differences are explained below:

	2014	2013
	£'000	£'000
Profit on ordinary activities before tax	65,695	19,055
Tax on profit on ordinary activities at standard rate of 21.5% (2012: 23.25%)	14,118	4,430
Expenses not deductible for tax purposes	91	53
Stock option costs	27	156
Amortisation of goodwill	177	191
Dividends received	(564)	-
Depreciation in excess of capital allowances	25	100
Adjustments in respect of prior years	201	2,104
Functional currency adjustment	2,295	(922)
Current tax charge for the period	16,370	6,112

The calculation of deferred tax balances at the year-end takes into account the reduction in the UK main corporation tax rate to 21% that was effective from 1 April 2014.

12. Goodwill

	2014	2013
	£'000	£'000
Cost		
At 1 January 2014	14,054	14,335
Foreign exchange impact of translation to closing rate	864	(281)
At 31 December 2014	**14,918**	**14,054**
Amortisation		
At 1 January 2014	6,559	5,734
Amortisation charge for the year	822	822
Foreign exchange impact of translation to closing rate	575	3
At 31 December 2014	**7,956**	**6,559**
Net book value		
At 31 December 2014	**6,962**	**7,495**
At 31 December 2013	7,495	8,601

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

13. Land and building

	2014	2013
	£'000	£'000
Leasehold land and buildings	154	154

The investment property, which consists of long leasehold industrial units, was valued by the directors at 31 December 2012 on an open market basis, using reasonable judgements and contemporary evidence available. This valuation of the property has been reflected in these financial statements (see the accounting policies note).

14. Investment in subsidiary undertakings

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

	2014	2013
	£'000	£'000
At 1 January 2014	45,650	63,073
Dividend received from subsidiary undertakings	(2,623)	-
Revaluation of subsidiary undertakings	(20,252)	(22,863)
Additions in the year	3,148	6,673
Foreign exchange impact on translation to closing rate	2,807	(1,233)
At 31 December 2014	28,730	45,650

The additions in the year comprise the sale by the Company's subsidiary company, Manchester Dickson Holdings Limited, of its entire holding in the common stock of its two subsidiary companies, Dickson Manchester & Company Limited and HCC Diversified Financial Products Limited to the Company. The directors believe that the carrying value of the Company's investment in subsidiary undertakings is supported by the underlying net assets.

14. Investment in subsidiary undertaking (continued)

Investment in its subsidiary undertakings, as listed below, comprises its equity holdings at current net asset value, less any impairment.

NAME	PRINCIPAL ACTIVITY	CLASS OF SHARES	EFFECTIVE %
Houston Casualty Company Europe, Seguros y Reaseguros, S.A (incorporated in Spain)	Insurance company	A & B Shares	100%
HCCI Credit Services Limited	Information services	Ordinary	100%
Manchester Dickson Holdings Limited	Holding company	Ordinary	100%
Dickson Manchester & Company Limited	Insurance broker	Ordinary	100%
HCC Diversified Financial Products Limited	Insurance agency	Ordinary	100%

All subsidiary companies are directly held and are incorporated in England and Wales unless otherwise stated above.

15. Other financial investments

	FAIR VALUE		BOOK COST	
	2014	2013	2014	2013
	£'000	£'000	£'000	£'000
Shares and other variable-yield securities and units in unit trusts	11,900	2,687	11,900	2,687
Debt securities and other fixed-income securities	565,117	450,574	569,643	451,665
	577,017	453,261	581,543	454,352

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

16. Other debtors

	2014	2013
	£'000	£'000
Other debtors	867	773
Current tax recoverable	-	1,832
Deferred tax asset (Note 19)	138	277
Amounts owed by group companies	6,975	-
	7,980	2,882

There are no debtors falling due after more than one year. Amounts owed by group undertakings are short-term, unsecured, interest free and have no fixed date of repayment.

17. Tangible assets

	LEASEHOLD IMPROVEMENTS	LAND AND BUILDINGS	COMPUTER EQUIPMENT	FIXTURES, FITTINGS AND OFFICE EQUIPMENT	TOTAL
	£'000	£'000	£'000	£'000	£'000
Book cost					
At 1 January 2014	1,505	1,987	6,888	1,222	11,602
Additions	-	-	-	-	-
Foreign exchange impact of translation to closing rate	92	132	424	75	723
At 31 December 2014	1,597	2,119	7,312	1,297	12,325
Depreciation					
At 1 January 2014	1,192	-	6,487	1,201	8,880
Charge for the year	157	-	225	14	396
Foreign exchange impact of translation to closing rate	83	-	412	75	570
At 31 December 2014	1,432	-	7,124	1,290	9,846
Net book value					
31 December 2014	165	2,119	188	7	2,479
31 December 2013	313	1,987	401	21	2,722

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

18. Other creditors including taxation and social security

	2014	2013
	£'000	£'000
Corporation tax	7,722	-
Other creditors	80	62
Amounts owed to group companies	14,721	14,598
	22,523	14,660

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

19. Provision for other risks and charges

	2014	2013
	£'000	£'000
At 1 January 2014 – deferred tax (asset)/liability	(277)	-
Changes in accelerated capital allowances	(6)	(114)
Short-term timing differences	145	(163)
At 31 December 2014 - deferred tax (asset)/liability	(138)	(277)

The deferred tax asset consists of the following amounts:

	2014	2013
	£'000	£'000
Accelerated capital allowances	(64)	(58)
Short-term timing differences	(74)	(219)
Deferred tax (asset)/liability (Note 16)	(138)	(277)

No deferred tax has been provided on the revaluation of the Company's investments in its subsidiary undertakings as the Company has no intention of selling its investments, or the subsidiaries will incur a loss on disposal.

20. Called up share capital

	2014		2013	
Allotted, called up and fully paid ordinary Shares	**Number of shares**	**£'000**	**Number of shares**	**£'000**
Balance brought forward				
- Ordinary shares of £1 each	96,047,813	96,048	96,047,813	96,048
- Ordinary shares of $1 each	43,000,000	26,748	-	-
Shares issued during the year				
- Ordinary shares of $1 each	18,360,000	11,002	43,000,000	26,748
Balance carried forward	**157,407,813**	**133,798**	**139,047,813**	**122,796**

The $1 ordinary shares are translated to pounds sterling at the rates of exchange ruling on the dates the shares were issued. The increase in the $1 ordinary shares in 2014 comprises the issue of 18,360,000 shares on 7 March 2014.

21. Reconciliation of movements in shareholder's funds

	2014	2013
	£'000	£'000
Shareholder's funds at 1 January 2014	227,199	214,879
Profit for the financial year (Note 22)	49,185	13,220
Currency translation differences (Note 22)	19,651	(5,459)
Share based payments (Note 22)	(676)	674
Issue of shares (Note 20)	11,002	26,748
Dividend received from subsidiary undertakings (Note 22)	(2,623)	-
Revaluation of subsidiary undertakings (Note 22)	(20,252)	(22,863)
Net addition to shareholder's funds	56,287	12,320
Shareholder's funds at 31 December 2014	283,486	227,199

22. Reserves

	REVALUATION RESERVE	CURRENCY EXCHANGE RESERVE	OTHER RESERVES	PROFIT AND LOSS ACCOUNT
	£'000	£'000	£'000	£'000
At 1 January 2014	(9,076)	5,189	890	107,400
Profit for the financial year	-	-	-	49,185
Currency translation differences	-	19,651	-	-
Share based charge on exercise	-	-	(676)	-
Dividend received from subsidiary undertakings (Note 14)	(2,623)	-	-	-
Revaluation of subsidiary undertakings (Note 14)	(20,252)	-	-	-
At 31 December 2014	(31,951)	24,840	214	156,585

23. Equalisation provision

The effect of the equalisation provision is to reduce shareholder's funds by £51,604,000 (2013: £38,538,000) before tax. The increase in the provision during the year had the effect of reducing the balance on the technical account for general business and the profit on ordinary activities before tax by £10,101,000 (2013: £11,298,000).

24. Capital commitment

There were no capital commitments contracted for but not provided for at 31 December 2014 (2013: £nil).

25. Pension commitments

HCC's international operations operate a Group Self Invested Personal Pension Scheme. The assets of the pension scheme are held separately from those of HCC's international operations in an independently administered fund. The pension cost charged to the Profit and Loss Account for the year was £871,315 (2013: £915,562). The accrued pension cost outstanding as at 31 December 2014 was £nil (2013: £nil).

26. Ultimate parent company and controlling party

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

The largest and smallest group in which the results of the Company are consolidated is that of which HCC is the parent company. Copies of the consolidated financial statements of HCC can be obtained from its principal office at 13403 Northwest Freeway, Houston, Texas 77040-6094, USA, or from its website at hcc.com/Investor Relations/Financials/ Financial Reports.

HCCI Group Limited, a company incorporated in England and Wales, is the Company's immediate parent company.

27. Post balance sheet event

Effective from 31 March 2015, the assets, liabilities and operations of the Company's subsidiary company, Houston Casualty Company Europe, Seguros y Reaseguros S.A. (HCCE), will be merged into the Company's operations and HCCE will be dissolved.

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