REGISTERED NUMBER

HRB211924

INTERNATIONAL INSURANCE COMPANY OF HANNOVER SE

(Formerly INTERNATIONAL INSURANCE COMPANY OF HANNOVER PLC, Registered Number 01453123)

REPORT AND FINANCIAL STATEMENTS

31st December 2014

SUPERVISORY BOARD

U Wallin (Chairman)
J Graeber
R H Vogel

EXECUTIVE BOARD

R Beutter (Chairman)
A Bierschenk
T Stoeckl

REGISTERED OFFICE (From 5 January 2015)
Roderbruchstraße 26
30655 Hannover
Germany
(Formerly 10 Fenchurch Street)

REGISTERED NUMBER
HRB211924 (Formerly 01453123)

PARENT COMPANY
Hannover Rück SE ("Hannover Re")
Karl-Wiechert-Allee 50
30625 Hannover
Germany

UK BRANCH OFFICE (From 5 January 2015)
10 Fenchurch Street
London
EC3M 3BE
United Kingdom

AUSTRALIAN BRANCH OFFICE
Level 12
20 Bond Street
Sydney NSW 2000
Australia

CANADIAN BRANCH OFFICE
220 Bay Street
Suite 400
Toronto
Ontario M5J 2W4
Canada

ITALIAN BRANCH OFFICE
Via della Moscova, 3
20121 Milano
Italy

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

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OVERVIEW

International Insurance Company of Hannover SE ("Inter Hannover"), "the Company" is a subsidiary of Hannover Re, one of the leading reinsurance groups in the world.

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

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

Inter Hannover writes a wide variety of classes of business, including personal lines and commercial risks. We partner with our parent company, Hannover Re, to provide integrated solutions to clients.

On 15 July 2014 the company converted from a UK public limited company to a UK "Societas Europae", or "European company" and on 5 January 2015 the company was registered as a European SE in Germany. From that date the corporate headquarters moved to Roderbruchstraße in Hannover and the UK business has operated as a branch of the German company, specialising in underwriting London market and UK delegate authority risks. An additional underwriting operation has been established in Germany to focus in particular on US business.

Since 5 January 2015 the company has not been required to prepare financial statements in accordance with UK legislation. The financial statements set out on pages 23 to 49 have been prepared by the Directors to support the Annual Return submitted to the Prudential Regulatory Authority and to provide an audit record of the company's financial position at 31 December 2014.

As described in Note 1(a) on page 28 the financial statements have been prepared in accordance with the accounting requirements of the Companies Act 2006 and applicable UK accounting standards, as if those requirements applied to the company in full.

STRATEGIC REPORT

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

Strategy and Business Model

2014 was the second year of the company's three-year strategy cycle and accordingly the business model and underlying strategic drivers have remained unchanged. In summary that has been to underwrite profitable direct insurance business in alignment with the reinsurance activity of the Hannover Re Group through the following drivers:

- Enhanced profitability;
- New frontiers for growth;
- Delivering customer value;
- Driving efficiency; and
- Developing capability.

Despite significant success in 2013 in eliminating loss-making legacy business relationships, it has been necessary to continue the process in 2014 and losses from this source have accounted for 68.3% of the total gross underwriting loss for the year of £96.1 million. Two agencies in particular contributed aggregate gross incurred claims costs of £133 million, or just short of 25% of the total in the year. Both agencies were placed into run-off in 2013, but required substantial further reserve-strengthening in 2014.

By contrast the focus on identifying new frontiers for growth and enhancing the profitability of existing core business relationships has started to deliver more encouraging results. Our UK agency book recorded more than 20% of the overall book's GWP in these growth areas, with a gross combined ratio of 92.5%. Across the business underwriters have continued to focus wherever possible on specialty areas where lower competitive pressures permit more robust pricing. In existing markets the move away from long-tail business has continued and, particularly across the Single Risk books, the focus on areas of core underwriting expertise has been maintained.

Overall these trends have resulted in a 19% decline in GWP during 2014, but management remains confident that this represents a significant strengthening of the underlying profit base of the company.

The other key strategic goal for 2014 was the conversion of the company to a European SE and aligning of its domicile with that of the parent company in Hannover. This goal has been fully achieved, first by conversion to SE status in July 2014 and finally by the registration of the company in Germany on 5^{th} January 2015. One of the purposes of these changes was to reinforce our ability to support the company's clients through integration with the Hannover Re Group, providing more immediate access to specialised underwriting skills and reinsurance solutions. In 2015 we have begun the launch of an underwriting operation in Hannover to access these resources for US agency business and certain other business lines outside the field of operation of individual branches. This will leave the branches, and in particular the UK Branch, to focus on the management of business in their own core markets.

This programme of substantial structural change has demanded considerable management attention throughout 2014. At the same time, progress on a number of other key projects has been maintained. The development of our underwriting systems continues and planned efficiency improvements are being delivered to key areas of the business. Our risk management and recording processes have advanced and the first Solvency II balance sheet reports were issued (internally) in Q3.

STRATEGIC REPORT

2015 will be the third year of the company's current strategy plan and new frontiers for growth will become the priority. The new Board in Hannover is confident that the structural changes and enhancements to the business model outlined above will henceforth ensure that the premium growth generates the sort of profit levels that the company and its shareholder expect.

Business review

The company continues to write all major classes of non-life insurance business through agents and brokers out of its office in Hannover (from 2015) and from branches in London, Stockholm, Sydney and Toronto.

During the year the company's financial strength ratings have been affirmed by Standard and Poor's at AA- (stable) and by AM Best at A+ (stable). Both ratings continue to match that of the parent company.

These strong financial ratings give the company a sound platform from which to implement its business model successfully.

STRATEGIC REPORT

Financial performance

The Key Performance Indicators used by the Board to monitor the business are shown below in the Five Year Summary and in the Investment Performance review on page s 11 - 13.

FIVE YEAR SUMMARY (£m)	2010	2011	2012	2013	2014
Summary technical income statement					
Gross written premium	549.7	599.2	677.0	717.4	578.2
Net written premium***	32.4	39.8	41.5	52.0	24.5
Gross underwriting result*	20.3	(12.6)	59.6	(49.7)	(96.1)
Net underwriting result	19.5	14.6	19.3	12.8	8.4
Summary non-technical income statement					
Investment return	10.3	7.8	15.1	8.3	11.5
Result before tax	13.8	7.0	8.7	(4.5)	(7.9)
Net income/(loss) for the year	11.2	4.5	6.4	(6.0)	(8.3)
Strategic ratios	%	%	%	%	%
Gross loss ratio	75.4	79.9	68.6	82.7	88.1
Gross commission ratio	20	22.3	22.1	24.6	23.3
Management expense ratio	5.6	4.7	6	5.9	6.5
Gross combined ratio**	98.2	104.5	94.2	110.0	120.5

Results adjusted to eliminate foreign exchange effects on investment return and impact of a Part VII transaction undertaken in 2010/2011.

* Gross underwriting result is stated net of Technical Expenses

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

*** Net written premium in 2014 was reduced by £16.5m payable under a stop-loss contract with the principal group reinsurer, Hannover Re

STRATEGIC REPORT

Underwriting report

A year of challenge

The insurance markets in which Inter Hannover underwrites have virtually all experienced very soft trading conditions which has required cycle management techniques to be applied consistently across many of our active portfolios. Our focus has therefore been on the selection of superior risks supported by good risk management and the deployment of ever more sophisticated underwriting tools to assist the underwriter in making the best informed decisions concerning binding the company.

The loss experience in the year has been such that a number of serious events have fallen within the period, such as civilian aircraft losses and aviation hull war events, which in themselves are events that can be digested within a broad portfolio, albeit that the frequency of such events within one year of occurrence has been highly unusual.

Having strengthened the reserves during 2014, the Board is satisfied that the reserving margin above best estimate as at 31 December 2014 sits within the risk appetite adopted by the Board.

Key highlights:

- Gross written premium of £578.2m, (2013: £717.4m)
- Gross loss ratio of 88.1% (2013: 82.6%); excluding business transferred to run-off in 2014: 80.4% (2013: 67.7 %)
- Gross combined ratio of 120.5% (2013: 110.0%); excluding business transferred to run-off in 2014: 108% (2013: 95.5%)

The network of underwriting entities has remained unchanged from prior years with active underwriting in the London Market, and also through branches in Sweden, Australia and Canada. These are supported by domestic licenses or in the case of the US by Excess and Surplus lines licences in each of the States.

Underwriting report (continued)

Market view

Market corrections brought about by major loss events are characteristics that would normally be expected to recalibrate prices and strengthen terms, and yet no such influences have thus far been apparent as a consequence of the abundance of capacity that exists. This has been both disappointing and defies the logic of what is sustainable in the long run. Accordingly, we have majored on maintaining underwriting discipline and have been less concerned with top line performance and more focussed on writing for future profitability.

We have concentrated on developing the quality of our relationships with our distribution partners in locating the type of insurance opportunities that we seek for Inter Hannover. We have been very pleased to develop these initiatives that have positively supported our strategy and have strengthened the underlying trend toward sustained profitability.

In upholding the technical terms and conditions when price is under pressure our underwriters have refused to accept that any form of new normal exists, and this persistence in pursuit of upholding underwriting standards has ensured a quality in our portfolios of which we are proud. We are very pleased that our underwriting partners in MGAs have similarly striven for technical excellence in their difficult markets, likewise with good measures of success.

Underwriting performance

Our single risk accounts are all developing well in accordance with our strategy that completed its second year in 2014 and will remain unchanged also for 2015. We seek profitable growth where possible and continue to develop new areas of activity for example in political violence/risk, construction engineering and specie.

We have further developed the quality selection of our book of solicitors PI business and are actively developing a presence in the same specialism for US law firms. Our own products in the travel personal accident arena likewise show good development, and collaboration between our power and construction and engineering teams have generated meaningful joint ventures.

Our growth into UK/US binder and line-slip business has been a cautious and controlled activity using underwriting experience from both our single risk and delegated authority books. We are pleased with the business underwritten so far and with the partnerships in the market that we have forged. Our focus remains primarily with US property opportunities.

So far as our MGA account is concerned our focus over the year has been to develop the potential of our major delegated underwriting platforms and to develop portfolios that present both quality insurance products and service and sufficient margins to cover the ever increasing cost of oversight and control. The Hannover Re Group has developed controlling interests in a variety of such platforms and we have the good fortune to naturally be close partners and involved in the oversight of their day to day business, giving us superior knowledge of the customer base and the ability to ensure their fair treatment. Examples of such platforms are in the areas of UK Household, Swedish Motor, Yacht and Australian Heavy Motor.

Investment report

Summary:

- Decrease in investment income from 3.1% to 2.5% (of average investments, excluding cash holdings)
- Total book value of investment portfolio decreased by 26% (£67.5m) in 2014
- Investment totalling £73.9m switched from GBP to EUR to match re-denomination of share capital (excluding capital allocated to non-EU branches).

Investment portfolio
There were some changes in the composition of the investment portfolio during the year, most notably an increase of 11.2% in sub-sovereign bonds and a decrease of 18.2% in corporate bonds.

Portfolio composition (book value)	**2014**		**2013**	
	£m	**%**	**£m**	**%**
Government bonds	89.8	46.6	109.0	42.0
Sub-sovereign bonds	37.1	19.2	22.8	8.0
Covered bonds	27.6	14.4	30.3	12.0
Corporate bonds	38.0	19.8	97.9	38.0
	192.5	100.0	260.0	100.0
Unrealised gains	5.0		4.5	

The portfolio continues to be maintained to provide a steady and calculable investment return together with a high level of security and a broad currency and duration match to the Company's liabilities. The switch of £73.9m from GBP to EUR denominated bonds, along with a change in our associated investment strategy inevitably led to changes in the portfolio composition. The average of the portfolio is AA rated with 91% of the portfolio rated A or above.

Investment report (continued)

Portfolio by credit rating (book value)	2014		2013	
	£m	%	£m	%
AAA	95.0	49.4	72.2	28.0
AA	59.4	30.8	124.0	47.0
A	20.7	10.8	55.9	22.0
BBB	17.4	9.0	7.9	3.0
	192.5	100.0	260.0	100.0

Investment performance

The level of realised gains is significantly higher than in 2013 due to increased sales throughout the year, required to fund claims liabilities and to match the re-denomination of the company's share capital.

Investment result	2014	2013
	£m	£m
Income from investments	7.1	8.3
Amortisation of premium	(1.0)	(0.4)
	6.1	7.9
Net gain on realisation of investments	5.2	0.4
	11.3	8.3
Dividend Income	0.5	0
	11.8	8.3

Investment report (continued)

Investment result by asset class	**2014**			**2013**		
	Income	**Average Holding**	**Return***	**Income**	**Average Holding**	**Return***
	£m	**£m**	**%**	**£m**	**£m**	**%**
Government bonds	1.7	99.4	1.7%	2.6	94.8	2.7%
Sub-sovereign bonds	0.9	29.9	3.0%	0.4	22.3	1.8%
Covered bonds	0.9	29.0	3.1%	0.9	32.8	2.7%
Corporate bonds	2.2	68.0	3.2%	3.7	92.5	4.0%
Total (excl cash)	5.7	226.3	2.5%	7.6	242.4	3.1%
Cash	0.4	50.9	0.8%	0.3	56.8	0.5%
Total (inc cash)	6.1	277.2	2.2%	7.9	299.2	2.6%

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

Foreign exchange

The Company carries on significant business in foreign currencies. The impact of exchange rate movements on the foreign exchange positions arising from this business generated an aggregated 0loss account, and £0.3m (2013: £2.4m) in other recognised gains and losses.

Staff

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

STRATEGIC REPORT

Risk

Managing risk is central to the sustainability of Inter Hannover's business and delivery of value to shareholders. Inter Hannover has an established governance structure for the management of risk.
Inter Hannover's risk management framework is a core part of the governance structure and includes internal policies, key management processes and culture. During the year the Board, supported by the Risk Compliance & Capital Committee, monitored the overall risk profile of the Company by reference to the Company´s risk appetite and ensured adequate financial and non-financial resources were maintained. Equivalent governance arrangements have been put in place by the Supervisory Board in 2015.

Inter Hannover's approach to managing risk is based on the "three lines of defence" model:

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

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

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

Identifying material and foreseeable risks

The process for identifying material risks to the Inter Hannover Business Plan and Strategy relies on the proven collaboration between Risk Management and the operational departments within the business as well as the regular exchange of information with our shareholder.

STRATEGIC REPORT

Risk (continued)

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

1. Insurance Risk

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

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

Insurance risk may arise from the following:

- ***Underwriting:*** The risk of a change in value due to a deviation of the actual claims payments from the expected amount of claims payments, including mispricing and natural catastrophe risk;
- ***Reserving:*** Inadequate or inappropriate reserving including unforeseen, unknown or unintended liabilities that may arise; and

2. Financial Risk

Financial risk may arise from the following sub-categories:

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

3. Operational Risk

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

STRATEGIC REPORT

Risk (continued)

Quantifying risks - Our internal capital model

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

Risk	**Capital Attribution**
	2014
Underwriting risk	22.9%
Reserve risk	26.6%
Market risk	19.4%
Liquidity risk	4.2%
Credit risk	14.1%
Operational risk	12.8%
	100.0%

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

We use our internal model to:

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

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

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

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

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

STRATEGIC REPORT

Risk (continued)

Managing and monitoring all material risks

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

Risk monitoring is an on-going process and takes into consideration both internal and external factors of change. The risk owner is responsible for ensuring key metrics or indicators are established to monitor risk performance and are reviewed on a regular basis. Specifically, risk owners are responsible for monitoring risk exposure against the risk appetite parameters approved by the Board. During the year the Risk Management function reported to the Risk Compliance & Capital Committee and Inter Hannover Board on a quarterly basis. The reports were supported by an internal risk MI structure. In addition, several other committees exist to monitor specific areas of risk, including the Underwriting Committee, the Reserving Committee and branch Steering and Risk Committees.

Risk	How we manage it
Insurance Risk - *Underwriting risk*	Business divisions are set underwriting criteria covering the types of risks they are licensed to underwrite. Maximum limits are set for the acceptance of risk both on an individual contract basis and for classes of business and specific risk groupings. In particular, Inter Hannover's exposure to catastrophes is managed centrally through allocating underwriting capacities modelled by the Group down to agencies / lines of business. Management information systems are maintained that provide up to date, reliable data on the risks to which the business is exposed at any point in time. Reinsurance is used to limit exposure to large single claims as well as accumulation of claims that arise from the same or similar events. Risks underwritten are also reinsured in order to stabilise earnings and protect capital resources. In particular, Inter Hannover currently transfers approximately 90% of insurance risk to Hannover Re group undertakings via quota share reinsurance arrangements.
Insurance Risk - ***Reserving risk***	Provision estimates are subject to rigorous review by senior management and independent actuaries. Provision levels reflect similar business experience, trends in reserving patterns, loss payments and value of pending claims and awards, as well as any potential changes in historic rates arising from market or economic conditions.

STRATEGIC REPORT

Risk	How we manage it
Operational Risk – *Regulatory compliance*	Inter Hannover has a dedicated team assessing and developing new internal arrangements compliant with new regulations, operating under the guidance of the Company Chief Risk Officer. Inter Hannover also has the facility to leverage the Group knowledge, experience and capacity to support us in times of significant change. Inter Hannover monitors its regulatory capital position and applies controls and measures to prevent capital breaching the minimum capital requirements.
Operational Risk - *Agency Management*	Inter Hannover completes appropriate due diligence on all of its agents prior to granting binding authority. Underwriting guidelines are agreed and provided to all agents and regular underwriting reviews and audits are completed to monitor compliance. Conduct risk, within our agents, is controlled and monitored through close working practices and comprehensive reporting.
Operational Risk - *IT continuity*	Inter Hannover has a formal disaster recovery plan in place which deals with the recovery of the workspace as well as all critical infrastructure. The arrangements allow the Company the capability to move affected business operations to an alternative site. The plan is tested regularly.
Financial Risk - *Credit risk – intra Group counterparty risk*	The Inter Hannover Board has established mechanisms which allow the Company to monitor the reinsurance exposure to the Group. Every quarter the Board, through the Risk Compliance and Capital Committee, assesses the strength of its reinsurers in order to assess the possible impact on Inter Hannover. Intra group counterparty risk is being actively managed. As part of that management an agreement has been put in place between Inter Hannover and Hannover Re Group which allows for the collateralisation of the company's reinsurance recoverables in the event that certain key triggers are met.
Financial Risk - *Investment risk*	Inter Hannover has a conservative investment policy, with a mandate to ensure investment security through quality and diversification, whilst ensuring there is sufficient liquidity to meet our cash needs. Our policy is designed to maximise returns within an overall risk appetite.
Financial Risk – *Liquidity risk*	Regular cash flow forecasting enables the Company to manage its short term liquidity requirements. Surplus funds are held in investments with a maturity profile aligned with that of the Company's insurance liabilities.

This Strategic Report was approved by the Vorstand on 20 March 2015 and signed on its behalf by:

R M Beutter
Chief Executive Officer

DIRECTORS' REPORT

The directors submit the annual report of International Insurance Company of Hannover SE ("Inter Hannover") together with the audited financial statements for the year ended 31 December 2014.

CHANGE IN LEGAL STATUS

On 15 July 2014 the company was transformed from a PLC to an SE (Societas Europaea) under the European Limited – Liability Company Regulations 2004 and changed its name to International Insurance Company of Hannover SE. On 5 January 2015 the company was re-registered from the UK to Germany.

FINANCIAL PERFORMANCE AND RISK MANAGMENT

The Strategic Report on pages 6 to 19 includes information about the Company's financial performance for the year, its business strategy and risk management framework.

BRANCHES

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

DIVIDENDS

The directors recommend that no dividend is paid (2013: £nil). The retained loss of £8.3m was transferred to reserves (2013: £6.0m).

DIRECTORS

The directors who served as UK registered directors during the financial year and up to 5 January 2015 are as follows:

T Barenthein	
R M Beutter	
S J Blease	resigned 17 January 2014
J D R Dear	appointed 28 February 2014
H M Fuchs	
J Graeber	
J L Hancock	appointed 11 July 2014
A P Hulse	
A Larsson	
N S Macmillan	
N J Parr	
R H Vogel	

On 5 January 2015 all directors resigned their UK-registered directorships and the following were appointed as directors registered in Germany:

SUPERVISORY BOARD

U Wallin (Chairman)
J Graeber
R H Vogel

DIRECTORS' REPORT

EXECUTIVE BOARD

R Beutter (Chairman)
A Bierschenk
T Stoeckl

COMPANY SECRETARY

J Eaglen resigned 5 January 2015

THIRD PARTY QUALIFYING INDEMNITY

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

STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITORS

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

AUDITOR

During the current year KPMG Audit Plc resigned as auditors of the Company and were replaced by KPMG LLP. Following the reregistration of the company in Germany, KPMG LLP will resign as auditors and be replaced by KPMG AG Wirtschaftsprüfungsgesellschaft.

The report was approved by the Vorstand on 20 March 2015 and signed on its behalf by:

R M Beutter
Chief Executive Officer

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

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

UK Company law, which as described in note 1(a) to the financial statements applied to the company throughout the year and up to 5 January 2015, requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

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

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

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

The statement was approved by the Directors on 20 March 2015 and was signed on its behalf by:

U Wallin
Chairman of the Supervisory Board

R M Beutter
Chief Executive Officer

INDEPENDENT AUDITOR'S REPORT

To the Members of the Company for the year ended 31st December 2014

We have audited the non-statutory accounts ("financial statements") of International Insurance Company of Hannover SE ("the Company") for the year ended 31st December 2014 set out on pages 23 to 49. These financial statements have been prepared for the reasons set out in note [1a] on page 28 and on the basis of the financial reporting framework also set out in that note 1a.

Our report has been prepared for the Company solely in connection with the preparation by the Company's directors of financial statements for the reasons set out in note [1a] on page 28. It has been released to the Company on the basis that our report shall not be copied, referred to or disclosed, in whole (save for the Company's own internal purposes) or in part, without our prior written consent.

Our report was designed to meet the agreed requirements of the Company determined by the Company's needs at the time. Our report should not therefore be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Company for any purpose or in any context. Any party other than the Company who obtains access to our report or a copy and chooses to rely on our report (or any part of it) will do so at its own risk. To the fullest extent permitted by law, KPMG LLP will accept no responsibility or liability in respect of our report to any other party.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 20, the directors are responsible for the preparation of the financial statements, which are intended by them to give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with the terms of our engagement letter dated [2 January 2015] and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditor.

Scope of the audit of the non-statutory accounts

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 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.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31st December 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the Companies Act 2006, as if those requirements were to apply.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where under the terms of our engagement we are required 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: or

• the directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report.

Jonathan Bell
for and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square
London E14 5GL

PROFIT & LOSS ACCOUNT
for the year ended 31st December 2014

			2014	*2013*
		Notes	*£000*	*£000*
TECHNICAL ACCOUNT - GENERAL BUSINESS				
EARNED PREMIUMS, NET OF REINSURANCE				
Gross premiums written		3	578,211	717,369
Outward reinsurance premiums			(553,713)	(665,395)
			24,498	51,974
Change in the gross provision for unearned premiums		21	36,766	(26,737)
Change in the provision for unearned premiums, reinsurers' share		21	(31,710)	19,065
			5,056	(7,672)
EARNED PREMIUMS, NET OF REINSURANCE			29,554	44,302
CLAIMS INCURRED, NET OF REINSURANCE				
Claims paid	- Gross amount	21	(418,092)	(396,471)
	- Reinsurers' share	21	407,878	369,495
			(10,214)	(26,976)
Change in the provision for claims	- Gross amount	21	(122,857)	(173,902)
	- Reinsurers' share	21	105,105	161,321
			(17,752)	(12,581)
CLAIMS INCURRED, NET OF REINSURANCE			(27,966)	(39,557)
Net operating expenses		7	7,783	9,055
Change in equalisation provisions		22	(950)	(1,044)
SUB-TOTAL (BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS)			8,421	12,756

The notes on pages 29 to 49 form part of these financial statements.

PROFIT & LOSS ACCOUNT
for the year ended 31st December 2014

	Notes	2014 £000	2013 £000
NON-TECHNICAL ACCOUNT			
Balance on the general business technical account	3	8,421	12,756
Investment income	5	12,788	8,721
Unrealised losses on investments	5	(969)	(1,757)
Investment expenses and charges	6	(291)	(361)
Foreign exchange (losses) / gains		(116)	1,325
Other charges	8	(27,732)	(25,211)
(Loss) on ordinary activities before tax	8	(7,899)	(4,527)
Tax charge on (loss) on ordinary activities	11	(395)	(1,479)
Retained (loss) for the financial year after tax		(8,294)	(6,006)

All profits are derived from continuing activities.

The notes on pages 29 to 49 form part of these financial statements.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 31st December 2014

		2014	*2013*
	Notes	*£000*	*£000*
(Loss) on ordinary activities after tax	19	(8,294)	(6,006)
Exchange movements arising on investments in overseas Branches	19	(304)	(2,438)
Total recognised (loss) arising in the year		(8,598)	(8,444)
Total recognised (losses) since the last annual report		(8,598)	(8,444)

RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS
for the year ended 31st December 2014

	2014	*2013*
	£000	*£000*
Shareholder's funds at beginning of year as originally stated	143,427	121,871
Total recognised (loss) in the year	(8,598)	(8,444)
Increase in ordinary share capital	-	30,000
Shareholder's funds at end of year	134,829	143,427

The notes on pages 29 to 49 form part of these financial statements.

BALANCE SHEET
as at 31st December 2014

	Notes	2014 £000	2013 £000
ASSETS			
INVESTMENTS			
Investment in group undertakings	12	43	545
Other financial investments	13	213,216	271,429
		213,259	271,974
REINSURERS' SHARE OF TECHNICAL PROVISIONS			
Provision for unearned premiums	21	327,479	356,654
Claims outstanding	21	1,312,610	1,195,270
		1,640,089	1,551,924
DEBTORS			
Debtors arising out of direct insurance operations	14	265,699	251,062
Debtors arising out of reinsurance operations	15	20,733	3,687
Other debtors	16	5,724	3,346
		292,156	258,095
OTHER ASSETS			
Tangible assets	17	4,048	3,797
Cash at bank and in hand		37,301	32,432
		41,349	36,229
PREPAYMENTS AND ACCRUED INCOME			
Accrued interest and rent		1,542	3,148
Deferred acquisition costs	21	70,365	89,414
Other prepayments and accrued income		601	616
		72,508	93,178
TOTAL ASSETS		2,259,361	2,211,400

The notes on pages 29 to 49 form part of these financial statements.

BALANCE SHEET
as at 31st December 2014

	Notes	2014 £000	2013 £000
LIABILITIES			
CAPITAL AND RESERVES			
Called up share capital	18	95,000	95,000
Profit and loss account	19	39,829	48,427
Shareholder's funds attributable to equity interests		134,829	143,427
Subordinated liabilities	20	71,000	71,000
TECHNICAL PROVISIONS			
Provision for unearned premiums	21	353,825	387,829
Claims outstanding	21	1,412,930	1,278,423
Equalisation provisions	22	1,994	1,044
		1,766,749	1,667,296
CREDITORS			
Creditors arising out of direct insurance operations	23	179,143	208,516
Other creditors including taxation and social security	24	5,017	8,378
		184,160	216,894
Accruals and deferred income	25	100,623	112,783
TOTAL LIABILITIES		2,259,361	2,211,400

The notes on pages 28 to 50 form part of these financial statements.

These financial statements were approved by the Directors on 20 March 2015 and were signed on its behalf by:

U Wallin
Chairman of the Supervisory Board

R M Beutter
Chief Executive Officer

NOTES TO THE ACCOUNTS
Forming part of the financial statements

1. Basis of preparation

a) From 5 January 2015 the company has ceased to be registered in the UK and is consequently not required to prepare financial statements in accordance with UK legislation. Therefore the directors have elected to prepare these non-statutory financial statements ("financial statements"):

These financial statements have been prepared by the Directors:

(i) to support the Annual Return submitted to the Prudential Regulatory Authority; and
(ii) in the absence of legal requirement, to provide an audited record of the state of the Company's affairs as at 31 December 2014 and of its result for the year then ended.

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

The Company was until 5 January 2015 exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group accounts. These financial statements therefore present information about the Company as an individual undertaking and not about its group.

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

b) The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report and Directors' report on pages 6 to 19 which include the Company's risks and uncertainties. The Company has considerable financial resources together with very prudent investment guidelines and high quality of assets, sound underwriting procedures, controls and risk mitigating processes (including, but not limited to, reinsurance). As a consequence, the directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook. The directors are confident that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report.

NOTES TO THE ACCOUNTS
Forming part of the financial statements

2. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material to the Company's financial statements. All policies have been applied consistently throughout 2014. As a result of the redomicile of the company to Germany, accounting policies for 2015 and subsequent years will be amended where necessary to comply with the requirements of German GAAP.

Basis of accounting for underwriting activities

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

Premiums

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

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

Unearned premiums

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

Acquisition costs

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

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

Claims incurred

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

NOTES TO THE ACCOUNTS
Forming part of the financial statements

2. Accounting policies (continued)

Claims outstanding

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

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

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

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

Equalisation provisions

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

Unexpired risks

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

Allocation of investment return

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

NOTES TO THE ACCOUNTS
Forming part of the financial statements

2. Accounting policies (continued)

Investment income, expenses and charges

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

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

Investments

Financial investments comprise:

a) Redeemable fixed interest securities which are stated at amortised cost.
b) Deposits with credit institutions which are stated at cost.

Other charges

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

Depreciation

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

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

Foreign currencies

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

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

2. Accounting policies (continued)

The company's issued share capital has since 5 November 2014, been denominated in Euros. Share capital is translated into sterling at the rate of exchange ruling on the date of re-denomination.

Taxation

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

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

NOTES TO THE ACCOUNTS
Forming part of the financial statements

3. Segmental reporting

Analysis of gross premiums written by region

2014	*In the UK* *£000*	*In other EU states* *£000*	*In other countries* *£000*	*Total* *£000*
Accident and health	9,496	2,455	198	12,149
Fire and other damage to property	163,345	9,740	6,627	179,712
Third party liability	117,392	9,753	17,324	144,469
Marine, aviation and transport	78,542	83,193	2,778	164,513
Motor	17,579	18,371	9,778	45,728
Miscellaneous	21,125	10,416	99	31,640
Total	407,479	133,928	36,804	578,211

Analysis by business segment

2014	*Gross premiums earned £000*	*Gross claims incurred £000*	*Gross operating expenses £000*	*Gross technical result £000*	*Reinsu-rance balance £000*	*Equali-sation provisions £000*	*Net technica l result £000*	*Net insurance funds £000*
Accident and health	12,426	(7,928)	(3,103)	1,395	(637)	-	758	2,343
Fire and other damage to property	192,436	(128,691)	(59,721)	4,024	2,011	(321)	5,577	18,437
Third party liability	176,082	(186,619)	(52,356)	(62,893)	65,151	-	2,259	61,362
Marine, aviation and transport	162,844	(150,277)	(38,750)	(26,183)	23,818	(568)	(2,608)	18,543
Motor	57,465	(58,747)	(13,394)	(14,676)	16,785	-	2,108	15,158
Miscellaneous	13,724	(8,687)	(2,846)	2,191	(1,614)	(61)	327	7,726
	614,977	(540,949)	(170,170)	(96,142)	105,514	(950)	8,421	123,569

Analysis by geographical location

2014	*UK* *£000*	*Foreign branches* *£000*	*Total* *£000*
Gross written premium	407,479	170,732	578,211
(Loss)/Profit before tax	(9,159)	1,259	(7,900)
Net assets	101,603	33,226	134,829

NOTES TO THE ACCOUNTS
Forming part of the financial statements

3. Segmental reporting (continued)

Analysis of gross premiums written by region

2013	*In the UK* *£000*	*In other EU states* *£000*	*In other countries* *£000*	*Total* *£000*
Accident and health	5,679	777	191	6,647
Fire and other damage to property	195,268	12,576	3,669	211,513
Third party liability	174,818	6,298	13,592	194,708
Marine, aviation and transport	106,823	98,297	3,231	208,351
Motor	44,362	12,192	16,931	73,4
Miscellaneous	10,782	10,925	958	22,665
Total	537,732	141,065	38,572	717,369

Analysis by business segment

2013	*Gross premiums earned* *£000*	*Gross claims incurred* *£000*	*Gross operating expenses* *£000*	*Gross technical result* *£000*	*Reinsu-rance balance* *£000*	*Equali-sation provisions* *£000*	*Net technic al result* *£000*	*Net insuranc e funds* *£000*
Accident and health	8,890	(6,598)	(2,833)	(541)	765	-	224	2,777
Fire and other damage to property	173,099	(93,255)	(55,841)	24,003	(20,343)	(542)	3,118	17,457
Third party liability *	190,779	(258,563)	(49,332)	(117,116)	116,392	-	(724)	52,745
Marine, aviation and transport	213,021	(122,222)	(38,265)	52,534	(44,195)	(431)	7,908	10,261
Motor	81,655	(72,459)	(18,434)	(9,238)	11,629	-	2,391	18,304
Miscellaneous	23,188	(17,276)	(5,281)	631	(721)	(71)	(161)	5,887
	690,632	(570,373)	(169,986)	(49,727)	63,527	(1,044)	12,756	107,431

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

NOTES TO THE ACCOUNTS
Forming part of the financial statements

3. Segmental reporting (continued)

Analysis by geographical location

2013

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

4. Prior years' net claims provisions

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

	2014 *£000*	*2013* *£000*
Accident and health	199	126
Fire and other damage to property	2570	(666)
Marine, aviation and transport	(1,548)	(9)
Miscellaneous	(205)	(66)
Motor	(2,936)	(47)
Third party liability	(7,931)	(3,148)
	(9,851)	(3,810)

5. Investment income

	2014 *£000*	*2013* *£000*
Income from other investments	7,114	8,326
Gains on the realisation of investments	5,132	395
Dividend income from group undertakings	542	-
	12,788	8,721
Movement in unrealised losses on investments	(969)	(1,757)
Total investment return	11,819	6,964

Realised and unrealised gains and losses include foreign exchange profit of £39,000 (2013: losses of £(1,340,335)). The movement in unrealised losses includes amortisation of premium amounting to £1,073,000 (2013: £379,000).

6. Investment expenses and charges

	2014 *£000*	*2013* *£000*
Investment management expenses, including interest	291	361

7. Net operating expenses

2014	*Gross* *£000*	*Reinsurance* *£000*	*Net* *£000*
Acquisition costs	146,767	(132,438)	14,329
Deferred acquisition costs carried forward	(70,365)	67,267	(3,098)
Deferred acquisition costs brought forward	89,414	(82,517)	6,897
Change in deferred acquisition costs	19,049	(15,250)	3,799
Incurred acquisition costs	165,815	(147,687)	18,128
Administration costs	4,355	(877)	3,478
Total operating expenses	170,170	(148,564)	21,606
Overrider commission (net of deferral)	-	(29,389)	(29,389)
	170,170	(177,953)	(7,783)

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

NOTES TO THE ACCOUNTS
Forming part of the financial statements

8. Loss on ordinary activities before tax and Other Charges

Loss on ordinary activities before tax is stated after charging:

	2014 *£000*	*2013* *£000*
Depreciation	1,496	1,181
Operating lease rentals – land and buildings	663	803
Auditors' remuneration:		
Audit of statutory accounts	366	350
Audit of regulatory returns	145	154
Other services	92	132

Other Charges in total comprise:

	2014 *£000*	*2013* *£000*
Personnel costs	24,380	23,181
Interest on Hybrid Capital	3,296	2,660
Other	12,026	14,066
Expenses reallocated to technical result	(11,970)	(14,696)
Total	27,732	25,211

9. Directors' emoluments

During the year ten directors (2013: eleven) received total remuneration of £1,442,510 (2013: £1,401,661) for their qualifying services as directors of the Company and in connection with the management of the Company's affairs. No other director received remuneration in respect of their services to the Company. Contributions were made to a defined contribution scheme on behalf of two directors (2013: four) in the sum of £42,844 (2013: £109,404).

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

Highest paid director	*2014* *£000*	*2013* *£000*
Aggregate emoluments	349	353

NOTES TO THE ACCOUNTS
Forming part of the financial statements

10. Staff numbers and costs

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

Average and full time equivalent number of employees	*2014*	*2013*
Business acquisition	29	20
Claims handling	4	6
Administration	*15*	25
	48	51

Aggregate payroll costs	*2014* *£000*	*2013* *£000*
Wages and salaries	3,492	3,330
Social security	1,068	924
Other pension costs	1,094	1,041
	5,654	5,295

The Company employs no staff in the UK. A charge for staff costs for the day-to-day administration and operations has been included in the profit and loss account for the year in the sum of £14,910,123 (2013: £15,495,377) for UK staff. These costs were paid by Hannover Services (UK) Limited and recharged to the Company. This charge reflects services provided for an average of 122 (2013: 121) employees during the year. Full disclosure of staff numbers and costs has been made in the accounts of Hannover Services (UK) Limited. There were no staff costs incurred in the Italian branch.

NOTES TO THE ACCOUNTS
Forming part of the financial statements

11. Tax on loss on ordinary activities

Analysis of charge in the period

	2014 *£000*	*2013* *£000*
Current tax		
UK corporation tax	-	1,049
Adjustments in respect of prior periods	62	35
Double tax relief	-	(1,049)
	62	35
Overseas taxation	598	1,055
Adjustments in respect of prior periods	(13)	(101)
Tax charge on profit on ordinary current activities	647	989
Deferred tax		
Origination and reversal of timing differences arising in the year	(252)	463
Effect of change in rates	-	152
Adjustments in respect of prior periods	-	(67)
Foreign exchange differences	-	(58)
Total deferred tax (credit) / charge	(252)	490
Tax charge on profit on ordinary activities	395	1,479

The standard rate of current tax applied for the year is 21.50% (2013: 23.25%). The tax assessed is lower than that resulting from applying the standard rate of current tax in the UK and the differences are explained below.

Since January 2014 the company has been subject to UK corporation tax on the results of its operations in the UK and to overseas tax on the results of its foreign branches. Following the redomicile to Germany the company's branches (including the UK branch) will continue to be subject to tax in their local jurisdictions but the company itself will be subject to tax in Germany.

NOTES TO THE ACCOUNTS
Forming part of the financial statements

11. Tax on profit on ordinary activities (continued)

Tax reconciliation

	2014 *£000*	*2013* *£000*
(Loss) on ordinary activities before tax	(7,899)	(4,527)
(Loss) on ordinary activities multiplied by the standard rate of current tax of 21.50% (2013 23.25%)	(1,698)	(1,053)
Effects of:		
Expenses not deductible for tax purposes	19	91
Prior year corporation tax adjustments	49	(66)
Tax losses not recognised	2,254	1,051
Other timing differences	(221)	670
Differences in rates of foreign tax	(135)	(106)
Non taxable income	(116)	-
Foreign tax	(23)	-
Timing differences:		
Fixed Assets	289	38
Tax losses carried forward	229	364
Current tax charge on ordinary activities for the period	647	989

Deferred tax asset

	2014 *£000*	*2013* *£000*
Asset brought forward	542	1,090
Effect of change in rates	-	(151)
Deferred tax credit / (charge) for the year	252	(397)
Asset at end of year	794	542

Analysis of deferred tax balance

	2014 *£000*	*2013* *£000*
Accelerated capital allowances	-	-
Other timing differences	351	158
Trading losses	443	384
	794	542

11. Tax on (loss) / profit on ordinary activities (continued)

No deferred tax asset has been recognised in respect of

	2014	*2013*
	£000	*£000*
UK tax losses carried forward	13,865	6,088
Other timing differences	2,134	4,712
	15,999	10,800

The deferred tax assets noted above have not been recognised as the directors consider that recoverability out of future taxable profits in the immediate future is not sufficiently certain. Unrecognised timing differences at 31 December 2014 are available for offset against future trading profits of the UK branch.

The UK corporation rate reduced to 21% (effective from 1 April 2014), with a further reduction to 20% (effective from 1 April 2015). These reductions in the UK were substantively enacted on 2 July 2013. The company's deferred tax balances at 31 December 2014 have been calculated based on the tax rates substantively enacted at the Balance Sheet date.

12. Investment in group undertakings

	2014	*2013*
	£000	*£000*
Investment in group undertakings at cost	43	545

	2014	*2013*
	£000	*£000*
Opening balance	545	545
Disposals at cost	(502)	-
	43	545

In 2010 the Company acquired 100% of the issued share capital of Inter Hannover (No.1) Limited (formerly Apollo Underwriting No. 6 Limited), a company incorporated in England and Wales. In 2011 the Company acquired 100% of the issued share capital of International Hannover Holding AG, a company incorporated in Germany. Both investments are stated at cost which in the opinion of the directors is not materially different from market value.

The following transactions took place in June 2014:

The company disposed of its 100% shareholding in International Mining Industry Underwriters Limited to a fellow group company at cost, following receipt of a dividend of £541,546.

NOTES TO THE ACCOUNTS
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The company disposed of its 100% shareholding in L& E Holdings Ltd to a fellow group undertaking at cost.

13. Other financial investments

	Carrying value		*Historical cost*	
	2014	*2013*	*2014*	*2013*
	£000	*£000*	*£000*	*£000*
Debt securities and other fixed income securities at amortised cost				
- listed	192,533	260,034	194,877	264,099
Deposits with credit institutions	20,684	11,395	20,684	11,395
	213,217	271,429	215,561	275,494

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

	2014	*2013*
	£000	*£000*
Cost	194,877	264,099
Cumulative amortisation	(2,344)	(4,065)
Carrying value – amortised cost	192,533	260,034
Market value	196,319	264,419

The redemption value of investments held at the end of the year was £4,253,354 more (2013: £6,205,533 less) than the amortised cost.

14. Debtors arising out of direct insurance operations

	2014	*2013*
	£000	*£000*
Amounts owed by intermediaries	232,473	232,791
Amounts due from group undertakings	33,226	18,271
	265,699	251,062

NOTES TO THE ACCOUNTS
Forming part of the financial statements

15. Debtors arising out of reinsurance operations

	2014 *£000*	*2013* *£000*
Amounts owed by intermediaries	20,733	3,687

16. Other debtors

	2014 *£000*	*2013* *£000*
Amounts due from group undertakings	4,793	2,022
Deferred tax	795	542
Corporation tax	-	782
Other debtors	136	-
	5,724	3,346

17. Tangible fixed assets

	Computer hardware	*Computer software*	*Motor vehicles*	*Furniture fixtures and fittings*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*
Cost					
At beginning of year	748	9,589	149	4,099	14,585
Additions	43	1,004	195	540	1,782
Disposals	(0)	(0)	(91)	0	(91)
At end of year	791	10,593	253	4,639	16,276
Depreciation					
At beginning of year	476	8,545	72	1,695	10,788
Charged in year	131	854	52	459	1,496
Disposals	0	0	(57)	0	(57)
At end of year	607	9,399	67	2,154	12,227
Net book value					
At end of year	184	1,194	186	2,485	4,049
At beginning of year	272	1,044	77	2,404	3,797

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18. Called-up share capital

	2014 £000	2013 £000
Issued and fully paid:		
95,000,000 ordinary shares of €1.28 each	95,000	95,000
(2013: 95,000,000 ordinary shares of £1.00 each)		

On 5 November 2014, in preparation for the redomicile of the company to Germany, the share capital was re-denominated into Euro shares of €1.28 each. Share capital is translated into sterling at the rate ruling on the date of re-denomination.

19. Reserves

	2014 £000	2013 £000
Profit and loss account		
At beginning of year as originally stated	48,427	56,871
Retained (loss) / profit for the year	(8,294)	(6,006)
Other recognised (loss) for the year	(304)	(2,438)
At end of year	39,829	48,427

20. Subordinated liabilities

Subordinated loans from Hannover Re:

Current Interest Rate	Earliest repayment date	Latest repayment date	2014 £000	2013 £000
3.14%	29 July 2010	29 July 2035	8,000	8,000
3.28%	9 December 2010	9 December 2035	11,300	11,300
3.77%	16 February 2011	16 February 2036	6,700	6,700
1.94%	22 June 2012	22 June 2037	5,000	5,000
6.42%	1 October 2015	1 October 2040	5,000	5,000
6.40%	15 November 2015	15 November 2040	15,000	15,000
5.22%	10 July 2018	10 July 2043	10,000	10,000
5.22%	11 September 2018	11 September 2043	10,000	10,000
			71,000	71,000

All eight loans are unsecured on fixed interest terms subject to five-yearly interest rate reviews.
No loan is repayable prior to the latest repayment date shown above other than at the request of the Company and subject to the Company being in compliance with certain key regulatory capital requirements.

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21. Technical provisions and deferred acquisition costs

	Provision for unearned premiums	*Claims outstanding*	*Total*
	£000	*£000*	*£000*
Gross amount			
At beginning of year	387,829	1,278,423	1,666,252
Movement in provision	(36,766)	122,857	86,091
Foreign exchange rate movements	2,762	11,650	14,412
At end of year	353,825	1,412,930	1,766,755
Reinsurance amount			
At beginning of year	356,654	1,195,270	1,551,924
Movement in provision	(31,710)	105,105	73,395
Foreign exchange rate movements	2,535	12,235	14,770
At end of year	327,479	1,312,610	1,640,089
Net technical provisions			
At end of year	26,346	100,320	126,666
At beginning of year	31,175	83,153	114,328

There is no unexpired risk reserve included in claims outstanding at the end of the year (2013: £nil).

	2014	*2013*
	£000	*£000*
Net technical provisions at end of year	126,666	114,328
Deferred acquisition costs:		
Gross	(70,365)	(89,414)
Reinsurance commission	67,267	82,517
	(3,098)	(6,897)
Net insurance funds	123,568	107,431

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

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22. Equalisation provisions

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

	2014 *£000*	*2013* *£000*
At 1 January	1,044	-
Transfers in	950	1,044
Transfers out	-	-
At 31 December	1,994	1,044

As explained in Note 1, an equalisation provision is established in the financial statements. The effect of this provision is to reduce shareholder's funds by £1,994,000 (2013: £1,044,000). The provision made during the year had the effect of reducing the balance on the technical account for general business and the profit on ordinary activities before taxation by £950,000 (2013: decrease of £1,044,000)

23. Creditors arising out of direct insurance operations

	2014 *£000*	*2013* *£000*
Amounts due to group undertakings	133,984	160,864
Other	45,159	47,652
	179,143	208,516

24. Other creditors including taxation and social security

	2014 *£000*	*2013* *£000*
Amounts due to group undertakings	1,154	1,115
Social security and other taxes	781	4,742
Corporation Tax	427	-
Other	2,655	2,521
	5,017	8,378

NOTES TO THE ACCOUNTS
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25. Accruals and deferred income

	2014 *£000*	*2013* *£000*
Deferred reinsurance commission	67,267	82,517
Deferred overrider commission	14,744	17,247
Other accruals and deferred income	18,612	13,019
	100,623	112,783

26. Contingencies and related obligations

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

Contingent liabilities

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

As security for the Company's technical liabilities the Company's parent has arranged for financial institutions to furnish sureties on behalf of the Company in the form of letters of credit. The total amount of the letters of credit as at the balance sheet date was £39,692,143 (US$61,657,550) (2013: £32,659,311 (US$50,732,788)). Included within this amount is £334,544 (2013: £334,544) recognised in the balance sheet in respect of a rental liability.

Capital commitments

The Company has no future capital commitments at the balance sheet date (2013: £nil).

Operating leases

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

	2014 *£000*	*2013* *£000*
Expiry date:		
– Within one year	-	-
– in the second to fifth years inclusive	806	806
– Over five years	-	-
	806	806

NOTES TO THE ACCOUNTS
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27. Related party transactions

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

28. Post balance sheet events

The only disclosable post balance sheet event is the reregistration of the Company in Germany as set out in note 1.

29. Parent company

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

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

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

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

Senior Legal Counsel
International Insurance Company of Hannover SE
Roderbruchstraße 26
30655 Hannover
Germany