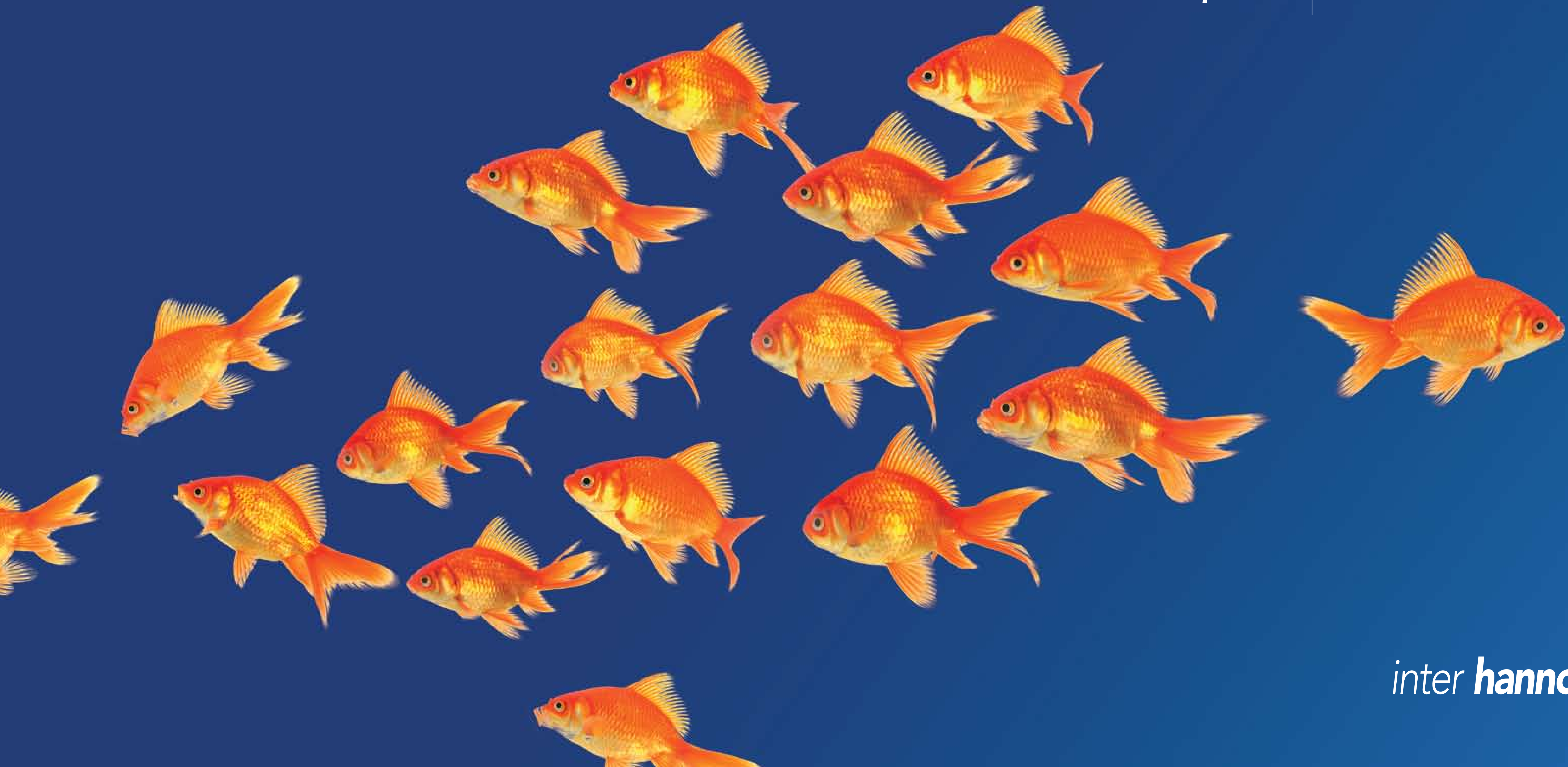
A Member of the Hannover Re Group

somewhat different

Annual Report 2008



inter hannover

CONTENTS

International Insurance Company of Hannover Limited

BOARD OF DIRECTORS

Executive directors

M Wennin (resigned 31st December 2008)
N Parr (appointed 15th September 2008)
J P Fox (resigned 28th February 2009)

Non-executive directors

U Wallin (Chairman)
E König (resigned 31st March 2009)
P N O Robinson (resigned 31st March 2009)
R T R Woods

COMPANY SECRETARY

A McMahon

REGISTERED OFFICE

L'Avenir
Opladen Way
Bracknell
Berkshire RG12 0PE

ADMINISTRATION OFFICE

L'Avenir
Opladen Way
Bracknell
Berkshire RG12 0PE

REGISTERED NUMBER

1453123

AUDITORS

KPMG Audit Plc
8 Salisbury Square
London EC4Y 8BB

BANKERS

Royal Bank of Scotland
135 Bishopgate
London EC2M 3UR

SCANDINAVIAN BRANCH OFFICE

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

ITALIAN BRANCH OFFICE

Via San Vito 7
20123 Milan
Italy

AUSTRALIAN BRANCH OFFICE

c/o Littlewood Services
The Re Centre
Level 21, Australia Square
264 George Street
Sydney NSW 200
Australia

Dear Shareholders, Ladies and Gentlemen,

2008 saw improved profitability on a gross basis in all our business segments. Our retained result was still a modest profit after sustaining the unfortunate effect of losses in our mining book early in the year and in our European property portfolio later in 2008.

We have extended our client partnerships by adding to our Delegated Authority portfolio, growing our Single Risk (London Market) business and developing the revenue from our Scandinavian Branch Aviation, Marine and Property/Casualty portfolio.

Our global reach is extended through the addition of a new Branch establishment in Australia with effect from December 2008. This both supports existing business and gives us the possibility to develop new arrangements where policyholder confidence can be strengthened through us having a local presence.

We have embarked on a significant new investment in the future IT landscape for Inter Hannover that will give us leading edge efficiencies and a common core business system across our various sites. Our staff are fully engaged in this process and they look forward to building success in this critical area of our business.

In 2008 Inter Hannover took the decision to reinsure more of its business inter Group with Hannover Re with effect from 2009. Working closely with the Hannover Re Group more effectively creates the partnership in expertise that our clients expect, as well as optimising the efficiency of our business model. With this in mind we are delighted that Standard and Poor's have confirmed that Inter Hannover be assigned the Group rating of AA-.

At the end of 2008 Michael Wennin, our Managing Director since 2005, completed his tenure at Inter Hannover and returned to Hannover Re in Germany to lead a new underwriting division, that will also work closely with Inter Hannover in the future. Michael was instrumental in establishing our new strategy and I would like to thank him for his valuable contributions over the past 4 years. He has handed over the reins to Nick Parr, who joined the Company as Director in September 2008.

I would like to thank our customers, intermediaries and service providers for helping to build our success.
I also offer a warm welcome to our new business partners and would especially like to invite them to engage with the expertise at Inter Hannover and to challenge us to generate the insurance solutions that will benefit your business.

2009 marks the 30th anniversary of our incorporation, and it will mark a significant year in the delivery of our new strategy. I am looking forward to celebrating continued success as we develop the business profitably and thereby meet the expectations of management, the Board and our Group.

U Wallin
Chairman
23rd March 2009

REPORT OF THE DIRECTORS

The directors submit the annual report of International Insurance Company of Hannover Limited ("Inter Hannover") together with the audited financial statements for the year ended 31st December 2008.

Business review and principal activities

The Company writes all major classes of insurance business, with the exception of life policies, through agents and brokers based mainly in Europe, including the London market. It also operates three branches, two are well established: a Scandinavian branch located in Stockholm, writing primarily aviation and marine business, and an Italian branch located in Milan which writes business across a number of classes. A licence to operate a third branch in Australia was obtained in November 2008 and trading commenced in February 2009.

During the year the rating agency, Standard & Poor's, upgraded their rating of the Company to AA- with stable outlook based on core status. A. M. Best, reaffirmed its A- (excellent) for the Company.

The directors recommend that no dividend is paid (2007: £nil). The retained profit of £1,506,000 was transferred to reserves (2007: profit £920,000).

Strategy and future outlook

The directors expect that the markets in which they operate will remain competitive. They anticipate that the Company will increase its profitability in the long term as they grow the Company's profitable business and diversify the portfolio across classes of business, geographic location and type of distribution channel (agents and brokers).

The directors will continue to seek out new business relationships, primarily in Europe, as well as developing the Company through its global branch network.

Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks. The Company has developed a risk monitoring system, with risk appetite being set and reviewed by the Board.

The key business risks and uncertainties affecting the Company relate to: held reserves for past liabilities proving to be inadequate, financial market risk, the Group risk associated with being part of a European Group, failing to write and retain a sufficient volume of profitable insurance business, and insurance policy pricing especially in the property and liability markets.

Key performance indicators

The directors monitor principal key performance indicators ("KPIs") which are most commonly used for general insurance companies. The principal KPIs are loss and expense ratios. These are measures of claims incurred, net of reinsurance, and net operating expenses as a proportion of net earned premiums. For day to day management purposes, they are monitored for each agent and line of business. In addition, the directors monitor investment return.

The main KPIs in relation to the business as a whole are:

	2008	2007
	%	%
Net loss ratio	85.3	73.7
Net expense ratio	11.5	27.9
Investment return	4.5	4.5

Directors

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

Executive directors

M Wennin (resigned 31st December 2008)
N Parr (appointed 15th September 2008)
J P Fox (resigned 28th February 2009)

Non-executive directors

U Wallin (Chairman)
E König (resigned 31st March 2009)
P N O Robinson (resigned 31st March 2009)
R T R Woods

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 auditors are 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 auditors are aware of that information.

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office.

The report was approved by the Board of Directors and signed on its behalf on 23rd March 2009 by:

N Parr
Managing Director

STATEMENT
of directors' responsibilities

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

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The financial statements are required by law to 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:

a) select suitable accounting policies and then apply them consistently;

b) make judgements and estimates that are reasonable and prudent;

c) state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and

d) 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 proper accounting records that 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 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

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

The statement was approved by the Board of directors on 23rd March 2009 and was signed on its behalf by:

U Wallin
Chairman

N Parr
Managing Director

REPORT OF THE AUDITORS
KPMG AUDIT PLC

Independent Auditors' Report to the members of International Insurance Company of Hannover Limited

We have audited the financial statements of International Insurance Company of Hannover Limited for the year ended 31st December 2008 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities on page 4, the Company's directors are responsible for preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice). Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the information given in the Directors' Report is not consistent with the financial statements. In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed. We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31st December 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London
23rd March 2009

"Developing the revenue from our Scandinavian Branch Aviation, Marine and Property/Casualty portfolio..."

PROFIT AND LOSS ACCOUNT

for the year ended 31st December 2008

Technical account – general business

Figures in £'000	Notes	2008		2007	
Earned premiums, net of reinsurance					
Gross premiums written	3	248,612		171,100	
Outward reinsurance premiums		(201,856)		(135,381)	
			46,756		35,719
Change in the gross provision for unearned premiums		(32,902)		48,139	
Change in the provision for unearned premiums, reinsurers' share		33,457		(21,962)	
	21		555		26,177
			47,311		61,896
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(173,336)		(185,680)	
Reinsurers' share		115,807		102,441	
			(57,529)		(83,239)
Change in the provision for claims					
Gross amount		12,591		13,366	
Reinsurers' share		4,562		24,269	
	21		17,153		37,635
			(40,376)		(45,604)
Net operating expenses	7		(5,440)		(17,245)
Sub-total (Balance on the technical account for general business)		1,495		(953)	

Non-technical account

Figures in £'000	Notes	2008	2007
Balance on the general business technical account		1,495	(953)
Investment income	5	25,271	12,670
Unrealised gains on investments	5	16,805	4,399
Investment expenses and charges	6	(425)	(529)
Foreign exchange losses		(30,760)	(5,288)
Other charges		(8,939)	(8,680)
Profit on ordinary activities before tax	8	3,447	1,619
Tax on profit on ordinary activities	11	(1,941)	(699)
Retained profit for the financial year after tax		1,506	920

All profits are derived from continuing activities.

The notes on pages 14 to 31 form part of these financial statements.

Statement of total recognised gains and losses for the year ended 31st December 2008

Figures in £'000	Notes	2008	2007
Profit on ordinary activities after tax	19	1,506	920
Exchange movements arising on consolidation of overseas branch	19	5,717	1,104
Total recognised gains arising in the year		7,223	2,024

Reconciliation of movements in shareholder's funds for the year ended 31st December 2008

Figures in £'000	Notes	2008	2007
Shareholder's funds at beginning of year		96,988	79,964
Total recognised gains in the year		7,223	2,024
Increase in authorised share capital		–	15,000
Shareholder's funds at end of year		104,211	96,988

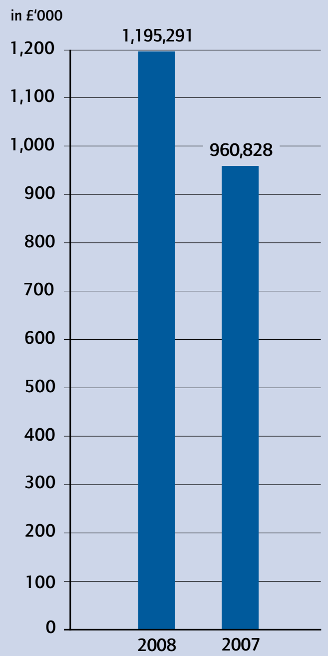
The notes on pages 14 to 31 form part of these financial statements.

BALANCE SHEET
as at 31st December 2008

Assets

Figures in £'000	Notes	2008		2007	
Investments					
Investment in group undertakings	12	269		2	
Other financial investments	13	272,767		246,005	
Deposits with ceding undertakings	14	27		20	
			273,063		246,027
Reinsurers' share of technical provisions					
Provision for unearned premiums	21	119,379		67,544	
Claims outstanding	21	555,914		455,335	
			675,293		522,879
Debtors					
Debtors arising out of direct insurance operations	15	201,046		151,219	
Other debtors	16	3,593		6,955	
			204,639		158,174
Other assets					
Tangible assets	17	2,240		3,361	
Cash at bank and in hand		17,247		13,367	
			19,487		16,728
Prepayments and accrued income					
Accrued interest and rent		3,219		3,450	
Deferred acquisition costs	21	18,743		13,249	
Other prepayments and accrued income		847		321	
			22,809		17,020
Total assets			1,195,291		960,828

Total assets



Liabilities

Figures in £'000	Notes	2008		2007	
Capital and reserves					
Called up share capital	18	65,000		65,000	
Profit and loss account	19	39,211		31,988	
Shareholder's funds attributable to equity interests			104,211		96,988
Subordinated liabilities	20		31,000		26,000
Technical provisions					
Provision for unearned premiums	21	142,108		89,745	
Claims outstanding	21	730,226		619,583	
			872,334		709,328
Creditors					
Creditors arising out of direct insurance operations	22	161,162		107,332	
Other creditors including taxation and social security	23	7,950		11,904	
			169,112		119,236
Accruals and deferred income	24		18,634		9,276
Total liabilities			1,195,291		960,828

The notes on pages 14 to 31 form part of these financial statements.

These financial statements were approved by the Board of directors on 23rd March 2009 and were signed on its behalf by:

U Wallin
Chairman

N Parr
Managing Director

“Our global reach is extended through the addition of a new branch establishment in Australia...”

NOTES TO THE ACCOUNTS

Forming part of the financial statements

1 Basis of preparation

The financial statements have been prepared in accordance with the provisions of Section 255 of, and Part 1 of Schedule 9A to, the Companies Act 1985.

The financial statements have also been prepared in accordance with applicable 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") issued in December 2005 (as amended in December 2006).

The Company is exempt by virtue of s228 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements present information about the Company as an individual undertaking and not about its group.

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

The company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 2 to 3 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 group 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 and accounts.

2 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material to the Company's financial statements.

Basis of accounting for underwriting activities

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

Premiums

Written premiums comprise the premiums on contracts entered into during the year, whether they relate in whole or in part to an earlier or later accounting period. 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 in line with the premium earned.

Unearned premiums

The provision for unearned premiums represents that part of premiums written which is estimated to be earned in the following or subsequent financial years, computed separately for each insurance contract using the daily pro-rata method except for some schemes where the monthly pro-rata method is applied to premium bordereaux.

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 acquisition costs incurred which corresponds to the unearned premium provision.

Claims incurred

Claims incurred consist of claims and 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.

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 internal and external 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, 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 the Insurance Companies (Reserves) Regulations 1996, to mitigate exceptionally high loss ratios if and when incurred.

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 classes, which are managed together, after taking into account relevant investment return.

Allocation of investment return

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

Investment income, expenses and charges

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

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

Investments

Financial investments other than redeemable fixed interest securities are stated at the market value ruling at the balance sheet date using the bid price, whilst deposits with credit institutions are stated at cost.

Redeemable fixed interest securities are stated at amortised cost.

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

Taxation

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

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

"We have embarked on a significant new investment in the future IT landscape that will give us leading edge efficiencies and a common core business system..."

3 Segmental reporting

Analysis of gross premiums written by region:

Figures in £'000	2008			
	In the UK	In other EU states	In other countries	Total
Accident and health	4,632	1,480	–	6,112
Fire and other damage to property	23,269	11,940	1,679	36,888
Third party liability	32,074	9,402	2,683	44,159
Marine, aviation and transport	64,514	81,748	27	146,289
Motor	2,432	5,787	–	8,219
Miscellaneous	780	6,165	–	6,945
Total	127,701	116,522	4,389	248,612

Analysis by business segment:

Figures in £'000	2008						
	Gross premiums earned	Gross claims incurred	Gross operating expenses	Gross technical result	Reinsurance balance	Net technical result	Net insurance funds
Accident and health	5,443	(1,993)	(1,595)	1,855	(371)	1,484	5,709
Fire and other damage to property	34,910	(31,740)	(8,160)	(4,990)	(1,352)	(6,342)	36,181
Third party liability	30,492	(22,920)	(4,815)	2,757	(3,493)	(736)	43,844
Marine, aviation and transport	129,412	(83,856)	(24,910)	20,646	(14,364)	6,282	34,804
Motor	12,266	(16,012)	1,092	(2,654)	4,717	2,063	62,654
Miscellaneous	3,187	(4,224)	(759)	(1,796)	540	(1,256)	8,342
Total	215,710	(160,745)	(39,147)	15,818	(14,323)	1,495	191,534

Gross operating expenses for direct business includes commissions of £44,951,000 (2007: £34,205,000).

Analysis by geographical location:

Figures in £'000	2008		
	UK	Foreign branches	Total
Gross written premium	159,332	89,280	248,612
Profit (loss) before tax	(24)	3,471	3,447
Net assets	82,594	21,617	104,211

Notes to the accounts | segmental reporting

3 Segmental reporting (continued)

Analysis of gross premiums written by region:

Figures in £'000	2007			
	In the UK	In other EU states	In other countries	Total
Accident and health	4,604	(1)	346	4,949
Fire and other damage to property	18,357	6,485	(402)	24,440
Third party liability	15,800	2,426	1,570	19,796
Marine, aviation and transport	41,633	60,359	(81)	101,911
Motor	(1,220)	7,933	(1,850)	4,863
Miscellaneous	9,461	5,150	530	15,141
Total	88,635	82,352	113	171,100

Analysis by business segment:

Figures in £'000	2007						
	Gross premiums earned	Gross claims incurred	Gross operating expenses	Gross technical result	Reinsurance balance	Net technical result	Net insurance funds
Accident and health	4,445	(4,148)	(1,316)	(1,019)	(376)	(1,395)	7,482
Fire and other damage to property	27,809	(18,430)	(6,546)	2,833	(8,071)	(5,238)	35,541
Third party liability	23,345	(12,744)	(4,547)	6,054	543	6,597	46,999
Marine, aviation and transport	113,888	(80,714)	(20,244)	12,930	(5,554)	7,376	19,638
Motor	35,524	(45,997)	(12,155)	(22,628)	14,358	(8,270)	65,747
Miscellaneous	14,228	(10,281)	(2,490)	1,457	(1,480)	(23)	5,640
Total	219,239	(172,314)	(47,298)	(373)	(580)	(953)	181,047

Analysis by geographical location:

Figures in £'000	2007		
	UK	Foreign branches	Total
Gross written premium	105,788	65,312	171,100
Profit (loss) before tax	(1,200)	2,819	1,619
Net assets	83,261	13,727	96,988

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. The movement in provisions in 2008 has been materially impacted by significant movements in foreign exchange rates in the Company's major markets. Accordingly the movements in the table are shown net of foreign exchange revaluation, and the numbers from the previous year have been restated on the same basis.

Figures in £'000	2008	2007
Accident and health	(1,038)	1,421
Fire and other damage to property	6,570	(4,491)
Third party liability	2,751	271
Marine, aviation and transport	(3,285)	1,413
Motor	(1,269)	(4,210)
Miscellaneous	168	2,686
	3,897	(2,910)

5 Investment income

Figures in £'000	2008	2007
Income from other investments	11,445	12,597
Gains on the realisation of investments	13,826	73
	25,271	12,670
Unrealised gains on investments	16,805	4,399
Total investment return	42,076	17,069

Realised and unrealised gains and losses include foreign exchange gains of £30,833,000 (2007: gains £4,502,000).

6 Investment expenses and charges

Figures in £'000	2008	2007
Investment management expenses, including interest	425	529

7 Net operating expenses

Figures in £'000	2008		
	Gross	Reinsurance	Net
Acquisition costs	39,252	(36,363)	2,889
Deferred acquisition costs carried forward	(18,743)	13,236	(5,507)
Deferred acquisition costs brought forward	13,249	(7,847)	5,402
Change in deferred acquisition costs	(5,494)	5,389	(105)
Incurred acquisition costs	33,758	(30,974)	2,784
Administrative expenses	5,389	(2,733)	2,656
	39,147	(33,707)	5,440

7 Net operating expenses (continued)

Figures in £'000	2007		
	Gross	Reinsurance	Net
Acquisition costs	33,546	(27,166)	6,380
Deferred acquisition costs carried forward	(13,249)	7,847	(5,402)
Deferred acquisition costs brought forward	22,593	(10,207)	12,386
Change in deferred acquisition costs	9,344	(2,360)	6,984
Incurred acquisition costs	42,890	(29,526)	13,364
Administrative expenses	4,408	(527)	3,881
	47,298	(30,053)	17,245

The above figures include overriding commission received of £7,889,000 (2007: £6,633,000), which has been included in acquisition costs.

8 Profit on ordinary activities before tax

Profit on ordinary activities before tax is stated after charging:

Figures in £'000	2008	2007
Depreciation	1,095	1,250
Operating lease rentals – land and buildings	297	226
Auditors' remuneration:		
Audit of statutory accounts	279	299
Audit of regulatory returns	53	72
Services relating to taxation	–	15
Other services	68	14

9 Directors' emoluments

During the year five directors (2007: four) received a total remuneration of £465,000 (2007: £364,000) for their qualifying services as directors of the Company and in connection with the management of the Company's affairs. No other directors received remuneration in respect of their services to the Company. Contributions were made to a defined contribution scheme on behalf of two directors (2007: one) in the sum of £18,000 (2007: £11,000). 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. Three directors of the Company were also directors of Hannover Services (UK) Limited during the financial year.

Highest paid director

Figures in £'000	2008	2007
Aggregate emoluments	175	154

10 Staff numbers and costs

Staff numbers and costs for employees in the Scandinavian branch:

Average number of employees	2008	2007
Business acquisition	17	14
Claims handling	5	5
Administration	18	17
	40	36

Full time equivalent number of employees	2008	2007
Business acquisition	17	14
Claims handling	5	5
Administration	14	14
	36	33

Aggregate payroll costs

Figures in £'000	2008	2007
Wages and salaries	2,390	1,483
Social security cost	815	302
Other pension costs	704	658
	3,909	2,443

The Company employs no staff in the UK, Italian or Australian branches. 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 £3,570,000 (2007: £3,120,000) for UK staff. These costs were paid by Hannover Services (UK) Ltd and recharged to the Company. This charge reflects services provided for an average 43 (2007: 42) employees during the year. Full disclosure of staff numbers and costs has been made in the accounts of Hannover Services (UK) Ltd. There were no staff costs incurred in the Italian or Australian branches.

11 Tax on profit on ordinary activities

Analysis of charge in the period

Figures in £'000	2008	2007
Current tax		
UK corporation tax	–	(764)
Group relief receivable	869	–
Adjustments in respect of prior periods	(17)	54
	852	(710)
Double tax relief	–	764
	852	54
Overseas taxation	(1,464)	(764)
Adjustments in respect of prior periods	(16)	8
Tax on profit on ordinary activities	(628)	(702)
Deferred tax		
Origination and reversal of timing differences	(1,313)	(137)
Effect of decrease in UK corporation tax rate (see opposite)	–	140
Total deferred tax (charge)/credit	(1,313)	3
Tax on profit on ordinary activities	(1,941)	(699)

11 Tax on profit on ordinary activities (continued)

Deferred tax asset

Figures in £'000	2008	2007
Asset brought forward	(2,094)	(2,097)
Deferred tax charge for the year	1,313	3
Asset at end of year	(781)	(2,094)

In 2007, the UK Government made a change to the rate of corporation tax from 30% to 28% with effect from 1 April 2008.

Factors affecting tax charge for the period

The standard rate of current tax applied for the year is 28.5% (2007: 30%), based on the UK standard rate of corporation tax of 30% to 31 March 2008 and 28% with effect from 1 April 2008. The tax assessed for the period is lower (2007: higher) than that resulting from applying the standard rate of current tax in the UK and the differences are explained below.

Figures in £'000	2008	2007
Profit on ordinary activities before tax	3,447	1,619
Profit on ordinary activities multiplied by the standard rate of current tax of 28.5% (2007: 30%)	982	486
Effects of:		
Expenses not deductible for tax purposes	78	26
Prior year corporation tax adjustments	33	(62)
Timing differences:		
Capital allowances net of depreciation	115	66
Reversal of prior year reserves disclaimer	(2,283)	–
Tax losses carried forward	655	–
Unrelieved foreign tax charge	1,048	–
Tax adjustment in respect of general insurance reserves	–	186
Current tax charge on ordinary activities for the period	628	702

The effective tax rate on total profit was 18.22% (2007: 43.36%).

12 Investment in group undertakings

Figures in £'000	2008	2007
Investment in subsidiary undertaking at cost	2	2
Investment in associated undertaking at cost	267	–
	269	2

The company became the 100% shareholder of International Mining Industry Underwriters Limited (IMIU Ltd) in 2003, when the shares of the other members were redeemed. IMIU Ltd is an insurance agency incorporated in England and Wales. During 2008 the Company acquired 30% of the share capital of Hannover Care AB for SEK 30,000 and made a further capital contribution of SEK 3,000,000. Hannover Care AB is an insurance agency incorporated in Sweden.

13 Other financial investments

Figures in £'000	Carrying value		Historical cost	
	2008	2007	2008	2007
Available for sale				
Debt securities and other fixed income securities at amortised cost – listed	174,256	192,368	154,949	190,833
Deposits with credit institutions	70,218	25,271	70,218	25,271
	244,474	217,639	225,167	216,104
Held to maturity				
Debt securities and other fixed income securities at amortised cost – listed	28,293	28,366	28,575	28,575
	272,767	246,005	253,742	244,679

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

Figures in £'000	2008	2007
Cost	183,524	219,408
Cumulative amortisation	19,025	1,326
Carrying value – amortised cost	202,549	220,734
Market value	205,255	217,019

The redemption value of investments held at the end of the year was £322,000 (2007: £178,000) less than the amortised cost.

Market valuations are provided for debt and other fixed income securities by the Company's investment manager, AmpegaGerling Asset Management GmbH. At 31st December 2008 the portfolio comprised only highly-rated debt securities in which liquid markets have continued to be maintained and included no derivatives or other complex instruments. Management monitor market values on a daily basis in accordance with the Company's risk management procedures. The directors are therefore confident that the market values shown above are a reasonable reflection of achievable prices at the balance sheet date.

Notes to the accounts | other notes

14 Deposits with ceding undertakings

Figures in £'000	2008	2007
Other cedants	27	20

15 Debtors arising out of direct insurance operations

Figures in £'000	2008	2007
Amounts owed by intermediaries	158,639	145,802
Amounts due from group undertakings	42,407	5,417
	201,046	151,219

16 Other debtors

Figures in £'000	2008	2007
Amounts due from group undertakings	1,731	3,143
Deferred tax	781	2,094
Corporation tax	35	1,046
Other debtors	1,046	672
	3,593	6,955

17 Tangible fixed assets

Figures in £'000	2008				
	Computer hardware	Computer software	Motor vehicles	Furniture fixtures & fittings	Total
Cost					
At beginning of year	127	5,731	71	6	5,935
Additions	48	–	64	–	112
Foreign exchange rate movements	(17)	(148)	(19)	–	(184)
At end of year	158	5,583	116	6	5,863
Depreciation					
At beginning of year	127	2,419	23	5	2,574
Charged in year	17	1,044	33	1	1,095
Foreign exchange rate movements	(8)	(28)	(10)	–	(46)
At end of year	136	3,435	46	6	3,623
Net book value					
At end of year	22	2,148	70	–	2,240
At beginning of year	–	3,312	48	1	3,361

18 Called-up share capital

Figures in £'000	2008	2007
Authorised:		
65,000,000 (2007: 65,000,000) ordinary shares of £1 each	65,000	65,000
Allotted, called up and fully paid:		
65,000,000 (2007: 65,000,000) ordinary shares of £1 each	65,000	65,000

19 Reserves

Figures in £'000	2008	2007
Profit and loss account		
At beginning of year	31,988	29,964
Retained profit for the year	1,506	920
Other recognised gains for the year	5,717	1,104
At end of year	39,211	31,988

20 Subordinated liabilities

Subordinated loans from Hannover Re

Figures in £'000	Earliest repayment date	Latest repayment date	2008	2007
5.23%	29th July 2010	29th July 2035	8,000	8,000
5.48%	9th December 2010	9th December 2035	11,300	11,300
5.33%	16th February 2011	16th February 2036	6,700	6,700
6.95%	22nd June 2012	22nd June 2037	5,000	–
			31,000	26,000

All four loans are unsecured and subject to 5 yearly interest rate reviews.

21 Technical provisions and deferred acquisition costs

Figures in £'000	Provision for unearned premiums	Claims outstanding	Total
Gross amount			
At beginning of year	89,745	619,583	709,328
Movement in provision	32,902	(12,591)	20,311
Foreign exchange rate movements	19,461	123,234	142,695
At end of year	142,108	730,226	872,334
Reinsurance amount			
At beginning of year	67,544	455,335	522,879
Movement in provision	33,457	4,562	38,019
Foreign exchange rate movements	18,378	96,017	114,395
At end of year	119,379	555,914	675,293
Net technical provisions			
At end of year	22,729	174,312	197,041
At beginning of year	22,201	164,248	186,449

There is no unexpired risk reserve included in claims outstanding at the end of the year (2007: £nil).

Figures in £'000	2008	2007
Net technical provisions at end of year	197,041	186,449
Deferred acquisition costs:		
– gross	(18,743)	(13,249)
– reinsurance commission	13,236	7,847
	(5,507)	(5,402)
Net insurance funds	191,534	181,047

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 9A to the Companies Act 1985 to be included within technical provisions in the balance sheet notwithstanding that they do not represent liabilities at the balance sheet date.

There is no Equalisation Provision at the end of the year and therefore there is no effect on Shareholder's funds (2007: £nil).

22 Creditors arising out of direct insurance operations

Figures in £'000	2008	2007
Amounts due to group undertakings	95,510	81,753
Other	65,652	25,579
	161,162	107,332

23 Other creditors including taxation and social security

Figures in £'000	2008	2007
Amount due to group undertakings	425	4,264
Social security and other taxes	300	462
Other	7,225	7,178
	7,950	11,904

24 Accruals and deferred income

Figures in £'000	2008	2007
Deferred reinsurance commission	13,236	7,847
Other accruals and deferred income	5,398	1,429
	18,634	9,276

25 Contingencies and related obligations

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

Contingent liabilities

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

As security for the Company's technical liabilities the Company's parent has arranged for financial institutions to furnish sureties on behalf of the Company in the form of letters of credit. The total amount of the letters of credit as at the balance sheet date was US$58,873,000 (2007: US$54,514,000). Included within this amount is £434,000 (2007: £447,000) recognised in the balance sheet in respect of a rental liability.

25 Contingencies and related obligations (continued)

Capital commitments

The Company has no future capital commitments at the balance sheet date (2007: £nil).

Operating leases

The company is guarantor for operating lease agreements entered into by Hannover Services (UK) Limited for land and buildings. The annual commitments under those operating leases are as follows:

Figures in £'000	2008	2007
Expiry date		
– within one year	86	–
– within two to five years	–	86
– after five years	185	58
	271	144

26 Related party transactions

As the Company is a wholly owned subsidiary of Hannover Rückversicherung AG 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.

27 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 Rückversicherung AG, which is also incorporated in Germany. The consolidated accounts of these groups are available to the public and may be obtained from:

The Company Secretary, International Insurance Company of Hannover Limited
L'Avenir, Opladen Way, Bracknell, Berkshire RG12 0PE

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L'Avenir
Opladen Way
Bracknell
Berkshire
RG12 0PE
Tel. +44 1344 397600
Fax. +44 1344 397601

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www.inter-hannover.com

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