

**HCC Insurance Holdings, Inc. and Subsidiaries**  
**Financial Highlights**  
(Unaudited, in thousands except per share data)

	Twelve months ended December 31,		Three months ended December 31,	
	2009	2008	2009	2008
Gross written premium	\$ 2,559,791	\$ 2,498,763	\$ 655,705	\$ 611,207
Net written premium	2,046,289	2,060,618	518,400	504,236
Net earned premium	2,037,235	2,007,774	512,810	502,646
Fee and commission income	103,690	125,201	15,577	25,643
Net investment income	191,965	164,751	50,225	33,919
Other operating income (loss)	34,391	9,638	4,567	(1,191)
Total revenue	2,373,928	2,279,423	590,253	551,866
Net earnings	353,868	302,120	84,792	71,599
Earnings per share (diluted)	\$ 3.11	\$ 2.61	\$ 0.74	\$ 0.63
Weighted-average shares outstanding (diluted) (millions)	113.1	115.5	113.4	114.1
GAAP net loss ratio	59.7%	60.4%	59.2%	58.0%
GAAP combined ratio	84.9%	85.4%	85.8%	85.6%
Paid loss ratio	55.8%	54.0%	58.4%	62.1%
	<b>December 31,</b>	<b>December 31,</b>		
	<b>2009</b>	<b>2008</b>		
Total investments	\$ 5,456,229	\$ 4,804,283		
Total assets	8,834,391	8,332,000		
Shareholders' equity	3,031,183	2,640,023		
Debt to total capital ratio	9.0%	11.5%		
Book value per share	\$ 26.58	\$ 23.27		

**HCC Insurance Holdings, Inc. and Subsidiaries**  
**Consolidated Balance Sheets**  
(Unaudited, in thousands)

	<u>December 31,</u> <u>2009</u>	<u>December 31,</u> <u>2008</u>
<b>ASSETS</b>		
Investments:		
Fixed income securities - available for sale, at fair value	\$ 4,538,073	\$ 4,133,165
Fixed income securities - held to maturity, at amortized cost	102,792	123,553
Short-term investments	810,673	497,477
Other investments	4,691	50,088
Total investments	<u>5,456,229</u>	<u>4,804,283</u>
Cash	129,460	27,347
Restricted cash and cash investments	146,133	174,905
Premium, claims and other receivables	600,332	770,823
Reinsurance recoverables	1,016,411	1,054,950
Ceded unearned premium	270,436	234,375
Ceded life and annuity benefits	61,313	64,235
Deferred policy acquisition costs	208,463	188,652
Goodwill	822,006	858,849
Other assets	<u>123,608</u>	<u>153,581</u>
<b>Total assets</b>	<u><u>\$ 8,834,391</u></u>	<u><u>\$ 8,332,000</u></u>
<b>LIABILITIES</b>		
Loss and loss adjustment expense payable	\$ 3,492,309	\$ 3,415,230
Life and annuity policy benefits	61,313	64,235
Reinsurance balances payable	182,661	122,189
Unearned premium	1,044,747	977,426
Deferred ceding commissions	71,595	63,123
Premium and claims payable	154,596	405,287
Notes payable	298,483	343,649
Accounts payable and accrued liabilities	<u>497,504</u>	<u>300,838</u>
<b>Total liabilities</b>	<u>5,803,208</u>	<u>5,691,977</u>
<b>SHAREHOLDERS' EQUITY</b>		
Common stock	118,724	116,457
Additional paid-in capital	914,339	881,534
Retained earnings	1,977,254	1,677,831
Accumulated other comprehensive income	119,665	27,536
Treasury stock	<u>(98,799)</u>	<u>(63,335)</u>
<b>Total shareholders' equity</b>	<u>3,031,183</u>	<u>2,640,023</u>
<b>Total liabilities and shareholders' equity</b>	<u><u>\$ 8,834,391</u></u>	<u><u>\$ 8,332,000</u></u>

**HCC Insurance Holdings, Inc. and Subsidiaries**  
**Consolidated Statements of Earnings**  
(Unaudited, in thousands except per share data)

	Twelve months ended December 31,		Three months ended December 31,	
	2009	2008	2009	2008
<b>REVENUE</b>				
Net earned premium	\$ 2,037,235	\$ 2,007,774	\$ 512,810	\$ 502,646
Fee and commission income	103,690	125,201	15,577	25,643
Net investment income	191,965	164,751	50,225	33,919
Other operating income (loss)	34,391	9,638	4,567	(1,191)
Net realized investment gain (loss)	12,076	(16,808)	7,224	(4,047)
Other-than-temporary impairment loss:				
Total loss	(6,443)	(11,133)	(354)	(5,104)
Portion recognized in equity, before tax	1,014	-	204	-
Net loss recognized in earnings	(5,429)	(11,133)	(150)	(5,104)
<b>Total revenue</b>	<u>2,373,928</u>	<u>2,279,423</u>	<u>590,253</u>	<u>551,866</u>
<b>EXPENSE</b>				
Loss and loss adjustment expense, net	1,215,759	1,211,873	303,815	291,440
Policy acquisition costs, net	363,966	381,441	92,608	96,746
Other operating expense	259,488	233,509	63,979	59,089
Interest expense	16,164	20,362	4,348	5,815
<b>Total expense</b>	<u>1,855,377</u>	<u>1,847,185</u>	<u>464,750</u>	<u>453,090</u>
Earnings before income tax expense	518,551	432,238	125,503	98,776
Income tax expense	164,683	130,118	40,711	27,177
<b>Net earnings</b>	<u>\$ 353,868</u>	<u>\$ 302,120</u>	<u>\$ 84,792</u>	<u>\$ 71,599</u>
<b>Basic earnings per share data:</b>				
Net earnings per share	<u>\$ 3.14</u>	<u>\$ 2.63</u>	<u>\$ 0.75</u>	<u>\$ 0.63</u>
Weighted-average shares outstanding (millions)	<u>112.2</u>	<u>114.8</u>	<u>112.3</u>	<u>113.9</u>
<b>Diluted earnings per share data:</b>				
Net earnings per share	<u>\$ 3.11</u>	<u>\$ 2.61</u>	<u>\$ 0.74</u>	<u>\$ 0.63</u>
Weighted-average shares outstanding (millions)	<u>113.1</u>	<u>115.5</u>	<u>113.4</u>	<u>114.1</u>
Cash dividends declared, per share	<u>\$ 0.520</u>	<u>\$ 0.470</u>	<u>\$ 0.135</u>	<u>\$ 0.125</u>

**HCC Insurance Holdings, Inc. and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
(Unaudited, in thousands)

	<b>Twelve months ended December 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>Operating activities:</b>		
Net earnings	\$ 353,868	\$ 302,120
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Change in premium, claims and other receivables	23,432	46,985
Change in reinsurance recoverables	42,521	(98,354)
Change in ceded unearned premium	(34,107)	10,309
Change in loss and loss adjustment expense payable	22,439	188,264
Change in reinsurance balances payable	60,057	(8,014)
Change in unearned premium	48,366	33,526
Change in premium and claims payable, net of restricted cash	(98,675)	(80,219)
Change in accounts payable and accrued liabilities	96,040	(53,079)
Change in trading securities	-	49,091
Stock-based compensation expense	15,628	13,638
Depreciation and amortization expense	16,221	14,308
(Gain) loss on investments	(3,518)	49,549
Other, net	40,525	37,844
<b>Cash provided by operating activities</b>	<b>582,797</b>	<b>505,968</b>
<b>Investing activities:</b>		
Sales of available for sale fixed income securities	551,760	583,211
Maturity or call of available for sale fixed income securities	347,794	323,998
Maturity or call of held to maturity fixed income securities	86,364	-
Cost of available for sale fixed income securities acquired	(1,159,796)	(1,527,664)
Cost of held to maturity fixed income securities acquired	(59,754)	(44,592)
Cost of other investments acquired	-	(36,751)
Change in short-term investments	(297,016)	294,248
Proceeds from sales of strategic and other investments	114,940	77,097
Payments for purchase of businesses, net of cash received	(38,018)	(103,153)
Proceeds from sales of assets of business and subsidiary	50,557	-
Other, net	(16,581)	(7,996)
<b>Cash used by investing activities</b>	<b>(419,750)</b>	<b>(441,602)</b>
<b>Financing activities:</b>		
Issuance of notes payable	296,096	-
Advances on line of credit	130,000	181,000
Payments on line of credit and convertible notes	(410,242)	(161,000)
Sale of common stock	19,198	18,198
Purchase of common stock	(35,464)	(63,335)
Dividends paid	(57,437)	(52,453)
Other, net	(3,085)	1,436
<b>Cash used by financing activities</b>	<b>(60,934)</b>	<b>(76,154)</b>
Net increase (decrease) in cash	102,113	(11,788)
Cash at beginning of year	27,347	39,135
<b>Cash at end of year</b>	<b>\$ 129,460</b>	<b>\$ 27,347</b>

**HCC Insurance Holdings, Inc. and Subsidiaries**  
**Gross Written Premium**  
(Unaudited, in thousands)

	Twelve months ended December 31,			Three months ended December 31,		
	2009	2008	Change	2009	2008	Change
<b>Diversified financial products</b>						
D&O (1)	\$ 529,607	\$ 456,285	16 %	\$ 168,499	\$ 155,133	9 %
E&O (2)	257,786	274,293	(6)	69,620	74,032	(6)
Other Professional Liability	81,222	62,585	30	19,004	17,980	6
U.S. Surety & Credit	203,522	183,384	11	55,078	43,249	27
International Surety & Credit	75,776	75,175	1	20,627	16,408	26
	<u>1,147,913</u>	<u>1,051,722</u>	<u>9</u>	<u>332,828</u>	<u>306,802</u>	<u>8</u>
<b>Group life, accident &amp; health</b>						
Medical Stop-loss	633,573	616,878	3	160,300	153,580	4
Other Medical	137,187	136,111	1	39,765	35,068	13
Other	75,281	76,914	(2)	9,958	12,041	(17)
	<u>846,041</u>	<u>829,903</u>	<u>2</u>	<u>210,023</u>	<u>200,689</u>	<u>5</u>
<b>Aviation</b>	176,073	185,786	(5)	42,160	38,518	9
<b>London market account</b>						
Energy	98,934	97,334	2	6,657	11,138	(40)
Other	87,669	78,227	12	18,471	10,395	78
	<u>186,603</u>	<u>175,561</u>	<u>6</u>	<u>25,128</u>	<u>21,533</u>	<u>17</u>
<b>Other specialty lines</b>						
Public Risk	66,176	42,871	54	14,105	11,468	23
HCC Lloyd's	42,961	72,349	(41)	9,612	10,222	(6)
Other	93,872	135,801	(31)	21,699	21,970	(1)
	<u>203,009</u>	<u>251,021</u>	<u>(19)</u>	<u>45,416</u>	<u>43,660</u>	<u>4</u>
<b>Discontinued lines</b>	152	4,770	nm	150	5	nm
<b>Total</b>	<u>\$ 2,559,791</u>	<u>\$ 2,498,763</u>	<u>2 %</u>	<u>\$ 655,705</u>	<u>\$ 611,207</u>	<u>7 %</u>

(1) Includes D&O and related professional liability insurance underwritten by HCCG and D&O insurance for non-profit organizations underwritten by PIA.

(2) Includes Miscellaneous E&O, Architects and Engineers E&O, and Diversified Financial Products insurance underwritten by PIA, as well as E&O insurance underwritten in the United Kingdom and Spain.

nm - Not meaningful comparison

**HCC Insurance Holdings, Inc. and Subsidiaries**  
**Net Written Premium**  
(Unaudited, in thousands)

	Twelve months ended December 31,			Three months ended December 31,		
	2009	2008	Change	2009	2008	Change
<b>Diversified financial products</b>						
D&O (1)	\$ 376,021	\$ 341,698	10 %	\$ 115,189	\$ 118,376	(3) %
E&O (2)	222,664	246,185	(10)	58,400	64,678	(10)
Other Professional Liability	58,815	42,686	38	12,450	11,943	4
U.S. Surety & Credit	189,208	175,533	8	49,493	40,349	23
International Surety & Credit	68,887	65,905	5	18,934	13,959	36
	<u>915,595</u>	<u>872,007</u>	<u>5</u>	<u>254,466</u>	<u>249,305</u>	<u>2</u>
<b>Group life, accident &amp; health</b>						
Medical Stop-loss	633,571	616,878	3	160,300	153,579	4
Other Medical	137,187	136,111	1	39,765	35,068	13
Other	26,020	36,490	(29)	4,275	5,720	(25)
	<u>796,778</u>	<u>789,479</u>	<u>1</u>	<u>204,340</u>	<u>194,367</u>	<u>5</u>
<b>Aviation</b>	124,336	136,019	(9)	28,681	29,023	(1)
<b>London market account</b>						
Energy	49,452	57,913	(15)	(834)	1,648	nm
Other	52,955	49,321	7	10,000	8,444	18
	<u>102,407</u>	<u>107,234</u>	<u>(5)</u>	<u>9,166</u>	<u>10,092</u>	<u>(9)</u>
<b>Other specialty lines</b>						
Public Risk	48,524	28,553	70	8,877	6,995	27
HCC Lloyd's	35,721	63,191	(43)	8,232	8,691	(5)
Other	22,802	59,376	(62)	4,489	5,767	(22)
	<u>107,047</u>	<u>151,120</u>	<u>(29)</u>	<u>21,598</u>	<u>21,453</u>	<u>1</u>
<b>Discontinued lines</b>	126	4,759	nm	149	(4)	nm
<b>Total</b>	<u>\$ 2,046,289</u>	<u>\$ 2,060,618</u>	<u>(1) %</u>	<u>\$ 518,400</u>	<u>\$ 504,236</u>	<u>3 %</u>

(1) Includes D&O and related professional liability insurance underwritten by HCCG and D&O insurance for non-profit organizations underwritten by PIA.

(2) Includes Miscellaneous E&O, Architects and Engineers E&O, and Diversified Financial Products insurance underwritten by PIA, as well as E&O insurance underwritten in the United Kingdom and Spain.

nm - Not meaningful comparison

**HCC Insurance Holdings, Inc. and Subsidiaries**  
**Net Earned Premium**  
(Unaudited, in thousands)

	Twelve months ended December 31,			Three months ended December 31,		
	2009	2008	Change	2009	2008	Change
<b>Diversified financial products</b>						
D&O (1)	\$ 371,650	\$ 312,135	19 %	\$ 96,938	\$ 82,440	18 %
E&O (2)	234,768	227,667	3	57,186	59,872	(4)
Other Professional Liability	39,123	31,753	23	8,642	9,960	(13)
U.S. Surety & Credit	182,627	167,914	9	47,191	43,733	8
International Surety & Credit	68,162	66,135	3	17,733	16,221	9
	<u>896,330</u>	<u>805,604</u>	<u>11</u>	<u>227,690</u>	<u>212,226</u>	<u>7</u>
<b>Group life, accident &amp; health</b>						
Medical Stop-loss	633,572	616,900	3	160,301	153,579	4
Other Medical	134,161	121,865	10	33,345	32,400	3
Other	29,887	38,503	(22)	6,376	9,096	(30)
	<u>797,620</u>	<u>777,268</u>	<u>3</u>	<u>200,022</u>	<u>195,075</u>	<u>3</u>
<b>Aviation</b>	129,626	139,838	(7)	31,112	34,713	(10)
<b>London market account</b>						
Energy	49,116	57,262	(14)	14,131	12,351	14
Other	54,043	49,595	9	13,441	13,682	(2)
	<u>103,159</u>	<u>106,857</u>	<u>(3)</u>	<u>27,572</u>	<u>26,033</u>	<u>6</u>
<b>Other specialty lines</b>						
Public Risk	39,986	25,600	56	11,133	6,831	63
HCC Lloyd's	40,273	62,126	(35)	9,794	11,890	(18)
Other	30,114	85,723	(65)	5,337	15,882	(66)
	<u>110,373</u>	<u>173,449</u>	<u>(36)</u>	<u>26,264</u>	<u>34,603</u>	<u>(24)</u>
<b>Discontinued lines</b>	127	4,758	nm	150	(4)	nm
<b>Total</b>	<u>\$ 2,037,235</u>	<u>\$ 2,007,774</u>	<u>1 %</u>	<u>\$ 512,810</u>	<u>\$ 502,646</u>	<u>2 %</u>

(1) Includes D&O and related professional liability insurance underwritten by HCCG and D&O insurance for non-profit organizations underwritten by PIA.

(2) Includes Miscellaneous E&O, Architects and Engineers E&O, and Diversified Financial Products insurance underwritten by PIA, as well as E&O insurance underwritten in the United Kingdom and Spain.

nm - Not meaningful comparison

**HCC Insurance Holdings, Inc. and Subsidiaries**  
**Net Investment Income and Unrealized Gain (Loss)**  
(Unaudited, in thousands)

	Twelve months ended December 31,		Three months ended December 31,	
	2009	2008	2009	2008
<b>Sources of net investment income:</b>				
Fixed income securities				
Taxable	\$ 106,690	\$ 98,538	\$ 27,796	\$ 25,822
Exempt from U.S. income taxes	82,760	76,172	21,171	19,376
Total fixed income securities	<u>189,450</u>	<u>174,710</u>	<u>48,967</u>	<u>45,198</u>
Short-term investments	3,230	20,931	528	3,231
Other	3,086	(26,949)	1,803	(13,496)
Total investment income	<u>195,766</u>	<u>168,692</u>	<u>51,298</u>	<u>34,933</u>
Investment expense	<u>(3,801)</u>	<u>(3,941)</u>	<u>(1,073)</u>	<u>(1,014)</u>
<b>Net investment income</b>	<u><u>\$ 191,965</u></u>	<u><u>\$ 164,751</u></u>	<u><u>\$ 50,225</u></u>	<u><u>\$ 33,919</u></u>

**Unrealized gain (loss) on available for sale  
fixed income securities:**

Increase (decrease) in unrealized gain/loss for period, before tax	<u><u>\$ 141,685</u></u>	<u><u>\$ (10,412)</u></u>	<u><u>\$ (52,185)</u></u>	<u><u>\$ 112,688</u></u>
Unrealized gain at:				
December 31, 2009	<u><u>\$ 156,311</u></u>			
September 30, 2009	<u><u>\$ 208,496</u></u>			
June 30, 2009	<u><u>\$ 72,665</u></u>			
March 31, 2009	<u><u>\$ 59,977</u></u>			
December 31, 2008	<u><u>\$ 14,626</u></u>			

**HCC Insurance Holdings, Inc. and Subsidiaries**  
**Net Loss Ratios**  
(Unaudited, in thousands)

	Twelve months ended December 31, 2009		Twelve months ended December 31, 2008	
	Net Earned Premium	Loss Ratio	Net Earned Premium	Loss Ratio
<b>Diversified financial products</b>				
D&O (1)	\$ 371,650	61.2 %	\$ 312,135	59.0 %
E&O (2)	234,768	49.6	227,667	50.0
Other Professional Liability	39,123	43.4	31,753	40.2
U.S. Surety & Credit	182,627	29.9	167,914	23.7
International Surety & Credit	68,162	50.9	66,135	56.1
	<u>896,330</u>	<u>50.2</u>	<u>805,604</u>	<u>48.1</u>
<b>Group life, accident &amp; health</b>				
Medical Stop-loss	633,572	71.7	616,900	73.1
Other Medical	134,161	86.0	121,865	80.9
Other	29,887	43.6	38,503	47.1
	<u>797,620</u>	<u>73.0</u>	<u>777,268</u>	<u>73.1</u>
<b>Aviation</b>	129,626	56.6	139,838	62.6
<b>London market account</b>				
Energy	49,116	24.0	57,262	42.6
Other	54,043	41.5	49,595	50.8
	<u>103,159</u>	<u>33.1</u>	<u>106,857</u>	<u>46.4</u>
<b>Other specialty lines</b>				
Public Risk	39,986	66.3	25,600	72.3
HCC Lloyd's	40,273	69.1	62,126	78.3
Other	30,114	49.6	85,723	57.6
	<u>110,373</u>	<u>62.8</u>	<u>173,449</u>	<u>67.2</u>
<b>Discontinued lines</b>	127	nm	4,758	nm
<b>Total</b>	<u>\$ 2,037,235</u>	<u>59.7 %</u>	<u>\$ 2,007,774</u>	<u>60.4 %</u>

(1) Includes D&O and related professional liability insurance underwritten by HCCG and D&O insurance for non-profit organizations underwritten by PIA.

(2) Includes Miscellaneous E&O, Architects and Engineers E&O, and Diversified Financial Products insurance underwritten by PIA, as well as E&O insurance underwritten in the United Kingdom and Spain.

nm - Not meaningful comparison

**HCC Insurance Holdings, Inc. and Subsidiaries**  
**Investments - Selected Disclosures**  
**December 31, 2009**  
(Unaudited, in thousands)

	<u>Fair Value</u>	<u>% of Portfolio</u>	<u>Investment Grade</u>	<u>Average Rating</u>
<b>Total Portfolio of Fixed Income Securities</b>	<u>\$ 4,642,081</u>	<u>100.0 %</u>	<u>99%</u>	<u>AA+</u>
<b>Residential Mortgage-Backed Securities and Collateralized Mortgage Obligations:</b>				
Agency	\$ 887,596	19.1 %	100%	AAA
Non-Agency				
Prime	52,495	1.1	63%	BBB+
Alt A	4,091	0.1	54%	BBB-
<b>Total Residential MBS/CMO</b>	<u>\$ 944,182</u>	<u>20.3 %</u>	<u>98%</u>	<u>AAA</u>
<b>Commercial Mortgage-Backed Securities</b>	<u>\$ 146,217</u>	<u>3.1 %</u>	<u>100%</u>	<u>AAA</u>
<b>Asset-Backed Securities:</b>				
Auto	\$ 2,660	0.1 %	100%	A-
Subprime Home Equity	1,547	-	78%	A+
Other	10,158	0.2	66%	BBB
<b>Total Asset-Backed Securities</b>	<u>\$ 14,365</u>	<u>0.3 %</u>	<u>74%</u>	<u>BBB+</u>
<b>Agency Securities:</b>				
Total Direct Obligations of U.S. Agencies	<u>\$ 69,852</u>	<u>1.5 %</u>	<u>100%</u>	<u>AAA</u>
<b>U.S. Corporate Bonds:</b>				
Non-Financial	<u>\$ 368,972</u>	<u>7.9 %</u>	<u>100%</u>	<u>A</u>
Financial	<u>\$ 190,852</u>	<u>4.1 %</u>	<u>100%</u>	<u>A</u>
<b>Municipal Bonds:</b>				
	<u>\$ 2,205,760</u>	<u>47.5 %</u>	<u>100%</u>	<u>AA</u>
Insurance Enhanced	<u>\$ 1,286,051</u>	<u>27.7 %</u>	<u>100%</u>	<u>AA</u>
Insured - Underlying Ratings	<u>\$ 1,286,051</u>	<u>27.7 %</u>	<u>98%</u>	<u>AA-</u>
Non-Insured	<u>\$ 919,709</u>	<u>19.8 %</u>	<u>100%</u>	<u>AA+</u>
<b>Foreign Bonds</b>	<u>\$ 442,929</u>	<u>9.5 %</u>	<u>100%</u>	<u>AAA</u>

**Notes:**

The selected disclosures above do not include all classes of investments in the total portfolio of fixed income securities. There are no CDOs/CLOs in the portfolio.

**HCC Insurance Holdings, Inc. and Subsidiaries**  
**Subprime Liability Exposure**  
**December 31, 2009**

- As of December 31, the Company had 75 “non-Side A only” D&O, E&O and Fiduciary Liability claims and 17 “Side A only” D&O claims relating to subprime issues.
- Of the D&O claims reported, four are on primary policies with gross policy limits totaling \$20 million. The remaining D&O claims are on excess policies.
- The average policy limit on the “non-Side A only” claims is \$13.5 million gross and \$9.1 million net, with an average attachment point of \$89 million.
- The average policy limit for “Side A only” claims is \$14.2 million gross and \$11.3 million net, with an average attachment point of \$159 million.
- Based upon the Company’s present knowledge, HCC believes the ultimate subprime related losses will be contained within the current overall reserves for D&O, E&O and Fiduciary Liability business.