

**HCC Insurance Holdings, Inc. and Subsidiaries**  
**Financial Highlights**  
**December 31, 2008**

(Unaudited, in thousands except per share data)

	<b>Three months ended December 31,</b>	
	<b>2008</b>	<b>2007</b>
Gross written premium	\$ 611,207	\$ 593,415
Net written premium	504,236	485,144
Net earned premium	502,646	500,178
Fee and commission income	25,643	34,097
Net investment income	33,919	58,409
Other operating income (loss)	(1,191)	7,934
Total revenue	551,866	614,407
Net earnings	72,277	99,642
Earnings per share (diluted)	0.63	0.85
Cash flow from operations	104,793	111,577
Weighted average shares outstanding (diluted)	114,111	117,085
GAAP net loss ratio	58.0%	59.7%
GAAP combined ratio	85.6%	85.1%
Paid loss ratio	73.0%	49.5%
	<b><u>December 31, 2008</u></b>	<b><u>December 31, 2007</u></b>
Total investments	\$ 4,804,283	\$ 4,672,277
Total assets	8,332,383	8,074,645
Shareholders' equity	2,639,341	2,440,365
Debt to total capital	11.6%	11.7%
Book value per share	\$ 23.27	\$ 21.21

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	<b>Twelve months ended December 31,</b>	
	<b>2008</b>	<b>2007</b>
Gross written premium	\$ 2,498,763	\$ 2,451,179
Net written premium	2,060,618	1,985,609
Net earned premium	2,007,774	1,985,086
Fee and commission income	125,201	140,092
Net investment income	164,751	206,462
Other operating income	9,638	43,545
Total revenue	2,279,423	2,388,373
Net earnings	304,768	395,429
Earnings per share (diluted)	2.64	3.38
Cash flow from operations	505,968	726,436
Weighted average shares outstanding (diluted)	115,474	116,997
GAAP net loss ratio	60.4%	59.6%
GAAP combined ratio	85.4%	83.4%
Paid loss ratio	58.1%	47.9%
	<b><u>December 31, 2008</u></b>	<b><u>December 31, 2007</u></b>
Total investments	\$ 4,804,283	\$ 4,672,277
Total assets	8,332,383	8,074,645
Shareholders' equity	2,639,341	2,440,365
Debt to total capital	11.6%	11.7%
Book value per share	\$ 23.27	\$ 21.21

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

	<u>December 31,</u> <u>2008</u>	<u>December 31,</u> <u>2007</u>
<b>ASSETS</b>		
Investments:		
Fixed income securities - available for sale	\$ 4,133,165	\$ 3,666,705
Fixed income securities - held to maturity	123,553	-
Short-term investments	497,477	783,650
Other investments	50,088	221,922
Total investments	<u>4,804,283</u>	<u>4,672,277</u>
Cash	27,347	39,135
Restricted cash and cash investments	174,905	193,151
Premium, claims and other receivables	770,823	763,401
Reinsurance recoverables	1,054,950	956,665
Ceded unearned premium	234,375	244,684
Ceded life and annuity benefits	64,235	66,199
Deferred policy acquisition costs	188,652	192,773
Goodwill	858,849	776,046
Other assets	153,964	170,314
<b>Total assets</b>	<u><u>\$ 8,332,383</u></u>	<u><u>\$ 8,074,645</u></u>
<b>LIABILITIES</b>		
Loss and loss adjustment expense payable	\$ 3,415,230	\$ 3,227,080
Life and annuity policy benefits	64,235	66,199
Reinsurance balances payable	122,189	129,838
Unearned premium	977,426	943,946
Deferred ceding commissions	63,123	68,968
Premium and claims payable	405,287	497,974
Notes payable	344,714	324,714
Accounts payable and accrued liabilities	300,838	375,561
<b>Total liabilities</b>	5,693,042	5,634,280
<b>SHAREHOLDERS' EQUITY</b>		
Common stock	116,457	115,069
Additional paid-in capital	861,867	831,419
Retained earnings	1,696,816	1,445,995
Accumulated other comprehensive income	27,536	47,882
Treasury stock	(63,335)	-
<b>Total shareholders' equity</b>	<u>2,639,341</u>	<u>2,440,365</u>
<b>Total liabilities and shareholders' equity</b>	<u><u>\$ 8,332,383</u></u>	<u><u>\$ 8,074,645</u></u>

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

	<b>Twelve months ended</b>		<b>Three months ended</b>	
	<b>December 31,</b>		<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>REVENUE</b>				
Net earned premium	\$ 2,007,774	\$ 1,985,086	\$ 502,646	\$ 500,178
Fee and commission income	125,201	140,092	25,643	34,097
Net investment income	164,751	206,462	33,919	58,409
Net realized investment gain (loss)	(27,941)	13,188	(9,151)	13,789
Other operating income (loss)	9,638	43,545	(1,191)	7,934
	<u>2,279,423</u>	<u>2,388,373</u>	<u>551,866</u>	<u>614,407</u>
<b>EXPENSE</b>				
Loss and loss adjustment expense, net	1,211,873	1,183,947	291,440	298,400
Policy acquisition costs, net	381,441	366,610	96,746	98,832
Other operating expense	233,509	241,642	59,089	72,416
Interest expense	16,288	10,304	4,771	3,138
	<u>1,843,111</u>	<u>1,802,503</u>	<u>452,046</u>	<u>472,786</u>
Earnings before income tax expense	436,312	585,870	99,820	141,621
Income tax expense	131,544	190,441	27,543	41,979
	<u>304,768</u>	<u>395,429</u>	<u>72,277</u>	<u>99,642</u>
<b>Net earnings</b>				
	<u>\$ 304,768</u>	<u>\$ 395,429</u>	<u>\$ 72,277</u>	<u>\$ 99,642</u>
<b>Basic earnings per share data:</b>				
Net earnings per share	<u>\$ 2.65</u>	<u>\$ 3.50</u>	<u>\$ 0.63</u>	<u>\$ 0.87</u>
Weighted average shares outstanding	<u>114,848</u>	<u>112,873</u>	<u>113,895</u>	<u>114,641</u>
<b>Diluted earnings per share data:</b>				
Net earnings per share	<u>\$ 2.64</u>	<u>\$ 3.38</u>	<u>\$ 0.63</u>	<u>\$ 0.85</u>
Weighted average shares outstanding	<u>115,474</u>	<u>116,997</u>	<u>114,111</u>	<u>117,085</u>
Cash dividends declared, per share	<u>\$ 0.470</u>	<u>\$ 0.420</u>	<u>\$ 0.125</u>	<u>\$ 0.110</u>

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

	Twelve months ended December 31,		Three months ended December 31,	
	2008	2007	2008	2007
<b>Operating activities:</b>				
Net earnings	\$ 304,768	\$ 395,429	\$ 72,277	\$ 99,642
Adjustments to reconcile net earnings to net cash provided by operating activities:				
Change in premium, claims and other receivables	46,985	97,304	24,280	33,567
Change in reinsurance recoverables	(98,354)	213,353	21,471	90,881
Change in ceded unearned premium	10,309	(18,436)	4,188	9,489
Change in loss and loss adjustment expense payable	188,264	129,203	(89,892)	(40,338)
Change in reinsurance balances payable	(8,014)	7,002	(3,670)	17,514
Change in unearned premium	33,526	21,498	(7,636)	(25,315)
Change in premium and claims payable, net of restricted cash	(80,219)	(164,977)	24,916	(91,298)
Change in trading portfolio	49,091	9,362	-	(4,764)
Stock-based compensation expense	13,638	12,011	3,648	2,820
Depreciation and amortization expense	14,308	15,982	3,872	4,357
(Gain) loss on investments	49,549	(58,736)	23,182	(23,179)
Other, net	(17,883)	67,441	28,157	38,201
<b>Cash provided by operating activities</b>	<u>505,968</u>	<u>726,436</u>	<u>104,793</u>	<u>111,577</u>
<b>Investing activities:</b>				
Sales of fixed income securities	583,211	438,057	161,534	216,235
Maturity or call of fixed income securities	323,998	302,876	68,559	68,441
Cost of securities acquired	(1,609,007)	(1,377,750)	(484,038)	(366,003)
Change in short-term investments	294,248	(72,279)	260,583	(62,090)
Proceeds from sales of strategic and other investments	77,097	46,612	22,742	3,615
Payments for purchase of businesses, net of cash received	(103,153)	(65,112)	(29,157)	(11,425)
Other, net	(7,996)	(9,741)	(4,793)	(2,662)
<b>Cash used by investing activities</b>	<u>(441,602)</u>	<u>(737,337)</u>	<u>(4,570)</u>	<u>(153,889)</u>
<b>Financing activities:</b>				
Advances on line of credit	181,000	232,000	75,000	170,000
Payments on line of credit and notes payable	(161,000)	(205,763)	(105,000)	(149,400)
Sale of common stock	18,198	24,533	4,314	5,196
Purchase of common stock	(63,335)	-	(41,465)	-
Dividends paid	(52,453)	(46,158)	(14,392)	(12,528)
Other, net	1,436	(2,866)	(11,577)	1,648
<b>Cash provided (used) by financing activities</b>	<u>(76,154)</u>	<u>1,746</u>	<u>(93,120)</u>	<u>14,916</u>
Net increase (decrease) in cash	(11,788)	(9,155)	7,103	(27,396)
Cash at beginning of period	<u>39,135</u>	<u>48,290</u>	<u>20,244</u>	<u>66,531</u>
<b>Cash at end of period</b>	<u>\$ 27,347</u>	<u>\$ 39,135</u>	<u>\$ 27,347</u>	<u>\$ 39,135</u>

**HCC Insurance Holdings, Inc. and Subsidiaries**  
**Insurance Company Premium**  
**December 31, 2008**  
(Unaudited, in thousands)

	Three months ended		Change %
	December 31, 2008	2007	
<b>GROSS WRITTEN</b>			
Diversified financial products	\$ 306,802	\$ 262,335	17 %
Group life, accident & health	200,689	196,459	2
Aviation	38,518	41,064	(6)
London market account	21,533	23,721	(9)
Other specialty lines	43,660	69,798	(37)
Discontinued lines	5	38	nm
	<u>\$ 611,207</u>	<u>\$ 593,415</u>	<u>3 %</u>
<b>NET WRITTEN</b>			
Diversified financial products	\$ 249,305	\$ 206,816	21 %
Group life, accident & health	194,367	189,460	3
Aviation	29,023	31,847	(9)
London market account	10,092	10,289	(2)
Other specialty lines	21,453	46,705	(54)
Discontinued lines	(4)	27	nm
	<u>\$ 504,236</u>	<u>\$ 485,144</u>	<u>4 %</u>
<b>NET EARNED PREMIUM</b>			
Diversified financial products	\$ 212,226	\$ 196,431	8 %
Group life, accident & health	195,075	186,667	5
Aviation	34,713	37,630	(8)
London market account	26,033	31,846	(18)
Other specialty lines	34,603	47,576	(27)
Discontinued lines	(4)	28	nm
	<u>\$ 502,646</u>	<u>\$ 500,178</u>	<u>0 %</u>

nm - Not meaningful comparison

**HCC Insurance Holdings, Inc. and Subsidiaries**  
**Insurance Company Premium**  
**December 31, 2008**  
(Unaudited, in thousands)

	Twelve months ended		Change %
	December 31, 2008	2007	
<b>GROSS WRITTEN</b>			
Diversified financial products	\$ 1,051,722	\$ 963,355	9 %
Group life, accident & health	829,903	798,684	4
Aviation	185,786	195,809	(5)
London market account	175,561	213,716	(18)
Other specialty lines	251,021	280,040	(10)
Discontinued lines	4,770	(425)	nm
	<u>\$ 2,498,763</u>	<u>\$ 2,451,179</u>	<u>2 %</u>
<b>NET WRITTEN</b>			
Diversified financial products	\$ 872,007	\$ 771,648	13 %
Group life, accident & health	789,479	759,207	4
Aviation	136,019	145,761	(7)
London market account	107,234	118,241	(9)
Other specialty lines	151,120	191,151	(21)
Discontinued lines	4,759	(399)	nm
	<u>\$ 2,060,618</u>	<u>\$ 1,985,609</u>	<u>4 %</u>
<b>NET EARNED PREMIUM</b>			
Diversified financial products	\$ 805,604	\$ 777,414	4 %
Group life, accident & health	777,268	758,516	2
Aviation	139,838	153,121	(9)
London market account	106,857	124,609	(14)
Other specialty lines	173,449	171,824	1
Discontinued lines	4,758	(398)	nm
	<u>\$ 2,007,774</u>	<u>\$ 1,985,086</u>	<u>1 %</u>

nm - Not meaningful comparison

**HCC Insurance Holdings, Inc. and Subsidiaries**  
**Investments - Selected Disclosures**  
**December 31, 2008**  
(Unaudited, in thousands)

	Amortized Cost	Fair Value	% of Portfolio	Average Ratings						
				AAA	AA	A	BBB	Below BBB	Other	Average
Fixed Income Securities	\$ 4,242,092	\$ 4,258,726	100.0%	\$ 2,227,314	\$ 1,327,871	\$ 582,594	\$ 112,856	\$ 4,259	\$ 3,832	AA+
<b>Residential Mortgage Backed Securities &amp; Collateralized Mortgage Obligations</b>										
Agency	\$ 685,486	\$ 723,468	17.0%	723,468	-	-	-	-	-	AAA
Non-Agency										
Prime	92,546	79,616	1.9%	55,778	800	10,389	11,149	1,500	-	AA
Alt A	9,409	7,559	0.2%	4,491	275	222	-	2,571	-	AA+
Subprime	2,478	2,313	0.1%	1,614	-	-	421	278	-	AA+
<b>Total Residential MBS/CMO</b>	<b>\$ 789,919</b>	<b>\$ 812,956</b>	<b>19.1%</b>							
<b>Agency Securities</b>										
Senior Agency Debt - FNMA / FHLMC	\$ 23,369	\$ 24,548	0.6%	24,548	-	-	-	-	-	AAA
<b>Corporate Bonds - Non Financial</b>	<b>\$ 274,437</b>	<b>\$ 273,269</b>	<b>6.4%</b>	39,221	24,650	169,752	39,646	-	-	A+
<b>Corporate Bonds - Financial</b>	<b>\$ 243,357</b>	<b>\$ 238,369</b>	<b>5.6%</b>	72,521	33,114	130,477	2,257	-	-	A+
<b>Commercial Mortgaged Backed Securities</b>	<b>\$ 173,245</b>	<b>\$ 145,760</b>	<b>3.4%</b>	145,760	-	-	-	-	-	AAA
<b>Municipal Bond Portfolio</b>	<b>\$ 1,982,321</b>	<b>\$ 1,991,535</b>	<b>46.8%</b>	523,774	1,214,238	196,764	56,759	-	-	AA
Insurance Enhanced	\$ 1,230,644	\$ 1,233,307	29.0%	207,319	790,796	179,939	55,253	-	-	AA
Insured - Underlying Ratings	\$ 1,230,644	\$ 1,233,307	29.0%	205,962	740,600	263,804	863	-	22,078	AA
Non-Insured	\$ 751,677	\$ 758,228	17.8%	315,706	425,346	17,176	-	-	-	AA+
<b>Asset Backed Securities</b>										
Auto	\$ 47,783	\$ 44,732	1.1%	39,317	2,051	1,891	1,473	-	-	AAA
Credit Card	9,558	9,158	0.2%	9,158	-	-	-	-	-	AAA
Home Equity	2,386	2,133	0.1%	2,133	-	-	-	-	-	AAA
Other	3,934	2,722	0.1%	1,342	-	1,380	-	-	-	AA
<b>Total Asset Backed Securities*</b>	<b>\$ 63,661</b>	<b>\$ 58,745</b>	<b>1.4%</b>							

**Notes:**

There are no CDOs/CLOs in the portfolio.

Other Ratings are bonds with at least one enhanced rating; each issuer has an equivalent investment grade rating.

Received paydown of \$0.9 million for fourth quarter 2008 and \$5.0 million for full year 2008 on subprime and Alt A securities.

\*Weighted average life of Asset Backed Securities is 1.6 years.



**HCC Insurance Holdings, Inc. and Subsidiaries**  
**Net Investment Income and Unrealized Gains and Losses**  
**Selected Disclosures**  
**December 31, 2008**  
(Unaudited, in thousands)

	<b>Twelve months ended</b>		<b>Three months ended</b>	
	<b>December 31,</b>		<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Sources of net investment income:</b>				
Fixed income securities				
Taxable	\$ 98,538	\$ 88,550	\$ 25,822	\$ 23,889
Exempt from U.S income taxes	76,172	62,044	19,377	17,297
	<hr/>	<hr/>	<hr/>	<hr/>
Total fixed income securities	174,710	150,594	45,199	41,186
Short-term investments	24,173	37,764	3,765	9,534
Alternative investments	(30,766)	23,930	(14,031)	9,390
Other investments	575	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total investment income	168,692	212,288	34,933	60,110
Investment expense	(3,941)	(5,826)	(1,014)	(1,701)
	<hr/>	<hr/>	<hr/>	<hr/>
Net investment income	<u>\$ 164,751</u>	<u>\$ 206,462</u>	<u>\$ 33,919</u>	<u>\$ 58,409</u>
 <b>Unrealized gains and losses:</b>				
Change in unrealized gain/loss for period	<u>\$ (10,412)</u>	<u>\$ 26,663</u>	<u>\$ 112,688</u>	<u>\$ 31,651</u>
Unrealized gain/loss at December 31, 2008	<u>\$ 14,626</u>	<u>\$ 25,038</u>		

**HCC Insurance Holdings, Inc. and Subsidiaries**  
**Subprime Liability Exposure**  
**December 31, 2008**

- As of December 31, the Company had 57 “non-Side A only” D&O, E&O and Fiduciary Liability claims and 15 “Side A only” D&O claims relating to subprime issues.
- Of the D&O claims reported, two are on primary policies with gross policy limits totaling \$9 million. The remaining D&O claims are on excess policies.
- The average policy limit on the “non-Side A only” claims is \$13.4 million gross and \$9.0 million net, with an average attachment point of \$89 million.
- The average policy limit for “Side A only” claims is \$14.5 million gross and \$11.5 million net, with an average attachment point of \$176 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.

**HCC Insurance Holdings, Inc. and Subsidiaries**  
**Consolidated Insurance Companies**  
**Net Loss Ratios**  
**December 31, 2008**  
(Unaudited, in thousands)

Line of Business	Full Year 2008			Full Year 2007		
	Net Earned Premium	Incurred Losses	Loss Ratio	Net Earned Premium	Incurred Losses	Loss Ratio
Diversified financial products	\$ 805,604	\$ 387,718	48.1 %	\$ 777,414	\$ 315,409	40.6 %
Group life, accident & health	777,268	567,947	73.1	758,516	579,780	76.4
Aviation	139,838	87,525	62.6	153,121	89,683	58.6
London market account	106,857	49,571	46.4	124,609	68,798	55.2
Other specialty lines	173,449	116,526	67.2	171,824	115,804	67.4
Discontinued lines	4,758	2,586	nm	(398)	14,473	nm
<b>Total</b>	<b>\$ 2,007,774</b>	<b>\$ 1,211,873</b>	<b>60.4 %</b>	<b>\$ 1,985,086</b>	<b>\$ 1,183,947</b>	<b>59.6 %</b>

nm - Not meaningful comparison