

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

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2010</b>	<b>2009</b>
	<hr/>	<hr/>
Gross written premium	\$ 622,496	\$ 602,387
Net written premium	498,251	491,250
Net earned premium	509,587	502,388
Fee and commission income	20,993	30,294
Net investment income	49,249	45,218
Other operating income	9,906	22,896
Total revenue	594,260	600,738
Net earnings	71,354	83,170
Earnings per share (diluted)	\$ 0.62	\$ 0.73
Weighted-average shares outstanding (diluted) (millions)	114.1	113.3
GAAP net loss ratio	64.1%	62.8%
GAAP combined ratio	90.3%	87.3%
Paid loss ratio	60.4%	54.0%
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	<b>March 31,</b>	<b>December 31,</b>
	<b>2010</b>	<b>2009</b>
	<hr/>	<hr/>
Total investments	\$ 5,519,315	\$ 5,456,229
Total assets	8,867,669	8,834,391
Shareholders' equity	3,093,828	3,031,183
Debt to total capital ratio	8.8%	9.0%
Book value per share	\$ 26.91	\$ 26.58

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

	<u>March 31,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>
<b>ASSETS</b>		
Investments:		
Fixed income securities - available for sale, at fair value	\$ 4,802,585	\$ 4,538,073
Fixed income securities - held to maturity, at amortized cost	135,619	102,792
Short-term investments	576,576	810,673
Other investments	4,535	4,691
Total investments	<u>5,519,315</u>	<u>5,456,229</u>
Cash	59,892	129,460
Restricted cash and cash investments	146,512	146,133
Premium, claims and other receivables	641,341	600,332
Reinsurance recoverables	1,028,948	1,016,411
Ceded unearned premium	261,256	270,436
Ceded life and annuity benefits	60,603	61,313
Deferred policy acquisition costs	209,083	208,463
Goodwill	821,698	822,006
Other assets	<u>119,021</u>	<u>123,608</u>
<b>Total assets</b>	<u><u>\$ 8,867,669</u></u>	<u><u>\$ 8,834,391</u></u>
<b>LIABILITIES</b>		
Loss and loss adjustment expense payable	\$ 3,495,705	\$ 3,492,309
Life and annuity policy benefits	60,603	61,313
Reinsurance balances payable	157,735	182,661
Unearned premium	1,022,950	1,044,747
Deferred ceding commissions	67,876	71,595
Premium and claims payable	174,164	154,596
Notes payable	298,522	298,483
Accounts payable and accrued liabilities	<u>496,286</u>	<u>497,504</u>
<b>Total liabilities</b>	<u>5,773,841</u>	<u>5,803,208</u>
<b>SHAREHOLDERS' EQUITY</b>		
Common stock	119,650	118,724
Additional paid-in capital	923,666	914,339
Retained earnings	2,033,063	1,977,254
Accumulated other comprehensive income	116,248	119,665
Treasury stock	<u>(98,799)</u>	<u>(98,799)</u>
<b>Total shareholders' equity</b>	<u>3,093,828</u>	<u>3,031,183</u>
<b>Total liabilities and shareholders' equity</b>	<u><u>\$ 8,867,669</u></u>	<u><u>\$ 8,834,391</u></u>

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

	Three months ended	
	March 31,	
	2010	2009
<b>REVENUE</b>		
Net earned premium	\$ 509,587	\$ 502,388
Fee and commission income	20,993	30,294
Net investment income	49,249	45,218
Other operating income	9,906	22,896
Net realized investment gain	4,525	3,055
Other-than-temporary impairment loss:		
Total loss	-	(3,113)
Portion recognized in equity, before tax	-	-
Net loss recognized in earnings	-	(3,113)
<b>Total revenue</b>	594,260	600,738
<b>EXPENSE</b>		
Loss and loss adjustment expense, net	326,521	315,566
Policy acquisition costs, net	92,656	88,692
Other operating expense	66,668	68,998
Interest expense	5,390	4,639
<b>Total expense</b>	491,235	477,895
Earnings before income tax expense	103,025	122,843
Income tax expense	31,671	39,673
<b>Net earnings</b>	\$ 71,354	\$ 83,170
<b>Basic earnings per share data:</b>		
Net earnings per share	\$ 0.62	\$ 0.73
Weighted-average shares outstanding (millions)	113.7	112.8
<b>Diluted earnings per share data:</b>		
Net earnings per share	\$ 0.62	\$ 0.73
Weighted-average shares outstanding (millions)	114.1	113.3
Cash dividends declared, per share	\$ 0.135	\$ 0.125

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

	Three months ended March 31,	
	2010	2009
<b>Operating activities</b>		
Net earnings	\$ 71,354	\$ 83,170
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Change in premium, claims and other receivables	(24,890)	(28,719)
Change in reinsurance recoverables	(21,839)	(29,973)
Change in ceded unearned premium	7,548	(217)
Change in loss and loss adjustment expense payable	28,921	67,544
Change in reinsurance balances payable	(23,913)	11,481
Change in unearned premium	(17,600)	(11,335)
Change in premium and claims payable, net of restricted cash	19,413	8,859
Change in accounts payable and accrued liabilities	(18,215)	(7,556)
Stock-based compensation expense	3,080	4,783
Depreciation and amortization expense	3,971	3,579
(Gain) loss on investments	(5,011)	1,020
Other, net	19,657	30,966
<b>Cash provided by operating activities</b>	42,476	133,602
<b>Investing activities</b>		
Sales of available for sale fixed income securities	67,689	119,092
Maturity or call of available for sale fixed income securities	115,793	69,280
Maturity or call of held to maturity fixed income securities	8,260	85,821
Cost of available for sale fixed income securities acquired	(381,704)	(210,093)
Cost of held to maturity fixed income securities acquired	(44,901)	(59,515)
Change in short-term investments	223,947	(177,715)
Proceeds from sales of strategic and other investments	-	48,579
Payments for purchase of businesses, net of cash received	(36,348)	(32,966)
Proceeds from sale of subsidiary	14,851	-
Other, net	(3,824)	(3,482)
<b>Cash used by investing activities</b>	(36,237)	(160,999)
<b>Financing activities</b>		
Advances on line of credit	-	80,000
Sale of common stock	7,173	2,090
Payments on convertible notes	(64,472)	-
Purchase of common stock	-	(35,464)
Dividends paid	(15,460)	(14,182)
Other, net	(3,048)	619
<b>Cash provided (used) by financing activities</b>	(75,807)	33,063
Net increase (decrease) in cash	(69,568)	5,666
Cash at beginning of year	129,460	27,347
<b>Cash at end of period</b>	\$ 59,892	\$ 33,013

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

	Three months ended		
	March 31,		
	2010	2009	Change
<b>Diversified financial products</b>			
D&O (1)	\$ 84,168	\$ 94,284	(11) %
E&O (2)	56,348	62,359	(10)
Other	16,412	25,774	(36)
U.S. Surety & Credit	54,021	44,133	22
International Surety & Credit	21,305	18,562	15
	<u>232,254</u>	<u>245,112</u>	<u>(5)</u>
<b>Group life, accident &amp; health</b>			
Medical Stop-loss	161,766	159,486	1
Other Medical	22,318	31,606	(29)
Other	22,298	25,901	(14)
	<u>206,382</u>	<u>216,993</u>	<u>(5)</u>
<b>Aviation</b>	<u>37,521</u>	<u>41,952</u>	<u>(11)</u>
<b>London market account</b>			
Energy	16,582	14,814	12
Property treaty	37,630	-	nm
Other	39,750	29,935	33
	<u>93,962</u>	<u>44,749</u>	<u>110</u>
<b>Other specialty lines</b>			
Public Risk	16,712	19,934	(16)
HCC Lloyd's	17,602	11,222	57
Other	18,021	22,421	(20)
	<u>52,335</u>	<u>53,577</u>	<u>(2)</u>
<b>Discontinued lines</b>	42	4	nm
<b>Total</b>	<u>\$ 622,496</u>	<u>\$ 602,387</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 Written Premium**  
(Unaudited, in thousands)

	Three months ended March 31,		
	2010	2009	Change
<b>Diversified financial products</b>			
D&O (1)	\$ 55,956	\$ 67,467	(17) %
E&O (2)	47,963	54,652	(12)
Other	12,921	21,832	(41)
U.S. Surety & Credit	47,419	42,402	12
International Surety & Credit	19,636	17,010	15
	<u>183,895</u>	<u>203,363</u>	<u>(10)</u>
<b>Group life, accident &amp; health</b>			
Medical Stop-loss	161,766	159,484	1
Other Medical	22,318	31,606	(29)
Other	5,148	7,966	(35)
	<u>189,232</u>	<u>199,056</u>	<u>(5)</u>
<b>Aviation</b>	<u>26,021</u>	<u>30,611</u>	<u>(15)</u>
<b>London market account</b>			
Energy	9,842	6,177	59
Property treaty	35,257	-	nm
Other	23,451	20,217	16
	<u>68,550</u>	<u>26,394</u>	<u>nm</u>
<b>Other specialty lines</b>			
Public Risk	9,205	15,116	(39)
HCC Lloyd's	16,273	9,681	68
Other	5,033	7,025	(28)
	<u>30,511</u>	<u>31,822</u>	<u>(4)</u>
<b>Discontinued lines</b>	42	4	nm
<b>Total</b>	<u>\$ 498,251</u>	<u>\$ 491,250</u>	<u>1 %</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.

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

	Three months ended March 31,		
	2010	2009	Change
<b>Diversified financial products</b>			
D&O (1)	\$ 92,918	\$ 82,802	12 %
E&O (2)	53,893	59,405	(9)
Other	11,826	10,976	8
U.S. Surety & Credit	46,749	44,492	5
International Surety & Credit	18,189	16,409	11
	<u>223,575</u>	<u>214,084</u>	<u>4</u>
<b>Group life, accident &amp; health</b>			
Medical Stop-loss	161,766	159,483	1
Other Medical	25,021	33,053	(24)
Other	6,855	8,552	(20)
	<u>193,642</u>	<u>201,088</u>	<u>(4)</u>
<b>Aviation</b>	<u>28,943</u>	<u>32,814</u>	<u>(12)</u>
<b>London market account</b>			
Energy	16,187	9,235	75
Property treaty	6,754	-	nm
Other	13,227	14,439	(8)
	<u>36,168</u>	<u>23,674</u>	<u>53</u>
<b>Other specialty lines</b>			
Public Risk	11,490	8,620	33
HCC Lloyd's	10,185	10,790	(6)
Other	5,542	11,314	(51)
	<u>27,217</u>	<u>30,724</u>	<u>(11)</u>
<b>Discontinued lines</b>	42	4	nm
<b>Total</b>	<u>\$ 509,587</u>	<u>\$ 502,388</u>	<u>1 %</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)

	Three months ended March 31,	
	2010	2009
<b>Sources of net investment income:</b>		
Fixed income securities		
Taxable	\$ 26,868	\$ 25,105
Exempt from U.S. income taxes	21,731	20,333
Total fixed income securities	48,599	45,438
Short-term investments	190	884
Other	1,508	(52)
Total investment income	50,297	46,270
Investment expense	(1,048)	(1,052)
<b>Net investment income</b>	<b>\$ 49,249</b>	<b>\$ 45,218</b>

**Unrealized gain on available for sale  
fixed income securities:**

Increase in unrealized gain for period, before tax	\$ 7,572	\$ 45,351
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Unrealized gain at:

March 31, 2010	\$ 163,883
December 31, 2009	\$ 156,311

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

	Three months ended March 31, 2010		Three months ended March 31, 2009		Twelve months ended December 31, 2009	
	Net Earned Premium	Loss Ratio	Net Earned Premium	Loss Ratio	Net Earned Premium	Loss Ratio
<b>Diversified financial products</b>						
D&O (1)	\$ 92,918	63.1 %	\$ 82,802	60.7 %	\$ 371,650	61.2 %
E&O (2)	53,893	57.1	59,405	55.2	234,768	49.6
Other	11,826	34.2	10,976	50.0	39,123	43.4
U.S. Surety & Credit	46,749	26.5	44,492	30.5	182,627	29.9
International Surety & Credit	18,189	44.0	16,409	53.0	68,162	50.9
	<u>223,575</u>	<u>50.9</u>	<u>214,084</u>	<u>51.8</u>	<u>896,330</u>	<u>50.2</u>
<b>Group life, accident &amp; health</b>						
Medical Stop-loss	161,766	73.9	159,483	72.6	633,572	71.7
Other Medical	25,021	76.9	33,053	88.7	134,161	86.0
Other	6,855	54.2	8,552	57.1	29,887	43.6
	<u>193,642</u>	<u>73.6</u>	<u>201,088</u>	<u>74.6</u>	<u>797,620</u>	<u>73.0</u>
<b>Aviation</b>	<u>28,943</u>	<u>56.6</u>	<u>32,814</u>	<u>61.3</u>	<u>129,626</u>	<u>56.6</u>
<b>London market account</b>						
Energy	16,187	77.8	9,235	29.5	49,116	24.0
Property treaty	6,754	177.0	-	-	-	-
Other	13,227	80.7	14,439	48.8	54,043	41.5
	<u>36,168</u>	<u>97.4</u>	<u>23,674</u>	<u>41.3</u>	<u>103,159</u>	<u>33.1</u>
<b>Other specialty lines</b>						
Public Risk	11,490	70.0	8,620	68.8	39,986	66.3
HCC Lloyd's	10,185	61.2	10,790	67.4	40,273	69.1
Other	5,542	78.7	11,314	103.4	30,114	49.6
	<u>27,217</u>	<u>68.5</u>	<u>30,724</u>	<u>81.0</u>	<u>110,373</u>	<u>62.8</u>
<b>Discontinued lines</b>	42	nm	4	nm	127	nm
<b>Total</b>	<u>\$ 509,587</u>	<u>64.1 %</u>	<u>\$ 502,388</u>	<u>62.8 %</u>	<u>\$ 2,037,235</u>	<u>59.7 %</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**  
**Subprime Liability Exposure**  
**March 31, 2010**

- As of March 31, the Company had 77 “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 \$13.3 million gross and \$9.1 million net, with an average attachment point of \$85 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.