

HCC INSURANCE HOLDINGS (INTERNATIONAL) LIMITED

FINANCIAL STATEMENTS

Year ended 31 December 2009

THURSDAY



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COMPANIES HOUSE

Walsingham House,
35, Seething Lane,
London EC3N 4AH

HCC INSURANCE HOLDINGS (INTERNATIONAL) LIMITED

COMPANY INFORMATION

DIRECTORS

B J Cook
R L Hughes
B R A Merriman
R D Runicella

COMPANY SECRETARY

R L Hughes

REGISTERED NUMBER

3671966

REGISTERED OFFICE

Walsingham House,
35, Seething Lane,
London EC3N 4AH

SOLICITORS

Edwards Angell Palmer & Dodge UK LLP
1, Fetter Lane,
London EC4A 1JB

AUDITORS

PricewaterhouseCoopers LLP
Hay's Galleria,
1, Hay's Lane,
London SE1 2RD

HCC INSURANCE HOLDINGS (INTERNATIONAL) LIMITED

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HCC INSURANCE HOLDINGS (INTERNATIONAL) LIMITED REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the company for the year ended 31 December 2009

Directors

The directors set out below have held office during the year unless otherwise stated

B J Cook
R L Hughes
B R A Merriman
R D Rmicella

Principal activity

The company acts as a holding company. The principal subsidiaries are HCC International Insurance Company PLC, underwriting Credit, Surety, Accident & Health, Fire, Marine Transport and Property business, and Houston Casualty Company Europe, Seguros y Reaseguros, S A underwriting Public Liability, Surety, Accident, Fire and Multi-risk business

Business Review

Results and dividends

The results of the company for the year, as set out on page 6, show a profit on ordinary activities before tax of \$1,312,346 (2008 \$21,485,606). The company acts as a holding company within the HCC group structure, it does not actively trade on its own account but allows for the flow of dividends, when appropriate, from its subsidiaries up to its parent. No interim dividends were paid during the year (2008 \$11,859,869) and the directors do not recommend the payment of a final dividend.

Key performance indicators

The directors do not consider that, in the above-mentioned circumstances, key performance indicators are applicable to the company.

Future outlook and subsequent events

The company's subsidiaries continue to generate a satisfactory rate of return thereby justifying the cost of the investments. Whether or not dividends will be declared at any time is a strategic decision resting with the company's ultimate parent. At this time there are no known circumstances which would result in a material change to the present operations of this company. On 10 March 2010, the company received \$30,000,000 from its subsidiary company, HCC Specialty Holdings (No 1) Limited, by way of its purchase of 30,000,000 of its own ordinary shares of \$1 each at a price of \$1 each. On receipt of these funds the Company repaid US\$30,000,000 from the outstanding loans from its parent company HCC Insurance Holdings Inc.

Risk assessment

The directors of the company have assessed the risks to which the company is exposed and consider the following as the material risks:-

- **Currency risk**

The Company is exposed to currency risk in respect of assets and liabilities denominated in currencies other than US Dollars. The risk is mitigated by holding matching liabilities and assets in the relevant currency wherever possible.

- **Investment risk**

The Company is exposed to investment risk in respect of impairment of investments held in subsidiary undertakings. The risk is controlled by regular management review of the trading results of the subsidiaries held.

HCC INSURANCE HOLDINGS (INTERNATIONAL) LIMITED REPORT OF THE DIRECTORS

Statement of directors' responsibilities

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 the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Charitable and political donations

The Company did not make any political or charitable donations during the year ended 31 December 2009 (2008: \$nil).

Statement of disclosure of information to auditors

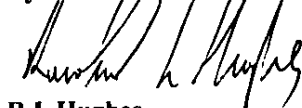
Each of the persons who is a director at the date of approval of this report confirms that

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- he has taken all steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of the information.

Auditors

In accordance with the provisions of Companies Act 2006 the company has dispensed with the holding of an Annual General Meeting. PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditors and the directors have approved their reappointment.

By order of the board



R L Hughes
Company Secretary
Walsingham House,
35, Seething Lane,
London EC3N 4AH

29 September 2010

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HCC INSURANCE HOLDINGS (INTERNATIONAL) LIMITED

We have audited the financial statements of HCC Insurance Holdings (International) Limited for the year ended 31 December 2009 which comprise the Profit and Loss Account, the Balance Sheet, the Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 4 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



Alex Bertolotti (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

29 September 2010

HCC INSURANCE HOLDINGS (INTERNATIONAL) LIMITED
PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2009

	Notes	Year ended 31 December 2009 \$	Year ended 31 December 2008 \$
Revenue			
Income from shares in group undertakings		4,808,100	25,792,708
Operating profit		4,808,100	25,792,708
Foreign exchange (losses)/gains		(83,116)	337,738
Other interest receivable and similar income	.	4	2,489
Interest payable and similar charges	8	(1,673,629)	(3,498,046)
Operating expenses		(1,739,013)	(1,149,283)
Profit on ordinary activities before taxation	1	1,312,346	21,485,606
Tax on profit on ordinary activities	4	-	166,144
Profit for the financial year		1,312,346	21,651,750

The company has no recognised gains and losses other than the profit for the year
The company's turnover and expenses all relate to continuing operations

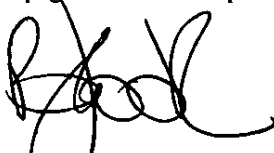
HCC INSURANCE HOLDINGS (INTERNATIONAL) LIMITED
BALANCE SHEET

As at 31 December 2009

	Notes	31 December 2009 \$	31 December 2008 \$
Assets employed			
Fixed assets			
Investments in group undertakings	6	243,344,725	243,344,725
Current assets			
Cash at bank and in hand		1,621,438	192,054
Debtors	7	93,251	205,245
		1,714,689	397,299
Creditors: amounts falling due within one year	8	(605,229)	(600,185)
Net current assets / (liabilities)		1,109,460	(202,886)
Total assets less current liabilities		244,454,185	243,141,839
Creditors: amounts falling due after one year	8	(64,044,926)	(64,044,926)
Net assets		180,409,259	179,096,913
Financed by			
Share capital and reserves			
Called-up share capital	9	160,832,447	160,832,447
Profit and loss account	10	19,576,812	18,264,466
		180,409,259	179,096,913

The accounting policies and notes on pages 8 to 13 form part of these financial statements

Authorised by the board
and signed on its behalf by


HJ Cook
Director

29 September 2010

HCC INSURANCE HOLDINGS (INTERNATIONAL) LIMITED ACCOUNTING POLICIES

Basis of accounting

The financial statements are prepared on the going concern basis under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting standards. The principal accounting policies are set out below.

Cash flow statement and related party disclosures

The Company is a wholly owned subsidiary of HCC Insurance Holdings Inc. and is included in the consolidated financial statements of that company which are publicly available; the company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS1. The company is also exempt under the terms of FRS8 from disclosing related party transactions with entities that are part of the HCC Insurance Holdings Inc. Group, or investees of the HCC Insurance Holdings Inc. Group.

Revenue

Income from shares in group undertakings relates to dividends which are credited when received.

Interest receivable

Interest on deposits and fixed interest investments is credited as it is earned.

Exchange rate

The company records transactions in currencies other than its reporting currency ("foreign" currencies) at the rate of exchange at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates ruling at the balance sheet date which for £ Sterling was £1 = \$1.5928 (2008 \$1.4479). The accounting records are maintained in US Dollars; daily rates have been applied to transactions in foreign currencies included in the profit and loss account.

Functional currency

The company's income and major expenses are paid in US Dollars. The company is also financed largely in US Dollars with inter-group debt and pays dividends in US Dollars; additionally the ultimate parent of this company and its subsidiaries are based in the USA and all group reporting is in US Dollars. In the opinion of the directors the US Dollar is the currency of the primary economic environment in which the company operates; accordingly the accounts are prepared using the US Dollar as the functional currency.

Dividends

Dividends paid and received are accounted for in the year in which they are paid and received respectively.

Investments in group undertakings

Investments in group undertakings are stated in the balance sheet of the company at cost less any provisions for impairment.

Taxation

Corporation tax is provided at the current rate of taxation on the result for the year as adjusted for items of income and expenditure which are disallowed for taxation purposes.

Interest payable and similar charges

Interest on long term loans is accounted for in the year in which they are payable.

HCC INSURANCE HOLDINGS (INTERNATIONAL) LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

1. Profit on ordinary activities before taxation

	31 December 2009	31 December 2008
	\$	\$
Profit on ordinary activities before taxation of the company is stated after charging -		
Audit services – fees payable to the company's auditor for -		
Company accounts	6,689	11,438
The audit of the company's subsidiaries pursuant to legislation		
Pepys Holdings Limited	-	6,660
HCC Specialty Holdings (No 1) Limited	4,938	5,068
HCCI Group	5,734	5,068

Pepys Holdings Limited bears the cost of its own audit fees for the current year

Staff costs

The Company has no employees (2008 - Nil) and no remuneration is charged in the accounts

2. Directors' remuneration

No emoluments were paid by this company to any director, nor were any benefits accrued under any pension schemes, in respect of their services to the Company. All directors are remunerated by fellow group subsidiaries and their details disclosed, where relevant, by those subsidiaries. No recharge of their emoluments is made by any company to this company.

3. Auditors' remuneration

During the year the Company obtained the following services from the Company's auditor at costs as detailed below

	31 December 2009	31 December 2008
	\$	\$
Non-audit services		
Tax services	59,284	119,640

4. Taxation

	31 December 2009	31 December 2008
	\$	\$
(a) Analysis of charge in year		
UK corporation tax on profits of the year	-	-
Prior year adjustment	-	(166,144)
	<hr/>	<hr/>
Total current tax (note 4b)	-	(166,144)
	<hr/>	<hr/>

HCC INSURANCE HOLDINGS (INTERNATIONAL) LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

4 Taxation (continued)

(b) Factors affecting tax charge for year

The tax assessed for the period is lower (2008 – lower) than the standard effective rate of corporation tax in the UK for the year ended 31 December 2009 of 28% (2008 – 28.5%). The differences are explained below

	31 December 2009	31 December 2008
	\$	\$
Profit / (loss) on ordinary activities before tax	1,312,346	21,485,606
Profit / (loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2008 28.5%)	367,457	6,123,398
Effects of -		
Non-taxable income UK group dividends	(1,346,268)	(7,350,922)
Prior years' loan interest previously disallowed, now deductible		
2007 - \$4,849,645 at 30%	-	(1,454,894)
2006 - \$4,980,135 at 30%	-	(1,494,041)
2005 - \$3,052,697 at 30%	-	(915,809)
Disallowable legal expenses and tax fees	-	6,226
Other non trading net expenditure	2,625	-
Prior year adjustment	-	166,144
Amount available for group relief	976,186	5,086,042
Current tax charge / (credit) for the year (note 4a)	-	(166,144)

5. Dividends

	31 December 2009		31 December 2008	
	Cents per share	Total \$	Cents per share	Total \$
Dividends on equity shares -				
First interim dividend paid on				
Ordinary shares of £1 each	-	11.9261	1,198,495	
Ordinary shares of \$1 each	-	7.3741	10,661,374	
	-		11,859,869	

6. Investments in group undertakings

	2009	2008
	\$	\$
Cost at 1 January and 31 December 2009	243,344,725	243,344,725

On 10 March 2010, the company received \$30,000,000 from its subsidiary company, HCC Specialty Holdings (No 1) Limited, by way of its purchase of 30,000,000 of its own ordinary shares of \$1 each at a price of \$1 each, consequently the investment in group undertakings has reduced by \$30,000,000

HCC INSURANCE HOLDINGS (INTERNATIONAL) LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

6. Investments in group undertakings (continued)

Investments comprise the equity holdings, at cost, in subsidiary companies -

Name	Principle activity	Class of shares	Effective % held
HCC Specialty Holdings (No 1) Limited	Holding Company	Ordinary	100%
Pepys Holdings Limited*	Holding Company	Ordinary	100%
Houston Casualty Company Europe Seguros y Reaseguros SA, incorporated in Spain *	Insurance Company	Class A and Class B	100%
HCCI Group Limited*	Holding Company	Ordinary	100%
HCC International Insurance Company plc*	Insurance Company	Ordinary	100%
HCC Trustees Limited *	Trustee Company	Ordinary	100%
Rattner Mackenzie Limited (RML) (Jordan Exempt Company)* incorporated in Jordan	Insurance Broking	Ordinary	100%
Manchester Dickson Holdings Limited*	Holding Company	Ordinary	100%
Dickson Manchester & Company Limited*	Insurance Broking	Ordinary	100%
HCC Diversified Financial Products Limited*	Insurance Agency	Ordinary	100%
HCCI Credit Services Limited*	Information Provider	Ordinary	100%
Pepys Management Services Limited*	Management Services	Ordinary	100%

* Indirect holding via subsidiary

All subsidiary companies are incorporated in England and Wales unless stated above

7. Debtors

	31 December 2009	31 December 2008
	\$	\$
Amounts falling due within one year.-		
Amounts owed by group undertakings	73,460	146,174
Other debtors	19,791	59,071
	<hr/>	<hr/>
	93,251	205,245
	<hr/>	<hr/>

There are no amounts falling due after more than one year

8. Creditors

	31 December 2009	31 December 2008
	\$	\$
Amounts falling due within one year -		
Amounts owed to group undertakings	586,115	556,632
Other creditors and accruals	19,114	43,553
Corporation tax	-	-
	<hr/>	<hr/>
	605,229	600,185
	<hr/>	<hr/>

Amounts falling due after more than one year

Amounts owed to group undertakings	64,044,926	64,044,926
	<hr/>	<hr/>

Amounts owed to group undertakings represent loans from the company's parent in connection with the acquisitions of Pepys Holdings Limited and Manchester Dickson Holdings Limited. The loans attract interest at 1.5% above the three month LIBOR rate and are repayable within 5 years.

On 10 March 2010, the company received \$30,000,000 from its subsidiary company, HCC Specialty Holdings (No 1) Limited, by way of its purchase of 30,000,000 of its own ordinary shares of \$1 each at a price of \$1 each. On receipt of these funds the Company repaid US\$30,000,000 of the outstanding loans from its parent company HCC Insurance Holdings Inc.

HCC INSURANCE HOLDINGS (INTERNATIONAL) LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

9 Share capital

	Authorised		Issued and fully paid	
	31 December 2009	31 December 2008	31 December 2009	31 December 2008
Number of shares				
Ordinary voting shares of £1 each	10,049,385	10,049,385	10,049,385	10,049,385
Ordinary voting shares of \$1 each	144,579,577	144,579,577	144,579,577	144,579,577
Translated to US Dollars			\$	\$
Ordinary voting shares of £1 each			16,252,870	16,252,870
Ordinary voting shares of \$1 each			144,579,577	144,579,577
Ordinary shares			160,832,447	160,832,447

The £ Sterling shares are converted to Dollars at the rate of £1 = US\$1 6173, this was the closing rate on 31 December 1999 when the capital was issued

10. Reconciliation of movement in shareholders' funds

	Share capital \$	Profit and loss account \$	Total \$
At 1 January 2008	160,832,447	8,472,585	169,305,032
Profit for the year		21,651,750	21,651,750
Dividends		(11,859,869)	(11,859,869)
At 31 December 2008	160,832,447	18,264,466	179,096,913
At 1 January 2009	160,832,447	18,264,466	179,096,913
Profit for the year		1,312,346	1,312,346
At 31 December 2009	160,832,447	19,576,812	180,409,259

11. Subsequent events

On 10 March 2010, the company received \$30,000,000 from its subsidiary company, HCC Specialty Holdings (No 1) Limited, by way of its purchase of 30,000,000 of its own ordinary shares of \$1 each at a price of \$1 each. On receipt of these funds the Company repaid US\$30,000,000 from the outstanding loans from its parent company HCC Insurance Holdings Inc.

On 10 March 2010 the Company repaid US\$30,000,000 of the outstanding loans from its parent company HCC Insurance Holdings Inc.

HCC INSURANCE HOLDINGS (INTERNATIONAL) LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

12 Ultimate parent company

HCC Insurance Holdings Inc , incorporated in the USA and listed on the New York Stock Exchange, is the Company's immediate parent company and also is regarded by the directors as the Company's ultimate parent company. The largest and smallest group in which the results of the Company are consolidated is that of which HCC Insurance Holdings Inc is the parent company. The consolidated accounts of HCC Insurance Holdings Inc may be obtained from that company's principal office at 13403, Northwest Freeway, Houston, Texas 77040-6094, USA. Consolidated accounts are not prepared by this company as it claims exemption from the requirement to produce such accounts by virtue of s401 CA2006 in that the ultimate parent company's published accounts are considered to be compatible with the requirements of the European Union's 7th Directive.