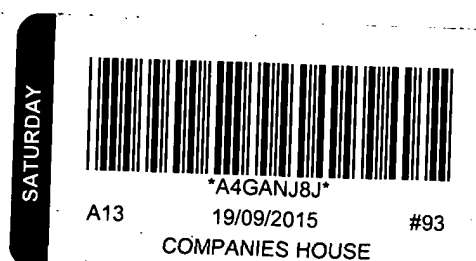


HCC INSURANCE HOLDINGS (INTERNATIONAL) LIMITED

FINANCIAL STATEMENTS

Year ended 31 December 2014

Walsingham House
35 Seething Lane
London EC3N 4AH



HCC INSURANCE HOLDINGS (INTERNATIONAL) LIMITED

CONTENTS

	PAGE
Company Information	2
Directors' Report	3
Independent auditor's report	6
Profit and loss account	7
Balance sheet	8
Accounting policies	9
Notes to the financial statements	10

HCC INSURANCE HOLDINGS (INTERNATIONAL) LIMITED

COMPANY INFORMATION

DIRECTORS

B J Cook
R L Hughes FCA
K L Letsinger BSc, CPA
R D Rinicella

COMPANY SECRETARY

R L Hughes
J L Holliday ACIS (appointed 1 May 2015)

REGISTERED NUMBER

03671966

REGISTERED OFFICE

Walsingham House
35 Seething Lane
London EC3N 4AH

INDEPENDENT AUDITORS

Moore Stephens LLP
Chartered Accountants and Statutory Auditors
150 Aldersgate Street
London EC1A 4AB

HCC INSURANCE HOLDINGS (INTERNATIONAL) LIMITED

DIRECTORS' REPORT

The directors present their Directors' Report and the audited financial statements of the Company for the year ended 31 December 2014.

Directors

The directors of the Company who were in office during the year and up to the date of signing the financial statements were:

B J Cook (Chairman)

R L Hughes

K L Letsinger

R D Rinicella

Principal activity

The Company acts as a UK investment holding company. Its ultimate parent company is HCC Insurance Holdings, Inc., (HCC) whose head office is in Houston, Texas. HCC is a leading international specialty insurance group with offices across the United States and internationally. The Company's principal subsidiaries are:

- HCC International Insurance Company PLC; an international insurance company authorised under the Financial Services and Markets Act (2000) to transact general insurance business including the following classes of business: Accident & Health; Credit, Political Risk and Suretyship; Fire and Other Damage to Property; Marine, Aviation and Transport; Miscellaneous; Third Party Liability; and Treaty Reinsurance.
- HCCI Credit Services Limited; a data and information provider to the credit insurance market.
- Houston Casualty Company Europe, Seguros y Reaseguros, S.A.; an insurance carrier domiciled in Spain underwriting Surety and Professional Indemnity business. Effective from 31 March 2015, the company's operations were merged into HCC International Insurance Company PLC and the company was dissolved.

Business Review

Financial risk management

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

- *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.
- *Liquidity risk*
Liquidity risk is the risk that cash may not be available to pay obligations when due. The Company's policy is to hold sufficient cash to settle its liabilities as they fall due thus minimising its exposure to liquidity risk.
- *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 controlled by holding an appropriate level of assets in the relevant currency to meet expected liabilities.

Results and dividends

The Company made a profit for the financial year of \$545,510 (2013: \$533,855 loss), as stated on page 7. The Company does not actively trade. Shareholder's funds as at 31 December 2014 totalled \$250,661,408 (2013: \$231,755,898).

No dividend was declared as payable during the year (2013: \$nil).

Key performance indicators

As the Company does not actively trade, the directors consider that key performance indicators are not relevant.

HCC INSURANCE HOLDINGS (INTERNATIONAL) LIMITED

DIRECTORS' REPORT (CONT'D)

Future outlook

The Company's subsidiaries continue to generate a satisfactory rate of return thereby justifying the cost of the Company's investments. Whether or not dividends will be declared in the future is a strategic decision resting with the Company's ultimate parent company. At this time there are no known circumstances which would result in a material change to the present operations of this Company, although the directors will continue to review opportunities to develop the business through the acquisition of suitable existing businesses.

Principal risks and uncertainties

The directors set the Company's risk appetite and oversee the effective operation of the risk management framework.

Independent auditors

During the year, Moore Stephens LLP were appointed as the Company's external auditors. Moore Stephens LLP have expressed their willingness to continue as the Company's auditors and the directors have approved their reappointment.

Statement of disclosure of information to auditors

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

- so far as each of them is aware, there is no information relevant to the audit of the Company's financial statements for the year ended 31 December 2014 of which the auditors are unaware; and
- each of them has taken all steps that they ought to have taken in their duty as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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 prepared 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.

HCC INSURANCE HOLDINGS (INTERNATIONAL) LIMITED

DIRECTORS' REPORT (CONT'D)

Post balance sheet events

On 10 June 2015, Tokio Marine Holdings, Inc. (TMHD) and HCC, the ultimate parent of the Company, announced that they have entered into a definitive agreement under which TMHD will acquire all outstanding shares of HCC. The transaction is expected to close in the fourth quarter of 2015, following approval of HCC's shareholders and various regulatory authorities.

On behalf of the board

A handwritten signature in black ink, appearing to be 'J L Holliday', written over a horizontal line.

J L Holliday
Company Secretary
Walsingham House
35 Seething Lane
London EC3N 4AH

9 September 2015

HCC INSURANCE HOLDINGS (INTERNATIONAL) LIMITED

INDEPENDENT AUDITOR'S 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 2014 which are set out on pages 7 to 13. 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).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor

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 and express an opinion on 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 (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's web-site at www.frc.org.uk/auditscopeukprivate.

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 2014 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; or
- the directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report.



Michael Butler (Senior Statutory Auditor)
For and on behalf of Moore Stephens LLP, Statutory Auditor
150 Aldersgate Street, London EC1A 4AB, United Kingdom

11 September 2015

HCC INSURANCE HOLDINGS (INTERNATIONAL) LIMITED

PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2014

	Note	2014 \$	2013 \$
Revenue			
Income from shares in subsidiary undertakings	1	1,000,000	-
Operating profit		<u>1,000,000</u>	<u>-</u>
Interest receivable and similar income		5,789	-
Foreign exchange gain / (loss)		(6,127)	(3,050)
Interest payable and similar charges	9	(474,862)	(499,667)
Administrative expenses		20,710	(31,138)
Profit / (loss) on ordinary activities before taxation	4	<u>545,510</u>	<u>(533,855)</u>
Tax on profit / (loss) on ordinary activities	5	-	-
Profit / (loss) for the financial year	11	<u>545,510</u>	<u>(533,855)</u>

The above results derive from continuing operations.

The company has no recognised gains and losses other than those included in the profit and loss account above and therefore no separate statement of total recognised gains and losses has been presented.

HCC INSURANCE HOLDINGS (INTERNATIONAL) LIMITED

BALANCE SHEET

As at 31 December 2014

	Note	2014 \$	2013 \$
Fixed assets			
Investments in subsidiary undertakings	6	<u>274,704,725</u>	<u>256,344,725</u>
Current assets			
Debtors	7	2,683,769	2,699,567
Cash at bank		1,344,152	1,498,015
Creditors: amounts falling due within one year	8	<u>(625,080)</u>	<u>(1,741,483)</u>
Net current assets		<u>3,402,841</u>	<u>2,456,099</u>
Total assets less current liabilities		278,107,566	258,800,824
Creditors: amounts falling due after more than one year	9	<u>(27,446,158)</u>	<u>(27,044,926)</u>
Net assets		<u>250,661,408</u>	<u>231,755,898</u>
Capital and reserves			
Called up share capital	10,11	222,192,447	203,832,447
Profit and loss account	11	28,468,961	27,923,451
Total shareholder's funds		<u>250,661,408</u>	<u>231,755,898</u>

The financial statements on pages 7 to 13 were approved by the board of directors and were signed on its behalf by


KL Letsinger
Director

9 September 2015

HCC INSURANCE HOLDINGS (INTERNATIONAL) LIMITED

ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of presentation

The financial statements have been prepared on the going concern basis under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom.

The Company is a wholly-owned subsidiary of HCC Insurance Holdings, Inc. (HCC) and is included in the consolidated financial statements of HCC which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 401 of the Companies Act 2006 and these financial statements present information about the Company as an individual undertaking, except for the disclosure of directors' remuneration in Note 2 and audit fees in Note 4.

Cash flow statement and related party disclosures

As a wholly owned subsidiary, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS1 (revised 1996) and is also exempt under the terms of FRS8 from disclosing related party transactions with entities that are part of the HCC group or investees of HCC.

Basis of accounting

Functional currency

The Company's income and certain expenses are paid in US Dollars. The Company and its subsidiaries are financed largely in US Dollars and pay dividends in US Dollars. Additionally, the Company's ultimate parent is 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 group operates; accordingly the financial statements are prepared using the US Dollar as the functional currency.

Exchange rate

The Company records transactions in both original currency and functional currency at the rate of exchange at the date of the transaction. Monetary assets and liabilities in foreign currencies are revalued at the rates ruling at the balance sheet date which for £ Sterling was \$1.5535 (2013: \$1.6491). Gains or losses arising from the revaluation of foreign currencies into the functional currency, together with the settlement of foreign currency transactions, are included in the profit and loss account.

Dividends

Dividends are accounted for in the year in which they are declared as payable.

Investments in subsidiary undertakings

Investments in subsidiary undertakings are stated in the balance sheet at cost, less any provision for impairment.

HCC INSURANCE HOLDINGS (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Revenue

Revenue comprises dividends declared as payable from the Company's subsidiary.

2. Directors' remuneration

Aggregate emoluments of directors borne by the Company and subsidiaries are as follows:

	2014	2013
	\$	\$
Aggregate emoluments (excluding share options and awards)	1,720,908	1,478,285
Pension contributions	39,354	48,333

Pension benefits accrued to one director (2013: two) under the group's defined contribution pension scheme. No directors exercised share options in the year (2013: two) and two directors are entitled to receive shares under a long-term incentive scheme (2013: three).

Highest paid director

	2014	2013
	\$	\$
Aggregate emoluments (excluding share options and awards)	1,142,551	1,153,456
Pension contributions	-	-

The highest paid director exercised no stock options during the year and is entitled to receive shares under a long-term incentive scheme.

3. Staff costs

All staff are employed by HCC Service Company Inc. (UK branch), a group service company. The Company's staff costs were incurred by HCC International Insurance Company PLC; no recharge was made to the Company (2013: \$nil).

4. Profit / (loss) on ordinary activities before taxation

	2014	2013
	\$	\$
This is stated after charging:		
Fees payable for the audit of the Company's financial statements	6,580	11,442

Fees payable by the Company's subsidiary undertakings to the Company's auditors for services provided to the Company's subsidiary undertakings are as follows:

	2014	2013
	\$	\$
Fees payable for the audit of the Company's subsidiaries' financial statements	26,320	585,781
Audit related assurance services	4,865	59,481
Fees payable for tax compliance services in the subsidiaries	20,213	28,175
Fees payable for tax advisory services in the subsidiaries	2,144	26,610

HCC INSURANCE HOLDINGS (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

5. Tax on profit /(loss) profit on ordinary activities

The tax assessed for the year is lower (2013: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2014 \$	2013 \$
Profit / (loss) on ordinary activities before taxation	545,510	(533,855)
Tax on profit/ (loss) on ordinary activities at standard rate of 21.5% (2013: 23.25%)	117,230	(124,121)
Non-taxable income - UK group dividends	(214,900)	-
Losses available for group relief	97,670	124,121
Current tax charge for the year	-	-

6. Investments in subsidiary undertakings

	2014 \$	2013 \$
Cost at 1 January 2014	256,344,725	213,344,725
Additions in the year	18,360,000	43,000,000
Cost at 31 December 2014	274,704,725	256,344,725

The additions in the year comprise the purchase of ordinary shares in HCC Specialty Holdings (No. 1) Limited. The directors believe that the carrying value of the investments is supported by their underlying net assets. Investments in subsidiary undertakings comprise the equity holdings at cost in the following subsidiary companies:

Name	Principal activity	Class of shares	Effective%
HCC Specialty Holdings (No. 1) Limited	Holding Company	Ordinary	100%
Pepys Holdings Limited*	Holding Company	Ordinary	100%
HCC Trustees Limited*	Trustee Company	Ordinary	100%
Rattner Mackenzie Limited (RML) (Jordan Exempt Company)* incorporated in Jordan	Dormant	Ordinary	100%
HCCI Group Limited*	Holding Company	Ordinary	100%
HCC International Insurance Company PLC*	Insurance Company	Ordinary	100%
HCCI Credit Services Limited*	Information Provider	Ordinary	100%
Manchester Dickson Holdings Limited*	Dormant	Ordinary	100%
Dickson Manchester & Company Limited*	Dormant	Ordinary	100%
HCC Diversified Financial Products Ltd*	Dormant	Ordinary	100%
Houston Casualty Company Europe, Seguros y Reaseguros S.A., incorporated in Spain*	Insurance Company	Ordinary	100%
HCC Diversificacion y Soluciones S.L.*	Service Company	Ordinary	100%

* Indirect holding via subsidiary.

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

7. Debtors

	2014 \$	2013 \$
Amounts owed by group undertakings	2,683,769	2,699,567

All amounts fall due within one year.

HCC INSURANCE HOLDINGS (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

8. Creditors: amounts falling due within one year

	2014	2013
	\$	\$
Amounts owed to group undertakings	625,080	1,741,483

9. Creditors: amounts falling due after more than one year

	2014	2013
	\$	\$
Amounts owed to group undertakings	27,446,158	27,044,926

Amounts falling due after more than one year represent a loan from the Company's parent in connection with the acquisition of Manchester Dickson Holdings Limited. The loan attracts interest at 1.5% above the three month US Dollar LIBOR rate. The loan and accrued interest were repaid in full in June 2015.

10. Called up share capital

	2014		2013	
Allotted, called up and fully paid ordinary shares	Number of shares	\$	Number of shares	\$
Balance brought forward				
- Ordinary shares of £1 each	10,049,385	16,252,870	10,049,385	16,252,870
- Ordinary shares of \$1 each	187,579,577	187,579,577	144,579,577	144,579,577
Shares issued during the year				
- Ordinary shares of \$1 each	18,360,000	18,360,000	43,000,000	43,000,000
Balance carried forward	<u>215,988,962</u>	<u>222,192,447</u>	<u>197,628,962</u>	<u>203,832,447</u>

The £1 ordinary shares are translated to US\$ at the rates of exchange ruling on the dates the shares were issued. The increase in the \$1 ordinary shares comprises the issue of 18,360,000 shares on 7 March 2014.

11. Reconciliation of movement in shareholder's funds

	Called up share capital	Profit and loss account	Total shareholder's funds
	\$	\$	\$
At 1 January 2014	203,832,447	27,923,451	231,755,898
Profit for the year	-	545,510	545,510
Issue of shares (Note 10)	18,360,000	-	18,360,000
At 31 December 2014	<u>222,192,447</u>	<u>28,468,961</u>	<u>250,661,408</u>

12. Ultimate parent company

HCC, incorporated in the USA and listed on the New York Stock Exchange, 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 is the parent company. Copies of the consolidated financial statements of HCC can be obtained from its principal office at 13403 Northwest Freeway, Houston, Texas 77040-6094, USA, or from its website at hcc.com/InvestorRelations/Financials/FinancialReports.

HCC is the immediate parent company.

HCC INSURANCE HOLDINGS (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

13. Post balance sheet events

On 10 June 2015, Tokio Marine Holdings, Inc. (TMHD) and HCC, the ultimate parent of the Company, announced that they have entered into a definitive agreement under which TMHD will acquire all outstanding shares of HCC. The transaction is expected to close in the fourth quarter of 2015, following approval of HCC's shareholders and various regulatory authorities.