

HCC INSURANCE HOLDINGS (INTERNATIONAL) LIMITED

FINANCIAL STATEMENTS

Year ended 31 December 2013

Walsingham House
35 Seething Lane
London EC3N 4AH



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

REGISTERED NUMBER

03671966

REGISTERED OFFICE

Walsingham House
35 Seething Lane
London EC3N 4AH

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London SE1 2RT

HCC INSURANCE HOLDINGS (INTERNATIONAL) LIMITED

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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 2013.

Directors

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

BJ Cook (Chairman)
RL Hughes
KL Letsinger
RD Rinicella

Principal activity

The Company acts as a UK investment holding company. Its ultimate parent company is HCC Insurance Holdings, Inc., (HCCI) whose head office is in Houston, Texas. HCCI 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.

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 loss for the financial year of \$533,855 (2012: \$3,962,650 profit), as stated on page 8. The Company does not actively trade. Shareholder's funds as at 31 December 2013 totalled \$231,755,898 (2012: \$189,298,753).

No dividends were paid in the year (2012: \$nil) and the directors do not recommend the payment of a final dividend.

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

PricewaterhouseCoopers LLP have expressed their willingness to continue in office 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 2013 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.

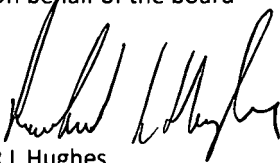
HCC INSURANCE HOLDINGS (INTERNATIONAL) LIMITED

DIRECTORS' REPORT (CONT'D)

Post balance sheet events

There have been no significant post balance sheet events that are required to be disclosed.

On behalf of the board

A handwritten signature in black ink, appearing to read 'R L Hughes', written over a horizontal line.

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

31 July 2014

HCC INSURANCE HOLDINGS (INTERNATIONAL) LIMITED

Independent auditors' report to the members of HCC Insurance Holdings (International) Limited

Report on the financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the company's affairs as at 31 December 2013 and of its loss 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.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The financial statements, which are prepared by HCC Insurance Holdings (International) Limited, comprise:

- the balance sheet as at 31 December 2013;
- the profit and loss account for the year then ended;
- the accounting policies; and
- the notes to the financial statements, which include other explanatory information.

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).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). 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.

In addition, we read all the financial and non-financial information in the financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or

Independent auditors' report to the members of HCC Insurance Holdings (International) Limited (cont'd)

- 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities 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 ISAs (UK & 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.



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

31 July 2014

HCC INSURANCE HOLDINGS (INTERNATIONAL) LIMITED

PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2013

	Note	2013 \$	2012 \$
Revenue			
Income from shares in subsidiary undertakings	1	-	4,071,598
Operating profit		<u>-</u>	<u>4,071,598</u>
Interest receivable and similar income		-	4,428
Foreign exchange loss		(3,050)	(13,485)
Interest payable and similar charges	9	(499,667)	(543,882)
Administrative expenses		(31,138)	443,991
(Loss) / profit on ordinary activities before taxation	4	<u>(533,855)</u>	<u>3,962,650</u>
Tax on (loss) / profit on ordinary activities	5	-	-
(Loss) / profit for the financial year		<u>(533,855)</u>	<u>3,962,650</u>

All amounts relate to continuing operations.

The Company has no recognised gains and losses other than those included in the results above, and therefore no separate statement of recognised gains and losses has been presented.

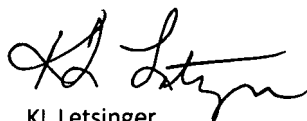
HCC INSURANCE HOLDINGS (INTERNATIONAL) LIMITED

BALANCE SHEET

As at 31 December 2013

	Note	2013 \$	2012 \$
Fixed assets			
Investments in subsidiary undertakings	6	<u>256,344,725</u>	<u>213,344,725</u>
Current assets			
Debtors	7	2,699,567	3,916,918
Cash at bank		1,498,015	813,475
Creditors: amounts falling due within one year	8	<u>(1,741,483)</u>	<u>(1,740,439)</u>
Net current assets		<u>2,456,099</u>	<u>2,989,954</u>
Total assets less current liabilities		258,800,824	216,334,679
Creditors: amounts falling due after more than one year	9	<u>(27,044,926)</u>	<u>(27,044,926)</u>
Net assets		<u>231,755,898</u>	<u>189,289,753</u>
Capital and reserves			
Called up share capital	10,11	203,832,447	160,832,447
Profit and loss account	11	27,923,451	28,457,306
Total shareholder's funds		<u>231,755,898</u>	<u>189,289,753</u>

The financial statements on pages 8 to 13 were approved by the board of directors and were signed on its behalf by:



KL Letsinger
Director

31 July 2014

HCC INSURANCE HOLDINGS (INTERNATIONAL) LIMITED

ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated 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. (HCCI) and is included in the consolidated financial statements of HCCI 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 Insurance Holdings, Inc. group or investees of the HCC Insurance Holdings, Inc. group.

Comparatives

Where necessary, comparative amounts have been adjusted to conform to changes in presentation in the current year.

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 \$1.6491 (2012: \$1.6168). 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:

	2013	2012
	\$	\$
Aggregate emoluments (excluding share options and awards)	1,478,285	1,120,064
Pension contributions	48,333	30,049

Pension benefits accrued to two directors (2012: two) under the group's defined contribution pension scheme. Two directors exercised share options in the year (2012: two) and three directors are entitled to receive shares under a long-term incentive scheme (2012: two).

Highest paid director

	2013	2012
	\$	\$
Aggregate emoluments (excluding share options and awards)	1,153,456	775,834
Pension contributions	-	-

The highest paid director exercised 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 (2012: \$nil).

4. (Loss) / profit on ordinary activities before taxation

	2013	2012
	\$	\$
This is stated after charging:		
Fees payable for the audit of the Company's financial statements	11,442	11,830
Fees payable for tax services from the Company's auditors	-	51,335

Fees payable by the Company's subsidiary undertakings to the Company's auditors for services provided to the Company's subsidiary undertakings (which expenses are not included in these financial statements) are as follows:

	2013	2012
	\$	\$
Fees payable for the audit of the Company's subsidiaries' financial statements	585,781	504,972
Audit related assurance services	59,481	58,125
Fees payable for tax compliance services in the subsidiaries	28,175	23,564
Fees payable for tax advisory services in the subsidiaries	26,610	23,564

HCC INSURANCE HOLDINGS (INTERNATIONAL) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

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

The tax assessed for the year is lower (2012: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2013	2012
	\$	\$
(Loss) / profit on ordinary activities before taxation	(533,855)	3,962,650
Tax on profit/(loss) on ordinary activities at standard rate of 23.25% (2012: 24.5%)	(124,121)	970,849
Non-taxable income - UK group dividends	-	(997,542)
Losses available for group relief	124,121	26,693
Current tax charge for the year	-	-

6. Investments in subsidiary undertakings

	2013	2012
	\$	\$
Cost at 1 January 2013	213,344,725	213,344,725
Additions in the year	43,000,000	-
Cost at 31 December 2013	256,344,725	213,344,725

The additions in the year comprise the purchase of common stock 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*	Dormant	Ordinary	100%
Pepys Management Services Limited*#	Management Services	Ordinary	100%
Rattner Mackenzie Limited (RML) (Jordan Exempt Company)* incorporated in Jordan	Insurance Broking	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*	Holding Company	Ordinary	100%
Dickson Manchester & Company Limited*	Insurance Broking	Ordinary	100%
HCC Diversified Financial Products Ltd*	Insurance Agency	Ordinary	100%
Houston Casualty Company Europe, Seguros y Reaseguros S.A., incorporated in Spain*	Insurance Company	Ordinary	100%

* Indirect holding via subsidiary.

Pepys Management Services Limited was dissolved in 2012.

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

7. Debtors

	2013	2012
	\$	\$
Amounts owed by group undertakings	2,699,567	3,916,918

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

	2013	2012
	\$	\$
Amounts owed to group undertakings	1,741,483	1,739,669
Other creditors	-	770
	<u>1,741,483</u>	<u>1,740,439</u>

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

	2013	2012
	\$	\$
Amounts owed to group undertakings	27,044,926	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 and is repayable on or before 28 February 2015 although there is an option to extend the loan.

10. Called up share capital

Issued and fully paid	2013	2012	2013	2012
	No. shares	No. shares	\$	\$
Ordinary voting shares at £1 each	10,049,385	10,049,385	16,262,870	16,252,870
Ordinary voting shares at \$1 each	187,579,577	144,579,577	187,579,577	144,579,577
			<u>203,832,447</u>	<u>160,832,447</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 32,000,000 shares on 11 November 2013 and 11,000,000 shares on 18 December 2013.

11. Reconciliation of movement in shareholder's funds

	Called up share capital	Profit and loss account	Total shareholder's funds
	\$	\$	\$
At 1 January 2013	160,832,447	28,457,306	189,289,753
Loss for the year	-	(533,855)	(533,855)
Issue of shares	43,000,000	-	43,000,000
At 31 December 2013	<u>203,832,447</u>	<u>27,923,451</u>	<u>231,755,898</u>

12. Ultimate parent company

HCC Insurance Holdings, Inc. (HCCI), 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 HCCI is the parent company. Copies of the consolidated financial statements of HCCI 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.

HCCI is the immediate parent company.