

Edgar Filing: HCC INSURANCE HOLDINGS INC/DE/ - Form 8-K

HCC INSURANCE HOLDINGS INC/DE/  
Form 8-K  
February 19, 2004

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

DATE OF REPORT  
(DATE OF EARLIEST EVENT REPORTED)  
February 19, 2004

HCC INSURANCE HOLDINGS, INC.  
(EXACT NAME OF REGISTRANT SPECIFIED IN ITS CHARTER)

STATE OR OTHER  
JURISDICTION  
OF INCORPORATION:

COMMISSION  
FILE NUMBER:

IRS EMPLOYER  
IDENTIFICATION  
NUMBER:

DELAWARE

001-13790

76-0336636

13403 NORTHWEST FREEWAY  
HOUSTON, TEXAS 77040-6094  
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

REGISTRANT'S TELEPHONE NUMBER,  
INCLUDING AREA CODE - (713) 690-7300

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ITEM 12. Results of Operations and Financial Condition.

On February 19, 2004, HCC Insurance Holdings, Inc. announced its results for the Fourth Quarter and full-year ended with 2003. A press release setting forth the announcement is set forth below.

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### HCC Announces 2003 Results and 2004 Earnings Guidance

HOUSTON--(BUSINESS WIRE)--Feb. 19, 2004--HCC Insurance Holdings, Inc. (NYSE:HCC) today reported results for the fourth quarter and for the full year that ended December 31, 2003.

Net earnings for the fourth quarter 2003 increased significantly to \$50.5 million, or \$0.77 per share, compared to \$31.5 million, or \$0.50 per share, for the same period in 2002.

Net earnings for the full year 2003 increased substantially to \$143.6 million, or \$2.23 per share, compared to \$105.8 million, or \$1.68 per share, for the full year 2002.

Stephen L. Way, Chairman and Chief Executive Officer, said, "2003 was the best year in our history and we are very pleased with our results." He added, "We are not resting on our laurels and look forward to our future challenges and successes."

The Company has provided 2004 net earnings guidance with a range between \$2.65 and \$2.75 per share. The Company expects total revenue to increase approximately 25% in 2004, including growth of net earned premium by 30%, fee and commission income by 15% and investment income by 10%. The GAAP combined ratio is expected to remain fairly constant around 85% to 88% on significantly increased net earned premium.

There were several non-recurring items recorded in the fourth quarter 2003 and a summary of these important items follows:

The Company completed the sale of all of the assets of its retail broking subsidiary HCC Employee Benefits, Inc., following an unsolicited approach from Houston based Capital Risk LLC, a subsidiary of Jardine Lloyd Thompson Group, PLC. The initial after tax gain related to this sale, which was recorded in the fourth quarter 2003, was \$30.1 million, or \$0.47 per share. This transaction is subject to an earnout formula and could result in a further gain, which would be recorded in 2004. In accordance with GAAP, all operating results from this operation and this gain are shown separately in the Company's consolidated statements of earnings as "Discontinued Operations", but are included in the Company's net earnings. The operating earnings and the gain are shown separately. Management believes that the disposition of this non-core business was opportunistic and the resulting cashflow was immediately utilized in the Company's recent acquisition of American Contractors Indemnity Company.

The Company reached an agreement with various reinsurers to commute certain reinsurance recoverables relating to the Company's discontinued A&H line of business. This transaction results in the Company receiving a cash payment from the reinsurers in consideration for discounting the recoverables and reassuming any losses. The after tax discount recorded was \$18.7 million, or \$0.29 per share. The pre-tax discount is included in loss and loss adjustment expenses in the Company's consolidated statements of earnings in the fourth quarter of 2003. It is expected that future investment income will overcome the discount given on this transaction. Management has been proactive about commuting some of its reinsurance recoverables and will continue to do this where it is in the best interest of the Company. Management has a positive view of commutations such as this because they result in removing older recoverables from the Company's balance sheet, increased future investment income and a reduction in the overall amount of recoverables.

The Company and its independent auditors have determined that the Company needs to adjust the basis upon which the fee and commission income of its agency and intermediary subsidiaries are accounted. Accordingly, the Company has restated its financial statements for the first three quarters of 2003 and the Company will amend previously filed quarterly reports on Form 10-Q for those quarters. The cumulative effect of the change, \$3.9 million, which is recorded in the first quarter of 2003, is not material to prior years but the effect of the change in basis of accounting became material in 2003 as a result of recent acquisitions. It is strictly a timing difference. The maximum timing difference

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is twelve months and the average timing difference is approximately six months on the portion of the affected revenue and the related components. The change does not impact the overall amount of fee and commissions ultimately earned or previously collected in cash by the Company. The change does not affect the net earnings of the Company's reporting segments but, rather, results solely from adjustments to the consolidating entries made in the preparation of the Company's consolidated financial statements. Likewise, the change does not affect cash flow from operations.

The effect of this change on earnings for fiscal year 2003 is \$13.0 million, or \$0.20 per share. The effect of this change has been reflected in management's guidance for 2004. See the table attached which shows the effect on earnings and earnings per share for the first three quarters of 2003.

Mr. Way commented, "There is no effect on the future growth prospects of the Company from this accounting change."

Total revenue for the full year 2003 increased by 41% to a record \$929.1 million compared to 2002, driven by significant increases in net earned premium, fee and commission income and investment income. The Company anticipates continued revenue growth in 2004.

Comparing the full year 2003 to the previous year, the Company's insurance company subsidiaries' net written premium increased 59% to \$865.5 million and net earned premium increased 46% to \$738.3 million. During the same period, gross written premium reached a record \$1.74 billion, growing 50% from the previous year. Premium growth is due to increased rates, a reduction in ceded reinsurance, organic growth and greater renewal retentions. The Company expects premium to continue to grow through at least 2004.

The GAAP combined ratio was higher in 2003 at 91% compared to 86% in the previous year. This increase was primarily the impact of the reinsurance commutation recorded in the fourth quarter, which added 4% to the full year loss ratio. Management is confident of maintaining its combined ratio at or below this level going forward on rising earned premium revenue.

For the full year of 2003 compared to the same period in 2002, fee and commission income increased 22% to \$129.8 million, primarily due to organic growth of existing lines of business and acquisitions made in late 2002. During the same period, other operating income increased to \$13.2 million from \$7.0 million, due in part to the timing of acquisitions and dispositions of strategic investments.

In 2003, cashflow from operations was significantly higher rising more than 200% to \$528.1 million compared to the previous year. During the same period, net investment income grew 25% to \$47.3 million, primarily due to substantially increased investment assets resulting from increased loss reserves due to higher retentions, as well as significant cash flow from operations and despite low yields from our continuing short duration and conservative investment philosophy.

As of December 31, 2003, total assets increased 32% to \$4.9 billion; total investments increased 46% to \$1.7 billion; shareholders' equity increased 19% to \$1.0 billion; and book value per share increased 16% to \$16.37, all compared to December 31, 2002 and all at record levels. See attached tables.

HCC will hold an open conference call beginning at 4:00 p.m. Central Time on Thursday, February 19. To participate, the number for domestic calls is (888) 243-0813 and the number for international calls is (703) 925-2400. In addition, there will be a live webcast available on a listen-only basis, that can be accessed through the HCC website at [www.hcch.com](http://www.hcch.com). A replay of the webcast will be available until Friday, February 27, 2004.

HCC is an international holding company and a leading specialty insurance group since 1974, headquartered in Houston, Texas, with offices in Bermuda, Spain and the UK. HCC has assets of \$4.9 billion, shareholders' equity of more than \$1 billion and is rated AA (Very Strong) by Standard & Poor's and A+ (Superior) by A.M. Best Company.

For more information, visit our website at [www.hcch.com](http://www.hcch.com).

Forward-looking statements contained in this press release are made under

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"safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 and involve a number of risks and uncertainties. The types of risks and uncertainties which may affect the Company are set forth in its periodic reports filed with the Securities and Exchange Commission.

## HCC Insurance Holdings, Inc. Financial Highlights December 31, 2003 (amounts in thousands, except per share data)

| Twelve Months Ended December 31,              | 2003        | 2002        |
|-----------------------------------------------|-------------|-------------|
| Gross written premium                         | \$1,739,894 | \$1,159,249 |
| Net written premium                           | 865,502     | 545,911     |
| Net earned premium                            | 738,272     | 505,521     |
| Fee and commission income                     | 129,763     | 106,425     |
| Net investment income                         | 47,335      | 37,755      |
| Other operating income                        | 13,215      | 6,985       |
| Total revenue                                 | 929,112     | 657,139     |
| Net earnings                                  | 143,561     | 105,828     |
| Earnings per share (diluted)                  | 2.23        | 1.68        |
| Cash flow from operations                     | 528,098     | 175,122     |
| Weighted average shares outstanding (diluted) | 64,383      | 62,936      |
| GAAP net loss ratio                           | 66.2% (a)   | 60.6%       |
| GAAP combined ratio                           | 91.0% (a)   | 86.0%       |

|                       | December 31,<br>2003 | December 31,<br>2002 |
|-----------------------|----------------------|----------------------|
| Total investments     | \$1,703,346          | \$1,167,636          |
| Total assets          | 4,880,192            | 3,704,151            |
| Shareholders' equity  | 1,046,920            | 882,907              |
| Debt to total capital | 22.9%                | 20.7%                |
| Book value per share  | \$16.37              | \$14.15              |

(a) Includes effect of commutation.

## HCC Insurance Holdings, Inc. Financial Highlights December 31, 2003 (amounts in thousands, except per share data)

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| Three Months Ended December 31,               | 2003      | 2002      |
|-----------------------------------------------|-----------|-----------|
| Gross written premium                         | \$440,127 | \$307,165 |
| Net written premium                           | 199,375   | 143,683   |
| Net earned premium                            | 202,918   | 143,122   |
| Fee and commission income                     | 33,381    | 25,859    |
| Net investment income                         | 12,476    | 9,986     |
| Other operating income                        | 4,948     | 3,714     |
| Total revenue                                 | 253,898   | 181,975   |
| Net earnings                                  | 50,460    | 31,495    |
| Earnings per share (diluted)                  | 0.77      | 0.50      |
| Cash flow from operations                     | 202,208   | 52,294    |
| Weighted average shares outstanding (diluted) | 65,110    | 63,109    |
| GAAP net loss ratio                           | 73.7% (a) | 59.6%     |
| GAAP combined ratio                           | 96.6% (a) | 83.0%     |

|                       | December 31,<br>2003 | December 31,<br>2002 |
|-----------------------|----------------------|----------------------|
| Total investments     | \$1,703,346          | \$1,167,636          |
| Total assets          | 4,880,192            | 3,704,151            |
| Shareholders' equity  | 1,046,920            | 882,907              |
| Debt to total capital | 22.9%                | 20.7%                |
| Book value per share  | \$16.37              | \$14.15              |

(a) Includes effect of commutation.

## HCC Insurance Holdings, Inc. and Subsidiaries

### Condensed Consolidated Balance Sheets

(unaudited, in thousands)

|                              | December 31,<br>2003 | December 31,<br>2002 |
|------------------------------|----------------------|----------------------|
| ASSETS                       |                      |                      |
| Investments:                 |                      |                      |
| Fixed income securities      | \$1,164,166          | \$841,548            |
| Marketable equity securities | 12,002               | 15,609               |
| Short-term investments       | 518,482              | 307,215              |
| Other investments            | 8,696                | 3,264                |

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|                                             |             |             |
|---------------------------------------------|-------------|-------------|
| Total investments                           | 1,703,346   | 1,167,636   |
| Cash                                        | 96,416      | 40,306      |
| Restricted cash and cash investments        | 210,301     | 189,396     |
| Premium, claims and other receivables       | 899,031     | 753,527     |
| Reinsurance recoverables                    | 907,211     | 798,934     |
| Ceded unearned premium                      | 291,591     | 164,224     |
| Ceded life and annuity benefits             | 77,548      | 78,951      |
| Deferred policy acquisition costs           | 127,018     | 68,846      |
| Goodwill                                    | 386,507     | 335,288     |
| Other assets                                | 181,223     | 107,043     |
|                                             | -----       | -----       |
| Total assets                                | \$4,880,192 | \$3,704,151 |
|                                             | =====       | =====       |
| LIABILITIES                                 |             |             |
| Loss and loss adjustment expense payable    | \$1,535,288 | \$1,155,290 |
| Life and annuity policy benefits            | 77,548      | 78,951      |
| Reinsurance balances payable                | 287,937     | 166,659     |
| Unearned premium and other deferred revenue | 614,178     | 331,050     |
| Deferred ceding commissions                 | 86,337      | 49,963      |
| Premium and claims payable                  | 745,559     | 730,801     |
| Notes payable                               | 310,404     | 230,027     |
| Accounts payable and accrued liabilities    | 176,021     | 78,503      |
|                                             | -----       | -----       |
| Total liabilities                           | 3,833,272   | 2,821,244   |
| SHAREHOLDERS' EQUITY                        |             |             |
| Common stock                                | 63,964      | 62,358      |
| Additional paid-in capital                  | 447,671     | 416,406     |
| Retained earnings                           | 509,159     | 383,378     |
| Accumulated other comprehensive income      | 26,126      | 20,765      |
|                                             | -----       | -----       |
| Total shareholders' equity                  | 1,046,920   | 882,907     |
|                                             | -----       | -----       |
| Total liabilities and shareholders' equity  | \$4,880,192 | \$3,704,151 |
|                                             | =====       | =====       |

Note: Certain amounts from the prior year have been reclassified to be consistent with the Current classifications.

HCC Insurance Holdings, Inc. and Subsidiaries

Condensed Consolidated Statements of Earnings

(unaudited, in thousands, except per share data)

|                    | For the<br>years ended<br>December 31, |           | For the three<br>months ended<br>December 31, |           |
|--------------------|----------------------------------------|-----------|-----------------------------------------------|-----------|
|                    | 2003                                   | 2002      | 2003                                          | 2002      |
|                    | -----                                  | -----     | -----                                         | -----     |
| REVENUE            |                                        |           |                                               |           |
| Net earned premium | \$738,272                              | \$505,521 | \$202,918                                     | \$143,122 |

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|                                                                 |           |           |          |          |
|-----------------------------------------------------------------|-----------|-----------|----------|----------|
| Fee and commission income                                       | 129,763   | 106,425   | 33,381   | 25,859   |
| Net investment income                                           | 47,335    | 37,755    | 12,476   | 9,986    |
| Net realized investment gain (loss)                             | 527       | 453       | 175      | (706)    |
| Other operating income                                          | 13,215    | 6,985     | 4,948    | 3,714    |
|                                                                 | -----     | -----     | -----    | -----    |
| Total revenue                                                   | 929,112   | 657,139   | 253,898  | 181,975  |
| EXPENSE                                                         |           |           |          |          |
| Loss and loss adjustment expense                                | 488,652   | 306,491   | 149,587  | 85,245   |
| Operating expense:                                              |           |           |          |          |
| Policy acquisition costs, net                                   | 125,360   | 90,027    | 31,224   | 26,655   |
| Compensation expense                                            | 82,947    | 58,567    | 25,035   | 14,403   |
| Other operating expense                                         | 56,287    | 39,560    | 18,042   | 8,410    |
|                                                                 | -----     | -----     | -----    | -----    |
| Net operating expense                                           | 264,594   | 188,154   | 74,301   | 49,468   |
| Interest expense                                                | 7,453     | 8,301     | 1,956    | 1,409    |
|                                                                 | -----     | -----     | -----    | -----    |
| Total expense                                                   | 760,699   | 502,946   | 225,844  | 136,122  |
|                                                                 | -----     | -----     | -----    | -----    |
| Earnings from continuing operations before income tax provision |           |           |          |          |
| income tax provision                                            | 168,413   | 154,193   | 28,054   | 45,853   |
| Income tax provision                                            | 60,494    | 53,615    | 10,014   | 15,688   |
|                                                                 | -----     | -----     | -----    | -----    |
| Earnings from continuing operations                             | 107,919   | 100,578   | 18,040   | 30,165   |
| Gain from sale of discontinued operations                       | 30,141    | --        | 30,141   | --       |
| Earnings from discontinued operations                           | 5,501     | 5,250     | 2,279    | 1,330    |
|                                                                 | -----     | -----     | -----    | -----    |
| Net earnings                                                    | \$143,561 | \$105,828 | \$50,460 | \$31,495 |
|                                                                 | =====     | =====     | =====    | =====    |
| Basic earnings per share data:                                  |           |           |          |          |
| Earnings from continuing operations                             | \$1.70    | \$1.62    | \$0.28   | \$0.48   |
| Gain from sale of discontinued operations                       | 0.48      | --        | 0.47     | --       |
| Earnings from discontinued operations                           | 0.09      | 0.08      | 0.04     | 0.02     |
|                                                                 | -----     | -----     | -----    | -----    |
| Net earnings                                                    | \$2.27    | \$1.70    | \$0.79   | \$0.50   |
|                                                                 | =====     | =====     | =====    | =====    |
| Weighted average shares outstanding                             | 63,279    | 62,225    | 63,875   | 62,387   |
|                                                                 | =====     | =====     | =====    | =====    |
| Diluted earnings per share data:                                |           |           |          |          |

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|                                           |        |         |         |         |
|-------------------------------------------|--------|---------|---------|---------|
| Earnings from continuing operations       | \$1.68 | \$1.60  | \$0.28  | \$0.48  |
| Gain from sale of discontinued operations | 0.47   | --      | 0.46    | --      |
| Earnings from discontinued operations     | 0.08   | 0.08    | 0.03    | 0.02    |
| Net earnings                              | \$2.23 | \$1.68  | \$0.77  | \$0.50  |
| Weighted average shares outstanding       | 64,383 | 62,936  | 65,110  | 63,109  |
| Cash dividends declared, per share        | \$0.28 | \$0.255 | \$0.075 | \$0.065 |

Note: Certain amounts from the prior year have been reclassified to be consistent with the Current classifications.

## HCC Insurance Holdings, Inc. and Subsidiaries

### Condensed Consolidated Statements of Cash Flows

(unaudited, in thousands)

|                                                                                     | For the years ended |           | For the three |          |
|-------------------------------------------------------------------------------------|---------------------|-----------|---------------|----------|
|                                                                                     | December 31,        |           | months ended  |          |
|                                                                                     | 2003                | 2002      | 2003          | 2002     |
| Cash flows from operating activities:                                               |                     |           |               |          |
| Net earnings                                                                        | \$143,561           | \$105,828 | \$50,460      | \$31,495 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |                     |           |               |          |
| Change in premium, claims and other receivables                                     | (122,312)           | (41,330)  | 55,568        | 11,110   |
| Change in reinsurance recoverables                                                  | (108,277)           | 103,870   | (569)         | 50,901   |
| Change in ceded unearned premium                                                    | (127,367)           | (88,940)  | (36,190)      | (25,047) |
| Change in loss and loss adjustment expense payable                                  | 379,998             | (57,747)  | 128,445       | (11,442) |
| Change in reinsurance balances payable                                              | 121,278             | 70,672    | 35,962        | 12,260   |
| Change in unearned premium and other deferred revenue                               | 283,128             | 122,811   | 38,295        | 22,011   |
| Change in premium and claims payable, net of restricted cash                        | (34,063)            | (76,039)  | (95,033)      | (59,174) |
| Gains on dispositions of subsidiaries and other operating investments               | (52,682)            | --        | (52,682)      | --       |

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|                                                                   |           |           |           |          |
|-------------------------------------------------------------------|-----------|-----------|-----------|----------|
| Depreciation,<br>amortization and<br>impairments                  | 12,828    | 10,808    | 4,343     | 2,875    |
| Other, net                                                        | 32,006    | 25,189    | 73,609    | 17,305   |
|                                                                   | -----     | -----     | -----     | -----    |
| Cash provided by<br>operating activities                          | 528,098   | 175,122   | 202,208   | 52,294   |
| Cash flows from investing activities:                             |           |           |           |          |
| Sales of fixed income<br>securities                               | 167,357   | 217,370   | 35,473    | 19,904   |
| Maturity or call of fixed<br>income securities                    | 142,652   | 53,918    | 30,404    | 20,967   |
| Sales of equity<br>securities                                     | 4,165     | 3,958     | 3,000     | 541      |
| Disposition of<br>subsidiaries and other<br>operating investments | 82,618    | --        | 65,772    | --       |
| Change in short-term<br>investments                               | (202,904) | 84,799    | (88,103)  | 28,932   |
| Cost of securities<br>acquired                                    | (694,211) | (505,099) | (173,720) | (92,578) |
| Payments for purchase of<br>subsidiaries, net of<br>cash received | (16,680)  | (39,227)  | --        | (39,227) |
| Purchases of property and<br>equipment                            | (21,820)  | (5,782)   | (1,560)   | (1,834)  |
|                                                                   | -----     | -----     | -----     | -----    |
| Cash used by<br>investing activities                              | (538,823) | (190,063) | (128,734) | (63,295) |
| Cash flows from financing activities:                             |           |           |           |          |
| Issuance of notes<br>payable, net of costs                        | 174,845   | 76,000    | 40,000    | 36,000   |
| Sale of common stock                                              | 20,279    | 11,207    | 2,803     | 1,169    |
| Payments on notes payable                                         | (108,813) | (31,969)  | (40,090)  | (16,560) |
| Dividends paid and other,<br>net                                  | (19,476)  | (16,882)  | (4,775)   | (4,051)  |
|                                                                   | -----     | -----     | -----     | -----    |
| Cash provided (used)<br>by financing<br>activities                | 66,835    | 38,356    | (2,062)   | 16,558   |
|                                                                   | -----     | -----     | -----     | -----    |
| Net change in cash                                                | 56,110    | 23,415    | 71,412    | 5,557    |
| Cash at beginning of<br>period                                    | 40,306    | 16,891    | 25,004    | 34,749   |
|                                                                   | -----     | -----     | -----     | -----    |
| Cash at end of period                                             | \$96,416  | \$40,306  | \$96,416  | \$40,306 |
|                                                                   | =====     | =====     | =====     | =====    |

Note: Certain amounts from the prior year have been reclassified to be consistent with the current classifications.

HCC Insurance Holdings, Inc.  
Insurance Company Premium  
December 31, 2003  
(\$ in thousands)

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|                                | Full Year<br>2003 | Full Year<br>2002 | Change<br>% |
|--------------------------------|-------------------|-------------------|-------------|
| -----                          |                   |                   |             |
| GROSS WRITTEN                  |                   |                   |             |
| Group life, accident & health  | \$565,494         | \$503,263         | 12%         |
| Diversified financial products | 553,501           | 178,653           | 210         |
| London market account          | 223,149           | 199,816           | 12          |
| Aviation                       | 214,718           | 212,518           | 1           |
| Other specialty lines          | 148,239           | 32,563            | 355         |
|                                | -----             |                   |             |
|                                | 1,705,101         | 1,126,813         | 51%         |
| Discontinued lines             | 34,793            | 32,436            |             |
|                                | -----             |                   |             |
|                                | \$1,739,894       | \$1,159,249       |             |
|                                | =====             |                   |             |
| NET WRITTEN                    |                   |                   |             |
| Group life, accident & health  | \$299,913         | \$244,554         | 23%         |
| Diversified financial products | 183,560           | 43,731            | 320         |
| London market account          | 155,987           | 113,925           | 37          |
| Aviation                       | 99,447            | 99,826            | (0)         |
| Other specialty lines          | 109,408           | 25,621            | 327         |
|                                | -----             |                   |             |
|                                | 848,315           | 527,657           | 61%         |
| Discontinued lines             | 17,187            | 18,254            |             |
|                                | -----             |                   |             |
|                                | \$865,502         | \$545,911         |             |
|                                | =====             |                   |             |
| NET EARNED PREMIUM             |                   |                   |             |
| Group life, accident & health  | \$290,009         | \$240,070         | 21%         |
| Diversified financial products | 123,562           | 23,102            | 435         |
| London market account          | 137,572           | 89,260            | 54          |
| Aviation                       | 97,536            | 100,960           | (3)         |
| Other specialty lines          | 57,551            | 22,337            | 158         |
|                                | -----             |                   |             |
|                                | 706,230           | 475,729           | 48%         |
| Discontinued lines             | 32,042            | 29,792            |             |
|                                | -----             |                   |             |
|                                | \$738,272         | \$505,521         |             |
|                                | =====             |                   |             |

HCC Insurance Holdings, Inc.  
Insurance Company Premium  
December 31, 2003  
(\$ in thousands)

|                                | 4th Qtr<br>2003 | 4th Qtr<br>2002 | Change<br>% |
|--------------------------------|-----------------|-----------------|-------------|
| -----                          |                 |                 |             |
| GROSS WRITTEN                  |                 |                 |             |
| Group life, accident & health  | \$139,332       | \$124,700       | 12%         |
| Diversified financial products | 153,311         | 64,823          | 137         |
| London market account          | 34,087          | 37,417          | (9)         |

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|                       |         |         |       |
|-----------------------|---------|---------|-------|
| Aviation              | 49,438  | 58,610  | (16)  |
| Other specialty lines | 60,846  | 16,109  | 278   |
|                       | -----   | -----   | ----- |
|                       | 437,014 | 301,659 | 45%   |

|                    |           |           |  |
|--------------------|-----------|-----------|--|
| Discontinued lines | 3,113     | 5,506     |  |
|                    | -----     | -----     |  |
|                    | \$440,127 | \$307,165 |  |
|                    | =====     | =====     |  |

NET WRITTEN

|                                |          |          |       |
|--------------------------------|----------|----------|-------|
| Group life, accident & health  | \$66,324 | \$68,035 | (3)%  |
| Diversified financial products | 49,143   | 15,001   | 228   |
| London market account          | 20,046   | 21,971   | (9)   |
| Aviation                       | 23,682   | 24,085   | (2)   |
| Other specialty lines          | 36,767   | 12,368   | 197   |
|                                | -----    | -----    | ----- |
|                                | 195,962  | 141,460  | 39%   |

|                    |           |           |  |
|--------------------|-----------|-----------|--|
| Discontinued lines | 3,413     | 2,223     |  |
|                    | -----     | -----     |  |
|                    | \$199,375 | \$143,683 |  |
|                    | =====     | =====     |  |

NET EARNED PREMIUM

|                                |          |          |       |
|--------------------------------|----------|----------|-------|
| Group life, accident & health  | \$69,756 | \$69,915 | (0)%  |
| Diversified financial products | 43,163   | 9,072    | 376   |
| London market account          | 35,839   | 26,955   | 33    |
| Aviation                       | 24,757   | 24,361   | 2     |
| Other specialty lines          | 21,718   | 8,990    | 142   |
|                                | -----    | -----    | ----- |
|                                | 195,233  | 139,293  | 40%   |

|                    |           |           |  |
|--------------------|-----------|-----------|--|
| Discontinued lines | 7,685     | 3,829     |  |
|                    | -----     | -----     |  |
|                    | \$202,918 | \$143,122 |  |
|                    | =====     | =====     |  |

HCC Insurance Holdings, Inc.  
Consolidated Insurance Companies  
Net Loss Ratios  
December 31, 2003  
(\$ in thousands)

| Line of Business               | Full Year 2003           |                  |               | Full Year 2002           |                  |               |
|--------------------------------|--------------------------|------------------|---------------|--------------------------|------------------|---------------|
|                                | Net<br>Earned<br>Premium | Actual<br>Losses | Loss<br>Ratio | Net<br>Earned<br>Premium | Actual<br>Losses | Loss<br>Ratio |
| Group life, accident & health  | \$290,009                | \$178,561        | 61.6%         | \$240,070                | \$149,251        | 62.2%         |
| Diversified financial products | 123,562                  | 59,112           | 47.8          | 23,102                   | 10,708           | 46.4          |
| London market account          | 137,572                  | 73,254           | 53.2          | 89,260                   | 45,937           | 51.5          |

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|                       |           |           |       |           |           |       |
|-----------------------|-----------|-----------|-------|-----------|-----------|-------|
| Aviation              | 97,536    | 59,952    | 61.5  | 100,960   | 46,732    | 46.3  |
| Other specialty lines | 57,551    | 46,632    | 81.0  | 22,337    | 22,581    | 101.1 |
|                       | 706,230   | 417,511   | 59.1  | 475,729   | 275,209   | 57.8  |
| Discontinued lines    | 32,042    | 71,141    | 222.0 | 29,792    | 31,282    | 105.0 |
| Total                 | \$738,272 | \$488,652 | 66.2% | \$505,521 | \$306,491 | 60.6% |

## HCC Insurance Holdings, Inc. Schedule of Adjustments to the First Three Quarters of 2003 (unaudited)

|                                                    | Third Quarter             |                            |        | Second Quarter            |                            |        |
|----------------------------------------------------|---------------------------|----------------------------|--------|---------------------------|----------------------------|--------|
|                                                    | Basic Earnings Per Amount | Diluted Earnings Per Share |        | Basic Earnings Per Amount | Diluted Earnings Per Share |        |
| Earnings from continuing operations                | \$37,888                  | \$0.59                     | \$0.58 | \$33,069                  | \$0.53                     | \$0.52 |
| Effect of adjustment on operations for the quarter | (1,985)                   | (0.03)                     | (0.03) | (1,694)                   | (0.03)                     | (0.03) |
| Cumulative adjustment                              | --                        | --                         | --     | --                        | --                         | --     |
| Earnings from continuing operations, as adjusted   | \$35,903                  | \$0.56                     | \$0.55 | \$31,375                  | \$0.50                     | \$0.49 |
| Net earnings, as reported                          | \$38,351                  | \$0.60                     | \$0.59 | \$34,662                  | \$0.55                     | \$0.54 |
| Effect of adjustment on operations for the quarter | (1,985)                   | (0.03)                     | (0.03) | (1,694)                   | (0.03)                     | (0.02) |
| Cumulative                                         |                           |                            |        |                           |                            |        |

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|               |          |        |        |          |        |        |
|---------------|----------|--------|--------|----------|--------|--------|
| adjustment    | --       | --     | --     | --       | --     | --     |
|               | -----    | -----  | -----  | -----    | -----  | -----  |
| Net earnings, |          |        |        |          |        |        |
| as adjusted   | \$36,366 | \$0.57 | \$0.56 | \$32,968 | \$0.52 | \$0.52 |
|               | =====    | =====  | =====  | =====    | =====  | =====  |

|                                                                | First Quarter |                                   |                                     |
|----------------------------------------------------------------|---------------|-----------------------------------|-------------------------------------|
|                                                                | Amount        | Basic<br>Earnings<br>Per<br>Share | Diluted<br>Earnings<br>Per<br>Share |
|                                                                | -----         | -----                             | -----                               |
| Earnings from<br>continuing<br>operations                      | \$29,109      | \$0.46                            | \$0.46                              |
| Effect of<br>adjustment<br>on operations<br>for the<br>quarter | (2,618)       | (0.04)                            | (0.04)                              |
| Cumulative<br>adjustment                                       | (3,890)       | (0.06)                            | (0.06)                              |
|                                                                | -----         | -----                             | -----                               |
| Earnings from<br>continuing<br>operations,<br>as adjusted      | \$22,601      | \$0.36                            | \$0.36                              |
|                                                                | =====         | =====                             | =====                               |
| Net earnings,<br>as reported                                   | \$30,275      | \$0.48                            | \$0.48                              |
| Effect of<br>adjustment<br>on operations<br>for the<br>quarter | (2,618)       | (0.04)                            | (0.04)                              |
| Cumulative<br>adjustment                                       | (3,890)       | (0.06)                            | (0.06)                              |
|                                                                | -----         | -----                             | -----                               |
| Net earnings,<br>as adjusted                                   | \$23,767      | \$0.38                            | \$0.38                              |
|                                                                | =====         | =====                             | =====                               |

CONTACT: HCC Insurance Holdings, Inc., Houston  
L. Byron Way, 713-690-7300

The information contained herein shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities

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Act of 1933, as amended, or the Exchange Act.

### SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: February 19, 2004

HCC INSURANCE HOLDINGS, INC.

By: /s/ Christopher L. Martin

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Christopher L. Martin  
Executive Vice President and General Counsel