003286 - Houston Casualty Company

Report Revision Date: 08/09/2013

Rating and Commentary [1]	*Financial* [2]	*General Information* [3]
Best's Credit Rating: 09/26/2012	**Time Period:** 2nd Quarter - 2013	**Corporate Structure:** N/A
Rating Rationale: 09/26/2012	**Last Updated:** 08/31/2013	**States Licensed:** 11/23/2010
Report Commentary: 08/09/2013	**Status:** Quality Cross Checked	**Officers and Directors:** 08/09/2013

Best's Credit Rating Methodology | Disclaimer | Best's Rating Guide

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Rating Activity and Announcements	Corporate Changes & Retirements
Company Overview	AMB Country Risk Reports - United States

[1] The Rating and Commentary date outlines the most recent updates to the Company's Rating, Rationale, and Report Commentary for key rating and business changes. Report commentary may include significant changes to Business Review, Financial Performance/Earnings, Capitalization, Investment/Liquidity, or Reinsurance sections of the report.

[2] The Financial date reflects the current status of the financial tables found within the body of the Report, including whether the data was loaded as received or had been run through our quality control cross-check process.

[3] The General Information date covers key areas that may have changed such as corporate structure, states licensed or officers and directors.

Ultimate Parent: HCC Insurance Holdings, Inc

Houston Casualty Company

13403 Northwest Freeway, Houston, Texas, United States 77040-2401

Tel.: 713-462-1000 **Web:** www.hcc.com **Fax:** 713-462-4210

AMB #: 003286 **Ultimate Parent:** 058391 **NAIC #:** 42374 **FEIN#:** 74-2195939

Best's Credit Ratings

Best's Financial Strength Rating: A+ **Outlook:** Stable

Best's Issuer Credit Rating: aa **Outlook:** Stable

Rating Effective Date: 09/26/2012

Financial Size Category: XV

Report Revision Date: 08/09/2013

Rating Rationale

Rating Rationale: The ratings of the commercial casualty operations of HCC Insurance Holdings, Inc. (HCC), have been extended to Houston Casualty Company based on its role and strategic importance to the group's overall strategy; common ownership; common management; the explicit and implicit parental support provided by HCC, including past capital contributions; and the implied support of future parental commitment.

The following text is derived from A.M. Best's Credit Report on Houston Casualty Group (AMB# 018421).

The ratings of Houston Casualty Company and its commercial casualty affiliates reflect their sustained profitability, strong level of capitalization, and solid liquidity while also recognizing the financial flexibility and support afforded by its publicly traded parent, HCC Insurance Holdings, Inc. (HCC). The ratings are also indicative of A.M. Best's view of the group's near-term earnings prospects considering HCC's long-standing presence in the specialty property/casualty market, its low to moderate risk profile and its conservative investment strategy. Partially offsetting these positive rating factors is the recent adverse loss reserve development in the group's directors' and officers' and professional liability lines of business as well as the inland marine line of business. The outlooks reflect A.M. Best's expectation for continued underwriting and operating profitability over the near to medium term.

The ratings are supported by the group's proven underwriting expertise, along with its conservative investment and loss reserving strategies that have led to its long-term operating profitability. These attributes are also the primary drivers for the group's considerable balance sheet strength. Over the past several years, the group has produced consistently outstanding gross and net underwriting results leading to superior operating results despite the recent competitive challenges in the specialty admitted and surplus lines markets. HCC's success is largely driven by its business strategies, which have long focused on underwriting within defined commercial specialty lines, effective utilization of affiliated underwriting agencies / insurance intermediaries and the optimal utilization of reinsurance protection. The group utilizes high-quality reinsurers and employs a proactive approach to monitoring the quality of its reinsurance recoverables, including commuting recoverables when deemed prudent strategically.

The ratings also recognize HCC's improved overall capitalization, the result of strong earnings generation, and to a lesser extent, its low investment leverage. HCC liquidated its common stock portfolio by mid-2008, helping to limit its exposure to realized and unrealized investment losses at a time when the financial market crisis impaired investment results and negatively impacted balance sheet strength. In 2012, HCC diversified its investment portfolio by purchasing common stocks that equated to less than 4% of invested assets. Underwriting leverage has declined during the most recent calendar years as a result of a more than commensurate level of surplus appreciation. The group also remains exposed to large catastrophe losses due to its property and energy lines of business, and more recently its property treaty business, but on a net basis, catastrophe exposure is significantly moderated by the group's purchase of catastrophe reinsurance.

Rating Rationale (Continued ...)

Potential upward movement in the ratings is unlikely in the near term. Downward movement in the ratings could result from a material decline in the organization's capitalization, negative trends in claim frequency or severity that could materially impair underwriting results, as well as significant unforeseen adverse loss reserve development due to an underestimation of liabilities.

Five Year Rating History

	BEST'S	
Date	FSR	ICR
09/26/2012	A+	aa
08/10/2011	A+	aa
10/15/2010	A+	aa-
08/27/2009	A+	aa-
07/30/2008	A+	aa-
04/15/2008	A+	aa-

View 25 Year Rating History

Key Financial Indicators

	Statutory Data ($000)					
	Premiums Written					
Period Ending	Direct	Net	Pre-tax Operating Income	Net Income	Total Admitted Assets	Policyholder's Surplus
2012	384,955	332,064	294,327	264,215	2,930,381	1,795,105
2011	370,683	337,015	241,910	229,395	2,911,655	1,699,002
2010	365,057	286,578	181,139	162,895	2,864,062	1,641,780
2009	415,161	307,348	259,912	209,526	2,904,654	1,567,730
2008	402,027	371,997	239,246	179,850	2,845,690	1,345,252
06/2013	215,009	178,287	66,648	49,937	3,098,029	1,944,103
06/2012	202,732	203,010	65,883	49,271	3,095,539	1,843,201

Key Financial Indicators (Continued ...)

	Profitability			Leverage			Liquidity	
Period Ending	Combined Ratio	Investment Yield (%)	Pre-Tax ROR (%)	Non-Affiliated Investment Leverage	NPW to PHS	Net Leverage	Overall Liquidity (%)	Operating Cash-flow (%)
2012	78.2	8.4	87.3	11.3	0.2	0.8	259.2	164.3
2011	95.9	9.1	76.6	...	0.2	0.9	241.0	149.4
2010	84.7	5.0	59.9	0.1	0.2	0.9	235.8	113.7
2009	65.0	5.2	79.3	...	0.2	1.0	220.2	129.5
2008	76.3	5.4	60.1	2.6	0.3	1.4	194.6	147.7
5-Yr Avg	79.6	6.6	72.4	...	...	...	...	...
06/2013	76.9	7.8	41.5	12.3	0.2	0.7	270.0	116.9
06/2012	76.5	8.7	39.4	3.5	0.2	0.9	248.3	135.2

(*) Within several financial tables of this report, this company is compared against the Surplus Lines Composite.
(*) Data reflected within all tables of this report has been compiled from the company-filed statutory statement.

Business Profile

The following text is derived from A.M. Best's Credit Report on Houston Casualty Group (AMB# 018421).

The insurance companies comprising the HCC Insurance Group provide group life, accident and health, aviation, property, marine, energy, professional liability including directors' and officers' liability, surety and other specialty lines through the group's lead carrier, Houston Casualty Company (HC) and its affiliates. HC's operation includes those of a branch office in London, England.

The group's business is produced directly and through independent agents, brokers and third-party administrators on a worldwide basis. HCC Insurance Holdings, Inc.'s (HCC) [NYSE: HCC] affiliated underwriting agencies act on behalf of both unaffiliated and affiliated insurance companies to provide insurance underwriting management and claim administration services. Aviation coverage is marketed to offshore operations, corporations, cargo operations, commuter airlines, governments and private aircraft owners on both a domestic and international basis. Facilities are currently dedicated to the handling of aircraft hull and liability insurance. In addition to conventional corporate and personal aircraft, the group covers specialty types, such as sport and antique airplanes, amphibians and seaplanes.

HCC provides accident and health coverage primarily through the group's affiliate HCC Life Insurance Company (HCC Life) that is marketed directly through unaffiliated agents, brokers and third-party administrators as well as directly through its affiliated underwriting agency HCC Medical Insurance Services, LLC (HCCMIS). Property coverage is provided to large multinational corporations through HC's London branch office. The London branch also underwrites marine hull and liability coverage for ocean-going vessels, as well as onshore and offshore energy coverage for large oil companies and drilling contractors. Many of the policy forms are tailored to meet the needs of the insured. Assumed reinsurance principally consists of accident and health reinsurance coverage, facultative aviation, and property and energy reinsurance issued by local companies in order to satisfy licensing requirements. Additionally, HCC began writing a property treaty reinsurance book in London in late 2009. Professional liability, including directors' and officers' liability is written through acquired underwriting agencies. Surety operations in the U.S. include contract surety bonds, commercial surety bonds and bail bonds written primarily through American Contractors Indemnity Company (ACIC), United States Surety Company (USSC), and U.S. Specialty Insurance Company (USSIC), and are managed together as part of the Company's U.S. Surety division. The company also writes surety business in the UK, Ireland and Spain through HCC Europe, Seguros y Reaseguros S.A. (HCCE), and HCC International Insurance Company PLC (HCCI).

In January of 2004, HCC sought to increase its specialty lines platform via the acquisition of Surety Associates Holdings Co., Inc., the parent company of ACIC. ACIC specializes in court, specialty contract, license and permit, and bail bonds. In February of 2005, HCC acquired USSC via the purchase of USSC Holdings, Inc., the privately held parent company of USSC. USSC is a Maryland-domiciled carrier specializing in writing surety bonds for small- to medium-sized contractors. HCC continued to expand its surety platform in 2007 through the acquisition of Colorado-based Ponderosa Management, Inc. which owned Pioneer General Insurance Company (PGIC), a specialty underwriter specializing in bail and civil bonds, and in 2009 through the acquisition of Surety Company of the Pacific (SCP), which specializes in California contractors' license and permit bonds. SCP and PGIC have both merged into ACIC.

Workers' compensation coverage had been written by the group through USSIC, but during 2001, management decided to exit this line of business due to loss ratio and expense issues that were adversely impacting profitability. In 2001, the affiliated underwriting agencies writing workers' compensation and aviation business were consolidated with USSIC's operations. In December 1999, HCC completed the acquisition of Centris, a leading provider of medical stop-loss coverage through Centris Life Insurance Company (Centris Life) and USBenefits Insurance Services, Inc. Subsequently, HCC contributed Centris Life to HC and renamed it HCC Life Insurance Company (HCC Life). Following the acquisition of the Centris Group, HCC became one of the largest providers of medical stop-loss coverage in the United States. Since 2003, the company has transferred medical stop-loss business from Avemco Insurance Company (AIC) to HCC Life. In 2002, HCC Specialty Insurance Company (HCCSpl) was also established as an Oklahoma-domiciled subsidiary of AIC. HCCSpl's purpose is to allow HCC to write surplus lines business in Texas that HC cannot write since it is a Texas-domiciled insurer. This business is 100% reinsured with HC.

HCC supplements the activities of its risk-bearing companies with underwriting agencies who write on behalf of its insurance carriers and, in certain situations, other non-affiliated companies. These organizations generate fee and commission income, including profit commissions, for the group while bearing no insurance risk. The principal agencies operating within HCC are HCC Global Financial Products, LLC (HCCG), HCC Indemnity Guaranty Agency, Inc. (HCCIG), HCC Specialty Underwriters, Inc. (HCCSU), Professional Indemnity Agency, Inc. (PIA) dba HCC Public Risk (HCCPR). HCC Underwriting Agency Ltd (HCCUA), and HCC Medical Insurance Services, LLC (HCCMIS). In 2010, HCC combined HCCSU, PIA, and HCCPR into its newly created underwriting division of HCC Specialty. The underwriting agencies specialize in the various lines of business written by the group's insurance carriers.

HCC has made numerous additional strategic transactions in recent years that have furthered its overall business strategy.

Business Profile (Continued ...)

In 2002, HCC acquired St. Paul Espana located in Madrid, Spain and thereafter was renamed HCC Europe. This company now primarily provides professional liability and surety coverage utilizing a very experienced management team.

In 2005, HCC acquired the remaining 66% of De Montfort Group Limited that it did not own. The key operating subsidiary of De Montfort Group was De Montfort Insurance Company PLC (DMI), a provider of surety and credit insurance in the United Kingdom, allowing the group to further enhance its diversified financial product platform and its geographic base. In 2005, DMI was renamed HCC International Insurance Company PLC.

Late in 2005, the company acquired Perico, Ltd., a medical stop-loss insurance underwriting agency domiciled in St. Louis, Missouri, and MIC Life Insurance Corporation (MIC), a Delaware-domiciled company. MIC was renamed Perico Life Insurance Company (PLIC) and was relocated to Missouri. In June of 2006, the company acquired Novia Underwriters, Inc., an underwriting agency based in Indianapolis, Indiana, that specialized in medical stop-loss insurance. Novia's business has since been absorbed into Perico Life Insurance Company (PLIC). Effective July 1, 2011, PLIC began merging its operations with HCC Life. The combination of the two companies, expected to take place over a period of twelve to eighteen months, will better allow HCC Life to improve its efficiencies and better utilize its capital. As a result of this merger, all medical stop-loss in force policies and underwriting requests will be directed to HCC Life.

In 2006, the company acquired G.B. Kenrick & Associates, Inc., a Michigan-based underwriting agency specifically focused on public entity insurance and in 2008 expanded its public entity sector presence through the acquisition of two small underwriting operations, all now under the HCC Specialty division.

Also in 2006, HCC acquired the assets of the Health Products division of Allianz Life Insurance Company of North America. This entity's business includes medical stop-loss and medical excess insurance. HCC acquired Multinational Underwriters, LLC (MNU) in January 2008 which changed its name to HCC Medical Insurance Services, LLC (HCCMIS) in 2009. HCCMIS is an underwriting agency based in Indianapolis, Indiana. In November and December 2008, HCC acquired C W Midwest, Inc. dba Cox Insurance Group, a medical stop-loss underwriting agency whose business was absorbed by PLIC.

Scope of Operations

Total Premium Composition & Growth Analysis

Period Ending	Direct Premiums Written		Reinsurance Premiums Assumed		Reinsurance Premiums Ceded		Net Premiums Written	
	($000)	(%Chg)	($000)	(%Chg)	($000)	(%Chg)	($000)	(%Chg)
2012	384,955	3.9	151,853	2.3	204,745	12.4	332,064	-1.5
2011	370,683	1.5	148,421	-0.3	182,088	-19.9	337,015	17.6
2010	365,057	-12.1	148,815	19.8	227,294	-2.0	286,578	-6.8
2009	415,161	3.3	124,220	-32.6	232,032	8.2	307,348	-17.4
2008	402,027	4.9	184,404	-34.4	214,434	-10.5	371,997	-12.4
5-Yr CAGR	...	0.1	...	-11.6	...	-3.1	...	-4.8
06/2013	215,009	6.1	86,184	-16.1	122,905	19.9	178,287	-12.2
06/2012	202,732	0.2	102,760	10.1	102,482	3.7	203,010	3.1

Territory

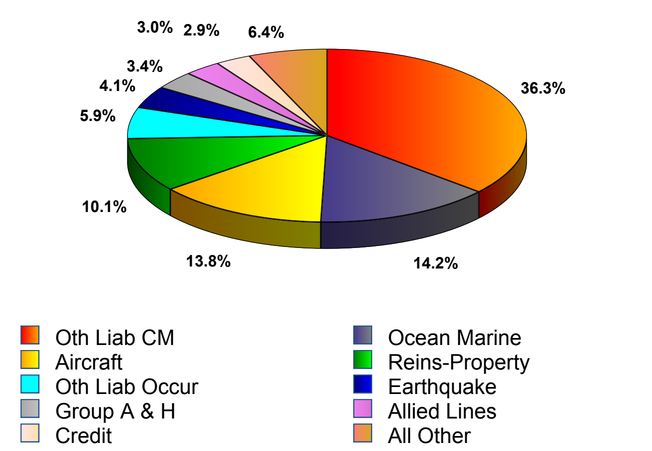
The company is licensed in Texas. It also operates on a surplus lines or non-admitted basis in the District of Columbia, Guam, Northern Mariana Islands, Puerto Rico, U.S. Virgin Islands, AL, AK, AZ, AR, CA, CO, CT, DE, FL, GA, HI, ID, IL, IN, IA, KS, KY, LA, ME, MD, MA, MI, MN, MS, MO, MT, NE, NV, NH, NJ, NM, NY, NC, ND, OH, OK, OR, PA, RI, SC, SD, TN, UT, VT, VA, WA, WV, WI and WY.

Business Trends

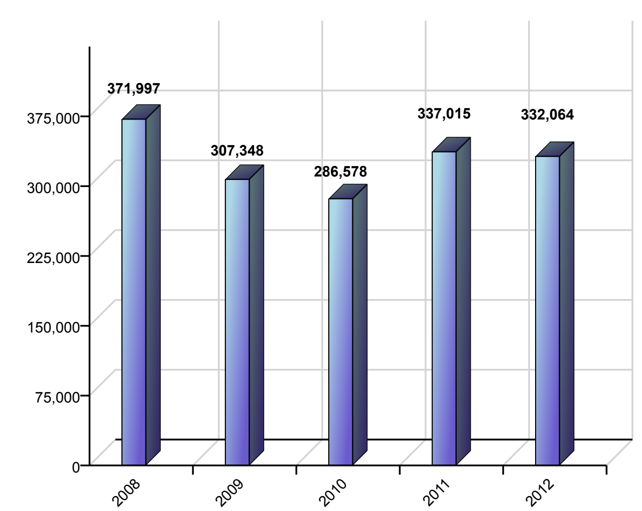
2012 By-Line Business ($000)

Product Line	Direct Premiums Written ($000)	Direct Premiums Written (%)	Reinsurance Premiums Assumed ($000)	Reinsurance Premiums Assumed (%)	Reinsurance Premiums Ceded ($000)	Reinsurance Premiums Ceded (%)	Net Premiums Written ($000)	Net Premiums Written (%)	Business Retention %
Oth Liab CM	135,848	35.3	10,624	7.0	26,054	12.7	120,418	36.3	82.2
Ocean Marine	89,388	23.2	5,767	3.8	47,871	23.4	47,284	14.2	49.7
Aircraft	13,782	3.6	55,170	36.3	22,998	11.2	45,954	13.8	66.6
Reins-Property	...	...	43,210	28.5	9,785	4.8	33,424	10.1	77.4
Oth Liab Occur	34,955	9.1	2,198	1.4	17,708	8.6	19,445	5.9	52.3
Earthquake	17,444	4.5	4,309	2.8	8,161	4.0	13,593	4.1	62.5
Group A & H	685	0.2	11,187	7.4	667	0.3	11,205	3.4	94.4
Allied Lines	9,204	2.4	5,326	3.5	4,614	2.3	9,917	3.0	68.2
Credit	9,725	2.5	586	0.4	695	0.3	9,615	2.9	93.3
All Other	73,925	19.2	13,477	8.9	66,192	32.3	21,210	6.4	25.0
Total	384,955	100.0	151,853	100.0	204,745	100.0	332,064	100.0	62.9

2012 Top Product Lines of Business (Net Premiums Written)



5 Years of Net Premiums Written ($000)



Business Trends (Continued ...)

By-Line Reserve ($000)

Product Line	2012	2011	2010	2009	2008
Oth Liab CM	443,145	479,348	470,377	493,324	488,446
Ocean Marine	35,109	50,440	51,614	75,757	108,370
Aircraft	35,883	31,533	27,141	29,911	34,487
Reins-Property	8,632	10,850	...	...	22
Oth Liab Occur	44,193	47,535	71,436	37,674	53,017
Earthquake	7,612	-5,770	4,894	2,928	-1,091
Group A & H	138,633	185,102	240,744	262,197	309,284
Allied Lines	12,057	13,249	9,533	20,190	23,505
Credit	12,511	12,181	4,954	4,864	11,345
All Other	46,013	61,144	36,410	67,947	90,963
Total	783,787	885,612	917,103	994,792	1,118,349

Market Share / Market Presence

Geographical Breakdown By Direct Premium Writings ($000)

	2012	2011	2010	2009	2008
California	74,262	66,958	59,453	69,742	66,808
Texas	40,915	42,231	40,112	35,775	27,109
Louisiana	39,655	51,578	49,284	49,168	56,289
New York	24,236	21,664	23,300	27,648	24,001
Aggregate Alien	23,447	22,439	23,664	32,683	32,144
Florida	15,858	14,712	12,175	13,296	15,810
Minnesota	13,116	3,557	4,535	4,182	6,061
Pennsylvania	12,639	13,267	12,836	15,574	15,806
Illinois	12,488	12,226	11,277	11,573	11,019
Massachusetts	8,589	9,736	8,391	9,255	9,076
All Other	119,750	112,314	120,029	146,266	137,904
Total	384,955	370,683	365,057	415,161	402,027

Risk Management

The following text is derived from A.M. Best's Credit Report on Houston Casualty Group (AMB# 018421).

HCC's Enterprise Risk Management (ERM) process is very well-developed, assessing the organization's risks systematically and determining the most appropriate responses to them. The company's Internal Risk Committee is responsible for the ongoing enhancement and integration of the ERM process throughout the organization. From clash reports to disaster recovery plans, the company's ERM efforts have become central to its strategic operation.

Catastrophe Exposure & Management: Maintaining sufficient reinsurance to support the catastrophe portion of its portfolio, as well as limiting its exposure in any one class of business, is an integral part of the group's business strategy. Various domestic and foreign reinsurers are utilized in order to limit the group's credit risk to any particular reinsurer. In addition, management has positioned the group to be able to increase the utilization of reinsurance as market conditions warrant, while maintaining a solid balance sheet to support increased retention of premium when reinsurance capacity lessens. A specific reinsurance program is structured for each line of business. Over the last decade, the group has significantly reduced its ceded business, going from ceding almost two-thirds of its gross unaffiliated book of business to less than one-third. This strategic change has been undertaken to increase retentions, capitalize on the rising rates and improved market conditions, and manage reinsurance costs.

Despite the reduction, the utilization of reinsurance to mitigate the group's exposure to any one event leaves it exposed to the impact of changes in the reinsurance sector, including but not limited to pricing behavior, credit risk and dispute risk. As such, management remains highly attuned to activity in the reinsurance market sector seeking to ensure that the group remains aligned with financially strong reinsurance partners. The focus on maintaining solid partnerships has led to the commutation of recoverables when circumstances determined it to be the best strategic option. A.M. Best expects the group to continue managing its level of reinsurance recoverables effectively and to pro-actively address recoverables from reinsurers whose financial strength becomes weakened to any material degree.

Operating Performance

The following text is derived from A.M. Best's Credit Report on Houston Casualty Group (AMB# 018421).

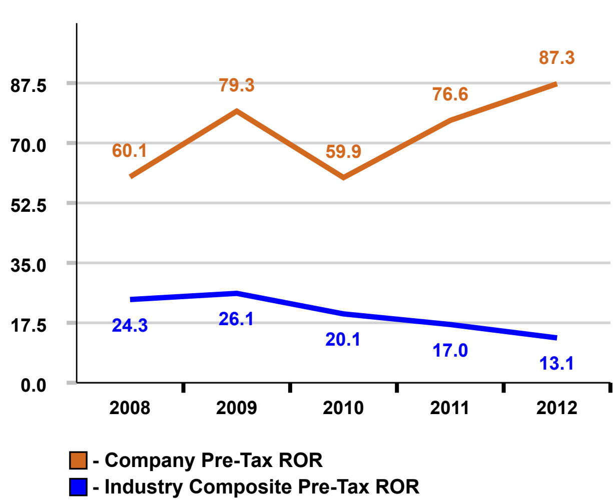
Operating Results: On a five-year basis, the group's pre-tax and after-tax returns substantially surpass the average produced by the industry composite. This level of performance is driven by the group's underwriting discipline, expense ratio advantage and the sizeable income garnered from its high quality investment portfolio. Despite overall market softening that has caused margin compression in recent years, the group has focused on specific lines of business it feels still offer profit potential. These more desirable lines of business have included the surety, medical stop loss, offshore energy and aviation lines of business. Increased net investment income generated by the group's growing, conservative portfolio has also helped drive profits.

A.M. Best believes the group will continue to generate solid earnings because of its diversification and ability to focus on lines of business less impacted by market pressures as well as the improved pricing environment exhibited over the past year. Considering the group's successful history in managing the cycle and its steadfast application of conservative operating fundamentals, A.M. Best believes operating results will remain favorable.

Profitability Analysis

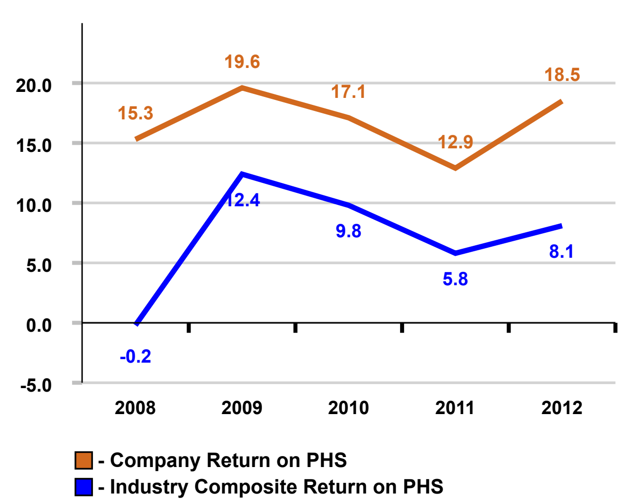
	Company							Industry Composite		
Period Ending	Pre-tax Operating Income	After-tax Operating Income	Net Income	Total Return	Pre-Tax ROR	Return on PHS	Operating Ratio	Pre-Tax ROR	Return on PHS	Operating Ratio
2012	294,327	256,973	264,215	323,719	87.3	18.5	13.1	13.1	8.1	88.9
2011	241,910	227,010	229,395	215,910	76.6	12.9	21.8	17.0	5.8	82.5
2010	181,139	153,320	162,895	274,678	59.9	17.1	41.8	20.1	9.8	79.5
2009	259,912	210,073	209,526	286,113	79.3	19.6	23.6	26.1	12.4	74.2
2008	239,246	187,433	179,850	198,803	60.1	15.3	42.1	24.3	-0.2	76.3
5-Yr Avg/Tot	1,216,533	1,034,809	1,045,880	1,299,223	72.4	16.7	28.8	20.1	7.3	80.4
06/2013	66,648	48,031	49,937	147,508	41.5	17.3	56.3	XX	XX	XX
06/2012	65,883	46,279	49,271	143,891	39.4	13.6	55.5	XX	XX	XX

Pre-Tax ROR Comparison with Industry Composite



* Industry Composite - Surplus Lines Composite

Return on PHS Comparison with Industry Composite



* Industry Composite - Surplus Lines Composite

Underwriting Results

Underwriting Results: Over the last five years, the group's underwriting performance has been very strong as evidenced by a combined ratio during that period that is significantly better than that of the industry composite. A distinct loss ratio advantage, relative to the composite, has led to the well above-average historical underwriting performance. Solid results in core lines of business, partially offset by less favorable performance on the discontinued lines of business, drive the long-term favorable underwriting results. While still profitable, the group's combined ratio did increase in 2011 as a result of adverse loss reserve development in the directors' and officers' and professional liability lines of business as well as the inland marine line of business. The positive development during 2012 was primarily due to a re-estimation of unpaid losses and loss adjustment expenses, for principally the directors' and officers' and professional liability lines of business as well as the inland marine line of business.

With competitive market pressures compressing profit margins on certain lines of coverage on specialty admitted and surplus lines business, in recent years, the group has increased retentions on lines such as professional liability, aviation, and energy where business written has proven to be profitable. The group's combined ratio has historically benefitted from a large amount of ceding commission that has largely offset commissions paid on direct and assumed business. Increasing net retentions, however, have tempered the positive impact of ceding commissions in recent years. A.M. Best expects HCC's long-held underwriting discipline to allow the group to sustain the favorable underwriting and operating results even as segments of the market face greater price competition.

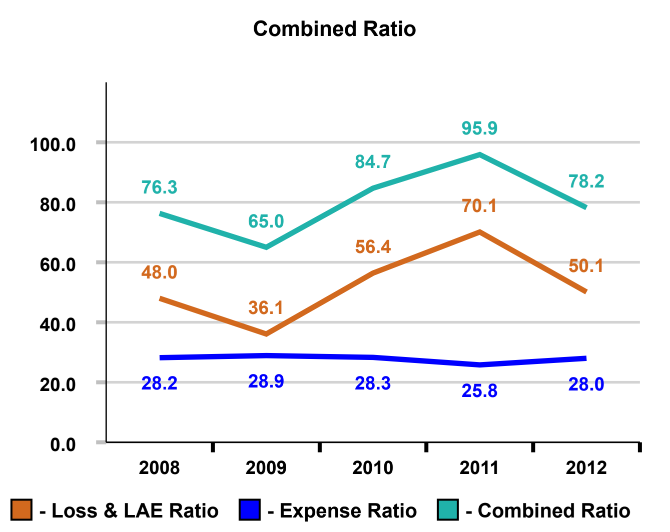
Underwriting Experience

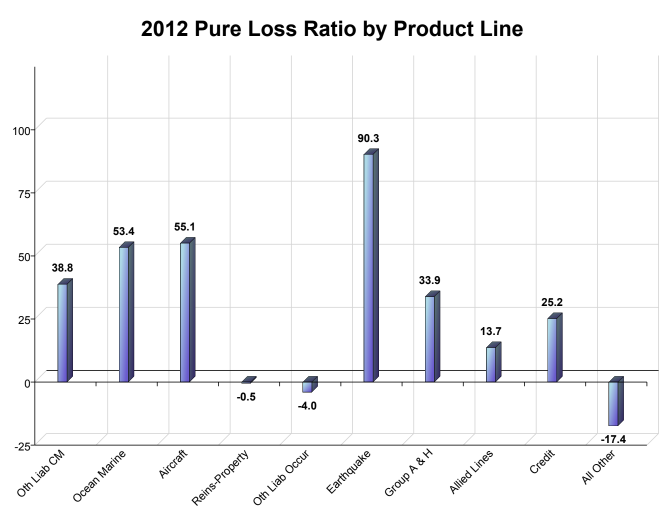
		Loss Ratios			Expense Ratios				
Year	Net Undrw Income ($000)	Pure Loss	LAE	Loss & LAE	Net Comm	Other Exp.	Total Exp.	Div. Pol.	Comb. Ratio
2012	74,998	35.1	15.0	50.1	17.1	10.9	28.0	...	78.2
2011	7,483	47.7	22.4	70.1	16.2	9.6	25.8	...	95.9
2010	50,939	35.9	20.5	56.4	19.4	8.8	28.3	...	84.7
2009	120,828	19.0	17.1	36.1	20.9	7.9	28.9	...	65.0
2008	101,864	36.7	11.3	48.0	22.0	6.2	28.2	...	76.3
5-Yr Avg	356,113	34.9	16.9	51.8	19.2	8.7	27.8	...	79.6
06/2013	33,220	38.0	17.0	55.0	XX	XX	21.9	...	76.9
06/2012	30,529	34.4	17.8	52.2	XX	XX	24.3	...	76.5

Underwriting Results (Continued ...)

Loss Ratio By Line

Product Line	2012	2011	2010	2009	2008	5-Yr. Avg.
Oth Liab CM	38.8	57.7	38.2	23.3	25.2	34.8
Ocean Marine	53.4	9.8	4.4	3.4	60.3	27.5
Aircraft	55.1	55.8	59.0	49.3	54.4	54.9
Reins-Property	-0.5	53.4	...	999.9	...	21.3
Oth Liab Occur	-4.0	-99.9	999.9	-99.9	44.7	74.5
Earthquake	90.3	-99.9	27.5	88.8	-99.9	5.2
Group A & H	33.9	25.1	54.6	76.8	3.2	42.4
Allied Lines	13.7	125.7	-99.9	-99.9	87.5	-12.5
Credit	25.2	43.9	93.0	61.3	43.9	50.2
All Other	-17.4	155.5	-99.9	-56.5	58.7	23.2
Total	35.1	47.7	35.9	19.0	36.7	34.9





Underwriting Results (Continued ...)

Direct Loss Ratios By State

	2012	2011	2010	2009	2008	5-Yr. Avg.
California	14.2	74.2	43.1	36.5	3.2	33.5
Texas	-7.7	44.6	86.9	21.7	228.1	68.6
Louisiana	7.1	53.1	-8.2	64.0	132.2	53.4
New York	122.2	109.3	36.8	28.9	69.2	72.1
Aggregate Alien	87.3	-99.9	45.5	38.8	-32.7	-4.2
Florida	73.9	112.1	69.7	17.3	43.8	62.0
Minnesota	-3.5	-99.9	-50.4	374.4	-99.9	-57.4
Pennsylvania	-6.1	93.4	50.3	-19.2	127.6	45.1
Illinois	-1.4	100.0	40.8	15.2	-99.9	-27.9
Massachusetts	60.8	114.4	-49.0	70.6	-99.9	18.2
All Other	28.5	53.7	51.5	-7.6	45.8	33.2
Total	29.4	48.1	41.5	25.2	43.3	37.3

Investment Results

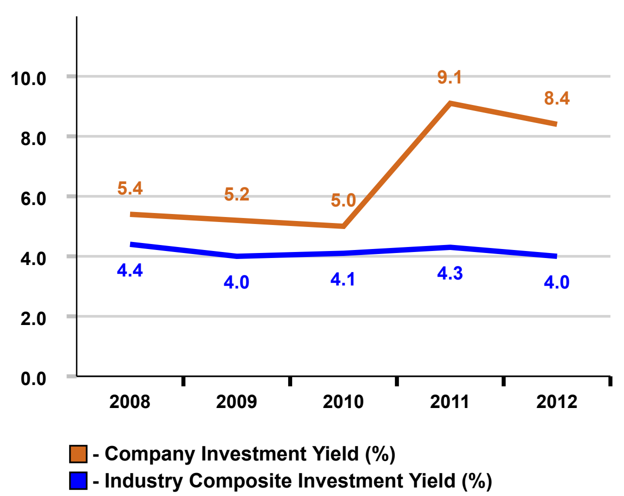
Investment Results: The group's higher retentions, the increase in the payout period for claims due to the writing of more longer-tail business, and the impact of reinsurance commutations have combined to produce solid operating cash flows in recent years. These cash flows have driven notable growth in both the invested asset base and net investment income. The group's invested asset portfolio is predominately concentrated in high-quality fixed-income securities, with an emphasis on municipal bonds, asset-backed and mortgage-backed securities, corporate bonds and to a lesser extent, treasury securities. The predominant portion of the group's investment leverage stemmed from its common stock holdings of affiliated companies and will remain as such given the group's business model and related business strategies. In 2012, the group diversified its investment portfolio by purchasing unaffiliated common stocks that equated to less than 4% of invested assets. The group's investment leverage remains conservative compared to industry composite norms. The portfolio has produced an average investment yield above the industry composite average.

Investment Results (Continued ...)

Investment Gains ($000)

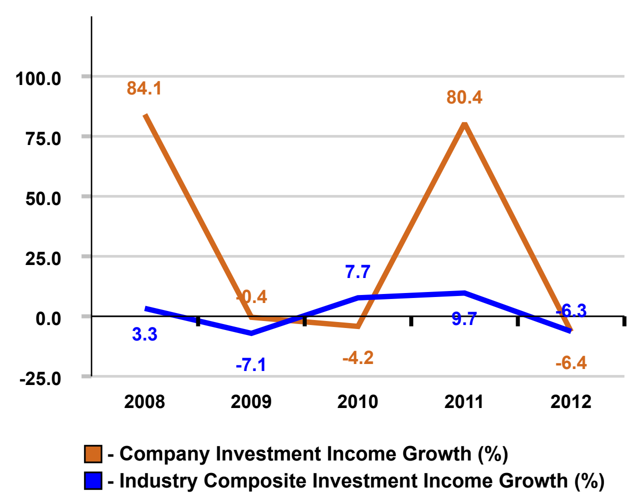
	Company							Industry Composite	
Year	Net Investment Income ($000)	Realized Capital Gains ($000)	Unrealized Capital Gains ($000)	Investment Income Growth (%)	Investment Yield (%)	Return on Invested Assets (%)	Total Return (%)	Investment Income Growth (%)	Investment Yield (%)
2012	219,086	7,241	59,504	-6.4	8.4	8.6	11.0	-6.3	4.0
2011	234,075	2,385	-13,484	80.4	9.1	9.2	8.7	9.7	4.3
2010	129,750	9,575	111,783	-4.2	5.0	5.3	9.8	7.7	4.1
2009	135,508	-547	76,587	-0.4	5.2	5.2	8.3	-7.1	4.0
2008	136,045	-7,584	18,953	84.1	5.4	5.1	5.9	3.3	4.4
5-Yr Avg/Tot	854,464	11,071	253,343	20.5	6.6	6.7	8.8	1.2	4.1
06/2013	33,190	1,905	97,571	-5.7	7.8	8.1	10.4	XX	XX
06/2012	35,214	2,992	94,620	5.0	8.7	8.9	8.2	XX	XX

Investment Yield vs Industry



* Industry Composite - Surplus Lines Composite

Investment Income Growth vs Industry



* Industry Composite - Surplus Lines Composite

Balance Sheet Strength

Capitalization

The following text is derived from A.M. Best's Credit Report on Houston Casualty Group (AMB# 018421).

Capitalization: The group's capital position has always remained supportive of its rating, as measured by Best's Capital Adequacy Ratio (BCAR). The considerable appreciation in the group's policyholders' surplus over the last several years has been driven primarily by operating earnings and both realized and unrealized gains. Growth in policyholders' surplus has been constrained somewhat by dividends paid to the parent company. Excellent operating results in recent years have enabled capitalization to adequately support the group's business risks. Despite the challenging market and limited opportunities for profitable top line growth, the group's earnings have benefited from a fairly stable level of earned premiums due in part to increased premium retentions.

Until recently, the strong cash flow of HCC's underwriting agencies has historically been enough to cover the operating and dividend requirements of the holding company. As underwriting agencies have been combined with insurance companies, the company now takes regular dividends from HCC's insurance company subsidiaries. A.M. Best does not anticipate the level of dividends paid by the group's insurance companies to the parent to materially weaken the capitalization of these subsidiaries.

Capital Generation Analysis ($000)

	Source of Surplus Growth							
Year	Pre-tax Operating Income	Realized Capital Gains	Income Taxes	Unrealized Capital Gains	Net Contributed Capital	Other Changes	Change in PHS	% Change in PHS
2012	294,327	7,241	37,353	59,504	-227,937	321	96,103	5.7
2011	241,910	2,385	14,900	-13,484	-163,755	5,066	57,222	3.5
2010	181,139	9,575	27,819	111,783	-208,352	7,723	74,050	4.7
2009	259,912	-547	49,839	76,587	-93,719	30,086	222,479	16.5
2008	239,246	-7,584	51,812	18,953	-84,175	-29,583	85,044	6.7
5-Yr Total	1,216,533	11,071	181,724	253,343	-777,938	13,612	534,898	7.3
06/2013	66,648	1,905	18,616	97,571	96	1,393	148,998	8.3
06/2012	65,883	2,992	19,604	94,620	370	-62	144,199	8.5

Quality of Surplus ($000)

Year	Surplus Notes	Other Debt	Contributed Capital	Unassigned Surplus	Year End Policyholders Surplus	Conditional Reserves	Adjusted Policyholders Surplus
2012	...	...	577,235	1,217,870	1,795,105	4,932	1,800,038
2011	...	...	584,259	1,114,743	1,699,002	4,670	1,703,672
2010	...	...	583,642	1,058,138	1,641,780	7,663	1,649,443
2009	...	...	583,307	984,423	1,567,730	17,986	1,585,717
2008	...	...	574,004	771,248	1,345,252	38,414	1,383,665
06/2013	...	...	577,332	1,366,771	1,944,103	6,336	1,950,439
06/2012	...	...	576,148	1,267,052	1,843,201	5,714	1,848,915

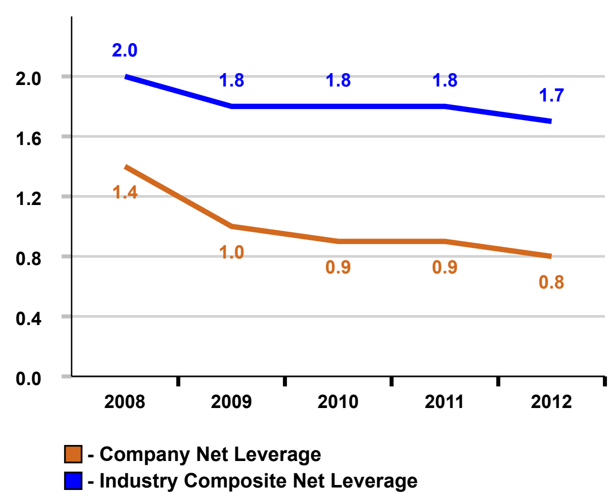
Underwriting Leverage

Leverage Analysis

Year	Company				Industry Composite			
	NPW to PHS	Reserves to PHS	Net Leverage	Gross Leverage	NPW to PHS	Reserves to PHS	Net Leverage	Gross Leverage
2012	0.2	0.4	0.8	1.2	0.4	0.9	1.7	2.5
2011	0.2	0.5	0.9	1.3	0.4	0.9	1.8	2.5
2010	0.2	0.6	0.9	1.4	0.4	1.0	1.8	2.6
2009	0.2	0.6	1.0	1.6	0.4	0.9	1.8	2.6
2008	0.3	0.8	1.4	2.1	0.5	1.0	2.0	3.0
06/2013	0.2	0.4	0.7	XX	XX	XX	XX	XX
06/2012	0.2	0.5	0.9	XX	XX	XX	XX	XX

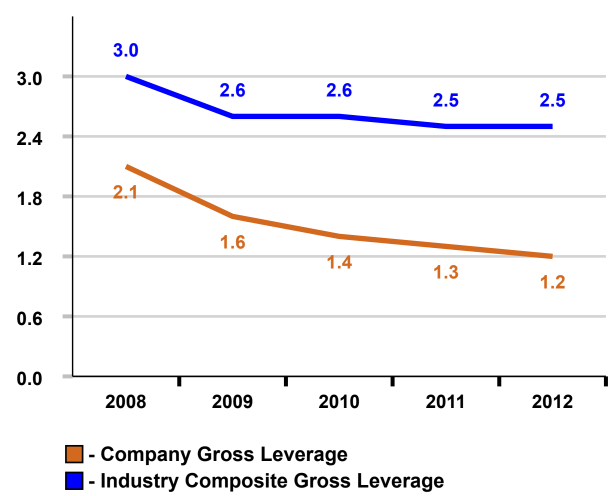
Current BCAR: 291.3

Net Leverage vs Industry



* Industry Composite - Surplus Lines Composite

Gross Leverage vs Industry



* Industry Composite - Surplus Lines Composite

Underwriting Leverage (Continued ...)

Ceded Reinsurance Analysis ($000)

	Company				Industry Composite		
Year	Ceded Reinsurance Total	Business Retention (%)	Reinsurance Recoverables to PHS (%)	Ceded Reinsurance to PHS (%)	Business Retention (%)	Reinsurance Recoverables to PHS (%)	Ceded Reinsurance to PHS (%)
2012	685,355	62.9	26.8	38.2	42.9	56.4	80.4
2011	721,859	65.1	31.8	42.5	49.5	56.7	78.3
2010	819,811	56.9	36.1	49.9	51.1	57.5	78.8
2009	943,102	57.5	45.4	60.2	44.4	63.9	86.4
2008	1,019,242	64.0	59.8	75.8	46.0	75.2	99.9

2012 Reinsurance Recoverables ($000)

	Paid & Unpaid Losses	Incurred But Not Reported (IBNR) Losses	Unearned Premiums	Other Recoverables *	Total Reinsurance Recoverables
US Affiliates	402	...	...	...	402
Foreign Affiliates	2,748	27	18,264	-22,730	-1,691
US Insurers	85,232	91,208	42,562	655	219,657
Pools/Associations	...	...	...	...	...
Other Non-Us	151,713	62,175	49,577	-820	262,645
Total(ex Us Affils)	239,693	153,410	110,403	-22,895	480,611
Grand Total	240,095	153,410	110,403	-22,895	481,013

* Includes Commissions less Funds Withheld

Loss Reserves

Loss Reserves: On both a calendar year and accident year basis, the group has historically reported favorable loss reserve development. However, deficiencies were reported in accident years 2008 - 2010 as a result of the recent increase in reserves for the diversified financial products (DFP) line of business in the group's professional liability segment, which provides coverage for private equity partnerships, hedge funds and investment managers. These reserve changes resulted primarily from revised assumptions with regards to the frequency and severity of claims. Favorable reserve development returned in 2012, as redundancies were experienced in most segments, partially offset by strengthening in the Public Risk and International Surety segments. A.M. Best expects the group's reserve development pattern to be more reflective of the favorable historical norms over the near term.

Loss Reserves (Continued ...)

Loss and ALAE Reserve Development: Calendar Year ($000)

Calendar Year	Original Loss Reserves	Developed Reserves Thru 2012	Development to Original (%)	Development to PHS (%)	Development to NPE (%)	Unpaid Reserves @ 12/2012	Unpaid Reserves to Development (%)
2012	780,367	780,367	...	...	231.6	780,367	100.0
2011	882,049	853,385	-3.2	-1.7	270.1	615,592	72.1
2010	913,092	899,232	-1.5	-0.8	297.2	485,724	54.0
2009	989,579	953,980	-3.6	-2.3	290.9	394,740	41.4
2008	1,109,281	940,652	-15.2	-12.5	236.3	339,119	36.1
2007	1,148,496	913,429	-20.5	-18.7	201.4	278,163	30.5

Loss and ALAE Reserve Development: Accident Year ($000)

Accident Year	Original Loss Reserves	Developed Reserves Thru 2012	Development to Original (%)	Unpaid Reserves @ 12/2012	Accident Year Loss Ratio	Accident Year Comb. Ratio
2012	164,775	164,775	...	164,775	58.1	86.1
2011	177,561	175,690	-1.1	129,868	66.0	91.8
2010	153,179	167,350	9.3	90,984	63.4	91.7
2009	150,675	216,962	44.0	55,621	78.1	107.0
2008	222,892	222,050	-0.4	60,956	64.2	92.4
2007	227,559	189,730	-16.6	50,485	48.3	76.3

Liquidity

The following text is derived from A.M. Best's Credit Report on Houston Casualty Group (AMB# 018421).

Liquidity: The group maintains a sound liquidity position as evidenced by current and overall liquidity ratios that exceed industry composite averages. The level of invested assets has increased significantly over the last five years, more than offsetting the growth in total liabilities stemming from higher loss reserves. Operating cash flow, driven primarily by increased investment income, remains solid. Historically, the group's adequate liquidity position has been derived from consistent operating cash flow and contributed capital from the parent holding company with solid investment income also contributing.

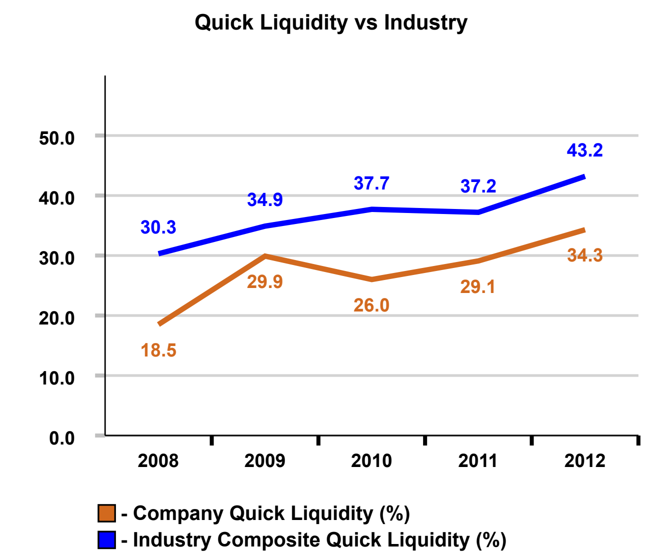
The parent filed a universal shelf registration in March 2012 that expires in March 2015. The shelf registration statement provides for the issuance of an aggregate of $1.0 billion of securities that helps provide the group with greater financial flexibility. These securities may be debt securities, equity securities, or a combination thereof.

HCC maintains a $600 million revolving loan facility, of which $320 million of available capacity remained as of March 31, 2013. HCC uses this facility to fund repurchases of its common stock. The parent also has a $90 million standby letter of credit facility that is used to guarantee the performance of its Lloyd's of London syndicate. The revolving loan facility expires in 2015, and the standby facility expires in 2016.

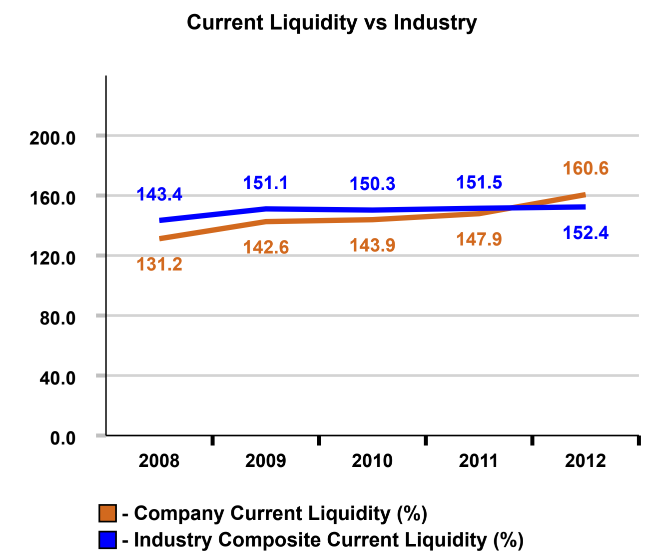
Liquidity (Continued ...)

Liquidity Analysis

Year	Company				Industry Composite			
	Quick Liquidity (%)	Current Liquidity (%)	Overall Liquidity (%)	Gross Agents Balances to PHS(%)	Quick Liquidity (%)	Current Liquidity (%)	Overall Liquidity (%)	Gross Agents Balances to PHS (%)
2012	34.3	160.6	259.2	3.6	43.2	152.4	173.2	8.9
2011	29.1	147.9	241.0	6.5	37.2	151.5	171.9	8.3
2010	26.0	143.9	235.8	5.0	37.7	150.3	169.7	8.1
2009	29.9	142.6	220.2	5.8	34.9	151.1	172.4	8.7
2008	18.5	131.2	194.6	9.4	30.3	143.4	165.4	9.6
06/2013	XX	158.6	270.0	4.3	XX	XX	XX	XX
06/2012	XX	149.2	248.3	6.8	XX	XX	XX	XX



* Industry Composite - Surplus Lines Composite



* Industry Composite - Surplus Lines Composite

Liquidity (Continued ...)

Cash Flow Analysis ($000)

	Company					Industry Composite	
Year	Underwriting Cash Flow	Operating Cash Flow	Net Cash Flow	Underwriting Cash Flow (%)	Operating Cash Flow (%)	Underwriting Cash Flow (%)	Operating Cash Flow (%)
2012	33,028	233,256	25,812	110.0	164.3	93.0	109.4
2011	-41,607	180,554	-30,084	87.9	149.4	91.1	110.9
2010	-36,238	52,306	-38,915	89.0	113.7	140.2	156.0
2009	5,315	114,162	4,774	101.5	129.5	104.7	127.8
2008	75,298	170,052	-92,310	124.4	147.7	121.5	133.0
5-Yr Total	35,797	750,330	-130,722	...	...	...	...
06/2013	9,476	27,674	8,512	106.6	116.9	XX	XX
06/2012	27,856	57,457	43,720	118.2	135.2	XX	XX

Investments

Investment Leverage Analysis (% of PHS)

	Company						Industry Composite	
Year	Class 3-6 Bonds	Real Estate / Mortgages	Other Invested Assets	Common Stock	Non - Affiliated Investment Leverage	Affiliated Investments	Class 3-6 Bonds	Common Stock
2012	3.6	...	...	7.7	11.3	54.2	5.4	22.2
2011	...	...	...	...	...	53.9	3.8	18.9
2010	0.1	...	...	...	0.1	56.6	3.3	17.0
2009	...	...	...	...	...	52.1	3.5	15.3
2008	...	...	2.6	...	2.6	51.7	2.7	10.3

Investments - Bond Portfolio

2012 Distribution By Maturity

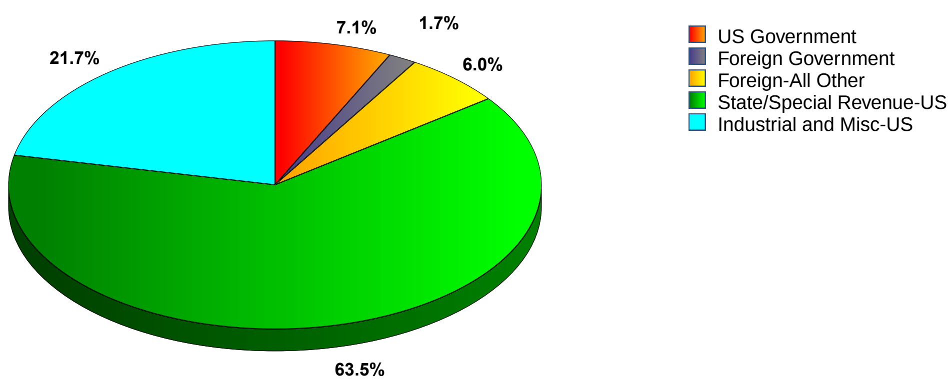
	Years					
	0-1	1-5	5-10	10-20	20+	Years Average Maturity
Government	4.1	3.8	1.4	0.7	0.1	3.6
Government Agencies & Muni.	5.2	28.5	16.4	8.3	4.1	7.0
Industrial & Misc.	3.1	8.9	15.2	...	...	5.2
Total	12.5	41.3	33.1	8.9	4.2	6.2

Investments - Bond Portfolio (Continued ...)

Bond Distribution By Issuer Type

	2012	2011	2010	2009	2008
Bonds (000)	1,599,177	1,745,495	1,672,618	1,771,616	1,724,891
US Government	7.1	7.5	7.9	7.4	2.8
Foreign Government	1.7	2.6	2.6	...	...
Foreign-All Other	6.0	4.0	3.8	2.2	1.1
State/Special Revenue-US	63.5	66.6	68.8	69.6	70.0
Industrial and Misc-US	21.7	19.3	16.8	20.7	26.1

2012 Bond Distribution By Issuer Type



Bond Percent Private vs Public

	2012	2011	2010	2009	2008
Private Issues	7.9	0.8	...	...	...
Public Issues	92.1	99.2	100.0	100.0	100.0

Bond Quality Percent

	2012	2011	2010	2009	2008
Class 1	93.0	97.3	98.1	97.8	97.7
Class 2	3.1	2.7	1.8	2.2	2.3
Class 3	3.0	...	0.1	...	...
Class 4	0.9	...	...	...	...
Class 5	...	...	...	...	...

Investments - Equity Portfolio

	2012	2011	2010	2009	2008
Total Stocks(000)	1,104,287	907,547	921,065	808,267	687,076
Unaffiliated Common	12.5	...	...	...	...
Affiliated Common	87.5	100.0	100.0	100.0	100.0
Unaffiliated Preferred	...	...	...	...	...

Investments - Mortgage Loans And Real Estate

	2012	2011	2010	2009	2008
Mortgage Loans and Real Estate (000)	7,372	7,906	8,001	8,648	9,066
Property Occupied by Company	100.0	100.0	100.0	100.0	100.0

Investments - Other Invested Assets

	2012	2011	2010	2009	2008
Other Invested Assets(000)	41,613	15,699	46,012	85,634	168,643
Cash	39.9	64.4	18.6	43.1	12.5
Short-Term	59.4	34.4	80.6	55.6	34.7
Schedule BA Assets	...	1.1	0.9	0.7	20.9
All Other	0.7	...	...	0.6	31.8

History

The company was incorporated under the laws of Texas on April 28, 1981, as International Indemnity Company of Texas and began business on June 18, 1981. The name was changed to Houston Casualty Company on May 26, 1983.

Capital paid-up at year-end was $5,000,000 consisting of 5,000,000 shares of common stock at a par value of $1 per share. Authorized capital stock at year end was 10,000,000 shares.

Management

The company is wholly owned by Illium, Inc., which is wholly owned by HCC Insurance Holdings, Inc., a publicly held insurance and insurance-related services holding company traded on the NYSE under the symbol HCC.

Management is under the direction of Michael J. Schell, Chief Executive Officer and Executive Vice President of HCC Insurance Holdings, Inc.

Officers And Directors

Officers

President and CEO Michael J. Schell
President Barry Cook (London Branch)
COO Nick Hutton-Penman (London Branch)
CFO Katherine Letsinger (London Branch)
EVP William N. Burke
EVP Mark W. Callahan
EVP Michael J. Donovan
EVP Brad T. Irick
EVP Stefano S. Minale
EVP Christopher J.B. Williams
SVP and Chief Actuary Thomas E. Weist
SVP Francesco Argondizzo
SVP Mark A. Buechler
SVP Brian E. Duffy
SVP Diana R. Dyckman
SVP Christopher M. Lewis
SVP Carl R. Nederman
SVP Frank Pedicini
SVP Mark P. Reynolds
SVP Mark P. Rickert
SVP Randy D. Rinicella
Vice President and CFO Stephen P. MacDonough
Vice President and Treasurer Jonathan Lee
Vice President Christopher D. Bonnett
Vice President Sharon L. Brock
Vice President Jackie S. Kellems
Vice President Joycelyn M. Ray
Vice President Deborah L. Riffe
Vice President Jose Torres
Secretary Alexander M. Ludlow
Treasurer Rowland Hughes (London Branch)

Directors

Mark W. Callahan
Brad T. Irick
Stephen P. MacDonough
Pamela J. Penny
Randy D. Rinicella
Michael J. Schell
Christopher J.B. Williams

Regulatory

An examination of the financial condition was made as of December 31, 2008, by the insurance department of Texas. The 2012 annual independent audit of the company was conducted by PricewaterhouseCoopers, LLP. The annual statement of actuarial opinion is provided by Mark R. Proska., FCAS, MAAA, PricewaterhouseCoopers, LLP.

Reinsurance

The following text is derived from A.M. Best's Credit Report on Houston Casualty Group (AMB# 018421).

Reinsurance is maintained on a quota share and excess of loss basis with a separate program maintained for each line of business. Catastrophe coverage is purchased for property, property treaty, marine, energy, aviation, and other catastrophe exposed lines of business. Facultative reinsurance is also purchased when deemed appropriate.

Maintaining sufficient reinsurance to support the catastrophe portion of its portfolio, as well as limiting its exposure in any one class of business, is an integral part of the group's business strategy. Various domestic and foreign reinsurers are utilized in order to limit the group's credit risk to any particular reinsurer. In addition, management has positioned the group to be able to increase the utilization of reinsurance as market conditions warrant, while maintaining a solid balance sheet to support increased retention of premium when reinsurance capacity lessens.

Balance Sheet ($000)

Admitted Assets	12/31/2012	12/31/2011	2012 %	2011 %
Bonds	1,599,177	1,745,495	54.6	59.9
Preferred Stock	...	...	...	...
Common Stock	138,047	...	4.7	...
Cash & Short-Term Invest	41,335	15,523	1.4	0.5
Real estate, investment	...	...	...	...
Derivatives	...	...	...	...
Other Non-Affil Inv Asset	277	176	...	...
Investments in Affiliates	966,240	907,547	33.0	31.2
Real Estate, Offices	7,372	7,906	0.3	0.3
Total Invested Assets	2,752,449	2,676,646	93.9	91.9
Premium Balances	85,572	122,171	2.9	4.2
Accrued Interest	17,691	19,406	0.6	0.7
Life department	...	...	...	...
All Other Assets	74,670	93,433	2.5	3.2
Total Assets	2,930,381	2,911,655	100.0	100.0

Liabilities & Surplus	12/31/2012	12/31/2011	2012 %	2011 %
Loss & LAE Reserves	783,787	885,612	26.7	30.4
Unearned Premiums	177,109	182,013	6.0	6.3
Conditional Reserve Funds	4,932	4,670	0.2	0.2
Derivatives	...	...	...	...
Life department	...	...	...	...
All Other Liabilities	169,448	140,358	5.8	4.8
Total Liabilities	1,135,276	1,212,653	38.7	41.6
Surplus notes	...	...	...	...
Capital & Assigned Surplus	577,235	584,259	19.7	20.1
Unassigned Surplus	1,217,870	1,114,743	41.6	38.3
Total Policyholders' Surplus	1,795,105	1,699,002	61.3	58.4
Total Liabilities & Surplus	2,930,381	2,911,655	100.0	100.0

Interim Balance Sheet ($000)

Admitted Assets	03/31/2013	06/30/2013
Bonds	1,581,556	1,607,512
Common Stock	1,163,887	1,210,452
Cash & Short-Term Invest	47,583	49,848
Other Investments	7,204	7,039
Total Invested Assets	2,800,230	2,874,850
Premium Balances	101,772	102,941
Accrued Interest	17,055	16,967
Reinsurance Funds	33,030	55,993
All Other Assets	45,044	47,278
Total Assets	2,997,132	3,098,029

Liabilities & Surplus	03/31/2013	06/30/2013
Loss & LAE Reserves	784,003	786,771
Unearned Premiums	165,974	194,735
Conditional Reserve Funds	3,624	6,336
All Other Liabilities	166,487	166,085
Total Liabilities	1,120,088	1,153,926
Capital & Assigned Surp	577,323	577,332
Unassigned Surplus	1,299,721	1,366,771
Total Policyholders' Surplus	1,877,044	1,944,103
Total Liabilities & Surplus	2,997,132	3,098,029

Summary Of 2012 Operations ($000)

Statement of Income	12/31/2012	Funds Provided from Operations	12/31/2012
Premiums earned	336,968	Premiums collected	364,876
Losses incurred	118,414	Benefit & loss-related pmts	190,292
LAE incurred	50,494		
Undwr expenses incurred	93,062	LAE & undwr expenses paid	141,556
Other expenses incurred	...	Other income / expense	...
Dividends to policyholders	...	Dividends to policyholders	...
Net underwriting income	74,998	Underwriting cash flow	33,028
		Net transfer	...
Net investment income	219,086	Investment income	231,008
Other income/expense	243	Other income/expense	243
Pre-tax operating income	294,327	Pre-tax cash operations	264,279
Realized capital gains	7,241		
Income taxes incurred	37,353	Income taxes pd (recov)	31,024
Net income	264,215	Net oper cash flow	233,256

Interim Income Statement ($000)

	Period Ended 06/30/2013	Period Ended 06/30/2012	Increase / Decrease
Premiums earned	160,662	167,244	-6,582
Losses incurred	60,974	57,464	3,510
LAE incurred	27,343	29,821	-2,478
Undwr expenses incurred	39,125	49,430	-10,305
Other expenses incurred	...	...	...
Dividends to policyholders	...	...	...
Net underwriting income	33,220	30,529	2,691
Net investment income	33,190	35,214	-2,024
Other income/expense	238	141	97
Pre-tax operating income	66,648	65,883	764
Realized capital gains	1,905	2,992	-1,086
Income taxes incurred	18,616	19,604	-988
Net income	49,937	49,271	666

Interim Cash Flow ($000)

	Period Ended 06/30/2013	Period Ended 06/30/2012	Increase / Decrease
Premiums collected	152,405	180,938	-28,533
Benefit & loss-related pmts	84,570	79,623	4,947
LAE & undwr expenses paid	58,359	73,458	-15,100
Dividends to policyholders	...	...	...
Underwriting cash flow	9,476	27,856	-18,380
Net transfer	...	...	...
Investment income	38,947	39,646	-700
Other income/expense	238	141	97
Pre-tax cash operations	48,661	67,643	-18,983
Income taxes pd (recov)	20,987	10,186	10,801
Net oper cash flow	27,674	57,457	-29,784

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