

HCC INSURANCE HOLDINGS INC/DE/  
Form DEF 14A  
April 10, 2014  
**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the Securities**

**Exchange Act of 1934 (Amendment No. )**

Filed by the Registrant    Filed by a Party other than the Registrant

**Check the appropriate box:**

Preliminary Proxy Statement

CONFIDENTIAL, FOR USE OF THE COMMISSION ONLY (AS PERMITTED BY RULE 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §.240.14a-12

**HCC INSURANCE HOLDINGS, INC.**

*(Name of Registrant as Specified in its Charter)*

N/A

*(Name of Person(s) Filing Proxy Statement, if other than the Registrant)*

**Payment of Filing Fee (Check the appropriate box):**

**No fee required.**

**Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.**

- (1) Title of each class of securities to which transaction applies:
- (2) Aggregate number of securities to which transaction applies:
- (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
- (4) Proposed maximum aggregate value of transaction:
- (5) Total fee paid:

**Fee paid previously with preliminary materials.**

**Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.**

- (1) Amount Previously Paid:
- (2) Form, Schedule or Registration Statement No.:
- (3) Filing Party:
- (4) Date Filed:

**Notice of 2014 Annual Meeting of Stockholders and Proxy Statement**

**Wednesday, May 21, 2014 at 9:00 a.m., Central Daylight time**

**HCC Headquarters, 13403 Northwest Freeway, Houston, Texas 77040**

## Letter from our CEO

My Fellow Stockholders:

I look forward to joining you, HCC's Board of Directors, and the other members of HCC's senior management team at the upcoming 2014 Annual Meeting of Stockholders. The attached Notice of Annual Meeting of Stockholders and Proxy Statement will serve as your guide to the business to be conducted at the meeting this year.

2013 was a record year for HCC. We enjoyed strong performance across our various lines of business and achieved record earnings per share for the second consecutive year. HCC's GAAP combined ratio for 2013 was 83.4% and our book value per share grew by 4.3%. HCC has continued to create significantly more value (as measured by compounded annual return on tangible book value per share, including dividends) than its peers over the last 3-year, 5-year and 10-year periods.

We were pleased to have Hans D. Rohlf join our Board of Directors during 2013. Mr. Rohlf brings a wealth of knowledge about reinsurance and the international insurance markets to HCC. We have also nominated Susan Rivera for election to the Board at the upcoming meeting. Ms. Rivera is an experienced insurance veteran. We expect that both Mr. Rohlf and Ms. Rivera will make significant contributions to HCC's success in the coming years.

We have also continued to adopt best practices in the area of executive and director compensation. Early in 2013, we implemented a new executive compensation program intended to provide (i) greater predictability in compensation from year to year and (ii) a greater portion of total compensation in the form of equity. This new program has assisted us in imposing additional rigor in the evaluation of the performance of our executive officers. In 2014, we will be expanding the program to include substantially all of our executive officers. More information about this program can be found in the proxy statement.

We also amended our director compensation program to, among other things, remove meeting fees. In connection with this change our Board also adopted more robust stock ownership guidelines for the directors. We believe these changes will continue to align the interests of HCC's leaders with your interests as stockholders.

Your vote is important to us and the conduct of our business. I urge you to actively participate in HCC's future by casting your vote on the items discussed in the proxy statement. I encourage you to vote early by signing and returning your proxy card or by voting via telephone, mobile device or internet as instructed in the proxy statement. Thank you

for being a stockholder and for the trust you have placed in HCC.

Best regards,

**Christopher J.B. Williams**

*Chief Executive Officer*

## WELCOME TO THE HCC ANNUAL MEETING

Our Annual Meeting of Stockholders is an important event in the life of our Company. Regardless of the number of shares that you own, it is an opportunity to learn more about recent developments at HCC and, more importantly, to express your opinion regarding our business. It is important that you vote in order to play a part in the future of the Company. Under NYSE rules, shares held through a broker, bank or other nominee cannot be voted by such nominee on non-discretionary matters.

### Items that require your vote

PROPOSAL 1 – Election of Directors	For More Information Page 3	Board Recommendation <b>FOR</b> each nominee
PROPOSAL 2 – Advisory Vote on Executive Compensation	Page 14	<b>FOR</b>
PROPOSAL 3 – Ratification of Our Independent Registered Public Accounting Firm for 2014	Page 17	<b>FOR</b>

### Ways to vote

Even if you plan to attend our Annual Meeting, please read this Proxy Statement with care and vote right away using one of the following methods. In all cases, have your proxy card or voting instruction form in hand.

Via Internet at <a href="http://www.proxyvote.com">www.proxyvote.com</a>	Via Mobile Device by scanning this QR Code	Via Phone by calling 1-800-690-6903 in the U.S. or Canada	Via Mail by returning signed proxy card in the postage-paid envelope
---	---	---	--

### Attend our Annual Meeting of Stockholders

**HCC Insurance Holdings, Inc.**  
**2014 Annual Meeting of Stockholders**

**Date and Time:** Wednesday, May 21, 2014  
9:00 a.m., Central Daylight time

**Location:** HCC Insurance Holdings, Inc.  
13403 Northwest Freeway, Building II  
Houston, Texas 77040

**Record Date:** April 1, 2014

**HCC INSURANCE HOLDINGS, INC. - 2014 Proxy Statement I**

**Notice of Annual Meeting of Stockholders**

**May 21, 2014**

**9:00 a.m., Central Daylight Time**

***HCC Insurance Holdings, Inc. at 13403 Northwest Freeway, Houston, TX 77040***

NOTICE IS HEREBY GIVEN that the 2014 Annual Meeting of Stockholders of HCC Insurance Holdings, Inc. will be held on Wednesday, May 21, 2014, at 9:00 a.m., Central Daylight time, at the headquarters of HCC Insurance Holdings, Inc. at 13403 Northwest Freeway, Houston, TX 77040, for the following purposes:

- To elect the eleven individuals named in this Proxy Statement to serve as members of our Board of Directors for a one-year term, each to serve until the 2015 Annual Meeting of Stockholders and until his or her successor is duly elected and qualified;
- To conduct an advisory vote to approve the compensation of our Named Executive Officers;
- To ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the year ending December 31, 2014; and
- To transact such other business as may properly come before the meeting and any postponement or adjournment thereof.

Our Board of Directors has fixed the close of business on April 1, 2014 as the record date for determining those stockholders who are entitled to notice of, and to vote at, the 2014 Annual Meeting of Stockholders. A list of such stockholders will be open to examination by any stockholder at the annual meeting and for a period of ten days prior to the date of the annual meeting during ordinary business hours at 13403 Northwest Freeway, Houston, Texas. A copy of the Annual Report of HCC Insurance Holdings, Inc. for the year ended December 31, 2013 is enclosed.

To ensure that your shares are represented at the meeting, we encourage you to cast your vote as promptly as possible. You may vote via the Internet, via the telephone, via a mobile device, or via the mail. Procedures for submitting your vote are described on page 2 of the Proxy Statement.

**April 10, 2014**



Houston, Texas

By Order of the Board of Directors,

**Randy D. Rinicella**

*Senior Vice President, General Counsel and Secretary*

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON MAY 21, 2014**

*The Company's 2014 Notice of Annual Meeting and Proxy Statement, 2013 Annual Report and other proxy materials are available under the "Investors" tab on our website at [www.hcc.com](http://www.hcc.com).*

**HCC INSURANCE HOLDINGS, INC. - 2014 Proxy Statement II**

**Table of Contents**

<b><u>WELCOME TO THE HCC ANNUAL MEETING</u></b>	<b><u>I</u></b>
<b><u>INFORMATION CONCERNING SOLICITATION AND VOTING</u></b>	<b><u>1</u></b>
<u>Proposals to be Considered and Vote Required</u>	<u>1</u>
<u>How to Vote</u>	<u>2</u>
<u>Voting of Proxies</u>	<u>2</u>
<b><u>PROPOSAL NUMBER 1 Election of Directors</u></b>	<b><u>3</u></b>
<u>Information Regarding Nominees for Director</u>	<u>3</u>
<u>2013 Director Compensation Table</u>	<u>6</u>
<u>2014 Director Compensation Program</u>	<u>7</u>
<u>Corporate Governance</u>	<u>8</u>
<b><u>Director Independence</u></b>	<b><u>8</u></b>
<b><u>Board Leadership Structure</u></b>	<b><u>9</u></b>
<b><u>Board Meetings in 2013</u></b>	<b><u>9</u></b>
<b><u>Executive Sessions of the Board</u></b>	<b><u>10</u></b>
<b><u>Committees of the Board</u></b>	<b><u>10</u></b>
<b><u>Candidates for the Board</u></b>	<b><u>12</u></b>
<b><u>Communications with the Board</u></b>	<b><u>13</u></b>
<b><u>Certain Relationships and Related Party Transactions</u></b>	<b><u>13</u></b>
<b><u>PROPOSAL NUMBER 2 Advisory Vote on Executive Compensation</u></b>	<b><u>14</u></b>
<u>Performance</u>	<u>14</u>
<u>Compensation</u>	<u>15</u>
<u>Corporate Governance</u>	<u>16</u>
<b><u>PROPOSAL NUMBER 3 Ratification of Our Independent Registered Public Accounting Firm for 2014</u></b>	<b><u>17</u></b>
<u>Fees Paid to PricewaterhouseCoopers LLP</u>	<u>17</u>
<u>Audit Committee Pre-Approval Policies and Procedures</u>	<u>18</u>
<b><u>EXECUTIVE COMPENSATION</u></b>	<b><u>19</u></b>
<u>Compensation Discussion and Analysis</u>	<u>19</u>
<b><u>Executive Summary</u></b>	<b><u>19</u></b>
<b><u>Objectives of Our Compensation Programs</u></b>	<b><u>21</u></b>
<b><u>Elements of Our Compensation Programs</u></b>	<b><u>22</u></b>
<b><u>Process for Determining Executive Officer Compensation in 2013</u></b>	<b><u>24</u></b>
<b><u>Determining Executive Officer Compensation in 2013</u></b>	<b><u>26</u></b>
<b><u>Other Important Compensation Policies Affecting the Named Executive Officers</u></b>	<b><u>29</u></b>



<u>Back to Contents</u>	
<u>Compensation Committee Report</u>	<u>30</u>
<u>Compensation Tables</u>	<u>31</u>
<b><u>2013 Summary Compensation Table</u></b>	<b><u>31</u></b>
<b><u>All Other Compensation Table</u></b>	<b><u>32</u></b>
<b><u>2013 Grants of Plan-Based Awards Table</u></b>	<b><u>33</u></b>
<b><u>2013 Outstanding Equity Awards at Fiscal Year End Table</u></b>	<b><u>34</u></b>
<b><u>2013 Option Exercises and Stock Vested Table</u></b>	<b><u>35</u></b>
<b><u>2013 Nonqualified Deferred Compensation Table</u></b>	<b><u>35</u></b>
<u>Employment Agreements and Potential Payments Upon Certain Events</u>	<u>35</u>
<b><u>Christopher J.B. Williams</u></b>	<b><u>36</u></b>
<b><u>Brad T. Irick</u></b>	<b><u>37</u></b>
<b><u>William N. Burke</u></b>	<b><u>38</u></b>
<b><u>Craig J. Kelbel</u></b>	<b><u>39</u></b>
<b><u>Michael J. Schell</u></b>	<b><u>40</u></b>
<b><u>AUDIT COMMITTEE REPORT</u></b>	<b><u>41</u></b>
<b><u>STOCK OWNERSHIP INFORMATION</u></b>	<b><u>42</u></b>
<u>Principal Stockholder and Beneficial Ownership</u>	<u>42</u>
<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	<u>43</u>
<b><u>OTHER BUSINESS</u></b>	<b><u>43</u></b>
<b><u>STOCKHOLDER PROPOSALS</u></b>	<b><u>43</u></b>
<b><u>HOUSEHOLDING</u></b>	<b><u>44</u></b>
<b><u>FORM 10-K</u></b>	<b><u>44</u></b>

[Back to Contents](#)

HCC INSURANCE HOLDINGS, INC.

**13403 Northwest Freeway**

**Houston, Texas 77040-6094**

PROXY STATEMENT

**Annual Meeting of Stockholders**

**To be held on May 21, 2014**

## **INFORMATION CONCERNING SOLICITATION AND VOTING**

This Proxy Statement is first being mailed on or about April 10, 2014 to stockholders of HCC Insurance Holdings, Inc. (“HCC,” “we,” “us,” “our,” or the “Company”) in connection with the solicitation by our Board of Directors (our “Board”) proxies to be voted at the Annual Meeting of Stockholders to be held on Wednesday May 21, 2014, at 9:00 a.m., Central Daylight time, at the headquarters of HCC Insurance Holdings, Inc. at 13403 Northwest Freeway, Houston, TX 77040, and any postponement or adjournment thereof (the “2014 Annual Meeting”). The Proxy Statement contains information relating to the proposals to be voted upon at the meeting, the voting process, our Board, the compensation of our Named Executive Officers, and certain other information.

The solicitation of proxies is being made by HCC, and the cost of soliciting proxies will be borne by HCC. We have engaged D.F. King & Co., Inc. to assist us with the solicitation of proxies and expect to pay them an estimated fee of \$10,000 plus out of pocket expenses. Copies of solicitation material may be furnished to brokers, custodians, nominees and other fiduciaries for forwarding to beneficial owners of shares of our common stock, and normal handling charges may be incurred for such forwarding service. HCC will bear the expense of such charges. Solicitation of proxies may be made by mail, personal interview, telephone and facsimile by our officers and other employees, who will receive no additional compensation for their services.

Our principal executive offices are located at 13403 Northwest Freeway, Houston, Texas 77040.

### **Proposals to be Considered and Vote Required**

The following proposals will be voted upon at the 2014 Annual Meeting:

- The election of the 11 individuals named in this Proxy Statement to serve as members of our Board of Directors for a one-year term, each to serve until the 2015 Annual Meeting of Stockholders and until his or her successor is duly elected and qualified;
- An advisory vote to approve the compensation of our Named Executive Officers;
- The ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the year ending December 31, 2014.

Only stockholders of record on April 1, 2014 (the “record date”) will be entitled to vote at the 2014 Annual Meeting, and each share will be entitled to one vote. At the close of business on the record date, there were 100,074,258 shares of our common stock outstanding and entitled to vote at the 2014 Annual Meeting.

Quorum and voting requirements are set forth in the Delaware General Corporation Law and our governing documents. A majority of the outstanding shares of our common stock, entitled to vote and represented in person or by proxy, will constitute a quorum at the 2014 Annual Meeting. Abstentions, withhold votes and broker non-votes (described below) are counted as present for purposes of determining the presence of a quorum.

Under our Fourth Amended and Restated Bylaws (the “Bylaws”), in the uncontested election of directors, such as is the case this year, directors are elected by a majority of votes cast in person or by proxy at the Annual Meeting. In order to be elected, the number of shares cast “FOR” a director nominee must exceed the number of shares cast “AGAINST” such director nominee. In the event of a contested election, the election of directors will be determined by a plurality of the votes cast, which means that the 11 nominees who receive the highest number of votes will be elected. Votes may not be cumulated. Abstentions, withhold votes and broker non-votes will not be counted as cast and, therefore, will not impact the outcome of the election of directors.

[Back to Contents](#)

The affirmative vote of the holders of a majority of the shares of our common stock present in person or represented by proxy at the 2014 Annual Meeting and entitled to vote on the matter is required for (i) the approval, on an advisory basis, of our executive compensation, and (ii) the ratification of our independent registered public accounting firm. As a result, abstentions have the effect of an against vote, but broker non-votes do not have the effect of an against vote.

If you hold your shares in “street name” through a broker or other nominee, your broker or nominee may not be permitted to exercise voting discretion on some of the items to be acted upon, including the election of our directors, the advisory vote on executive compensation, and the advisory vote on frequency of future advisory votes on executive compensation. Thus, if you do not give your broker or nominee specific instructions, your shares may not be voted on those items (“broker non-votes”). Our Board does not anticipate calling for a vote on any matter other than those described herein.

## How to Vote

Each stockholder is entitled to one vote for each share of common stock on all matters presented at the 2014 Annual Meeting. Stockholders do not have the right to cumulate their votes for the election of directors. Shares may be voted via the following procedures:

### **Voting In-Person.**

*Stockholders of Record.* Shares held directly in your name as the stockholder of record may be voted in person at the 2014 Annual Meeting. If you choose to vote in person at the 2014 Annual Meeting, please bring your proxy card and proof of personal identification.

*Beneficial Owners.* Shares held in street name may be voted in person by you only if you obtain a legal proxy from the shareholder of record giving you the right to vote the shares.

*Voting via the Internet.* Shares may be voted via the Internet at [www.proxyvote.com](http://www.proxyvote.com). Your voting instructions will be accepted until 11:59 p.m. Eastern Daylight Time on May 20, 2014. Have your proxy card in hand when you access the web site and follow the instructions given.

*Voting via Mobile Devices.* Shares may be voted via a mobile device by scanning this QR Code. Your voting instructions will be accepted until 11:59 p.m. Eastern Daylight Time on May 20, 2014. Have your proxy card in hand when you access the web site and follow the instructions given.

*Voting via Telephone.* Shares may be voted via any touch-tone telephone at 1-800-690-6903. Your voting instructions will be accepted until 11:59 p.m. Eastern Daylight Time on May 20, 2014. Have your proxy card in hand when you call and follow the instructions given.

*Voting via Mail.* Shares may be voted via mail by marking, signing and dating your proxy card and returning it in the postage-paid envelope to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

**Even if you currently plan to attend the 2014 Annual Meeting, we recommend that you also submit your proxy as described above so that your vote will be counted if you later decide not to attend the meeting. Submitting your proxy via internet, mobile device, telephone or mail does not affect your right to vote in person at the 2014 Annual Meeting.**

### **Voting of Proxies**

By giving your proxy, you grant the right to vote your shares to Christopher J.B. Williams, our Chief Executive Officer, and Randy D. Rinicella, our Senior Vice President, General Counsel and Secretary. If you return a signed, but unmarked proxy card, your shares will be voted (i) **FOR** the election of each of the director nominees named herein, (ii) **FOR** approval, on an advisory basis, of the compensation of our Named Executive Officers, and (iii) **FOR** ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for 2014.

A proxy may be revoked at any time prior to 11:59 p.m., Eastern Daylight Time, on May 20, 2014. Such right of revocation is not limited by or subject to compliance with any formal procedure, but may be accomplished by (i) voting again via the Internet, any mobile device or telephone, (ii) requesting, completing and returning a second proxy card, (iii) giving written notice to the Secretary of the Company, or (iv) by voting in person at the 2014 Annual Meeting.



[Back to Contents](#)**PROPOSAL NUMBER 1 ELECTION OF DIRECTORS**

The Company has nominated the individuals listed below to serve as members of our Board until his or her successor is duly elected and qualified at the 2015 Annual Meeting of Stockholders or, if earlier, his or her death, resignation or removal. Each of the nominees, other than Ms. Rivera, is currently a director of HCC. Our Board has affirmatively determined that each of Mr. Ballases, Mr. Bramanti, Mr. Duer, Dr. Flagg, Mr. Hamilton, Mr. Rohlf, Mr. Rosholt, Mr. Thomas and, if elected, Ms. Rivera are “independent” directors, as that term is defined in the listing standards of the New York Stock Exchange (“NYSE”) and in our own Corporate Governance Guidelines. Such directors are collectively referenced in this Proxy Statement as “Independent Directors.”

Each of the proposed nominees has consented to stand for election as members of our Board. We believe that each of our current directors has served our stockholders’ interests well during his or her tenure as a director and will continue to do so. We believe that HCC and its stockholders benefit from the wide variety of industry and professional experience that characterizes the members of our Board. Although our Board does not contemplate that any of the nominees will be unable to serve, if such a situation arises prior to the 2014 Annual Meeting, the Board may reduce the size of the Board accordingly, or the persons named in the enclosed form of proxy will vote in accordance with their best judgment for any substitute nominee.

The following table presents information concerning the individuals nominated for election as directors of HCC, including current membership on committees of our Board, principal occupation or affiliations during the last five years, and certain directorships held during the last five years. Also included in the information below is a description of the particular experience, qualifications, attributes and skills that led our Board to conclude that each individual should serve as a member of the Board. Generally, the Board believes that its members should have integrity, superior business judgment, and an understanding of the operational, financial and regulatory requirements of running a successful global business.

**Information Regarding Nominees for Director**

Name	Experience and Qualifications	Served as Age Director Since
Emmanuel T. Ballases	Mr. Ballases served as the Chairman of the Houston region of JP Morgan Chase Bank, NA from 2004 to 2010 and as Vice Chairman from 2010 until his retirement in 2012. From 2002 until its merger with JP Morgan Chase Bank in 2004, he served as the Chairman of the Southwest region of Bank One, NA. Prior to that time, Mr. Ballases held a variety of executive roles at various banks, including Bank One, Team Bank and Texas Commerce Bank. Mr. Ballases is a member of our Compensation Committee and our Enterprise Risk Oversight Committee.	64 2012

Mr. Ballases has many years of experience in corporate finance and capital markets transactions. This experience, combined with the leadership experience he developed during his commercial banking career, led the Board to conclude that he should serve as a director.

Mr. Bramanti served as our Chief Executive Officer from 2006 to May 2009. Prior to being appointed as CEO in 2006, Mr. Bramanti had been retired from his position as an Executive Vice President of HCC since the end of 2001. From 1980 until his retirement, he served HCC in various capacities, including as director, Secretary, Chief Financial Officer and interim President. Mr. Bramanti is Chairperson of our Enterprise Risk Oversight Committee and a member of our Investment and Finance Committee.

Frank J.  
Bramanti

57 1997

Mr. Bramanti has over 20 years of experience in the insurance industry gained from his many years of service as an executive of HCC, including as its CEO. This experience led the Board to conclude that he should serve as a director.

Mr. Duer is a Certified Public Accountant. He was a partner at the international accounting firm KPMG LLP from 1968 until his retirement in 2004. From 1996 to 2002, Mr. Duer served as a member of the board of directors of KPMG LLP and a trustee of the KPMG Foundation. Mr. Duer is a member of our Audit Committee and our Enterprise Risk Oversight Committee.

Walter M.  
Duer

67 2004

With more than 40 years of experience as a CPA, Mr. Duer brings broad operational, financial and industry experience to the Board. During much of his tenure at KPMG Mr. Duer's work was focused on the insurance sector. His extensive experience and detailed knowledge of the factors influencing the insurance industry led the Board to conclude that he should serve as a director.

[Back to Contents](#)

Name	Experience and Qualifications	Served as Age Director Since
James C. Flagg, Ph. D.	<p>Dr. Flagg is a Certified Public Accountant. He is also an Associate Professor in the Department of Accounting in the Mays Business School at Texas A&amp;M University, starting in 1988. Dr. Flagg holds a Master of Science in Economics, an M.B.A. and a Ph.D. in Accounting. Dr. Flagg is Chairperson of our Audit Committee and a member of our Nominating and Corporate Governance Committee. He is a member of the board of the Texas State Board of Public Accountancy. Until 2007, Dr. Flagg was also on the board of directors and chair of the audit committee of EGL, Inc. (Nasdaq: EAGL).</p>	62 2001
Thomas M. Hamilton	<p>Dr. Flagg has extensive experience in the accounting industry and in-depth knowledge of public company auditing practices. That experience and his background in economics, coupled with his significant experience on the board of another publicly-traded company, including his service as chair of its audit committee, led the Board to conclude that he should serve as a director.</p> <p>Mr. Hamilton has been co-owner of Medora Investments, a private investment firm, since 2003. He served as Chairman, President and Chief Executive Officer of EEX Corporation from 1997 until his retirement in 2002. Prior to 1997, Mr. Hamilton held various executive positions at other oil and gas companies, including Pennzoil-Quaker State Company, BP p.l.c. and Exxon Mobil Corporation. Mr. Hamilton is a member of our Compensation Committee and is Chairperson of our Nominating and Corporate Governance Committee. Mr. Hamilton is also a member of the board of directors, a member of the audit committee and chair of the compensation committee of FMC Technologies, Inc. (NYSE: FTI), a member of the board of directors and chairman of the compensation committee of Hercules Offshore, Inc. (Nasdaq: HERO), and chairman of the board of directors of Methanex Corporation (Nasdaq: MEOH). He also served as a member of the board of directors of Western Gas Resources (NYSE: WES) from January 2006 to August 2006.</p>	70 2008
John N. Molbeck, Jr.	<p>Mr. Hamilton has a strong knowledge of international business and strategic planning and an expertise in the areas of corporate governance and executive compensation. These traits, along with Mr. Hamilton's significant management and leadership experience as a former chief executive officer and member of the boards of directors of several publicly-traded companies, including his service as chairman at one of those companies, led the Board to conclude that he should serve as a director.</p> <p>Mr. Molbeck served as our Chief Executive Officer from May 2009 until December 2012. From 2006 to May 2009, he served as our President and Chief Operating Officer, a position he also held from 1997 to 2002. From 2003 through 2005, Mr. Molbeck served as Chief Executive Officer of Jardine Lloyd Thompson LLC, a retail insurance brokerage firm, which was, at the time, a subsidiary of Jardine Lloyd Thompson Group, plc. Prior to initially joining HCC in 1997, Mr. Molbeck had served as the Managing Director of Aon Natural Resources Group, a subsidiary of Aon Corporation. Mr. Molbeck is a member of our Investment and Finance Committee and our Enterprise Risk Oversight Committee. He is also a member of the board of directors of IAT Reinsurance Company, Ltd.</p>	67 2005

Mr. Molbeck has extensive knowledge and understanding of critical areas of the insurance industry gained through decades of service in positions of increasing responsibility. He also has extensive knowledge of HCC, its operations and strategy, gained from his many years of service as an executive of HCC, including most recently as our CEO. As a result, the Board concluded that Mr. Molbeck should serve as a director.

Susan Rivera Ms. Rivera has been President and Chief Executive Officer of V3 Insurance Partners, LLC, an insurance program administrator specializing in the fields of property, casualty, commercial auto, professional liability and workers' compensation, since June 2009. Prior to joining V3, she served as President of QBE Specialty Insurance Company and Chief Actuary of the Americas division of QBE Insurance Group Limited from June 2007 to June 2009. From April 2006 until its acquisition by QBE in June 2007, Ms. Rivera was President and Chief Underwriting Officer of Praetorian Insurance Company. Prior to 2006, she spent 15 years at AIG, holding a variety of positions of increasing responsibility during that time. 49 N/A

Ms. Rivera has over 25 years of experience in insurance operations management, during which time she has excelled at directing corporate strategy and developing innovative solutions to capitalize on business opportunities. This experience, together with her proven ability to work effectively with stakeholders, led the Board to conclude that she should serve as a director.

Hans D. Rohlf Mr. Rohlf served as the Managing Director for the North American property and casualty business of Hanover Re from 1995 until his retirement in 2013. From 1977 to 1995, he held a variety of positions of increasing responsibility with Hanover Re, including serving as head of the retrocessional department and as head of the U.S. and aviation businesses. Mr. Rohlf is a member of our Enterprise Risk Oversight Committee. He also serves as a member of the board of directors of HCC International Insurance Company plc and HCC Underwriting Agency Limited, two of our primary international operating subsidiaries. 63 2013

As a result of his long career at Hanover Re, Mr. Rohlf has a deep understanding of both the reinsurance markets and the aviation insurance business. This knowledge, combined with his significant experience in the international insurance markets, led the Board to conclude that Mr. Rohlf should serve as a director.

[Back to Contents](#)

Name	Experience and Qualifications	Served as Age Director Since
Robert A. Rosholt	<p>Mr. Rosholt served as the Chief Financial Officer for Nationwide Mutual Insurance Company from 2002 until his retirement in 2008. Prior to joining Nationwide, Mr. Rosholt served as Executive Vice President and Chief of Operations at the US Risk Services unit of Aon Corporation, a leading global provider of risk management services, insurance and reinsurance brokerage and human capital consulting, from 2000 to 2002. From 1993 to 2000, he served as Chief Financial Officer at First Chicago Corporation and its successor companies, including Bank One and FCCNBD, where he had oversight for capital and asset liability management, as well as proprietary investment activities.</p> <p>Prior to 1993, Mr. Rosholt held a variety of increasingly responsible positions at First Chicago Corporation. Mr. Rosholt is Chairman of our Board of Directors, a member of our Investment and Finance Committee, and an ex-officio member of all of our other Board committees. Mr. Rosholt is a member of the board of directors of Standard Bancshares, Inc. He served as a member of the board of directors, a member of the audit committee and a member of the nominating and corporate governance committee of Abercrombie &amp; Fitch Co. (NYSE: ANF) from June 2008 to September 2010. Mr. Rosholt has also served as a member of the advisory board of the Financial Institution Advisory Services of Alvarez and Marsal.</p>	64 2008
J. Mikesell Thomas	<p>Mr. Rosholt's many years of experience as an executive in the financial services and insurance industries, his knowledge of strategy development and execution, and his expertise in the application of risk management practices, led the Board to conclude that he should serve as a director.</p> <p>Since July 2008, Mr. Thomas has been a principal at Castle Creek Capital, a private equity firm specializing in investments in community banking companies. In connection with such service, he also served, from November 2008 to July 2011, as President and Chief Executive Officer of First Chicago Bankcorp and as Chief Executive Officer of its subsidiary First Chicago Bank and Trust. In July 2011, the Illinois Department of Financial and Professional Regulation, Division of Banking, determined that First Chicago Bank and Trust was insolvent and named the Federal Deposit Insurance Corporation as receiver. From April 2004 to April 2008, Mr. Thomas served as President and Chief Executive Officer of Federal Home Loan Bank of Chicago. From 2001 to 2004, he worked as an independent financial advisor working with a range of large companies on financial and strategic issues. Prior to that time, Mr. Thomas was a managing director of Lazard Freres &amp; Co. LLC. From 1976 to 1995, Mr. Thomas held a series of increasingly responsible positions at First Chicago Corporation, including co-head of Corporate and Institutional Banking, Chief Financial Officer and Treasurer. Mr. Thomas is a member of our Audit Committee and our Investment and Finance Committee. Mr. Thomas is a member of the board of directors of the UBS Funds and UBS Relationship Funds and a member of the board of trustees of SMA Relationship Trust, each of which is a registered investment company that provides investment advisory services to UBS mutual funds. He is also a member of the board of directors of Fort Dearborn Income Securities, Inc. Mr. Thomas</p>	63 2012

serves as chair of the audit committee and as a member of the corporate governance committee of each of these funds.

Mr. Thomas developed an expertise in commercial and investment banking and corporate finance over a 35-year career at several prominent institutions. His financial services industry experience, combined with the executive leadership skills developed during his career, led the Board to conclude that he should serve as a director.

Mr. Williams is our Chief Executive Officer, a position he assumed in December 2012. From May 2011 until December 2012, he served as our President. He has also served as Chairman of Wattle Creek Winery since 2005. Prior to his retirement in 2005, he served as National Director for Life, Accident & Health of Willis Re. Mr. Williams is a member of our Enterprise Risk Oversight Committee and our Investment and Finance Committee. Prior to his appointment as President in May 2011, Mr. Williams had served as the Chairman of our Board of Directors since May 2008.

Christopher  
J.B.  
Williams

58 2007

Mr. Williams has over 30 years of experience in the insurance industry, including significant expertise in accident and health insurance lines, which comprise HCC's largest business segment. He also has significant knowledge of international insurance markets. These factors led the Board to conclude that he should serve as a director.

**The Board of Directors unanimously recommends that stockholders vote "FOR" each of the Nominees listed above**

[Back to Contents](#)**2013 Director Compensation Table**

The table below summarizes the compensation paid to or accrued on behalf of our non-employee directors. We also reimburse our directors for travel, lodging and related expenses incurred in attending Board or committee meetings and for directors' education programs and seminars.

Name	Fees Earned or Paid in Cash (\$) <sup>(1)</sup>	Stock Awards (\$) <sup>(2)</sup>	Option Awards (\$) <sup>(3)</sup>	Nonqualified Deferred Compensation Earnings (\$) <sup>(4)</sup>	All Other Compensation (\$) <sup>(5)</sup>	Total (\$)
Emmanuel T. Ballases	119,000	80,000	—	—	—	199,000
Judy C. Bozeman	147,000	80,000	—	74,892	—	301,892
Frank J. Bramanti	142,000	80,000	—	—	—	222,000
Walter M. Duer	118,000	80,000	—	212	—	198,212
James C. Flagg, Ph.D.	144,000	80,000	—	—	—	224,000
Thomas M. Hamilton	135,000	80,000	—	148,128	—	363,128
Leslie S. Heisz	144,000	80,000	—	35,572	—	259,572
John N. Molbeck, Jr.	73,750	78,027	—	—	1,034,163	1,185,940
Hans D. Rohlf	18,394	41,863	—	—	—	60,257
Robert A. Rosholt	177,000	200,000	—	—	—	377,000
J. Mikesell Thomas	128,000	80,000	—	—	—	208,000

(1) Includes payment of annual retainer and meeting fees.

(2) Represents the aggregate grant date fair value of equity awards granted during 2013, computed in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 718, Compensation — Stock Compensation. For a discussion of the assumptions used in calculating the fair value of our stock-based compensation, refer to Note 1, General Information and Significant Accounting and Reporting Policies — Stock-Based Compensation, and Note 11, Stock-Based Compensation, in the Notes to Consolidated Financial Statements contained in our Annual Report on Form 10-K for the year ended December 31, 2013. On May 22, 2013, each non-employee director (other than the Chairman of the Board) received a grant of 1,887 shares of common stock under our 2008 Flexible Incentive Plan. Mr. Rosholt, our Chairman of the Board, received a grant of 4,719 shares of common stock under our 2008 Flexible Incentive Plan. The number of shares of common stock granted was determined by dividing \$80,000 (\$200,000 in the case of Mr. Rosholt) by \$42.38, the closing price of the Company's common stock on May 22, 2013, the date of grant. On August 21, 2013 Mr. Molbeck received a grant of 1,800 shares of common stock under our 2008 Flexible Incentive Plan, representing a pro-rata portion of the \$80,000 grant for the partial year remaining after his retirement during which he was a non-employee director. The number of shares of common stock granted was determined by dividing the \$78,027

*pro-rata grant by \$43.34, the closing price of the Company's common stock on August 21, 2013, the date of grant. On November 11, 2013, Mr. Rohlf received a grant of 919 shares of common stock under our 2008 Flexible Incentive Plan, representing a pro-rata portion of the \$80,000 grant for the partial year remaining until the 2014 Annual Meeting. The number of shares of common stock granted was determined by dividing the \$41,863 pro-rata grant by \$45.54, the closing price of the Company's common stock on November 11, 2013, the date of grant. All shares were fully vested as of the grant date.*

(3) *No stock options were granted to directors during 2013. As of December 31, 2013, no non-employee directors held stock options.*

(4) *Includes above-market earnings of amounts deferred under the Director DCP (as defined below). In 2013, the following non-employee directors had the following earnings under the Director DCP:*

	Total Earnings (\$)	Above-Market Earnings* (\$)
Ms. Bozeman	279,386	74,892
Mr. Duer	5,698	212
Mr. Hamilton	556,698	148,128
Ms. Heisz	133,001	35,572
Mr. Rohlf	1,690	—

*\*As defined by SEC regulations.*

*Represents compensation received by Mr. Molbeck pursuant to his separation agreement for his service as an employee of the Company prior to his retirement in May 2013, including the following: base salary of \$416,667; (5) annual incentive award of \$350,000; matching 401(k) contributions of \$10,200; medical costs of \$20,641; personal use of corporate aircraft of \$79,554; consulting payments of \$149,450; and other compensation of \$7,651.*

## Cash Retainers

During 2013, our non-employee directors received a combination of cash retainers, meeting fees and a block grant of fully-vested common stock. Board members received retainers for serving on our Board as set forth in the following table:

Position	Retainer (\$)
Board Member (including Chairman of the Board)	75,000
Chairman of the Board	75,000
Audit Committee Chairperson	25,000
Compensation Committee Chairperson	15,000
Nominating and Corporate Governance Committee Chairperson	15,000
Enterprise Risk Oversight Committee Chairperson	15,000
Investment and Finance Committee Chairperson	15,000





[Back to Contents](#)**Meeting Fees**

Our non-employee directors received meeting fees as set forth in the following table:

	<b>In-person Meeting (\$)</b>	<b>Teleconference Meeting (\$)</b>
Board of Directors	5,000	1,000
Committee Meeting	2,000	1,000

**Equity Retainers**

Our non-employee directors received an equity retainer (in the form of a block grant of common stock) as set forth in the following table:

<b>Position</b>	<b>Equity Retainer (\$)</b>
Board Member	80,000
Chairman of the Board	200,000

The number of shares granted was determined by dividing \$80,000 (\$200,000 in the case of the Chairman of the Board) by the closing price of our common stock on the date of 2013 annual meeting of stockholders. If a director was elected to our Board on a date other than the date of such meeting, he or she received shares of common stock worth a pro-rata portion of \$80,000 for the partial year remaining until the next annual meeting of stockholders.

**2014 Director Compensation Program**

Effective April 1, 2014, the Board adopted a new director compensation program pursuant to which our non-employee directors receive a combination of cash and equity retainers. Among other things, the new program increased the amount of the Board retainer and eliminated meeting fees. We believe these changes are consistent with overall market trends and allow the Company to attract qualified directors and allow our directors to focus on the Company's strategic objectives.

**Cash Retainers**

Under the new program Board members receive cash retainers for serving on our Board as set forth in the following table:

<b>Position</b>	<b>Retainer (\$)</b>
Board Member (including Chairman of the Board)	90,000
Chairman of the Board	80,000
Audit Committee Chairperson	25,000
Compensation Committee Chairperson	15,000
Nominating and Corporate Governance Committee Chairperson	15,000
Enterprise Risk Oversight Committee Chairperson	15,000
Investment and Finance Committee Chairperson	15,000

In addition, any Board member that serves on a Board committee receives an additional cash retainer of \$10,000 per Board committee.

### **Equity Retainers**

Under the new program Board members receive an equity retainer (in the form of a block grant of common stock) as set forth in the following table:

<b>Position</b>	<b>Equity Retainer (\$)</b>
Board Member	110,000
Chairman of the Board	200,000

The number of shares granted is determined by dividing \$110,000 (\$200,000 in the case of the Chairman of the Board) by the closing price of our common stock on the date of the annual meeting of stockholders, which is generally held in May of each year. If a director is elected to our Board (or a Chairman appointed to such position) on a date other than the date of the annual meeting of stockholders, he or she will receive shares of common stock worth a pro-rata portion of \$110,000 (\$200,000 in the case of the Chairman of the Board) for the partial year remaining until the next annual meeting of stockholders.

[Back to Contents](#)

## **Deferred Compensation**

Our non-employee directors are also entitled to defer all or a portion of their cash or stock compensation under the HCC Insurance Holdings, Inc. Nonqualified Deferred Compensation Plan for Non-Employee Directors (the “Director DCP”). Deferred cash compensation will be credited to a participant’s account and will accrue earnings, compounded monthly, at one of the following rates elected by the participant: the prime rate (3.25% for 2013), the rate of return on HCC common stock (25.93% for 2013), or the rate of return on the S&P 500 (32.39% for 2013). Deferred stock compensation will be deemed invested in HCC common stock, with dividends reinvested. Payment of the participant’s account balance will be paid in the time period set forth in the participant’s deferral election, or if no such time is elected, then in a lump sum following separation from service. The plan is administered by our Compensation Committee. No separate trust or fund has been created, and all benefits payable under the plan will be paid from HCC’s general assets.

## **Stock Ownership Requirements**

The Board has established a new increased minimum stock ownership requirement for non-employee directors of \$450,000 in HCC common stock. Directors are required to meet the ownership requirements (i) in the case of directors serving as of April 1, 2014, by April 1, 2017 or (ii) in the case of directors joining the Board after April 1, 2014, within five years of the date they join the Board. The Board may grant waivers to these ownership requirements. As of December 31, 2013, Ms. Bozeman, Mr. Bramanti, Mr. Duer, Dr. Flagg, Mr. Hamilton, Mr. Molbeck and Mr. Rosholt had met these requirements.

## **Corporate Governance**

The business and affairs of HCC are managed under the direction of the Board. The Board believes that good corporate governance is a critical factor in achieving business success and, as a result, strong corporate governance is an integral part of our values. Our Company’s corporate governance policies and procedures are available on the Company’s website at <http://www.snl.com/IRWeblinkX/committeechart.aspx?iid=103548>. The corporate governance portal includes the Company’s Bylaws, Corporate Governance Guidelines (“Corporate Governance Guidelines”), Board Committee Charters, and Code of Business Conduct and Ethics. Any future modification or amendments to our Code of Business Conduct and Ethics, or any waiver thereto, which applies to our Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer, will be posted on the same website. A copy of the Code of Business Conduct and Ethics is available to any stockholder upon request. We provide below specific information regarding certain corporate governance practices.

## **Director Independence**

Our Board of Directors has established criteria for determining director “independence” as set forth in our Corporate Governance Guidelines. These criteria incorporate all of the requirements for director independence contained in the NYSE listing standards. No director shall be deemed to be “independent” unless the Board shall have affirmatively determined that no material relationship exists between such director and HCC other than the director’s service as a member of our Board or any Board committee. In addition, the following criteria apply to determine independence:

- no director who is an employee, or whose immediate family member is an executive officer of HCC, is deemed independent until three years after the end of such employment relationship;

- no director who receives, or whose immediate family member receives, more than \$120,000 in any twelve-month period in direct compensation from HCC, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service), is deemed independent until three years after he or she ceases to receive more than \$120,000 in any twelve-month period of such compensation;

- no director is independent who (i) is a current partner or employee of a firm that is HCC’s internal or external auditor; (ii) has an immediate family member who is a current partner of such firm; (iii) has an immediate family member who is a current employee of such firm and personally works on HCC’s audit; or (iv) was or had an immediate family member who was within the last three years a partner or employee of such firm and personally worked on HCC’s audit within that time;

- no director who is employed, or whose immediate family member is employed, as an executive officer of another company where any of our present executives serve on that company’s compensation committee is deemed independent until three years after the end of such service or the employment relationship;

- no director who is an executive officer or an employee, or whose immediate family member is an executive officer, of a company that makes payments to, or receives payments from, HCC for property or services in an amount that, in any single year, exceeds the greater of \$1.0 million or 2% of such other company’s consolidated gross revenues, is deemed independent until three years after falling below such threshold;

Back to Contents

- no director who has a personal services contract with HCC, or any member of HCC's senior management, is independent;
- no director who is affiliated with a not-for-profit entity that receives significant contributions from HCC is independent; and
- no director who is employed by a public company at which an executive officer of HCC serves as a director is independent.

In addition, members of our Audit Committee must meet the following additional independence requirements:

- no director who is a member of the Audit Committee shall be deemed independent if such director is affiliated with HCC or any of its subsidiaries in any capacity, other than in such director's capacity as a member of our Board of Directors, the Audit Committee or any other Board committee; and

- no director who is a member of the Audit Committee shall be deemed independent if such director receives, directly or indirectly, any consulting, advisory or other compensatory fee from HCC or any of its subsidiaries, other than fees received in such director's capacity as a member of our Board of Directors, the Audit Committee or any other Board committee, and fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with HCC (provided such compensation is not contingent in any way on continued service).

In addition, members of our Compensation Committee must meet the following additional independence requirements:

no director shall be considered independent who:

- (i) is currently an officer (as defined in Rule 16a-1(f) of the Securities Exchange Act of 1934 (the "Exchange Act")) of the Company or a subsidiary of the Company, or otherwise employed by the Company or subsidiary of the Company;
- (ii) receives compensation, either directly or indirectly, from the Company or a subsidiary of the Company, for services rendered as a consultant or in any capacity other than as a director, except for an amount that does not exceed the dollar amount for which disclosure would be required pursuant to Item 404(a) of Regulation S-K; or
- (iii) possesses an interest in any other transaction for which disclosure would be required pursuant to Item 404(a) of Regulation S-K.

no director who does not meet the requirements of an "outside director" as defined in Section 162(m) of the Internal Revenue Code of 1986, as amended, shall be considered independent.

In assessing the independence of members of the Compensation Committee, the Board will consider all factors specifically relevant to determining whether a director has a relationship to the Company that is material to such member's ability to be independent from management in connection with his or her duties, including, but not limited to (i) the source of his or her compensation, including any consulting, advisory, or other compensatory fees paid by the

Company to such director and (ii) whether such director is affiliated with the Company, a subsidiary of the Company, or an affiliate of a subsidiary of the Company.

NYSE listing standards also require that we have a Compensation Committee and a Nominating and Corporate Governance Committee that are each entirely composed of independent directors with written charters addressing such committee's purpose and responsibilities and that the performance of such committees be evaluated annually.

Our Board has affirmatively determined that each of Mr. Ballases, Ms. Bozeman, Mr. Bramanti, Mr. Duer, Dr. Flagg, Mr. Hamilton, Ms. Heisz, Mr. Rohlf, Mr. Rosholt and Mr. Thomas meets the criteria for independence set forth above and that all members of the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee meet the further requirements for independence set forth above. In addition, the Board has affirmatively determined that Ms. Rivera would meet the criteria for independence as a director set forth above should she be elected as a member of the Board.

### **Board Leadership Structure**

Our Bylaws and Corporate Governance Guidelines require that the Chairman of the Board be an independent director. As a result, the Chairman of the Board may not also serve as the Chief Executive Officer of the Company. We believe that the separation of these offices is appropriate at the current time because it allows our CEO, Mr. Williams, to focus his efforts on HCC's operations and the execution of our business strategy and allows our Chairman, Mr. Rosholt, to focus his efforts on oversight and governance. In addition, this separation of responsibilities allows Mr. Rosholt to dispassionately evaluate the performance of the Company's management. This structure is further strengthened by Mr. Rosholt's and Mr. Williams' unique experiences, perspectives and skills, which complement one another and, in combination, are valuable to the overall management and leadership of HCC. The Board regularly assesses the Corporate Governance Guidelines, including the requirement described above, and may change the leadership structure of the Board in the future if it feels doing so would be in the best interests of the Company.

### **Board Meetings in 2013**

During 2013, our Board met seven times and acted by unanimous written consent on one other occasion. Each person currently serving and nominated to be a director attended, or participated via teleconference, in 75% or more of the meetings of the Board of Directors and the meetings of any committee on which he or she served.

In addition, our policy is to have our directors attend our annual meeting of stockholders. Last year, all of our then-serving directors attended the annual meeting of stockholders.





[Back to Contents](#)

## Executive Sessions of the Board

Independent Directors meet in executive session at each regularly scheduled meeting of our Board. Mr. Rosholt, as the independent Chairman of the Board, presides at each executive session. Our Independent Directors met in executive session four times in 2013.

## Committees of the Board

Our Board has standing Audit, Compensation, Investment and Finance, Nominating and Corporate Governance, and Enterprise Risk Oversight Committees, each of which has a written charter. Copies of the charter of each of the Board committees, as well as our Corporate Governance Guidelines, are available on our website at <http://www.sn1.com/IRWeblinkX/committeechart.aspx?iid=103548>. In addition, a printed copy of any of these documents will be provided to any stockholder who requests one. The following table sets forth the current composition of our committees.

	<b>Audit Committee</b>	<b>Compensation Committee</b>	<b>Investment and Finance Committee</b>	<b>Nominating and Corporate Governance Committee</b>	<b>Enterprise Risk Oversight Committee</b>
Emmanuel T. Ballases					
Judy C. Bozeman					
Frank J. Bramanti					
Walter M. Duer					
James C. Flagg, Ph.D.					
Thomas M. Hamilton					
Leslie S. Heisz					
John N. Molbeck, Jr.					
Hans D. Rohlf					
Robert A. Rosholt					
J. Mikesell Thomas					
Christopher J.B. Williams					
<i>Chairperson</i>	<i>Member</i>	<i>Ex Officio</i>	<i>Chairman of the Board</i>		

### Audit Committee

Our Audit Committee is currently comprised of James C. Flagg (Chairperson), Walter M. Duer, and J. Mikesell Thomas. Our Board has determined that Dr. Flagg, Mr. Duer and Mr. Thomas are independent, as independence for audit committee members is defined in the listing standards of the NYSE and in accordance with the standards outlined in our Corporate Governance Guidelines. In addition, our Board has determined that each member of the

Audit Committee is an “audit committee financial expert” as described in Item 407(d)(5)(ii) of Regulation S-K. The Board further affirmatively determined that Mr. Thomas’s service on the audit committees of UBS Funds, UBS Relationship Funds, SMA Relationship Trust and Fort Dearborn Income Securities, Inc. does not impair his ability to effectively serve on our Audit Committee. The Audit Committee met six times in 2013.

The Audit Committee is established in accordance with Section 3(a)(58)(A) of the Exchange Act. The Audit Committee’s primary purpose is to assist our Board with its oversight of (a) the integrity of our consolidated financial statements and disclosures; (b) our compliance with legal and regulatory requirements; (c) our independent registered public accounting firm’s qualifications, performance, independence and fees; and (d) our internal audit function. The Audit Committee has the sole authority to appoint and terminate our independent registered public accounting firm.

The Audit Committee regularly reports to the Board concerning its activities and also assists the Board with oversight of risk management by reviewing the Company’s consolidated financial statements and meeting with the Vice President of Internal Audit and Controls at regularly scheduled meetings of the Audit Committee. At such meetings, the Audit Committee reviews reports on the adequacy and effectiveness of our internal audit and internal control systems and discusses with management the Company’s major financial risks and exposures and the steps management has taken to monitor and control such risks and exposures.

[Back to Contents](#)

## **Compensation Committee**

Our Compensation Committee is currently comprised of Judy C. Bozeman (Chairperson), Emmanuel T. Ballases and Thomas M. Hamilton. Our Board has determined that Ms. Bozeman, Mr. Ballases and Mr. Hamilton are independent, as independence for compensation committee members is defined in the listing standards of the NYSE, Rule 16b-3 under the Exchange Act, and Section 162(m) of the Internal Revenue Code of 1986. The Compensation Committee met eight times in 2013.

The Compensation Committee has the responsibility for assuring that our senior executives are compensated in a manner that is consistent with the compensation philosophy and strategy of our Board and that is in compliance with the requirements of the regulatory bodies that oversee our operations. Generally, the Compensation Committee is charged with the authority to review and approve our compensation philosophy and our executive compensation programs, levels, plans and awards. The Compensation Committee also administers our incentive plans and our stock-based compensation plans and reviews and approves general employee benefit plans on an as-needed basis. The Chief Executive Officer makes recommendations to the Compensation Committee with respect to the form and amount of executive compensation. In addition, under the charter of the Compensation Committee and under our 2008 Flexible Incentive Plan, the Compensation Committee may delegate the authority to management to perform specified functions under such plan; however, under our currently existing internal controls with respect to our stock option granting practices, such authority may not be delegated with respect to the granting of options. The Compensation Committee charter allows delegation of Committee authority to subcommittees. See “*Executive Compensation — Compensation Discussion and Analysis*” below for information on our process and procedures for determining executive officer compensation during 2013.

The Compensation Committee may retain and engage, at its sole discretion, to the extent deemed necessary and appropriate, any compensation consultants, outside counsel or other advisors.

## **Compensation Committee Interlocks and Insider Participation**

No member of the Compensation Committee is or has been employed as an officer or employee of HCC or any of our subsidiaries. No executive officer of HCC served as a member of the board of directors or compensation committee (or other board committee performing similar functions or, in the absence of any such committee, the entire board of directors) of another entity, one of whose executive officers served as a member of our Board or our Compensation Committee. No executive officer or director had a relationship with us requiring disclosure under Regulation S-K Item 404(a).

## **Compensation Committee Risk Assessment**

It is the Company's policy to regularly monitor its compensation policies and practices to determine whether its risk management objectives are being met and to adjust those policies and practices to address any incentives that are determined to encourage risks that are reasonably likely to have a material adverse effect on the Company and any changes in its risk profile. Management regularly assesses the current risk profile of our compensation programs to determine whether any such programs might incentivize excessive risk behavior and shares their findings with the Compensation Committee. The Compensation Committee reviews the results of management's assessment and determines what, if any, actions should be recommended to the Board for further consideration. The risk assessment includes a review of the primary design features of our compensation programs and the process for determining executive and employee compensation. The Compensation Committee may also, as it deems necessary, seek and receive input relating to its risk assessment from the Audit Committee and the Enterprise Risk Oversight Committee. The risk assessment identified numerous ways in which our compensation programs potentially mitigate risk, including:

- the structure of our executive compensation program, which consists of both fixed and variable compensation, with a focus on underwriting profitability, and rewards both annual and long-term performance;
- the use of multiple performance metrics under our incentive and bonus plans;
- time-based vesting for stock options and restricted stock awards;
- performance-based vesting for a portion of restricted stock awards to executive officers;
- a clawback feature and cap on equity awards that are based upon a formula bonus;
- regular reviews by the CEO and the Compensation Committee of reports listing (i) all employees receiving in excess of \$250,000 in annual cash compensation and (ii) the Company's accrual for annual cash incentive compensation; and
- effective internal controls.

As a result of its assessment of compensation risk during 2013, the Compensation Committee adopted a new executive compensation program intended to provide (i) greater predictability in compensation from year to year and (ii) a greater portion of total compensation in the form of equity. This program is described in more detail under "*Executive Compensation – Compensation Discussion and Analysis*" on page 19.

### **Enterprise Risk Oversight Committee**

Our Enterprise Risk Oversight Committee is currently comprised of Frank J. Bramanti (Chairperson), Emmanuel T. Ballases, Walter M. Duer, John N. Molbeck, Jr., Hans D. Rohlf and Christopher J.B. Williams. The Enterprise Risk Oversight Committee met four times in 2013.

The Enterprise Risk Oversight Committee is charged with assisting the Board with oversight of risk generally, and specifically with oversight of management's responsibility to identify, assess, prioritize and manage all material risks

to HCC's business objectives. In this regard, the Board has delegated to the Enterprise Risk Oversight Committee the primary responsibility of administering its enterprise risk oversight function through the Committee's review of management's assessment of risks and mitigation strategies with respect to our business. The Committee administers our annual risk assessment process and receives regular reports from our Senior Vice President of Enterprise Risk Management, including information relating to specific risks evaluated and managed by an internal risk committee that is comprised of senior operating management. Some of the specific key risks reviewed by the Committee in 2013 included the Company's claims management and reinsurance processes, information technology security, crisis management, economic capital modeling and enterprise risk management. As necessary, the Enterprise Risk Oversight Committee coordinates its risk oversight function with other committees of the Board, specifically including

[Back to Contents](#)

the Audit Committee, Compensation Committee and Investment and Finance Committee. The Enterprise Risk Oversight Committee also presents a quarterly report, with recommendations as appropriate, for approval by the Board regarding risk oversight issues raised during the process. The Board discusses and acts, as necessary, on these findings pursuant to the Board's responsibility for overseeing risk management at the Company.

### **Investment and Finance Committee**

Our Investment and Finance Committee is currently comprised of Leslie S. Heisz (Chairperson), Judy C. Bozeman, Frank J. Bramanti, John N. Molbeck, Jr., J. Mikesell Thomas, Robert A. Rosholt and Christopher J.B. Williams. The Investment and Finance Committee met nine times in 2013.

The Investment and Finance Committee is charged with establishing investment policies for us and our subsidiaries and directing the investment of our funds, and those of our subsidiaries, in accordance with those policies. In this regard, the Investment and Finance Committee oversees the investment management activities of our third-party investment managers and oversees our corporate financing activities.

### **Nominating and Corporate Governance Committee**

Our Nominating and Corporate Governance Committee is currently comprised of Thomas M. Hamilton (Chairperson), James C. Flagg and Leslie S. Heisz. The Nominating and Corporate Governance Committee met five times in 2013.

The Nominating and Corporate Governance Committee is charged with identifying and recommending to our Board individuals suitable to become members of the Board and overseeing the administration of our various policies related to corporate governance matters. Our Board has determined that each member of the Nominating and Corporate Governance Committee is independent, as independence for nominating committee members is defined in the listing standards of the NYSE.

### **Candidates for the Board**

The Nominating and Corporate Governance Committee has established certain criteria as guidelines in considering nominations for the Board. The criteria include:

- the candidate’s independence;
- the candidate’s depth of business experience;
- the candidate’s availability to serve;
- the candidate’s integrity and personal and professional ethics;
- the balance of the business experience on the Board as a whole; and
- the need for specific expertise on the Board.

These criteria are not exhaustive, and the Nominating and Corporate Governance Committee and the Board may consider other qualifications and attributes that they believe are appropriate in evaluating the ability of an individual to serve as a member of the Board. The Nominating and Corporate Governance Committee’s goal is to assemble a Board of Directors that brings to us a variety of perspectives and skills derived from high quality business and professional experience. In order to ensure that the Board consists of members with a variety of perspectives and skills, the Nominating and Corporate Governance Committee has not set any minimum qualifications and also considers candidates with appropriate non-business backgrounds. The Committee evaluates potential nominees based on the contribution such nominee’s background, experiences, perspectives and skills could have upon the overall functioning of the Board in order to ensure that the Board as a whole reflects these diverse backgrounds, experiences, perspectives and skills. While neither the Board nor the Nominating and Corporate Governance Committee has a formal diversity policy, one of many factors that the Board and the Nominating and Governance Committee carefully considers is “diversity in personal background, race, gender, age and nationality” as described in the Corporate Governance Guidelines. In addition, the Board conducts an annual self-assessment to evaluate director performance, which also serves to gauge the Board’s effectiveness in achieving diversity of backgrounds, experiences and perspectives. The Board, through the Nominating and Corporate Governance Committee, has developed and maintains a director skills matrix to assist in the skills evaluation process.

The Board of Directors believes that, based on the Nominating and Corporate Governance Committee’s knowledge of our Corporate Governance Guidelines and the needs and qualifications of the Board at any given time, the Nominating and Corporate Governance Committee is best equipped to select nominees that will result in a well-qualified and well-rounded Board. In making its nominations, the Nominating and Corporate Governance Committee identifies nominees by first evaluating the current members of the Board willing to continue their service. When identifying new candidates to serve on our Board, the Nominating and Corporate Governance Committee undertakes a process that will entail the solicitation of recommendations from any of our incumbent directors, our management or our stockholders. Following a review of the qualifications, experience and backgrounds of these candidates, the Nominating and Corporate Governance Committee will make its recommendation to the Board. In addition, the Nominating and Corporate Governance Committee has the authority under its charter to retain a search firm for this purpose.

## **Stockholder Recommendations**

The charter of the Nominating and Corporate Governance Committee provides that the committee will consider proposals for nominees for director from stockholders. Stockholder nominations for director should be made in writing to HCC Insurance Holdings, Inc., 13403 Northwest Freeway, Houston, Texas 77040-6094, ATTN: Secretary. The Nominating and Corporate Governance Committee will consider



Back to Contents

candidates recommended by stockholders based on the criteria described above. Although the Nominating and Corporate Governance Committee will consider such candidates, the Board may ultimately determine not to nominate those candidates.

In order to recommend an individual as a candidate for nomination as a director at a meeting of stockholders, we require that a stockholder follow the procedures set forth in this section. In order to recommend a nominee for a director position, a stockholder must own shares at the time such stockholder gives notice of recommendation and must be entitled to vote for the election of directors at the meeting at which such nominee will be considered. Stockholder recommendations must be made pursuant to written notice delivered to our Secretary at the address set forth above:

- in the case of a nomination for election at an annual meeting, not less than 90 days nor more than 120 days prior to the first anniversary of the date of our notice of annual meeting for the preceding year's annual meeting; and

- in the case of a special meeting at which directors are to be elected, no later than the close of business on the later of the 90<sup>th</sup> day prior to such special meeting or the tenth day following the day on which public announcement is first made of the date of the meeting and of the nominees proposed by our Board of Directors to be elected at the special meeting.

In the event that the date of the annual meeting is changed by more than 30 days from the anniversary date of the preceding year's annual meeting, the stockholder notice described above will be deemed timely if it is received no later than the close of business on the later of the 90<sup>th</sup> day prior to such annual meeting or the tenth day following the day on which public announcement of the date of such meeting is first made.

The stockholder's notice must set forth, among other things, the following:

- as to each person the stockholder proposes to nominate for election as a director, all information relating to such person that would be required to be disclosed in solicitations of proxies for the election of such nominees as directors pursuant to Regulation 14A under the Exchange Act, and such person's written consent to serve as a director if elected; and

- as to the nominating stockholder and the beneficial owner, if any, on whose behalf the nomination is made, such stockholder's and beneficial owner's name and address as they appear on our books, the class and number of shares that are owned beneficially and of record by such stockholder and such beneficial owner, a representation that the stockholder intends to appear in person or by proxy at such meeting to propose such nomination, and an affirmative statement of whether either such stockholder or such beneficial owner intends to deliver a proxy statement and form of proxy to a sufficient number of stockholders to elect such nominee or nominees.

In addition to complying with the foregoing procedures, any stockholder recommending a director candidate must also comply with all applicable requirements of the Exchange Act, including the rules and regulations under such Act.

## **Communications with the Board**

The Corporate Governance Guidelines provide that our stockholders and other interested parties may communicate with one or more of our directors by sending their communications to: HCC Insurance Holdings, Inc., 13403 Northwest Freeway, Houston, Texas 77040-6094, ATTN: Secretary. Such communications should specify the intended recipient or recipients. All such communications, other than unsolicited commercial solicitations, will be forwarded to the appropriate director, or directors, for review.

## **Certain Relationships and Related Party Transactions**

The Board has adopted a policy regarding the review and approval of transactions in which the Company or its subsidiaries, on the one hand, and any of our executive officers, directors, director nominees, holders of greater than 5% of our shares or any of their immediate family members, on the other hand, are parties (a “related party transaction”). Under this policy all related party transactions are subject to review and approval or ratification by the Nominating and Corporate Governance Committee.

Not less than annually, the Nominating and Corporate Governance Committee reviews all related party transactions valued at greater than \$120,000. In its review, the Nominating and Corporate Governance Committee considers, among other things:

- the nature of the related party’s interest in the transaction;
- the material terms of the transaction, including, without limitation, the amount and type of transaction;
- the importance of the transaction to the related party;
- the importance of the transaction to the Company;
- whether the transaction would impair the judgment of a director or executive officer to act in the best interest of the Company; and
- whether the transaction is on terms no less favorable to the Company than would generally be available to an unaffiliated third party under similar circumstances.

Any member of the Nominating and Corporate Governance Committee who is a related party with respect to a transaction under review may not participate in the deliberations or vote for approval or ratification of such transaction, but may be counted for purposes of determining the presence of a quorum. If, as a result of this review, the Nominating and Corporate Governance Committee determines that the transaction is not fair to HCC or is

otherwise a violation of our Code of Business Conduct and Ethics or our Policy on Conflicts of Interest, it may refuse to approve or ratify the transaction.

Ms. Rivera, who has been nominated to serve as a director, is currently the President and Chief Executive Officer of, and a minority owner of equity in, V3 Insurance Partners, LLC (“V3”). During 2013, the Company paid approximately \$370,000 as commission on approximately

Back to Contents

\$4.4 million of gross written premium from insurance policies issued by a subsidiary of the Company and placed by V3. The compensation paid to V3 was not for professional, consulting or advisory services. The Company's agreement with V3 was terminated in August 2013 and V3 no longer provides any services to the Company. It is not expected that the Company will pay any commission to V3 while Ms. Rivera serves as a member of the Board. This transaction was reviewed and ratified by the Nominating and Corporate Governance Committee and the Board prior to Ms. Rivera's nomination to serve as a director.

We are not aware of any related party transaction since the beginning of the last fiscal year required to be reported under our policy or applicable SEC rules for which our policies and procedures did not require review or for which such policies and procedures were not followed.

There are no family relationships among the executive officers and directors, and there are no arrangements or understandings between any Independent Director or any other person pursuant to which that Independent Director was selected as a director.

**PROPOSAL NUMBER 2 ADVISORY VOTE ON EXECUTIVE COMPENSATION**

HCC's compensation program for Named Executive Officers is intended to (i) support the execution of our business strategy and long-term financial objectives, (ii) attract and retain a talented team of executives who will provide leadership for the Company's success in dynamic, competitive markets and products, (iii) foster creation of long-term stockholder value by aligning the interests of our executive officers with those of our stockholders and (iv) reward executives for contributions at a level reflecting our performance. Our Compensation Committee has designed our executive compensation program based on principles that reflect these objectives. These principles have contributed to the Company's strong performance and rewarded executives based on this performance. See "*Executive Compensation — Compensation Discussion and Analysis*" for additional discussion.

The Company is presenting this proposal, commonly known as a "Say-on-Pay" proposal, which gives you, as a stockholder, the opportunity to endorse or not endorse the compensation of our Named Executive Officers through an advisory vote for or against the following resolution:

"Resolved, that the stockholders approve the compensation of our Named Executive Officers, as described in the Compensation Discussion and Analysis and the related compensation tables (together with the accompanying narrative disclosure) in this Proxy Statement."

The Board of Directors recommends that stockholders endorse the compensation program for our Named Executive Officers by voting FOR the above resolution. We believe that executive compensation for 2013 is reasonable and appropriate and, as discussed in the Compensation Discussion and Analysis (the "CD&A") contained in this Proxy

Statement, is justified by the performance of the Company. Our compensation programs are the result of a carefully considered approach and reflect advice received from the Compensation Committee's independent compensation consultant.

In deciding how to vote on this proposal, the Board asks you to consider the following factors, many of which are more fully discussed in the CD&A:

### **Performance**

The Company believes the compensation programs for the Named Executive Officers were instrumental in helping the Company achieve record financial performance in 2013. The Company's book value per share increased by 4.3% to \$36.62 during 2013. Our total value creation, as measured by total compounded annual return on tangible book value (including dividends), has significantly outperformed that of our peers over the prior three-, five- and ten-year periods, as illustrated in the following table:

### **COMPOUND ANNUAL RETURN ON TANGIBLE BOOK VALUE**

[Back to Contents](#)

Additionally, during 2013 our operating return on equity was 11.3% and we achieved record gross written premium of \$2.9 billion, net earnings of \$407.2 million, and earnings per share of \$4.04.

The Company returned \$114.2 million to stockholders during 2013 as follows:

- We paid quarterly dividends totaling \$72.0 million in 2013. HCC has paid cash dividends for 72 consecutive quarters and increased its quarterly dividend in each of the last 17 years.
- We returned \$42.2 million to stockholders by repurchasing 1.1 million shares of our common stock under our previously-announced stock repurchase plan.

**GROWTH OF GROSS AND NET WRITTEN PREMIUM**

(in millions)

**Compensation**

The Company has adopted an executive compensation program that provides for a balanced approach. Each of our executive officers is eligible to receive elements of compensation with the following attributes:

<b>Element</b>	<b>Key Characteristics</b>	<b>Focus</b>
<b>Base Salary</b>	<ul style="list-style-type: none"> <li>• Fixed per terms of employment agreement with potential for increase based on merit or increased responsibilities</li> </ul>	<b>Annual Cash</b>
<b>Annual Incentive Award</b>	<ul style="list-style-type: none"> <li>• Target opportunity expressed as a percent of salary</li> <li>• Maximum opportunity = 2x target (subject to a hard cap expressed as a percent of pretax income for the year)</li> <li>• Payout based upon Company and individual performance against pre-established goals</li> </ul>	
<b>Time-vesting Restricted Stock</b>	<ul style="list-style-type: none"> <li>• Target annual grant expressed as a percent of salary</li> <li>• Shares vest 1/3 per year</li> <li>• Vesting based upon continued employment</li> </ul>	<b>Long-term Equity</b>
<b>Performance-vesting Restricted</b>	<ul style="list-style-type: none"> <li>• Target annual grant expressed as a percent of salary</li> </ul>	

**Stock**

- Shares vest on 3<sup>rd</sup> anniversary of grant based on Company performance over a 3-year performance period
- 50% based on total shareholder return (“TSR”) vs. peer group
- 50% based on operating return on equity vs. internal goal
- Payout can range from 0-200% of target award

For additional information on our executive compensation program, see “*Compensation Discussion and Analysis – Elements of Our Compensation Programs*” below.

The Company believes that its executive compensation program, which includes significant annual incentive awards and long-term equity awards, is designed to encourage our executive officers to achieve exemplary results and is strongly aligned with the long-term interests of our stockholders.

We emphasize pay for performance and structure our compensation program to provide appropriate incentives to executives to drive business and financial results. Our Named Executive Officers received annual incentive awards based, in part, on the Company’s performance relative to combined ratio, operating return on equity and net investment income. The amount of these awards reflected our actual performance in 2013 against these metrics.

A significant portion of our executive officers’ total compensation is provided in the form of equity, half of which vests according to the Company’s performance relative to an operating return on equity target and half of which vests relative to the Company’s total shareholder return as compared to our peer group.

• There is a positive correlation between the Company’s executive compensation and performance on both a relative and an absolute basis (see “*Compensation Discussion and Analysis - Executive Summary*” below).

• Our executive compensation programs do not create risks that are reasonably likely to have a material adverse effect on the Company.

[Back to Contents](#)

Our executive compensation programs provide a level of compensation that is competitive with our peers (see “*Compensation Discussion and Analysis - Executive Summary*” below).

## CEO COMPENSATION ALIGNMENT

### Corporate Governance

The Company believes that its executive compensation program is aligned with good corporate governance.

- We continue to have stock ownership guidelines that must be met within 5 years of becoming subject to the guidelines.
- We have adopted hold requirements on some stock-based awards that focus executives on the longer-term effect of decisions made and have a policy that prohibits the hedging of Company stock by directors and employees.
- We have adopted a “clawback” policy that allows us to recoup certain incentive-based compensation from our executive officers in the event of a financial restatement.

In order to encourage our Named Executive Officers to focus on the best interests of stockholders, we have entered into employment agreements with each of our executive officers. The amount of each Named Executive Officer’s base salary is generally fixed, and does not increase, during the term of his employment agreement. These employment agreements also contain restrictive covenants relating to non-competition, non-solicitation and confidentiality, following a termination of employment.

This “say-on-pay” vote is mandated by Section 951 of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Section 14A of the Exchange Act. As an advisory vote, this proposal is not binding upon the Company. However, the Compensation Committee, which is responsible for overseeing the design and administration of the Company’s executive compensation program, values the feedback received from stockholders in their vote on this proposal, and will consider the outcome of the vote when making future compensation decisions for Named Executive Officers.

**The Board of Directors unanimously recommends that stockholders vote “FOR” the approval of our executive compensation program**





[Back to Contents](#)**PROPOSAL NUMBER 3** RATIFICATION OF OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2014

Our Audit Committee has selected PricewaterhouseCoopers LLP (“PwC”) to serve as our independent registered public accounting firm to examine our consolidated financial statements for the year ending December 31, 2014. While the Audit Committee is responsible for the appointment, compensation, retention, termination and oversight of the independent auditor, we are requesting, as a matter of good corporate governance, that the stockholders ratify the appointment of PwC as our principal independent registered public accounting firm. If the stockholders fail to ratify the selection, the Audit Committee will reconsider whether to retain PwC and may retain that firm or another without re-submitting the matter to our stockholders. Even if the appointment is ratified, the Audit Committee may, in its discretion, direct the appointment of a different independent registered public accounting firm at any time during the year if it determines that such change would be in our best interests and in the best interests of our stockholders.

PwC’s representatives are expected to be present at the 2014 Annual Meeting and will have an opportunity to make a statement, if they so desire, as well as to respond to appropriate questions asked by our stockholders.

**The Board of Directors unanimously recommends that stockholders vote “FOR” the ratification of the selection of PricewaterhouseCoopers LLP as our independent registered public accounting firm for 2014**

**Fees Paid to PricewaterhouseCoopers LLP**

Aggregate fees billed or estimated to be billed to the Company for the years ended December 31, 2013 and 2012 by our independent registered public accounting firm PwC were as follows:

	Year Ended December 31,	
	2013	2012
	(\$)	(\$)
Audit Fees <sup>(1)</sup>	5,231,000	4,679,000
Audit-related Fees <sup>(2)</sup>	25,000	109,000
Tax Fees <sup>(3)</sup>	199,000	97,000
All Other Fees <sup>(4)</sup>	181,000	12,000
<b>TOTAL FEES</b>	<b>5,636,000</b>	<b>4,897,000</b>

*For professional services rendered for the audit of our consolidated financial statements and statutory financial statements of our insurance company subsidiaries, actuarial certifications, review of our interim financial statements, review of our systems of internal control over financial reporting and other professional services related to SEC registration statements.*

(2) *For agreed upon procedures related to the audit or review of our financial statements that were not reportable as Audit Fees, as well as advice with respect to statutory risk management programs.*

(3) *For professional fees related to the preparation of selected domestic and foreign tax returns, as well as advice with respect to domestic and international tax issues related to tax return compliance and the acquisition, disposition or reorganization of subsidiaries.*

(4) *Includes fees for technology review, healthcare reform advisory services, licenses for electronic databases and training courses for our employees.*

The services provided by PwC described in “Audit-related Fees,” “Tax Fees” and “All Other Fees” above, were approved by the Audit Committee according to Rule 2-01(c)(7)(i)(C) of Regulation S-X. The Audit Committee has determined the rendering of the above-mentioned non-audit services by PwC was compatible with maintaining our independent registered public accounting firm’s independence.

[Back to Contents](#)

### **Audit Committee Pre-Approval Policies and Procedures**

The Audit Committee's policy provides that our independent registered public accounting firm may provide only those services pre-approved by the Audit Committee or its designated subcommittee. The Audit Committee is required to pre-approve all auditing services and non-audit services that are provided to us. If the Audit Committee approves an audit service within the scope of the engagement of the independent registered public accounting firm, such audit service will be deemed to have been pre-approved.

Committee pre-approval is not required under the policies of the Audit Committee for non-audit services provided by the independent registered public accounting firm if (i) the aggregate amount of all such non-audit services provided to HCC constitutes not more than 5% of the total amount of fees paid by us to the independent registered public accounting firm during the year in which such non-audit services are provided, (ii) such non-audit services were not recognized by us at the time of the independent registered public accounting firm's engagement to be non-audit services, and (iii) such non-audit services are promptly brought to the attention of the Committee and approved by the Committee prior to the completion of the audit.

The Audit Committee may delegate to one or more members of the Audit Committee the authority to grant pre-approval of non-audit services. However, the decision of any member to whom such authority is delegated to pre-approve non-audit services shall be presented to the full Audit Committee for its approval at its next scheduled meeting. As of the record date, there had been no such delegation.

[Back to Contents](#)

## **EXECUTIVE COMPENSATION**

### **Compensation Discussion and Analysis**

#### **Executive Summary**

Our executive compensation program is intended to (i) support the execution of our business strategy and long-term financial objectives, (ii) attract and retain a talented team of executives who will provide leadership for the Company's success in dynamic, competitive markets and products, (iii) foster creation of long-term stockholder value by aligning the interests of our executive officers with those of our stockholders and (iv) reward executives for contributions at a level reflecting our performance. Our Compensation Committee has designed our executive compensation program based on principles that reflect these objectives. These principles have contributed to the Company's strong performance and rewarded executives based on this performance. See pages 14-16 for additional information on the Company's financial performance in 2013.

#### **Pay for Performance**

The Company's executive compensation programs, which include significant annual incentive awards and long-term equity awards, are designed to encourage our executive officers to achieve exemplary results and are strongly aligned with the long-term interests of our stockholders. We emphasize pay for performance and structure our compensation programs to provide appropriate incentives to executives to drive business and financial results. Our Named Executive Officers received annual incentive awards based, in part, on Company performance relative to net earnings. The amount of these awards reflected our actual performance on this metric. In addition, there is a positive correlation between the Company's executive compensation and performance on both a relative and an absolute basis.

#### **RELATIVE ALIGNMENT OF PAY & PERFORMANCE**

**(3 years cumulative – 2011 to 2013)**

#### **ABSOLUTE ANNUAL ALIGNMENT OF PAY & PERFORMANCE**

**(5 years – 2009 to 2013)**

For purposes of both the relative and absolute alignment charts, realizable pay consists of base salary, plus the actual amount of the annual incentive award received for the period, plus the realizable value of unvested equity awards (valued at the end of the period).

**HCC INSURANCE HOLDINGS, INC. - 2014 Proxy Statement 19**

[Back to Contents](#)

## Corporate Governance Practices

The Company also believes that its executive compensation program is aligned with good corporate governance:

- We continue to have stock ownership guidelines for executive officers that must be met within 5 years of becoming subject to the guidelines.
- We have adopted hold requirements on certain stock-based awards that focus executives on the longer-term effect of decisions made and have a policy that prohibits the hedging of Company stock by directors and employees.
- We have adopted a “clawback” policy that allows us to recoup certain incentive-based compensation (including annual incentive and equity awards) from our executive officers in the event of a financial restatement.

In order to encourage our Named Executive Officers to focus on the best interests of stockholders, we have entered into employment agreements with each of our executive officers. The amount of each Named Executive Officer’s base salary is generally fixed, and does not increase, during the term of his employment agreement. These employment agreements also contain restrictive covenants relating to non-competition, non-solicitation and confidentiality, following a termination of employment.

This Compensation Discussion and Analysis further explains the philosophy underlying our compensation strategy and the fundamental elements of compensation paid to our Chief Executive Officer, Chief Financial Officer, and other executives named in the 2013 Summary Compensation Table (the “Named Executive Officers” or “NEOs”). Specifically, this Compensation Discussion and Analysis addresses the following:

- Objectives of our compensation programs;
- Elements of compensation provided to the Named Executive Officers;
- How we determine each element of compensation and why we pay each element;
- How we determine executive officer compensation; and
- Other important compensation policies affecting the Named Executive Officers.

In determining compensation, the Compensation Committee receives input from management and its independent compensation consultant, and considers competitive practices, our business objectives, stockholder interests, regulatory requirements and other relevant factors. The Compensation Committee then reviews, modifies and approves, as appropriate, our executive compensation program in an effort to provide compensation for our executive officers that is (i) competitive, (ii) rewards the officers for success in achieving Company goals, and (iii) aligns the interests of our officers with the long-term interests of our stockholders.

**Response to 2013 Say-On-Pay Vote**

The Compensation Committee monitors the results of the “Say-on-Pay” vote and considers those results along with the factors listed above in determining compensation policies. A substantial majority (over 96%) of our stockholders ultimately approved the compensation program described in our 2013 proxy statement. The Compensation Committee interpreted this vote result as a strong indication of support for our current compensation program. In light of this support, and its own independent review of our executive compensation program, the Compensation Committee did not implement any significant changes to the executive compensation program disclosed in our 2013 proxy statement. Instead the Compensation Committee sought to expand the use of the executive compensation program that was adopted in March 2013 in response to concerns voiced earlier by certain large stockholders that our compensation program (i) did not clearly communicate our practice of paying for performance, (ii) did not sufficiently align the long-term interests of our executive officers with those of the Company, and (iii) resulted in unpredictable compensation from year to year.



[Back to Contents](#)

## **Objectives of Our Compensation Programs**

Our compensation programs are shaped by our underlying business philosophy, which is to generate consistent, industry-leading combined ratios. As a result, our primary objective is to maximize net earnings and grow book value per share. In our ongoing operations, we will continue to:

- offer a diverse range of specialty insurance products in non-correlated lines of business that generate consistent underwriting profit regardless of market cycles;

## **COMBINED RATIO**

- emphasize the underwriting of lines of business in which we anticipate we will earn underwriting profits (based on various factors, including premium rates, the availability and cost of reinsurance, policy terms and conditions, and general market conditions);

- limit our insurance companies' aggregate net loss exposure from a catastrophic loss through prudent underwriting, the use of reinsurance for those lines of business exposed to such losses, and diversification into lines of business not exposed to such losses; and

- consider the potential acquisition of specialty insurance operations.

With the goal of assisting in achieving the foregoing business strategy, our Compensation Committee designs our compensation programs to:

- recruit and retain top executive officers who are experienced, highly qualified individuals that can make significant contributions to our success;

- motivate executive officers to ensure exceptional performance and desired financial results and reward such performance;

- provide an opportunity for executives to develop a significant ownership stake in our Company; and
- align the executive officers' interests with the long-term interests of our stockholders.

Our compensation programs are designed to reward executive officers for achieving our business strategy on both a short-term and long-term basis. In addition, we reward qualities that we believe help further our strategy, including:

- individual performance in light of general economic and industry conditions;
- individual performance that supports our core values;
- teamwork;
- resourcefulness;
- the ability to manage our business;
- level of job responsibility; and
- tenure with our Company.

[Back to Contents](#)**Elements of Our Compensation Programs**

The Compensation Committee strives to provide our Named Executive Officers with a compensation package that balances short term and long term compensation. We believe that our current executive compensation program, consisting of a mix of base salary, annual incentive bonuses paid in cash and annual grants of equity (i) provide a predictable and transparent structure for executive compensation, (ii) provide a significant percentage of an executive officer's compensation through grants of equity, and (iii) attract, retain and motivate our executive officers:

In determining the compensation of our Named Executive Officers, we utilize the following specific compensation elements, which we believe support our compensation objectives:

Compensation Element	Description	Compensation Objectives			
		Recruit and Retain	Reward Performance	Develop Stock Ownership	Align with Stockholders
Base Salary	<ul style="list-style-type: none"> <li>•Fixed level of compensation</li> </ul>				
Annual Incentive Awards	<ul style="list-style-type: none"> <li>•Performance-based cash incentive plan</li> <li>•Rewards Company and individual performance</li> </ul>				
Time-Vesting Restricted Stock	<ul style="list-style-type: none"> <li>•Long-term equity award</li> <li>•Generally 3 or 4-year vesting</li> </ul>				
Performance-Vesting Restricted Stock	<ul style="list-style-type: none"> <li>•Long-term equity award</li> <li>•Rewards Company performance</li> <li>•Measures growth rate of book value compared to peers</li> </ul>				
Stock Options	<ul style="list-style-type: none"> <li>•Variable equity award</li> <li>•Rewards Company performance above a threshold</li> </ul>				
Nonqualified Deferred Compensation	<ul style="list-style-type: none"> <li>•Deferred until separation from Company</li> </ul>				
Health, Welfare & Retirement Plans	<ul style="list-style-type: none"> <li>•HCC 401(k) Savings Plan</li> <li>•HCC Employee Stock Purchase Plan</li> </ul>				
Perquisites	<ul style="list-style-type: none"> <li>•Life insurance premiums</li> <li>•Relocation expenses</li> </ul>				

**Change of Control  
Arrangements**

**HCC INSURANCE HOLDINGS, INC. - 2014 Proxy Statement 22**

[Back to Contents](#)**Base Salary**

Base salary generally provides a fixed base level of compensation for our executives for the services they render during the year. The purpose of base salary is to compensate our executive officers in light of their respective roles and responsibilities over time. Base salary is essential to allow us to compete in the employment marketplace for talent and is an important component of total compensation for the Named Executive Officers. It is vital to our goal of recruiting and retaining executive officers with proven abilities. An executive officer's base salary is set in accordance with the terms of his or her employment agreement and generally does not vary during the term of such agreement.

We have determined that our Company's and our stockholders' interests are best served by entering into multi-year employment agreements with the Named Executive Officers. Such agreements are the result of arms' length negotiations between the Named Executive Officer and the Company and are approved by the Compensation Committee. We believe that such multi-year employment arrangements benefit us and our stockholders by permitting us to attract and retain executive officers with demonstrated leadership abilities and to secure the services of such executive officers over an extended period of time. In addition, multi-year employment agreements align executive interests with the long-term interests of HCC and serve our recruitment and retention goals by providing executive officers with security based on the knowledge of how they will be compensated over the term of the agreement, while at the same time providing the Company with significant protections regarding non-competition, non-solicitation of business and employees, and confidential business information. A summary of the principal terms of these employment agreements is included below under the caption "*Employment Agreements and Potential Payments Upon Certain Events.*"

**Annual Incentive Award**

An executive officer's target annual incentive award is determined at the beginning of the year and expressed as a percentage of his or her base salary. The actual annual incentive award may vary between 0% and 200% of the target award based (i) 70% upon the Company's achievement of certain pre-established financial performance measures and (ii) 30% upon the executive officer's achievement of pre-established individual goals. Performance with respect to each goal is graded as follows:

<b>Performance Level</b>	<b>Grade</b>	<b>% of Target Earned</b>
Unacceptable	0	0%
Threshold	1	50%
Meets Expectations	2	100%
Exceeds Expectations	3	150%
Outstanding	4	200%

The weighted average of all grades results in an actual award of between 0% and 200% of the target award. No annual incentive awards will be granted in a given year if the Company's pretax income for such year is less than 50% of the Company's pretax income for the preceding year. In no case will an executive officer's annual incentive award exceed the percentage of the Company's pretax income designated by the Compensation Committee when the target award is established.

The actual amount paid as an annual incentive award in a given year may differ from the target award for that year and will reflect the Company's performance with respect to operating return on equity, net investment income and GAAP combined ratio, as well as an executive officer's achievement of his or her individual goals.

### **Annual Equity Award**

We annually grant restricted stock to our executive officers, since we believe this element of our compensation program allows executive officers the opportunity to develop a significant ownership stake in the Company and aligns their interests with the long-term interests of our stockholders. In addition, equity awards serve as a good retention vehicle for the Named Executive Officers because they vest based on the executive officer's continued employment.

An executive officer is eligible to receive an annual grant of time-vesting restricted stock and performance-vesting restricted stock in an amount determined at the beginning of the year and expressed as a percentage of his or her base salary. Time-vesting restricted stock will vest, assuming continued employment, ratably over a 3-year period beginning on the grant date. Between 0% and 200% of the original performance-vesting restricted stock will vest, assuming continued employment, on the third anniversary of the grant date based (i) 50% upon the Company's achievement of specified levels of operating return on equity over a 3-year performance period beginning on January 1 of the grant year and (ii) 50% upon the Company's total shareholder return as compared to our peer companies over the same 3-year performance period.

Because the Company has historically awarded equity on an ad-hoc basis for merit or promotion and not on an annual basis, recent awards of equity will be considered when determining the value of annual equity awards. An executive officer who received an equity award in 2011 will have his or her 2013 annual equity award reduced by approximately 1/3 of the value of the 2011 award. An executive officer who received an equity award in 2012 will have his or her 2013 and 2014 annual equity awards reduced by approximately 1/3 of the value of the 2012 award.

Annual equity awards are granted at the March meeting of the Compensation Committee. Equity awards outside of the executive compensation program, including stock options, may be made by the Compensation Committee to reward extraordinary performance, to provide additional retention value or for other reasons at any of our Compensation Committee meetings during the year.



[Back to Contents](#)

The Compensation Committee's policy is to set the exercise price of stock option awards and determine the number of shares of a value-based restricted stock award by using the closing price of our stock on the date of the Compensation Committee meeting at which such awards are granted. We do not coordinate the grant of awards with the release of earnings for any purpose, including the purpose of affecting the value of executive compensation.

## **Process for Determining Executive Officer Compensation in 2013**

### **Role of the Compensation Committee**

The Compensation Committee is composed of Independent Directors and is responsible for reviewing, approving, and monitoring compensation policies and programs that are consistent with the Company's business strategy and aligned with stockholders' interests. Specifically, the Compensation Committee is responsible for:

- reviewing and approving the corporate goals and objectives relevant to the compensation of the CEO and other executive officers;
- reviewing and approving the performance and compensation of the CEO;
- reviewing and approving annual incentive awards to executive officers; and
- reviewing and approving equity-based compensation plans and grants of all awards under such plans.

Under our current policy, the Compensation Committee also approves the terms of each Named Executive Officer's employment agreement and any modifications that are necessary from time to time.

### **Role of Management**

The Compensation Committee regularly meets with the CEO to receive reports and recommendations regarding the compensation of our executive officers other than the CEO. In particular, the CEO recommends to the Compensation Committee annual base salaries, annual incentive awards and long-term equity grants for the Named Executive Officers other than himself. The Compensation Committee then evaluates each executive officer, determines whether the CEO will receive any annual base salary increase, sets performance criteria for annual incentive bonuses, and makes long-term equity grants, if any. As part of its evaluation process, the Compensation Committee considers the Company's performance (including performance relative to peers), internal equity and consistency, the executive officer's individual performance over the prior year, changes in responsibilities, and future potential as well as data available from objective, professionally-conducted market studies obtained from a range of industry and general market sources. Although the Compensation Committee considers the CEO's recommendations, the final decisions



regarding base salary, annual incentive awards and equity awards are made by the Compensation Committee.

### **Role of the Compensation Consultant**

The Compensation Committee has retained Pearl Meyer & Partners (“Pearl Meyer”) as its outside compensation consultant to advise it in connection with executive compensation matters. A consultant from Pearl Meyer regularly attends meetings of the Compensation Committee and reports directly and exclusively to the Compensation Committee on matters relating to compensation for the Company’s Named Executive Officers. During 2013, the Compensation Committee requested that Pearl Meyer:

- review and provide a competitive assessment of the Company’s compensation plan design;
- provide market data, historical compensation information, competitive practice information and recommendations regarding appropriate peer groups, compensation trends and strategy, and governance developments; and
- provide analysis of data relating to CEO pay for performance.

During 2013, Pearl Meyer provided no services to the Company other than those provided to the Compensation Committee. The Compensation Committee reviewed all factors relevant to Pearl Meyer’s independence, including:

- The provision of services to the Company by Pearl Meyer other than those requested by the Compensation Committee;
- The amount of fees received by Pearl Meyer from the Company as a percentage of Pearl Meyer’s total revenue (fees received by Pearl Meyer from the Company were less than 1% of Pearl Meyer’s total revenue for 2013);
- The policies and procedures adopted by Pearl Meyer that are designed to prevent conflicts of interest;
- Any business or personal relationship between Pearl Meyer and a member of the Compensation Committee;
- Any stock of the Company owned by Pearl Meyer; and
- Any business or personal relationship between Pearl Meyer and an executive officer of the Company.

As a result of such evaluation, and a certification from Pearl Meyer regarding its independence, the Compensation Committee determined that Pearl Meyer is independent.



[Back to Contents](#)**Peer Groups**

In determining the compensation of our Named Executive Officers, the Compensation Committee strives to provide a competitive pay opportunity. While the Compensation Committee does not set target compensation for our Named Executive Officers by formal reference to benchmarking surveys, it does regularly refer to benchmarking surveys in order to ensure that our compensation is generally competitive with that of our peers. Our peer group for 2013 consisted of the following companies:

<b>Name</b>	<b>Ticker</b>	<b>Name</b>	<b>Ticker</b>
American Financial Group	AFG	Old Republic International Corporation	ORI
Argo Group International Holdings, Ltd.	AGII	RLI Corp.	RLI
The Chubb Corporation	CB	The Travelers Companies, Inc.	TRV
Markel Corporation	MKL	W.R. Berkley Corporation	WRB
Navigators Group, Inc.	NAV		

These companies were selected on the basis that they have significant specialty insurance operations and compete with the Company for talent, stockholders' investments and in the marketplace for business.

During 2013, Pearl Meyer performed a comprehensive review of the compensation of our Named Executive Officers. The results of Pearl Meyer's review indicated that (i) our CEO's pay was well aligned with the Company's performance over the past 1-year and 3-year periods, (ii) the exercise of significant discretion in the determination of annual incentive compensation is common among our peers, (iii) the use of both quantitative and qualitative measures for determining the amount of annual incentive compensation is consistent with our peer group and general market practices, and (iv) our compensation program is more heavily weighted towards annual cash compensation than our peer group average. Our new executive compensation, currently being phased in, is designed to increase the weight of equity compensation relative to cash.

<b>Component of Pay</b>	<b>Competitive Posture 2013 (Percentile of Market)</b>	
	<b>CEO</b>	<b>All Executive Officers</b>
Cash Compensation		
Base Salary	50 <sup>th</sup>	74 <sup>th</sup>
Total Cash Compensation (base salary + annual incentive award)	90 <sup>th</sup>	83 <sup>rd</sup>
Long-Term Incentives <sup>(1)</sup>	14 <sup>th</sup>	13 <sup>th</sup>
<b>Total Direct Compensation</b>	<b>60<sup>th</sup></b>	<b>53<sup>rd</sup></b>

*(1) Based on average annual grant value over last 4 years*

The following chart illustrates the actual 2013 total direct compensation of each of our Named Executive Officers relative to the market data reviewed by the Compensation Committee during its 2013 review. For purposes of this chart, 2013 total direct compensation includes a Named Executive Officer's base salary (not including any deferred compensation), annual incentive award (including the supplemental bonus award discussed on page 28), and the grant date value of any equity awards made in 2013.

**2013 ACTUAL TOTAL DIRECT COMPENSATION VS. MARKET  
(IN THOUSANDS)**

**HCC INSURANCE HOLDINGS, INC. - 2014 Proxy Statement 25**

[Back to Contents](#)

## **Determining Executive Officer Compensation in 2013**

### **General**

In determining the amounts of each element and the aggregate compensation for our Named Executive Officers, we do not use any specific formulae or attempt to satisfy any specific ratio for compensation among our executive officers; however, the differences in the aggregate compensation between our Chief Executive Officer, our Chief Financial Officer, and our other Named Executive Officers reflect the individual responsibilities with respect to their respective positions. Because of the significant incentive opportunities available to managers of our subsidiaries based on the subsidiary's performance, the Compensation Committee also evaluates total compensation to our Named Executive Officers in relation to such managers to ensure overall fairness between the compensation opportunities available at both the subsidiary and the corporate level.

While we do not have a formal policy for allocating compensation between long-term and currently paid compensation, between cash and non-cash compensation, or among different forms of non-cash compensation, our executive compensation program does provide general guidelines for determining the target amount of annual incentive awards and annual equity awards in relation to base salary. In addition, with respect to annual equity awards, we believe using a combination of time-vesting and performance-vesting restricted stock provides a balance of retention and performance incentive benefits and that this practice is competitive among our peers and consistent with broader market practice.

The Compensation Committee views the various components of compensation as related, but distinct, and therefore regularly re-evaluates the appropriate mix of elements, including the appropriate target incentive awards. The Compensation Committee also relies on the general knowledge, experience and good judgment of its members, both with regard to competitive compensation levels and the relative success that our Company has achieved, as well as information provided by the Compensation Committee's compensation consultant to approve appropriate deviations from the guidelines contained in our executive compensation program.

### **Base Salary**

The level of base salary for each Named Executive Officer was established in the executive officer's employment agreement upon the date of hire or the date of renewal of an existing employment agreement. Base salary was initially determined for each executive officer based on the abilities, qualifications, accomplishments, and prior work experience of the executive officer. Base salary in a renewal agreement was determined based on the same criteria, but also on how the executive officer performed under his previously existing agreement and on the length of the executive officer's tenure with HCC.

While base salary is generally fixed during the term of an executive officer's employment agreement, adjustments may be considered on a discretionary basis. In deciding whether to make a discretionary increase to a Named Executive Officer's compensation, we consider the consistency of the executive officer's individual performance over the prior year, changes in the executive officer's responsibilities, the executive officer's future potential and internal pay equity. We also consider data available from benchmarking studies obtained from a range of industry and general market sources, as well as information provided by the compensation consultant.

Base salaries for the Named Executive Officers were not increased during 2013.

### Annual Incentive Awards

Annual incentive compensation is intended to motivate and reward our Named Executive Officers for performance in achieving our business objectives. In 2008, our Board adopted and our stockholders approved the HCC Insurance Holdings, Inc. 2008 Flexible Incentive Plan (the "2008 FIP"). Under the 2008 FIP, we grant awards of cash performance awards that may be paid to a participant upon our satisfaction of corporate performance goals. We currently limit cash performance awards under the 2008 FIP to our executive officers, including any employee whose compensation is potentially subject to the deductibility limitations of Section 162(m) of the Internal Revenue Code of 1986.

Participants are designated by the Compensation Committee at the beginning of each year. Each participant is given a target award expressed as a percentage of base salary. For 2013, all of our NEOs received cash performance awards under the 2008 FIP. Our Compensation Committee established maximum bonus amounts for each of these executives, expressed as the lesser of (i) 200% of the target annual incentive award under the executive compensation program or (ii) a percentage of pretax income for HCC. The target and maximum awards established by the Compensation Committee for 2013 were as follows:

Named Executive Officer	2013 Annual Incentive	2013 Annual Incentive	2013 Annual Incentive	
	Award Target (% of Base Salary)	Award Maximum (% of Base Salary)	Award Maximum (% of pretax income)	
Mr. Williams	300	% 600	% 1.00	%
Mr. Irick	80	% 160	% 0.25	%
Mr. Burke	80	% 160	% 0.50	%
Mr. Kelbel	80	% 160	% 0.30	%
Mr. Schell	80	% 160	% 0.25	%

[Back to Contents](#)

For 2013, our pretax income was \$572.7 million. After the conclusion of the calendar year, the Compensation Committee evaluated both the Company’s performance against its budgeted performance targets and each Named Executive Officer’s individual performance against the goals that had been set for such executive officer at the beginning of 2013. In evaluating the Company’s performance for 2013, the Compensation Committee considered the following actual results versus budget:

**COMPANY PERFORMANCE**

The actual payout for Mr. Williams under the 2008 FIP also reflected his achievement of individual goals, which included the following for 2013:

<b>Goal</b>	<b>Outcome</b>
• Appoint or hire a new Chief Information Officer and Chief Underwriting Officer, International.	• Partha Srinivasa hired as CIO and Simon Button appointed as CUO, International.
• Negotiate renewals of employment agreements for key members of senior management team.	• Employment agreements renewed or extended for all designated members of the senior management team.
• Extend the revolving credit facility on terms favorable to the Company.	• Credit facility maturity extended through April 2017 and interest rate margin reduced.
• Continue building strong relationships with investors.	• Participated in major analyst conferences and regularly engaged with key investors.
• Update the Company’s strategic plan.	• Deferred pending the completion of senior management reorganization.
• Continue leadership development of senior management.	• Made significant progress in developing the leadership potential of several members of senior management.

In determining the amount of Mr. Williams’ award, the Compensation Committee considered the Company’s record financial performance, as well as Mr. Williams’ outstanding success in achieving his individual goals.

The actual payouts to other Named Executive Officers under our 2008 FIP also reflected their respective success against the following individual goals:

**Mr. Irick** — (i) effectively managed matters related to Spanish surety bond business, (ii) hired a qualified professional to serve as an internal investment manager for the Company, (iii) successfully extended the Company’s revolving credit facility on terms that were favorable to the Company, (iv) delivered strong, albeit slightly below target, investment performance, (v) reorganized reporting structure in the accounting department to focus on succession planning opportunities, and (vi) effectively responded to SEC comment letter received during 2013.

**Mr. Burke** — (i) effectively reorganized reporting structure of business units, (ii) assisted in search resulting in the hiring of a new CIO, (iii) oversaw acquisition of new teams in the construction property risk and inland marine lines of business, (iv) implemented a talent management program to better prepare members of management for succession, (v) drove year over year performance improvements in underperforming lines of business, including public risk, employment practices liability and miscellaneous professional liability, and (vi) increased contribution on earnings calls and other investor presentations.

**Mr. Kelbel** — (i) achieved key budget targets for the Company's Accident & Health segment, (ii) developed successor to lead the Accident & Health segment following expected retirement, (iii) improved performance of medical insurance services line of business, and (iv) continued to actively monitor and respond to changes in health care laws. In addition, Mr. Kelbel's annual incentive award also reflected his overall leadership of the Accident & Health segment in realizing record profitability in 2013.

**HCC INSURANCE HOLDINGS, INC. - 2014 Proxy Statement 27**



Back to Contents

**Mr. Schell** — (i) actively assisted in transitioning internal underwriter to serve as CUO, International, (ii) significantly contributed to improvement in underwriting strategies for international property treaty and property direct and facultative lines of business, (iii) actively contributed to the management of ongoing claims litigation and reinsurance claims, (iv) developed career strategies for key business unit leaders, and (v) continued to actively participate on earnings calls and other investor presentations.

Taking these factors into account and utilizing reasoned, subjective judgment, the Compensation Committee approved the following bonus payments for 2013:

Named Executive Officer	Performance Rating			2013	2013	2013
	Corporate (70%)	Individual (30%)	Weighted (100%)	Annual Incentive Award Earned (% of Target)	Maximum Annual Incentive Award (\$)	Actual Annual Incentive Award (\$)
Mr. Williams	2.67	4.00	3.07	153%	5,727,000	4,600,000
Mr. Irick	2.67	3.00	2.77	138%	880,000	610,000
Mr. Burke	2.67	3.00	2.77	138%	1,600,000	1,100,000
Mr. Kelbel	2.67	N/A	N/A	N/A	1,200,000	1,600,000
Mr. Schell	2.67	4.00	3.07	153%	1,200,000	920,000

Because Mr. Kelbel was not granted an annual equity award in 2013 or 2014 (see “*Annual Equity Awards*” below for additional information) and in recognition of his outstanding performance during 2013, the Compensation Committee exercised its discretion to approve an annual incentive award for Mr. Kelbel that exceeded the maximum threshold otherwise applicable to such award under the executive compensation program.

On March 11, 2014 the Compensation Committee also approved supplemental bonus awards to Mr. Williams, Mr. Irick, Mr. Burke and Mr. Schell in recognition of their outstanding individual performance during 2013, including Mr. Williams’ successful transition as CEO. The bonus awards reflect the positive overall impact these individuals had on the culture and performance of the Company during 2013, including the roles that each played in the reorganization of the Company’s senior management team. The bonus awards were granted in the form of time-vesting and performance-vesting restricted stock under the 2008 Flexible Incentive Plan, as follows:

Named Executive Officer	Time-Vesting Restricted Stock		Performance-Vesting Restricted Stock (at Target)	
	(\$)	(# of Shares)	(\$)	(# of Shares)
Mr. Williams	500,000	11,085	—	—
Mr. Irick	20,000	443	40,000	887
Mr. Burke	—	—	100,000	2,217
Mr. Schell	30,000	665	50,000	1,108

The terms and conditions of these time-vesting and performance-vesting restricted stock awards are consistent with the annual equity awards discussed on page 23.

### Annual Equity Awards

Annual equity awards are granted to our Named Executive Officers to assist them in developing a significant ownership stake in the Company and align their interests with the long-term interests of our stockholders. In March 2013, the Compensation Committee approved annual equity awards to NEOs of time-vesting restricted stock and performance-vesting restricted stock under the executive compensation program, as follows:

Named Executive Officer	Time-Vesting Restricted Stock		Performance-Vesting Restricted Stock (at Target)	
	(% of Base Salary)	(# of Shares)	(% of Base Salary)	(# of Shares)
Mr. Irick	—	—	20	% 2,676
Mr. Burke	—	—	20	% 4,865
Mr. Schell	20	% 3,649	20	% 3,649

Mr. Williams did not receive an award because of the Company's agreement (as set forth in the Company's additional proxy soliciting materials filed with the SEC on May 15, 2012) not to award Mr. Williams any additional equity prior to the end of 2013. Mr. Irick and Mr. Burke did not receive an award of time-vesting restricted stock because of significant equity awards received by each of them in 2012. Mr. Kelbel did not receive an award because the vesting period for any award would extend beyond the January 31, 2015 expiration of Mr. Kelbel's current employment agreement, at which time it is anticipated that he will retire.

### Nonqualified Deferred Compensation

We have adopted a nonqualified deferred compensation plan for Mr. Williams, pursuant to which he is entitled to the payment of deferred compensation. We believe the tax benefit from our deferring payment of a portion of compensation is valuable to Mr. Williams and assists us in meeting our retention goals. Paying a portion of base compensation as deferred compensation also ensures Mr. Williams' total compensation will be fully tax deductible. See "2013 Nonqualified Deferred Compensation Table" for detail.

[Back to Contents](#)

## **Perquisites**

Our current policy is that the costs of perquisites will constitute only a small percentage of each Named Executive Officer's total compensation. In general, the perquisites that an executive officer is eligible to receive are contained in such executive's employment agreement. In some instances, our Named Executive Officers were provided perquisites by their previous employers, and we offered comparable perquisites in order to attract these Named Executive Officers. Perquisites may include: extended medical benefits; payment of life and disability insurance premiums; personal travel on the corporate aircraft; payment of relocation expenses; payment of club dues; and physical exams.

## **Employee Benefits**

Our Named Executive Officers have the opportunity to participate in a number of benefit programs that are generally available to all of our U.S. or U.K. employees, as applicable. The Named Executive Officers are eligible to participate in Company-sponsored benefit programs on the same terms and conditions as those generally provided to other salaried employees; however, in some instances described below, the executives are entitled to additional benefits. These benefits include:

## **Health and Insurance Plans**

Basic health benefits, dental benefits, disability protection, life insurance, and similar programs are provided to make certain that access to healthcare and income protection is available to our employees and the employees' family members. The cost of Company-sponsored benefit programs is negotiated by us with the providers of such benefits. In general, the Named Executive Officers contribute to the cost of the benefits.

In addition, under the terms of their respective employment agreements, each of Mr. Kelbel and Mr. Schell and their respective qualified beneficiaries, where applicable, is entitled to extended medical benefits under our medical plan after termination of their respective employment. In the case of Mr. Kelbel and Mr. Schell, such benefits are at no cost and extend until he or his spouse becomes eligible for Medicare or the date his children would have ceased to be covered under our benefit plans had he remained an employee.

## **Retirement Benefits**

The Named Executive Officers are eligible to participate in our 401(k) Plan, which is a Company-wide, tax-qualified retirement plan. The intent of this plan is to provide all employees with a tax-advantaged savings opportunity for

retirement. We sponsor this plan to help employees at all levels save and accumulate assets for use during their retirement. As required, eligible pay under this plan is capped at Internal Revenue Code annual limits.

### Employee Stock Purchase Plan

The Named Executive Officers are eligible to participate in our Employee Stock Purchase Plan (“ESPP”), which is a Company-wide employee stock purchase plan under Section 423 of the Internal Revenue Code. The intent of the ESPP is to assist our employees in acquiring a stock ownership interest in the Company. Under the terms of the ESPP, all eligible employees are able to purchase shares of our common stock at a price equal to 85% of the closing price of our stock on the lower of the first day of the offering period and the last day of the offering period (subject to a maximum purchase of \$25,000 of common stock per year).

### Other Important Compensation Policies Affecting the Named Executive Officers

#### Financial Restatement

If the Company is required to restate its financial results and the Board determines that an executive officer engaged in fraud, willful misconduct or violation of Company policy that caused or otherwise contributed to the need to restate such financial results, the Board has the right to recoup from such executive officer (i) all incentive-based (including annual bonus) compensation and equity-based compensation received by the executive officer during the 12-month period following the first public issuance or filing with the SEC of the document containing such financial results and (ii) any profits realized by the executive officer from the sale of Company stock during the same 12-month period.

#### Stock Ownership Requirements

The Compensation Committee has adopted minimum ownership requirements for Company stock for its Named Executive Officers. Ownership targets have been established as a multiple of current annual base compensation for each of our Named Executive Officers based on their position with the Company as follows:

Named Executive Officer	Position	Current Level of HCC Stock Ownership		Deadline for Compliance
		Ownership Requirements	As a % of Base Salary <sup>(1)</sup>	
		Total Number of Shares <sup>(1)</sup>	As a % of Base Salary <sup>(1)</sup>	
		as a % of		

		<b>Base Salary</b>			
Mr. Williams	Chief Executive Officer	300%	59,550	139	% May 2016
Mr. Irick	Chief Financial Officer	150%	21,991	181	% August 2015
Mr. Burke	President	200%	15,830	72	% May 2017
Mr. Kelbel	Executive Vice President	100%	14,813	110	% February 2015
Mr. Schell	Executive Vice President	100%	80,385	486	% February 2015

*As of April 1, 2014 based on a closing stock price of \$45.35. Includes shares held outright, share equivalents held (1) in IRA, 401(k) or deferred compensation plan accounts, and the net after-tax value of time-vested restricted stock (using a 34% assumed tax rate).*

[Back to Contents](#)

Executives are expected to comply with the guidelines within five years of becoming subject to the ownership guidelines. As of the record date, Mr. Irick, Mr. Kelbel and Mr. Schell have complied with the ownership guidelines and Mr. Williams and Mr. Burke are on track to meet the ownership guidelines within the five-year compliance period.

## **Trading in Stock Derivatives**

Our Insider Trading Policy prohibits our employees, including Named Executive Officers, from purchasing or selling options on our common stock, engaging in short sales with respect to our common stock, or trading in puts, calls, straddles, equity swaps or other derivative securities that are directly linked to our common stock.

## **Tax Deductibility of the Named Executive Officers' Incentive and Equity Compensation**

Section 162(m) of the Internal Revenue Code generally disallows a tax deduction to a public company for compensation over \$1,000,000 paid to a corporation's chief executive officer and the three other most highly compensated executive officers, excluding the chief financial officer.

Section 162(m) further provides that qualifying performance-based compensation will not be subject to the deduction limit if certain requirements are met. We currently structure our discretionary annual incentive compensation for executive officers to comply with Section 162(m) through the 2008 Flexible Incentive Plan. Our current annual incentives satisfy Section 162(m)'s requirement that they be "payable solely on account of the attainment of one or more performance goals." Although we intend to structure grants under future stock award plans and cash incentive plans in a manner that complies with this section, we may forego all or some portion of a deduction to conform to our compensation goals.

In connection with the compensation of our executive officers, the Compensation Committee is aware of Section 162(m) as it relates to deductibility of qualifying compensation paid to executive officers. In addition, we are aware of Section 409A of the Internal Revenue Code and believe we should structure our compensation plans in ways to minimize the likelihood that our employees, including Named Executive Officers, have to pay the excise taxes set forth under Section 409A. If any provision of an employment agreement we have entered into would cause the Named Executive Officer to incur any additional tax under Section 409A or any Treasury Regulations or IRS guidance, we will attempt to reform such provision in a manner that maintains, to the extent possible, the original intent of the provision without violating Section 409A. In addition, the employment agreement of Mr. Kelbel requires us to reimburse him for any Section 409A excise taxes incurred by him.

## **Accounting Considerations**

The Compensation Committee also considers the accounting and cash flow implications of various forms of compensation. In its financial statements, the Company records salaries and non-equity incentive compensation as expenses in the amount paid, or to be paid, to the Named Executive Officers. Accounting rules also require the Company to record an expense in its financial statements for equity awards, even though equity awards are not paid as cash to employees. The accounting expense of equity awards to employees is calculated in accordance with FASB ASC Topic 718, Compensation — Stock Compensation. The Compensation Committee believes, however, that the many advantages of equity compensation, as discussed above, more than compensate for the non-cash accounting expense associated with such equity awards.

### **Change of Control Agreements**

Our executive officers' employment agreements provide for severance in the event of a change of control. Payments will only be made under these agreements if there is both a change of control and a termination of employment. This is discussed in more detail under the caption "*Employment Agreements and Potential Payments Upon Certain Events*" below. The Compensation Committee believes this benefit is required to offer competitive benefits to attract and retain highly qualified executives.

### **Compensation Committee Report**

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis contained in this Proxy Statement with management. Based upon such review, the related discussions and such other matters deemed relevant and appropriate to the Compensation Committee, the Compensation Committee has recommended to the Board of Directors that the Compensation Discussion and Analysis be included in HCC's Annual Report on Form 10-K for the year ended December 31, 2013 and in this Proxy Statement.

Submitted by the Compensation Committee:

Judy C. Bozeman, *Chairperson*  
Emmanuel T. Ballases  
Thomas M. Hamilton

*The Compensation Committee report does not constitute soliciting material, and shall not be deemed to be filed or incorporated by reference into any other filing under the Securities Act of 1933, or the Securities Exchange Act of 1934, except to the extent that the Company specifically incorporates the Compensation Committee report by reference therein.*

**HCC INSURANCE HOLDINGS, INC. - 2014 Proxy Statement 30**



[Back to Contents](#)**Compensation Tables****2013 Summary Compensation Table**

The following table summarizes compensation paid to or accrued on behalf of Named Executive Officers for the year ended December 31, 2013:

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$) <sup>(1)</sup>	Option Awards (\$) <sup>(1)</sup>	Non-equity Incentive Plan Compensation (\$) <sup>(2)</sup>	Nonqualified Deferred Compensation Earnings (\$)	All Other Compen (\$) <sup>(3)</sup>
Christopher J.B. Williams <sup>(4)</sup> Chief Executive Officer	2013	1,950,000 <sup>(5)</sup>	—	—	—	4,600,000	—	132,000
	2012	1,371,370	—	—	—	1,700,000	—	147,000
	2011	900,000	1,000,000	4,000,013	—	—	—	248,000
Brad T. Irick Executive Vice President and Chief Financial Officer	2013	550,000	—	98,704 <sup>(6)</sup>	—	610,000	—	13,000
	2012	550,000	—	—	—	750,000	—	13,000
	2011	425,000	—	550,013	—	550,000	—	3,100
William N. Burke <sup>(7)</sup> President and Chief Operating Officer	2013	1,000,000	—	179,448 <sup>(8)</sup>	—	1,100,000	—	66,000
	2012	591,214	—	750,011	809,590	725,000	—	6,700
Craig J. Kelbel Executive Vice President, Accident & Health	2013	750,000	—	—	—	1,600,000	—	17,000
	2012	715,500	—	—	—	1,200,000	—	17,000
	2011	612,000	—	—	—	880,000	—	17,000
Michael J. Schell Executive Vice President	2013	750,000	—	284,606 <sup>(9)</sup>	—	920,000	—	24,000

*Represents the aggregate grant date fair value of long-term equity incentive awards awarded in each respective year under the Company's 2008 Flexible Incentive Plan computed in accordance with FASB ASC Topic 718,*

*(1) Compensation — Stock Compensation. For a discussion of the assumptions used in calculating the fair value of our stock-based compensation, refer to Note 1, General Information and Significant Accounting and Reporting Policies — Stock-Based Compensation, and Note 11, Stock-Based Compensation, in the Notes to Consolidated Financial Statements contained in our Annual Report on Form 10-K for the year ended December 31, 2013.*

*(2) Consists of cash performance awards awarded under our 2008 Flexible Incentive Plan.*

*(3) See "All Other Compensation Table" for detail of amounts included in this column.*

*(4) Mr. Williams has served as our Chief Executive Officer since December 2012. He served as our President from May 2011 until December 2012.*

*(5)*

*Salary for Mr. Williams for 2013, 2012 and 2011 includes \$950,000, \$371,370 and \$233,333, respectively, in deferred compensation under the terms of Mr. Williams' employment agreement. See "2013 Nonqualified Deferred Compensation Table" for detail.*

*Consists of 2,676 shares of performance-vesting restricted stock awarded under our 2008 Flexible Incentive Plan.*

*(6) The maximum potential value of the performance-based restricted stock award, assuming the highest level of performance conditions is 5,352 shares (200% of target) or \$197,409 at the date of grant.*

*(7) Mr. Burke has served as our President and Chief Operating Officer since December 2012. He served as our Chief Operating Officer from May 2012 until December 2012.*

*Consists of 4,865 shares of performance-vesting restricted stock awarded under our 2008 Flexible Incentive Plan.*

*(8) The maximum potential value of the performance-vesting restricted stock award, assuming the highest level of performance conditions is 9,730 shares (200% of target) or \$358,895 at the date of grant.*

*Consists of 3,649 shares of time-vesting restricted stock and 3,649 shares of performance-vesting restricted stock*

*(9) awarded under our 2008 Flexible Incentive Plan. The maximum potential value of the performance-vesting restricted stock award, assuming the highest level of performance conditions is 7,298 shares (200% of target) or \$269,191 at the date of grant.*

[Back to Contents](#)**All Other Compensation Table**

The following supplemental table summarizes other compensation paid to our Named Executive Officers for the year ended December 31, 2013, which is included in the All Other Compensation column in the 2013 Summary Compensation Table:

<b>Name of Executive</b>	<b>Matching 401(k) Contributions (\$)</b>	<b>Life and Disability Premiums (\$)</b>	<b>Personal Use of Corporate Aircraft (\$)<sup>(1)</sup></b>	<b>Other (\$)<sup>(2)</sup></b>
Christopher J.B. Williams	10,200	8,075	113,894	—
Brad T. Irick	10,200	3,500	—	—
William N. Burke	—	8,795	57,211	—
Craig J. Kelbel	10,200	6,077	—	1,113
Michael J. Schell	10,200	14,084	—	—

*Represents the aggregate incremental cost for personal use of Company aircraft. The calculation (i) includes the variable costs incurred as a result of personal flight activity, including a portion of ongoing maintenance and repairs, aircraft fuel, satellite communications and any travel expenses for the flight crew and (ii) excludes (1) non-variable costs, such as hangar expense, exterior paint, interior refurbishment and regularly scheduled inspections, which would have been incurred regardless of whether there was any personal use of aircraft. This benefit is provided to Mr. Williams and Mr. Burke pursuant to the terms of their respective employment agreements.*

*Represents the total amount of other benefits provided, none of which individually exceeded the greater of \$25,000 (2) or 10% of the total amount of benefits for the Named Executive Officer. These other benefits included payment of club dues.*

[Back to Contents](#)**2013 Grants of Plan-Based Awards Table**

The following table summarizes awards granted to each of the Named Executive Officers during the year ended December 31, 2013 under our 2008 Flexible Incentive Plan:

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards Maximum (\$) <sup>(1)</sup>	Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Awards: Number of Shares of Stocks or Underlying Securities	All Other Awards: Number of Securities	Exercise or Base Price of Option Awards (\$/Sh)	Grant Date Fair Value of Stock and Option Awards (\$/Sh)
			Threshold	Target	Maximum				
Christopher J.B. Williams Cash Performance Award	N/A	5,727,000							
Brad T. Irick Cash Performance Award	N/A	1,431,800							
Performance-vesting RS Award <sup>(2)</sup> William N. Burke	3/14/2013		0	2,676	5,352			98,704	
Cash Performance Award	N/A	2,863,500							
Performance-vesting RS Award <sup>(2)</sup> Craig J. Kelbel	3/14/2013		0	4,865	9,730			179,448	
Cash Performance Award	N/A	1,718,100							
Michael J. Schell Cash Performance Award	N/A	1,431,800							
Performance-vesting RS Award <sup>(2)</sup>	3/14/2013		0	3,649	7,298			134,595	
Time-vesting RS Award <sup>(3)</sup>	3/14/2013					3,649		150,011	

(1) These amounts represent the potential maximum value of the 2013 cash performance awards granted pursuant to our 2008 FIP. The maximum amount of a cash performance award is based upon the Company's achievement of pretax income. For 2013, the maximum amounts, as a percentage of pretax income, were: Mr. Williams – 1.00%, Mr. Irick – 0.25%, Mr. Burke – 0.50%, Mr. Kelbel – 0.30%, and Mr. Schell – 0.25%. For 2013, our pretax income was \$572.7 million. The actual amounts of cash performance awards paid to plan participants for 2013 (as reported in

*the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table) were as follows:*

	(\$)
Mr. Williams	4,600,000
Mr. Irick	610,000
Mr. Burke	1,100,000
Mr. Kelbel	1,600,000
Mr. Schell	920,000

*On March 14, 2013, Mr. Irick, Mr. Burke and Mr. Schell received grants of performance-vesting restricted stock.*

*Between 0% and 200% of the shares of restricted stock will vest on March 14, 2016. Vesting is based equally upon (2) the Company's achievement of operating return on equity over a three-year period as compared to an internal target (the "ROE factor") and the Company's total shareholder return over the same three-year period as compared to the Company's peer group (the "TSR factor"), in each case according to the following schedule:*

<b>Operating ROE (ROE Factor)</b>	<b>% Vesting</b>	<b>TSR Rank (TSR Factor)</b>	<b>% Vesting</b>
< 8%	0.0%	1	100.0%
≥ 8% and < 10%	Interpolated	2	87.5%
10%	50.0%	3	75.0%
> 10% and < 12%	Interpolated	4	62.5%
≥ 12%	100.0%	5	50.0%
		6	37.5%
		7	25.0%
		8	12.5%
		9	0.0%
		10	0.0%

*Dividends will not be payable on the restricted stock during the vesting period.*

*(3) On March 14, 2013, Mr. Schell received a grant of time-vesting restricted stock. One-third of the shares of restricted stock vest on each of March 14, 2014, March 14, 2015 and March 14, 2016.*

[Back to Contents](#)**2013 Outstanding Equity Awards at Fiscal Year End Table**

The following table summarizes outstanding equity awards held by each of the Named Executive Officers as of December 31, 2013.

Name	Option Awards				Stock Awards			Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$) <sup>(1)</sup>	Option Expiration Date	Number of Shares of Stock or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock that Have Not Vested (\$)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	
Christopher J.B. Williams					31,056 <sup>(2)</sup>	1,432,924	93,168 <sup>(2)</sup>	4,298,772
Brad T. Irick		20,000 <sup>(3)</sup>	24.56	5/26/2016	10,000 <sup>(4)</sup> 20,439 <sup>(5)</sup>	461,400 943,055	2,676 <sup>(6)</sup>	123,471
William N. Burke	20,000	80,000 <sup>(7)</sup>	31.27	5/22/2022	23,985 <sup>(8)</sup>	1,106,668	4,865 <sup>(6)</sup>	224,471
Craig J. Kelbel					21,710 <sup>(9)</sup>	1,001,699		
Michael J. Schell					21,710 <sup>(9)</sup> 26,989 <sup>(10)</sup> 3,649 <sup>(11)</sup>	1,001,699 1,245,272 168,365	3,649 <sup>(6)</sup>	168,365

(1) The exercise price corresponds to our closing stock price on the grant date (the measurement date for accounting purposes).

(2) These shares vest on April 30, 2016.

(3) 10,000 of these options vest on each of May 26, 2014 and May 26, 2015.

(4) These shares vest on May 26, 2014.

- (5) *These shares vest on November 15, 2015.*
- (6) These shares vest on March 14, 2016.
- (7) *20,000 of these options vest on each of May 22, 2014, May 22, 2015, May 22, 2016 and May 22, 2017.*
- (8) These shares vest on May 22, 2016.
- (9) *These shares vest on January 4, 2015.*
- (10) These shares vest on November 16, 2014.
- (11) *One-third of these shares vest on each of March 14, 2014, March 14, 2015 and March 14, 2016.*

[Back to Contents](#)**2013 Option Exercises and Stock Vested Table**

The following table summarizes the exercise of options and the vesting of stock awards by each of our Named Executive Officers during the year ended December 31, 2013:

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$) <sup>(1)</sup>	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$) <sup>(2)</sup>
Christopher J.B. Williams	—	—	—	—
Brad T. Irick	10,000	212,534	—	—
William N. Burke	—	—	—	—
Craig J. Kelbel	—	—	15,855	731,550
Michael J. Schell	—	—	—	—

(1) *The value realized is calculated by multiplying the spread between the market price on the date of exercise and the exercise price of the option by the number of shares acquired on exercise.*

(2) *The value realized is calculated by multiplying the market price on the day of vesting by the number of shares vesting.*

**2013 Nonqualified Deferred Compensation Table**

The following table contains information concerning benefits received by each of the Named Executive Officers under nonqualified deferred compensation plans during the year ended December 31, 2013:

Name	Executive Contributions in Last FY (\$)	Company Contributions in Last FY (\$)	Aggregate Earnings in Last FY (\$) <sup>(1)</sup>	Aggregate Withdrawals/ Distributions (\$)	Aggregate Balance at Last FYE (\$)
Christopher J.B. Williams	950,000	—	34,731	—	1,604,693 <sup>(2)</sup>

*None of this amount is considered above-market earnings under SEC regulations. Earnings on deferred (1) compensation are deemed above-market only if the rate exceeds 120% of the applicable federal long-term rate, with compounding.*

(2) *Of this amount, \$604,703 was previously reported as compensation to Mr. Williams in prior years.*



Mr. Williams receives deferred compensation under his employment agreement. We have implemented a Nonqualified Deferred Compensation Plan for Mr. Williams under which this deferred compensation is paid. Mr. Williams remains eligible to participate in his plan for so long as he remains an employee of HCC. Under this plan, monthly contributions are credited to his account in an amount equal to one-twelfth of the annual deferred compensation under his employment agreement. The amount credited to his account will accrue earnings, which shall compound monthly, at his election, which may be changed once per quarter, at one of the following rates: the prime rate (3.25% for 2013), the rate of return on HCC common stock (25.93% for 2013), or the rate of return on the S&P 500 (32.39% for 2013). Payment of Mr. Williams' account balance will occur within 30 days of his separation from service with HCC (subject to a six-month delay if necessary in order to comply with Internal Revenue Code Section 409A) and will be payable to him (or in the event of his death, to his beneficiary) in a single lump sum. The plan is administered by our Compensation Committee. No separate trust or fund shall be created, and all benefits payable under the plan will be paid from HCC's general assets.

### **Employment Agreements and Potential Payments Upon Certain Events**

We have entered into employment agreements with our CEO, CFO and the other Named Executive Officers. Notwithstanding these employment agreements, each executive has the right to voluntarily terminate his employment at any time. The employment agreements set forth the general terms and conditions of each executive officer's employment and provide for certain severance benefits upon the occurrence of certain events. We do not maintain a separate severance plan for our Named Executive Officers. Severance benefits are limited to those set forth in the Named Executive Officer's employment agreement.

The following discussion (i) summarizes the material terms of each Named Executive Officer's employment agreement and (ii) sets forth in a tabular format the incremental compensation that would be payable to such Named Executive Officer in the event of his termination of employment under various scenarios, which we refer to as "termination events," including the Named Executive Officer's voluntary resignation or retirement, involuntary termination for "Cause," involuntary termination without "Cause," termination by the executive for "Good Reason," termination in connection with a "Change of Control," termination

Back to Contents

in the event of “Disability,” and termination in the event of death, where each of these defined terms has the meaning ascribed to it in the respective executive’s employment agreement. In accordance with applicable SEC rules, the following discussion assumes:

- that the termination event in question occurred on December 31, 2013, the last business day of 2013; and
- with respect to calculations based on our stock price, we used \$46.14, which was the reported closing price of our common stock on December 31, 2013.

The tables contained in this section do not include payments made to a Named Executive Officer with respect to contracts, agreements, plans or arrangements to the extent they do not discriminate in scope, terms or operation, in favor of our executive officers and that are available generally to all salaried employees, such as our 401(k) plan. The actual amounts that would be paid upon a Named Executive Officer’s termination of employment can only be determined at the time of such executive officer’s termination. Due to the number of factors that affect the nature and amount of any compensation or benefits provided upon the termination events, any actual amounts paid or distributed may be higher or lower than reported below. Factors that could affect these amounts include the timing during the year of any such event, our stock price at such time, the 90-day Treasury bill rate used to discount payments and the executive officer’s age and service.

Each Named Executive Officer is party to equity award agreements relating to options and/or restricted stock granted under our 2008 Flexible Incentive Plan. These agreements and plans may provide that a Named Executive Officer is entitled to additional consideration in the event of a termination event.

**Christopher J.B. Williams**

**General**

Pursuant to the terms of his employment agreement, effective May 1, 2011, Mr. Williams currently serves as our Chief Executive Officer. Mr. Williams’ employment agreement expires on May 1, 2016. During the term of his employment agreement, Mr. Williams receives an annual salary of \$1,950,000 (consisting of a base salary of \$1,000,000 and deferred compensation of \$950,000). Mr. Williams is eligible to receive annual incentive compensation under the 2008 Flexible Incentive Plan.

Mr. Williams is also entitled to certain other perquisites at our expense, including supplementary term life insurance of \$1,000,000, use of a Company-owned golf club membership, and personal travel on the corporate aircraft. Mr. Williams has agreed to certain provisions relating to non-competition (for two years post-termination), confidentiality, and non-solicitation of customers and employees (for two years post-termination) if his employment agreement is

terminated.

### Benefits upon the Occurrence of Certain Termination Events

In addition to the amounts listed below, Mr. Williams is entitled to all accrued compensation, unreimbursed expenses and other benefits through the date of termination in the event of his termination.

	Voluntary Resignation or Retirement	Involuntary Termination for Cause	Involuntary Termination by HCC without Cause	Termination by Executive for Good Reason <sup>(1)</sup>	Termination in Connection with Change of Control (without Cause or for Good Reason)	Termination in the Event of Disability	Termination in the Event of Death
Element	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Cash Severance Payment <sup>(2)</sup>	—	—	7,700,000	12,850,000	12,850,000	2,925,000	2,925,000
Bonus Payment <sup>(3)</sup>	—	—	—	—	—	4,600,000	4,600,000
Restricted Stock Awards <sup>(4)</sup>	—	—	1,432,924	1,432,924	5,731,695	3,701,587	3,701,587
<b>TOTAL</b>	<b>—</b>	<b>—</b>	<b>9,132,924</b>	<b>14,282,924</b>	<b>18,581,695</b>	<b>11,226,587</b>	<b>11,226,587</b>

(1) Good Reason includes Mr. Williams' termination or replacement as CEO, including after a Change of Control.

In the event of termination without Cause or termination for Good Reason, Mr. Williams will receive a discounted lump sum equal to (i) the amount of base salary and deferred compensation due for the greater of 12 months or the (2) remainder of the term of his employment agreement plus (ii) (a) the average of annual bonuses that were paid to Mr. Williams for the prior two years or (b) in the event of a termination for Good Reason, the aggregate of the base salary and bonus received by Mr. Williams for the two full calendar years prior to termination.

In the event of termination due to disability or death, Mr. Williams or his estate, as applicable, will receive a discounted lump sum equal to base salary and deferred compensation for the lesser of 18 months or the remaining term of the employment agreement. The values included in the table above relating to cash severance payments are the total amount, with no discount applied.

(3) In the event of termination due to disability or death, Mr. Williams or his estate, as applicable, is eligible to receive the bonus that would have been payable under the 2008 Flexible Incentive Plan for the year in which such death or disability occurred. The estimate of the potential bonus under the 2008 Flexible Incentive Plan that could be due to Mr. Williams is based on the actual bonus paid for 2013 assuming the Compensation Committee would not

*exercise its authority to reduce such bonus.*

*The acceleration of vesting of restricted stock, if any, is governed under the terms of the grant agreements for the restricted stock. In general, all restricted stock will vest upon a Change of Control (as defined in the 2008 Flexible Incentive Plan). In addition, the performance-vesting restricted stock will vest pro-rata for the portion of the (4) performance period in which Mr. Williams was employed in the case of his termination by death or disability. The time-vesting restricted stock will vest if Mr. Williams' employment terminates due to disability or death or for any reason other than Cause (as defined in the restricted stock grant agreement). Amounts in the table above represent the intrinsic value of unvested restricted stock as of December 31, 2013.*

**HCC INSURANCE HOLDINGS, INC. - 2014 Proxy Statement 36**

[Back to Contents](#)**Brad T. Irick****General**

Pursuant to the terms of his employment agreement, effective May 10, 2010, as amended December 28, 2011, Mr. Irick serves as Executive Vice President and Chief Financial Officer of HCC. His employment agreement expires on December 31, 2015. During 2013, Mr. Irick received an annual base salary of \$550,000. Mr. Irick is eligible to receive annual cash and/or equity bonuses at the discretion of our Compensation Committee. Mr. Irick is also entitled to certain perquisites, including Company-provided life insurance. If the employment agreement is terminated, Mr. Irick has agreed to certain provisions relating to non-competition (for 12 months post-termination for any reason), confidentiality, and non-solicitation of customers and employees (for 24 months post-termination for any reason).

**Benefits upon the Occurrence of Certain Termination Events**

In addition to the amounts listed below, Mr. Irick is entitled to all accrued compensation, unreimbursed expenses and other benefits through the date of termination in the event of his termination.

Element	Voluntary Resignation or Retirement (\$)	Involuntary Termination for Cause (\$)	Involuntary Termination by HCC without Cause (\$)	Termination by Executive for Good Reason (\$)	Termination in Connection with Change of Control (without Cause or for Good Reason) (\$) <sup>(1)</sup>	Termination in the Event of Disability (\$)	Termination in the Event of Death (\$)
Cash Severance Payment <sup>(2)</sup>	—	—	1,100,000	1,100,000	1,100,000	275,000	275,000
Bonus Payment <sup>(3)</sup>	—	—	—	—	—	610,000	610,000
Restricted Stock Awards <sup>(4)</sup>	—	—	1,435,323	—	1,527,926	1,435,323	1,435,323
Stock Option Awards <sup>(5)</sup>	—	—	431,600	431,600	431,600	431,600	431,600
<b>TOTAL</b>	<b>—</b>	<b>—</b>	<b>2,966,923</b>	<b>1,531,600</b>	<b>3,059,526</b>	<b>2,751,923</b>	<b>2,751,923</b>

<sup>(1)</sup> Includes a material change in the nature or status of Mr. Irick's duties within 12 months following a Change of Control.

<sup>(2)</sup> In the event of termination without Cause, termination for Good Reason, or termination in connection with a Change of Control, Mr. Irick will receive a discounted lump sum equal to the amount of base salary due for the

*remainder of the term of his employment agreement.*

*In the event of termination due to disability or death, Mr. Irick or his estate, as applicable, will receive an amount equal to six months of base salary. The values included in the table above relating to cash severance payments are the total amount, with no discount applied.*

(3) *In the event of termination due to disability or death, Mr. Irick or his estate, as applicable, is eligible to receive, at the CEO's discretion, a bonus payment for the year in which such death or disability occurred. The estimate of the potential bonus that could be due to Mr. Irick is based on the actual bonus paid for 2013 assuming the Compensation Committee would not exercise its authority to reduce such bonus.*

(4) *The acceleration of vesting of restricted stock, if any, is governed under the terms of the grant agreement for the restricted stock. In general, all restricted stock will vest upon a Change of Control (as defined in the 2008 Flexible Incentive Plan). The time-vesting restricted stock will vest if Mr. Irick's employment terminates due to disability or death or for any reason other than Cause (as defined in the restricted stock grant agreement). In addition, the performance-vesting restricted stock will vest pro-rata for the portion of the performance period in which Mr. Irick was employed in the case of his termination by death or disability or by the Company without Cause (as defined in the restricted stock agreement). Amounts in the table above represent the intrinsic value of unvested restricted stock as of December 31, 2013.*

(5) *The acceleration of vesting of stock options, if any, is governed under the terms of Mr. Irick's option agreement governing the grants. In general, all option grants will vest if Mr. Irick's employment is terminated in the event of disability or death. In addition, under Mr. Irick's option agreement, options will vest in the event of involuntary termination without Cause, termination for Good Reason, or termination in connection with a Change of Control. Amounts in the table above represent the intrinsic value of unvested options as of December 31, 2013.*

[Back to Contents](#)**William N. Burke****General**

Pursuant to the terms of his employment agreement, dated March 24, 2012, Mr. Burke currently serves as our President and Chief Operating Officer. Mr. Burke's employment agreement expires on March 24, 2016. During the term of his employment agreement, Mr. Burke receives an annual salary of \$1,000,000. Mr. Burke is eligible to receive annual incentive compensation under the 2008 Flexible Incentive Plan. Mr. Burke is also entitled to certain other perquisites at our expense, including supplementary term life insurance of \$1,000,000 and personal travel on the corporate aircraft. Mr. Burke has agreed to certain provisions relating to non-competition (for two years post-termination), confidentiality, and non-solicitation of customers and employees (for two years post-termination) if his employment agreement is terminated.

**Benefits upon the Occurrence of Certain Termination Events**

In addition to the amounts listed below, Mr. Burke is entitled to all accrued compensation, unreimbursed expenses and other benefits through the date of termination in the event of his termination.

Element	Voluntary Resignation or Retirement (\$)	Involuntary Termination for Cause (\$)	Involuntary Termination by HCC without Cause (\$)	Termination by Executive for Good Reason (\$) <sup>(1)</sup>	Termination of Control (without Cause or for Good Reason) (\$) <sup>(2)</sup>	Termination in the Event of Disability (\$)	Termination in the Event of Death (\$)
Cash Severance Payment <sup>(3)</sup>	—	—	3,141,111	6,053,611	2,228,611	1,500,000	1,500,000
Bonus Payment <sup>(4)</sup>	—	—	—	—	1,100,000	1,100,000	1,100,000
Restricted Stock Awards <sup>(5)</sup>	—	—	1,162,786	—	1,331,139	1,162,786	1,162,786
Stock Option Awards <sup>(6)</sup>	—	—	1,189,600	1,189,600	1,189,600	1,189,600	1,189,600
<b>TOTAL</b>	—	—	5,493,497	7,243,211	5,849,350	4,952,386	4,952,386

*(1) Good Reason includes Mr. Burke's termination or replacement as President, including after a Change of Control.*

(2) *Includes a material diminution in the nature or status of Mr. Burke's duties within 12 months following a Change of Control.*

(3) *In the event of termination without Cause or termination for Good Reason, Mr. Burke will receive a discounted lump sum equal to (i) the amount of base salary due for the remainder of the term of his employment agreement plus (ii) (a) the average of the annual bonuses paid to Mr. Burke for the prior two years or (b) in the event of termination or replacement as President, the aggregate of the base salary and bonus received by Mr. Burke for the two full calendar years prior to termination.*

*In the event of termination in connection with a Change of Control, Mr. Burke will receive a discounted lump sum equal to the amount of base salary due for the greater of (i) the remainder of the term of his employment agreement or (ii) twelve months.*

*In the event of termination due to disability or death, Mr. Burke or his estate, as applicable, will receive a discounted lump sum equal to base salary for the lesser of 18 months or the remaining term of the employment agreement. The values included in the table above relating to cash severance payments are the total amount, with no discount applied.*

(4) *In the event of termination for Good Reason in connection with a Change of Control or due to disability or death, Mr. Burke or his estate, as applicable, is eligible to receive, at the CEO's discretion, a bonus payment for the year in which such event occurred. The estimate of the potential bonus that could be due to Mr. Burke is based on the actual bonus paid for 2013 assuming the Compensation Committee would not exercise its authority to reduce such bonus.*

(5) *The acceleration of vesting of restricted stock, if any, is governed under the terms of the grant agreements for the restricted stock. In general, all restricted stock will vest upon a Change of Control (as defined in the 2008 Flexible Incentive Plan). The time-vesting restricted stock will vest if Mr. Burke's employment terminates due to disability or death or for any reason other than Cause (as defined in the restricted stock grant agreement). In addition, the performance-vesting restricted stock will vest pro-rata for the portion of the performance period in which Mr. Burke was employed in the case of his termination by death or disability or by the Company without Cause (as defined in the restricted stock agreement). Amounts in the table above represent the intrinsic value of unvested restricted stock as of December 31, 2013.*

(6) *The acceleration of vesting of stock options, if any, is governed under the terms of Mr. Burke's option agreement governing the grants. In general, all option grants will vest if Mr. Burke's employment is terminated in the event of disability or death. In addition, under Mr. Burke's option agreement, options will vest in the event of involuntary termination without Cause, termination for Good Reason, or termination in connection with a Change of Control. Amounts in the table above represent the intrinsic value of unvested options as of December 31, 2013.*



[Back to Contents](#)**Craig J. Kelbel****General**

Pursuant to the terms of his employment agreement, effective March 1, 2007, as amended on September 1, 2009 and March 30, 2012, Mr. Kelbel serves as Executive Vice President of HCC and President and Chief Executive Officer of HCC Life Insurance Company with oversight for our accident and health operations. His employment agreement expires on January 31, 2015. Mr. Kelbel receives an annual base salary of \$750,000. Mr. Kelbel is eligible to receive bonus compensation under the 2008 Flexible Incentive Plan. If Mr. Kelbel is not a participant under our 2008 Flexible Incentive Plan, he is eligible to receive annual cash and/or equity bonuses at the discretion of our Compensation Committee. Mr. Kelbel and his qualified beneficiaries are entitled to extended medical coverage after termination (other than voluntary resignation or retirement or for Cause) of his employment at Company expense. The benefits continue, in general, in the case of Mr. Kelbel and his spouse, until Mr. Kelbel or his spouse becomes eligible for Medicare, or, in the case of Mr. Kelbel's qualified beneficiaries, until the date such person would have ceased to be eligible for coverage under our group health plan had Mr. Kelbel remained an employee. Mr. Kelbel is also entitled to certain other perquisites, including use of a Company-owned golf club membership. The agreement provides that upon Mr. Kelbel's retirement or upon termination for any reason other than Cause, Mr. Kelbel will serve HCC as a consultant for a period equal to the number of whole years after January 1, 2002 in which Mr. Kelbel was a full-time employee of HCC and will receive an annual consulting fee of \$75,000. Mr. Kelbel has agreed to certain provisions relating to non-competition (for two years post-termination), confidentiality, and non-solicitation of customers and employees (for two years post-termination) if his employment agreement is terminated.

**Benefits upon the Occurrence of Certain Termination Events**

In addition to the amounts listed below, Mr. Kelbel is entitled to all accrued compensation, unreimbursed expenses, and other benefits through the date of termination in the event of his termination.

Element	Voluntary Resignation or Retirement (\$)	Involuntary Termination for Cause (\$)	Involuntary Termination by HCC without Cause (\$)	Termination by Executive for Good Reason (\$)	Termination in Connection with Change of Control (without Cause or for Good Reason) (\$) <sup>(1)</sup>	Termination in the Event of Disability (\$)	Termination in the Event of Death (\$)
Cash Severance Payment <sup>(2)</sup>	—	—	841,100	841,100	841,100	841,100	841,100

Consulting Fee Payment <sup>(3)</sup>	900,000	—	900,000	900,000	900,000	900,000	900,000
Bonus Payment <sup>(4)</sup>	—	—	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000
Continued Health Coverage <sup>(5)</sup>	—	—	199,087	199,087	199,087	199,087	140,085
Restricted Stock Awards <sup>(6)</sup>	—	—	1,001,669	—	1,001,669	1,001,669	1,001,669
TOTAL	900,000	—	4,541,856	3,540,187	4,541,856	4,541,856	4,482,854

(1) *Includes a material change in the nature or status of Mr. Kelbel's duties within 12 months following a Change of Control.*

(2) *In the event of termination without Cause, termination for Good Reason, or termination in connection with a Change of Control, Mr. Kelbel will receive a discounted lump sum equal to (i) the amount of base salary due for the remainder of the term of the employment agreement plus (ii) an amount, in lieu of benefits other than medical, equal to \$2,200 times the number of months remaining in the term.*

*In the event of termination due to death or disability, Mr. Kelbel or his estate, as applicable, will receive a discounted lump sum equal to (i) the amount of base salary due for the lesser of 18 months or the remainder of the term of the employment agreement, and (ii) an amount, in lieu of benefits other than medical, equal to \$2,200 times the lesser of 18 months or the number of months remaining in the term of the employment agreement. The values included in the table above relating to cash severance payments are the total amount, with no discount applied.*

(3) *In the event of termination without Cause, termination for Good Reason, or termination in connection with a Change of Control, Mr. Kelbel will receive the consulting fee that would have been earned had he provided consulting services for the entire consulting period. In addition, in the event of termination for any other reason than with Cause, although no payment will be due at termination, we have agreed to retain Mr. Kelbel as a consultant after the date of such termination for a period equal to the number of whole years between January 1, 2002 and the date of termination. The values included in the table above relating to consulting fee payments are the total amount, with no discount applied.*

(4) *In the event of termination without Cause, termination for Good Reason, termination in connection with a Change of Control, or termination due to death or disability, Mr. Kelbel or his estate, as applicable, will receive any bonus that would have been payable under the 2008 Flexible Incentive Plan. The estimate of the potential bonus under the 2008 Flexible Incentive Plan that could be due to Mr. Kelbel is based on the actual bonus paid for 2013 assuming the Compensation Committee would not exercise its authority to reduce such bonus.*

(5) *In the event of termination for any reason other than voluntary termination by Mr. Kelbel or termination for Cause, Mr. Kelbel and/or his qualified beneficiaries are entitled to receive continued health coverage through COBRA at Company expense for as long as such coverage is available and thereafter shall receive reimbursement for a comparable individual policy or for coverage through an employer plan for a period commencing on the date COBRA coverage ends and ending on, (i) in the case of Mr. Kelbel or his spouse, the dates he or she becomes eligible for Medicare coverage or, (ii) in the case of Mr. Kelbel's qualified beneficiaries, the dates they would have ceased to be eligible for coverage under our health plans had Mr. Kelbel remained an employee. The following assumptions have been used to calculate the value of the expected benefits: coverage is provided for health care premiums for Mr. Kelbel and his spouse until Mr. Kelbel becomes eligible for Medicare, initial average annual cost of coverage of \$15,712 for two adults or \$8,178 for individual coverage, and 4.48% annual health insurance premium trend.*

(6) *The acceleration of vesting of restricted stock, if any, is governed under the terms of the grant agreements for the restricted stock. In general, all restricted stock will vest if Mr. Kelbel's employment terminates due to disability or death or by the Company for any reason other than Cause (as defined in the restricted stock grant agreement), or*

*upon a Change of Control (as defined in the 2008 Flexible Incentive Plan). Amounts in the table above represent the intrinsic value of unvested restricted stock as of December 31, 2013.*

[Back to Contents](#)  
**Michael J. Schell**

## General

Pursuant to the terms of his employment agreement, effective June 1, 2007 and amended on December 19, 2008, December 1, 2010 and May 22, 2013, Mr. Schell serves as Executive Vice President of HCC, with oversight for a portion of our U.S. property and casualty business, as well as all of our U.S. and international professional liability and international operations. His employment agreement expires on December 31, 2016. Mr. Schell receives an annual base salary of \$750,000. Mr. Schell is eligible to receive bonus compensation under the 2008 Flexible Incentive Plan. If Mr. Schell is not a participant under our 2008 Flexible Incentive Plan, he is eligible to receive annual cash and/or equity bonuses at the discretion of our Compensation Committee. Mr. Schell and his qualified beneficiaries are entitled to extended medical coverage after termination (other than voluntary resignation or retirement or for Cause) of Mr. Schell's employment. These extended medical benefits are to be provided at Company expense. The benefits continue, in general, in the case of Mr. Schell and his spouse, until Mr. Schell or his spouse becomes eligible for Medicare, or, in the case of Mr. Schell's qualified beneficiaries, until the date such person would have ceased to be eligible for coverage under our group health plan had Mr. Schell remained an employee. Mr. Schell has agreed to certain provisions relating to non-competition (for two years post-termination), confidentiality and non-solicitation of customers and employees (for two years post-termination) if his employment agreement is terminated.

## Benefits upon the Occurrence of Certain Termination Events

In addition to the amounts listed below, Mr. Schell is entitled to all accrued compensation, unreimbursed expenses, and other benefits through the date of termination in the event of his termination.

Element	Voluntary Resignation or Retirement (\$)	Involuntary Termination for Cause (\$)	Involuntary Termination by HCC without Cause (\$)	Termination by Executive for Good Reason (\$)	Termination in Connection with Change of Control (without Cause (\$) <sup>(1)</sup>	Termination in the Event of Disability (\$)	Termination in the Event of Death (\$)
Cash Severance Payment <sup>(2)</sup>	—	—	2,307,600	2,307,600	2,307,600	1,153,800	1,153,800
Bonus Payment <sup>(3)</sup>	—	—	920,000	920,000	920,000	920,000	920,000
	—	—	105,497	105,497	105,497	105,497	53,667

Continued Health Coverage<sup>(4)</sup>

Restricted Stock Awards <sup>(5)</sup>	—	—	2,457,428	—	2,583,702	2,457,428	2,457,428
TOTAL	—	—	5,790,525	3,333,097	5,916,799	4,636,725	4,584,895

(1) *Includes a material change in the nature or status of Mr. Schell's duties within 12 months following a Change of Control.*

(2) *In the event of termination without Cause, termination for Good Reason, or termination in connection with a Change of Control, Mr. Schell will receive a discounted lump sum equal to (i) the amount of base salary due for the remainder of the term of the employment agreement plus (ii) an amount, in lieu of benefits other than medical, equal to \$1,600 times the number of months remaining in the term.*

*In the event of termination due to death or disability, Mr. Schell or his estate, as applicable, will receive a discounted lump sum equal to (i) the amount of base salary due for the lesser of 18 months or the remainder of the term of the employment agreement, and (ii) an amount, in lieu of benefits other than medical, equal to \$1,600 times the lesser of 18 months or the number of months remaining in the term of the employment agreement.*

*The values included in the table above relating to cash severance payments are the total amount, with no discount applied.*

(3) *In the event of termination without Cause, termination for Good Reason, termination in connection with a Change of Control, or termination due to death or disability, Mr. Schell or his estate, as applicable, will receive any bonus that would have been payable under the 2008 Flexible Incentive Plan. The estimate of the potential bonus under the 2008 Flexible Incentive Plan that could be due to Mr. Schell is based on the actual bonus paid for 2013 assuming the Compensation Committee would not exercise its authority to reduce such bonus.*

(5) *In the event of termination for any reason other than voluntary termination by Mr. Schell or termination for Cause, Mr. Schell and/or his qualified beneficiaries are entitled to receive continued health coverage through COBRA at Company expense for as long as such coverage is available and thereafter shall receive reimbursement for a comparable individual policy or for coverage through an employer plan for a period commencing on the date COBRA coverage ends and ending on, (i) in the case of Mr. Schell or his spouse, the dates he or she becomes eligible for Medicare coverage or, (ii) in the case of Mr. Schell's qualified beneficiaries, the dates they would have ceased to be eligible for coverage under our health plans had Mr. Schell remained an employee. The following assumptions have been used to calculate the value of the expected benefits: coverage is provided for health care premiums for Mr. Schell and his spouse until Mr. Schell becomes eligible for Medicare, initial average annual cost of coverage of \$15,712 for two adults or \$8,178 for individual coverage, and 4.48% annual health insurance premium trend.*

(6) *The acceleration of vesting of restricted stock, if any, is governed under the terms of the grant agreements for the restricted stock. In general, all restricted stock will vest upon a Change of Control (as defined in the 2008 Flexible Incentive Plan). The time-vesting restricted stock will vest if Mr. Schell's employment terminates due to disability or death or for any reason other than Cause (as defined in the restricted stock grant agreement). In addition, the performance-vesting restricted stock will vest pro-rata for the portion of the performance period in which Mr. Schell was employed in the case of his termination by death or disability or by the Company without Cause (as defined in the restricted stock agreement). Amounts in the table above represent the intrinsic value of unvested restricted stock as of December 31, 2013.*



[Back to Contents](#)

## AUDIT COMMITTEE REPORT

The Audit Committee is composed of Dr. Flagg (Chairperson), Mr. Duer and Mr. Thomas. The Board has affirmatively determined that each member of the Audit Committee is (i) “independent” and “financially literate”, as such terms are defined in the listing standards of the NYSE and (ii) an “audit committee financial expert” as described in Item 407(d)(5)(ii) of Regulation S-K. More information about each member of the audit committee can be found in the biographies set forth in “*Information Regarding Nominees for Director*” on pages 3-5.

The Audit Committee acts pursuant to a written charter adopted by the Board. A copy of the charter is available on HCC’s website at <http://www.sn1.com/IRWeblinkX/committeechart.aspx?iid=103548>. Under its charter, the Audit Committee is responsible for overseeing HCC’s accounting and financial reporting processes and audits of HCC’s financial statements. The Audit Committee has the sole responsibility for the appointment and retention of HCC’s independent registered public accounting firm and the approval of all audit and other engagement fees. Among other duties, the Audit Committee also oversees:

- HCC’s systems of internal control over financial reporting;
- HCC’s compliance with legal and regulatory requirements;
- The performance of HCC’s independent registered public accounting firm;
- HCC’s internal audit function; and
- HCC’s guidelines and policies with respect to risk assessment and risk management in conjunction with the Enterprise Risk Oversight Committee of the Board.

The Audit Committee has established procedures for the receipt, retention and treatment, on a confidential basis, of any complaints or allegations of improper conduct with regard to HCC’s accounting, internal control or audit practices. Reports of such matters can be made via telephone at 1-800-826-6762.

The Audit Committee meets periodically with management, the internal auditors and the independent registered public accounting firm regarding accounting policies and procedures, audit results and internal accounting controls. The internal auditors and the independent registered public accounting firm have free access to the Audit Committee, without management’s presence, to discuss the scope and results of their audit work.

HCC’s management is primarily responsible for its consolidated financial statements and the quality and integrity of the reporting process, including establishing and maintaining systems of internal control over financial reporting and assessing the effectiveness of those controls. The independent registered public accounting firm PricewaterhouseCoopers LLP (“PwC”) is responsible for auditing those financial statements and for expressing an

opinion on the conformity of the consolidated financial statements with accounting principles generally accepted in the United States of America and on whether HCC maintained effective internal control over financial reporting.

In fulfilling its oversight responsibilities, the Audit Committee has reviewed and discussed the audited consolidated financial statements for the year ended December 31, 2013 and management's report of the effectiveness of HCC's system of internal control over financial reporting with HCC's management and representatives of PwC. The Audit Committee discussed with PwC the matters required to be discussed by PwC with the Audit Committee under the rules adopted by the Public Company Accounting Oversight Board ("PCAOB"). In addition, the Audit Committee discussed with PwC its independence from HCC and HCC's management, and has received the written disclosures and the letter from PwC required by applicable requirements of the PCAOB regarding PwC's communications with the Audit Committee concerning independence. The Audit Committee has also considered the compatibility of non-audit services, primarily tax activities, provided by PwC with its independence.

PwC audited the financial records of HCC and its subsidiaries for the year ended December 31, 2013 and has served as HCC's independent registered public accounting firm since 1987. The Audit Committee annually reviews PwC's independence and performance in connection with the committee's determination whether to retain PwC or engage another firm as our independent registered public accounting firm. In conducting this assessment, the Audit Committee considers, among other things:

- PwC's past and present performance on HCC's audit, including the results of an internal survey of PwC's service;
- External data relating to audit quality and performance, including recent PCAOB reports on PwC and its peers;
- PwC's tenure and its familiarity with HCC's global operations and accounting policies and practices; and
- PwC's independence from HCC and HCC's management, as described above.

Based on this assessment, the Audit Committee believes that PwC is independent and that it is in the best interests of HCC and its shareholders to retain PwC as its independent registered public accounting firm. Representatives of PwC are expected to be present at the 2014 Annual Meeting of Stockholders and will have an opportunity to make a statement if they so desire and will be available to respond to appropriate questions.

In reliance on its review of the audited consolidated financial statements, the review of the report of management on the effectiveness of HCC's internal control over financial reporting, the discussions referred to above and the receipt of the written disclosures referred to above, the Audit Committee has recommended to the Board that the audited consolidated financial statements be included in HCC's Annual Report on Form 10-K for the year ended December 31, 2013, for filing with the SEC.

Submitted by the Audit Committee:



James C. Flagg, Ph.D., *Chairperson*

Walter M. Duer

J. Mikesell Thomas

*The Audit Committee report does not constitute soliciting material, and shall not be deemed to be filed or incorporated by reference into any other filing under the Securities Act of 1933, or the Securities Exchange Act of 1934, except to the extent that the Company specifically incorporates the Audit Committee report by reference therein.*

**HCC INSURANCE HOLDINGS, INC. - 2014 Proxy Statement 41**

[Back to Contents](#)**STOCK OWNERSHIP INFORMATION****Principal Stockholder and Beneficial Ownership**

The following table sets forth certain information regarding the beneficial ownership of our common stock as of the record date by (a) each of our Named Executive Officers, (b) each of our directors and director nominees and (c) all of our directors and executive officers as a group, and (d) each person known to own beneficially more than 5% of our common stock.

The number of shares and percentage of beneficial ownership set forth below are based on shares of our common stock issued and outstanding. As of April 1, 2014, the number of shares of common stock outstanding was 100,074,258.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership <sup>(2)</sup>	Percent of Common Stock Outstanding <sup>(3)</sup>
<b>Directors, Director Nominees, and Named Executive Officers<sup>(1)</sup></b>		
Emmanuel T. Ballases	7,127	*
Judy C. Bozeman	— (4)	*
Frank J. Bramanti	339,982 (5)	*
William N. Burke	63,985 (6)	*
Walter M. Duer	23,260.48 (7)	*
James C. Flagg, Ph.D.	15,254	*
Thomas M. Hamilton	4,000 (8)	*
Leslie S. Heisz	— (9)	*
Brad T. Irick	43,321 (10)	*
Craig J. Kelbel	22,195	*
John N. Molbeck, Jr.	24,381	*
Susan Rivera	—	*
Hans D. Rohlf	— (11)	*
Robert A. Rosholt	39,844	*
Michael J. Schell	99,127	*
J. Mikesell Thomas	4,427	*
Christopher J.B. Williams	174,584	*
All directors and executive officers as a group (20 persons)	1,115,722.48	1.1 %
<b>Other 5% Beneficial Owners</b>		
T. Rowe Price Associates, Inc. 100 E. Pratt Street Baltimore, MD 21202	7,837,530 (12)	7.8 %
The Vanguard Group 100 Vanguard Blvd. Malvern, PA 19355	6,274,720 (13)	6.3 %

Eaton Vance Management 2 International Place Boston, MA 02110	6,139,097	(14) 6.1	%
BlackRock, Inc. 40 East 52 <sup>nd</sup> Street New York, NY 10022	6,047,765	(15) 6.0	%

\* *Less than 1%.*

(1) *The address for the directors, director nominees and Named Executive Officers is 13403 Northwest Freeway, Houston, TX 77040-6094.*

(2) *Directors and executive officers have sole voting and investment powers of the shares shown unless otherwise indicated.*

(3) *The calculation of this percentage assumes for each person:*

- *100,074,258 shares of common stock are issued and outstanding as of April 1, 2014 plus, as to that person only, such number of shares that may be acquired by that person as a result of the following two bullet points:*

- *The acquisition by such person of all shares that may be acquired upon the exercise of options to purchase shares that have vested or will vest by May 31, 2014; and*

- *The acquisition by such person of all shares that may be acquired upon the vesting of restricted stock between April 1, 2014 and May 31, 2014.*

(4) *Does not include 12,122.57 shares of common stock that Ms. Bozeman has elected to defer under the Director DCP.*

(5) *Includes 942 shares owned by Mr. Bramati's children, of which Mr. Bramanti disclaims beneficial ownership.*

(6) *Includes 40,000 shares that Mr. Burke has the right to acquire upon the exercise of options that have vested or will vest by May 31, 2014.*

(7) *Includes 2,006.48 shares owned by a family limited partnership.*

Back to Contents

- (8) *Does not include 16,429.66 shares of common stock that Mr. Hamilton has elected to defer under the Director DCP.*
- (9) *Does not include 8,702.22 shares of common stock that Ms. Heisz has elected to defer under the Director DCP.*
- (10) *Includes 10,000 shares that Mr. Irick has the right to acquire upon the exercise of options that have vested or will vest by May 31, 2014.*
- (11) *Does not include 923.56 shares of common stock that Mr. Rohlf has elected to defer under the Director DCP.*

*Based on a review of a Schedule 13G report filed on February 11, 2014, T. Rowe Price Associates, Inc. beneficially owned 7,837,530 shares as of December 31, 2013 with sole voting power as to 1,782,790 shares, shared voting power as to zero shares, sole dispositive power as to 7,837,530 shares and shared dispositive power as to zero shares. T. Rowe Price Associates, Inc. states that the securities are owned by various individual*

(12) *and institutional investors, which T. Rowe Price Associates, Inc. serves as an investment advisor with power to direct investments and/or sole power to vote the securities. For purposes of the reporting requirements of the Securities Exchange Act of 1934, T. Rowe Price Associates, Inc. is deemed to be a beneficial owner of such securities; however, T. Rowe Price Associates, Inc. expressly disclaims that it is, in fact, the beneficial owner of such securities.*

*Based on a review of a Schedule 13G report filed on February 11, 2014, The Vanguard Group beneficially owned*

(13) *6,274,720 shares as of December 31, 2013 with sole voting power as to 63,501 shares, shared voting power as to zero shares, sole dispositive power as to 6,218,219 shares and shared dispositive power as to 56,501 shares.*

*Based on a review of a Schedule 13G/A report filed on January 27, 2014, Eaton Vance Management beneficially*

(14) *owned 6,139,097 shares as of December 31, 2013 with sole voting power as to 6,139,097 shares, shared voting power as to zero shares, sole dispositive power as to 6,139,097 shares and shared dispositive power as to zero shares.*

*Based on a review of a Schedule 13G/A report filed on January 29, 2014, BlackRock, Inc. beneficially owned*

(15) *6,047,765 shares as of December 31, 2013 with sole voting power as to 5,643,532 shares, shared voting power as to zero shares, sole dispositive power as to 6,047,765 shares and shared dispositive power as to zero shares. The Schedule 13G/A states that various persons have the right to receive, or power to direct the receipt of, dividends from or the proceeds from the sale of our common stock, but that no one person's interest in our common stock is more than 5% of the total outstanding.*

## **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act requires our directors and executive officers, as defined under the Exchange Act, and persons who own more than 10% of a registered class of our equity securities to file initial reports of ownership and changes in ownership with the SEC. Such executive officers, directors and stockholders are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file. Based solely upon a review of the copies of such forms furnished to us and written representations from our directors and executive officers, all persons subject to the reporting requirements of Section 16(a) filed all required reports on a timely basis in 2013.

## **OTHER BUSINESS**

The Board of Directors has no knowledge of any other matter to be submitted at the 2014 Annual Meeting. If any other matter shall properly come before the annual meeting, the persons named in this Proxy Statement will have discretionary authority to vote the shares thereby represented in accordance with their best judgment.

## **STOCKHOLDER PROPOSALS**

Any stockholder proposal intended to be presented for consideration at the 2015 Annual Meeting of Stockholders and to be included in our Proxy Statement for such meeting must be in proper form and received by our Secretary at HCC's principal executive offices by the close of business on December 11, 2014. We recommend that a proponent submit any proposal by Certified Mail, Return Receipt Requested and that all proposals should be sent to the attention of the Secretary.

Stockholder proposals submitted outside of the procedure set forth above, which will not be included in our Proxy Statement, including nominations for directors, must be mailed to HCC Insurance Holdings, Inc., 13403 Northwest Freeway, Houston, Texas 77040-6094, ATTN: Secretary, and must be received by the Secretary no earlier than December 11, 2014 and no later than January 12, 2015. If the proposal is received after that date, our proxy for the 2015 Annual Meeting of Stockholders may confer discretionary authority to vote on such matter without any discussion of such matter in the proxy statement for the 2015 Annual Meeting. With respect to the nomination of directors, refer to "*Candidates for the Board — Stockholder Recommendations*," which requirements will also apply.

Nothing in this section shall be deemed to require us to

- permit presentation of a stockholder proposal; or
- include in our proxy materials relating to our 2015 Annual Meeting any stockholder proposal

that does not meet all of the requirements for such presentation or inclusion contained in our Bylaws and/or state and federal securities laws and regulations in effect at that time.

[Back to Contents](#)

## HOUSEHOLDING

The SEC allows us to deliver a single proxy statement and annual report to an address shared by two or more of our stockholders. This delivery method, referred to as “householding,” can result in significant cost savings for us. In order to take advantage of this opportunity, we, and banks and brokerage firms that hold your shares, have delivered only one proxy statement and annual report to multiple stockholders who share an address unless one or more of the stockholders has provided contrary instructions. We will deliver promptly, upon written or oral request, a separate copy of the proxy statement and annual report to a stockholder at a shared address to which a single copy of the documents was delivered. A stockholder who wishes to receive a separate copy of the proxy statement and annual report, now or in the future, may obtain one, without charge, by addressing a request to HCC Insurance Holdings, Inc., 13403 Northwest Freeway, Houston, Texas 77040-6094, ATTN: Investor Relations. You may also obtain a copy of the proxy statement and annual report under the Financials portion of the Investors section on our website at [www.hcc.com](http://www.hcc.com). Stockholders of record sharing an address who are receiving multiple copies of proxy materials and annual reports and wish to receive a single copy of such materials in the future should submit their request by contacting us in the same manner. If you are the beneficial owner, but not the record holder, of the Company’s shares and wish to receive only one copy of the proxy statement and annual report in the future, you will need to contact your broker, bank or other nominee to request that only a single copy of each document be mailed to all stockholders at the shared address in the future.

## FORM 10-K

We will furnish without charge to each person whose proxy is being solicited, upon request of any such person, a copy of our Annual Report on Form 10-K for the year ended December 31, 2013, as filed with the SEC, including the consolidated financial statements and schedules thereto, but not the exhibits. Requests for copies of such report should be directed to Investor Relations, HCC Insurance Holdings, Inc., 13403 Northwest Freeway, Houston, Texas 77040-6094. Copies of any exhibit to the Form 10-K will be forwarded upon receipt of a written request so addressed.

For the date, time and location of the 2014 Annual Meeting and an identification of the matters to be voted upon at the 2014 Annual Meeting, please see the “*Notice of Annual Meeting of Stockholders*.” For the Board’s recommendations regarding those matters, please refer to “*Proposal Number 1 — Election of Directors*,” “*Proposal Number 2 — Advisory Vote on Executive Compensation*,” and “*Proposal Number 3 — Ratification of Our Independent Registered Public Accounting Firm for 2014*.”

**EACH STOCKHOLDER WHO DOES NOT EXPECT TO ATTEND THE ANNUAL MEETING OF STOCKHOLDERS IN PERSON IS URGED TO EXECUTE THE PROXY CARD AND RETURN IT PROMPTLY IN THE ENCLOSED ENVELOPE OR SUBMIT THE PROXY BY TELEPHONE, MOBILE DEVICE OR INTERNET. NO POSTAGE IS NECESSARY IF MAILED IN THE UNITED STATES.**

April 10, 2014

By Order of the Board of Directors,

**Randy D. Rinicella**

*Senior Vice President, General Counsel and Secretary*

***IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON MAY 21, 2014***

*The Company's 2014 Notice of Annual Meeting and Proxy Statement, 2013 Annual Report and other proxy materials are available under the "Investors" tab on our website at [www.hcc.com](http://www.hcc.com).*

**HCC INSURANCE HOLDINGS, INC. - 2014 Proxy Statement 44**

[Back to Contents](#)



[Back to Contents](#)