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**MS&AD**

INSURANCE GROUP

## **Acquisition of First Capital Insurance, Singapore's Commercial Property and Casualty Insurer**

### **Global Partnership Between Mitsui Sumitomo Insurance and Fairfax**

**August 24, 2017**

MS&AD Insurance Group Holdings, Inc.

Good, evening everyone.

My name is Tamaki Kawate, and I am the Managing Executive Officer in charge of the International Business of Mitsui Sumitomo Insurance.

Thank you very much for taking the time today to attend this briefing, which has been held at short notice. It concerns our agreement to acquire First Capital Insurance Limited, a leading commercial property and casualty insurer based in Singapore, and our entry into a global partnership with Fairfax Financial Holdings, which is the parent company of First Capital Insurance.

In this conference call, I will explain the background, the strategic significance for the MS&AD Insurance Group, and the expected effects regarding the acquisition of First Capital, Singapore's largest property and casualty insurer, and our entry into a global partnership with Fairfax.

First Capital is a company we intended to conduct business together with in the future by all means, as part of the MS&AD Insurance Group's long-term business development in Asia, and we are very happy to be able to make this announcement to everyone on this occasion.

I would now like to begin my presentation.



## MS&AD Group Overview

### Holding company

**MS&AD** MS&AD Insurance Group Holdings, Inc.

### Domestic Non-Life

**MS&AD** Mitsui Sumitomo Insurance 

**MS&AD** Aioi Nissay Dowa Insurance 

**MS&AD** Mitsui Direct General Insurance 

### International

Overseas Subsidiaries

### Domestic Life

**MS&AD** Mitsui Sumitomo Aioi Life Insurance 

**MS&AD** Mitsui Sumitomo Primary Life Insurance 

Financial Services

Risk-Related Services

MS&AD Insurance Group Holdings, Inc.

**Abbreviations of company names used in this presentation.**

- MS&AD Holdings : MS&AD Insurance Group Holdings, Inc.
- MS&AD : MS&AD Insurance Group
- MSI : Mitsui Sumitomo Insurance Co., Ltd.
- Aioi : Aioi Insurance Co., Ltd.
- NDI : Nissay Dowa General Insurance Co., Ltd.
- ADI : Aioi Nissay Dowa Insurance Co., Ltd.
- Mitsui Direct General : Mitsui Direct General Insurance Co., Ltd.
- MSI Kirameki Life : Mitsui Sumitomo Kirameki Life Insurance Co., Ltd.
- Aioi Life : Aioi Life Insurance Co., Ltd.
- MSI Aioi Life : Mitsui Sumitomo Aioi Life Insurance Co., Ltd.
- MSI Primary Life : Mitsui Sumitomo Primary Life Insurance Co., Ltd.

**Notice relating to Forward-looking Statements etc.****Important Information**

This presentation has been prepared, in any jurisdiction, for the purpose of publicly announcing the acquisition of shares by Mitsui Sumitomo Insurance Company, Limited ("MSI"), a subsidiary of MS&AD Insurance Group Holdings, Inc. ("MS&AD Holdings", MS&AD Holdings and MSI collectively, "MS&AD") which results in the change of subsidiary of MSI, and not for the purpose of soliciting investment or engaging in any other similar activities within or outside Japan.

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**Forward-looking Statements**

This presentation contains forward-looking statements. These forward-looking statements are based on MS&AD's current assumptions, expectations and beliefs in light of the information currently possessed by it and involve known and unknown risks, uncertainties and other factors. Such risks, uncertainties and other factors may cause MS&AD's actual results, financial position or cash flows to be materially different from any future results, financial position or cash flows expressed or implied by these forward-looking statements. These risks, uncertainties and other factors include those contained in the MS&AD's latest Annual Securities Report and Quarterly Securities Report etc., and MS&AD undertakes no obligation to publicly update or revise any forward-looking statements.

### Rationale for the Acquisition of First Capital

#### **(1) Enhance profitability and realize further growth in Singapore**

- Become a No.1 insurer in Singapore
- Expand underwriting portfolio of local commercial risks in the ASEAN region

#### **(2) Further strengthen our leading position in the ASEAN region**

- Secure our No.1 position in the ASEAN region
- Achieve growth synergies across the ASEAN region

### Global Partnership with Fairfax

- Enhance further growth of international business by forming an alliance with Fairfax, a global insurance and financial group with a presence in more than 30 countries, especially with a great presence in North America and the Lloyd's market.

Please look at page 3.

Based on the medium-term management plan "Next Challenge 2017," the MS&AD Group is endeavoring to enhance its growth, profitability and capital efficiency, founded on the premise of ensuring financial soundness, while focusing on ERM management.

As part of this, we have established our "Risk Appetite Policy." In this policy, our international business is positioned as a growth area, and we aim to diversify our business portfolio, which is reliant on the Japanese market, while further enhancing risk and return through the diversification of underwriting risks across geographies and lines of business. We have promoted various initiatives based on this policy.

Our acquisition of First Capital and entry into a partnership with Fairfax Financial Holdings on this occasion is part of such initiatives.

The MS&AD Insurance Group advocates "international business accounting for 50% of earnings" as a medium- to long-term target, and this acquisition marks one step toward the realization of this goal.

In addition, we have stated that we would establish a top-three position in the major insurance markets in the ASEAN region, and we will establish a top position in Singapore through this acquisition.

Singapore has developed a highly transparent market due to appropriate supervision by the regulatory authorities, and as it is the center of the East Asian insurance market where risks in surrounding countries are accumulated, we expect to capture further business opportunities by expanding our presence there.

We believe this agreement has strategic significance in three areas:

- (1) the enhancement of growth and profitability in the Singapore market via the acquisition of First Capital;
- (2) the maintenance and reinforcement of our leading position in the ASEAN region; and
- (3) the realization of further global growth through our alliance with Fairfax.

Later, I will explain this in a little more detail.

## 1. Overview of the Transaction

<b>Proposed Transaction</b>	MSI to acquire 97.7% of First Capital's issued share capital in cash from Fairfax Asia Limited <sup>*1</sup>
<b>Aggregate Acquisition Price</b>	Common shares of First Capital: Approximately USD 1.6billion (¥174.4 billion) <sup>*2</sup> Advisory and other fees: Approximately ¥1.1 billion Total consideration: Approximately ¥175.5 billion
<b>Acquisition Price per Share</b>	USD 65.5 per First Capital's common share * The Acquisition Price represents 3.3x to First Capital's Net Assets per share
<b>Impact on Goodwill (estimate)</b>	Approximately ¥123.0 billion (Aggregate Acquisition Price – Net Assets of First Capital (end of FY2016)) <sup>*2</sup>
<b>Source of Funds</b>	Cash on hand * No plan for equity financing
<b>Expected Timing of Closing</b>	Planned to close in 4Q FY2017 (January – March 2018) subject to customary regulatory approvals

<sup>\*1</sup> An intermediate holding company <sup>\*2</sup> 1USD=¥109

MS&AD Insurance Group Holdings, Inc.

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Please look at page 4.

I will now present an overview of the acquisition of First Capital.

Mitsui Sumitomo Insurance (MSI) plans to acquire 97.7% of the issued share capital of First Capital, which is currently owned by Fairfax Asia Limited, in cash and to make First Capital a subsidiary.

The aggregate acquisition price will be USD 1.6 billion, which is equivalent to approximately JPY 174 billion.

This represents an acquisition price of USD 65.5 per common share of First Capital and a price-to-book ratio, or PBR, of 3.3x.

In principle, we plan to provide the funds for the acquisition from cash on hand within the Group and do not intend to raise equity-finance for this transaction.

Furthermore, although this is ultimately just an assumed yardstick, we estimate the impact on goodwill arising from this transaction will be about JPY 123 billion (approximately USD 1.1 billion), based on the difference between the aggregate acquisition price and First Capital's net assets at the end of FY2016.

Today, we have reached basic agreement on our acquisition of First Capital, and following subsequent customary licensing and approvals by the relevant authorities, we intend to close the transaction in 4Q FY2017(January - March 2018).

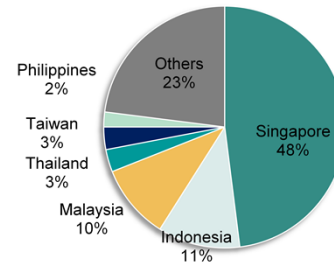
## 2. Overview of First Capital (1) Company Overview

- The largest property and casualty insurer in Singapore
- Has strengths in commercial property and marine hull insurance in Singapore and the ASEAN region

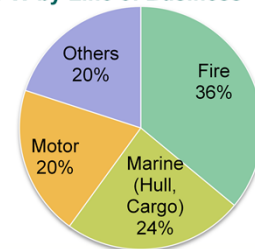
■ <b>Founded:</b>	<b>1950</b>
■ <b>Headquarters:</b>	<b>Singapore</b>
■ <b>Representative:</b>	<b>CEO/ Ramaswamy Athappan</b>
■ <b>Employees*1:</b>	<b>Approximately 160</b>
■ <b>GPW*2:</b>	<b>SGD 542 million (Approx. ¥43.4 billion*3)</b>
■ <b>Consolidated Net Profit*2:</b>	<b>SGD 89 million (Approx. ¥7.2 billion*3)</b>
■ <b>Consolidated Net Assets*1:</b>	<b>SGD 664 million (Approx. ¥53.1 billion*3)</b>
■ <b>Rating*1:</b>	<b>A, Excellent (A.M. Best)</b>
■ <b>Major Shareholders:</b>	<b>Fairfax Asia Limited: 97.7% Others: 2.3%</b>

\*1 As of the end of FY2016  
\*2 Actual for FY2016  
\*3 1SGD=¥80

GPW by Country (2016)



GPW by Line of Business (2016)



Next, I will explain the key points and features of First Capital Insurance.

Please look at Page 5.

First Capital Insurance has its headquarter in Singapore and is a property and casualty insurer with strengths in underwriting corporate property and marine hull insurance in Singapore and the ASEAN region.

It is the largest property and casualty insurance company in the Singapore market in terms of gross written premiums, and is underwriting risks through reinsurance not only in Singapore but also in various regions of ASEAN such as Indonesia and Malaysia.

In 2016, its premiums written amounted to SGD 542 million, which is equivalent to approximately JPY 43.4 billion, and its consolidated net income was SGD 89 million, which equates to roughly JPY 7.2 billion .

## 2. Overview of First Capital (2) First Capital's Strengths

### Strong Presence in Singaporean Insurance Market

- Leading player in the Singapore insurance market (The largest property and casual insurer in terms of gross premiums written)
- Strengths in underwriting corporate/commercial risks in the Asian region

### High Profitability

- Stable and high profitability with 5-year average Net COR<sup>\*1</sup>: 76%, ROE: 15%
- Diversified revenues and well-balanced portfolio across geographies and lines of business
- Stable profit structure with appropriate line size management and low concentration of natural catastrophe risks

### Strong Business Base

- Strong and stable relationships with clients, reinsurers and brokers, under a company philosophy that values trusted relationship with business partners

<sup>\*1</sup> Combined Ratio

Please now turn to page 6.

First of all, First Capital is a leading player with the highest gross premiums written in the Singapore market.

As a result of strong underwriting capability in the corporate property and marine hull insurance, a well-balanced portfolio across geographies and lines of business, and appropriate line-size management. It has maintained high profitability with an average combined ratio of 76% over five years.

In addition, it has established stable business relationships with customers, reinsurance companies and brokers over the long term, and has built up a strong, locally-based network, under a company philosophy that values trusted relationship with business partners.

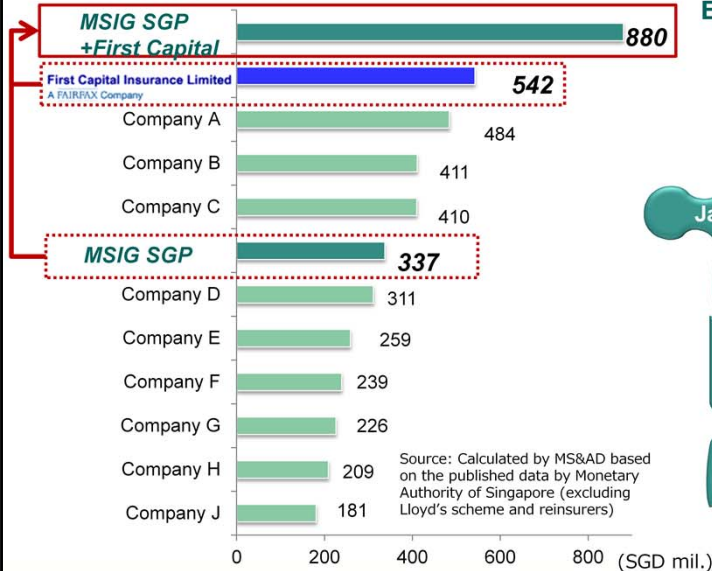


### 3. Rationale for the Acquisition

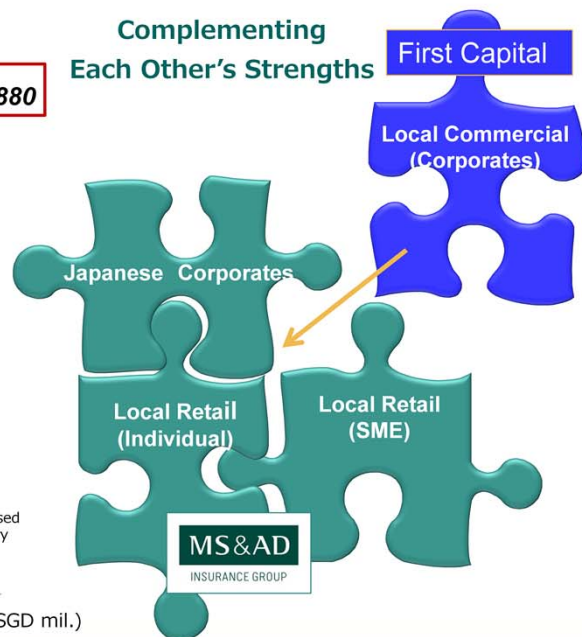
#### (1) Enhance profitability and realize further growth in Singapore

- Having the largest property and casualty insurer in Singapore, First Capital, into our group, we will achieve a top position in Singapore.
- First Capital has a strength in underwriting Asian local commercial risks in the Singaporean market, the insurance hub of the Asian region, which fits well with MSI who has a competitive advantage in retail and SME business.

#### Ranking of General Insurers in Singapore by Gross Premium



#### Complementing Each Other's Strengths



Next, I will talk about the expected effects of the acquisition of First Capital.

Please look at Page 7.

The first effect is "the enhancement of growth and profitability in the Singapore market."

First Capital is a company that currently boasts the largest gross premiums written in the Singapore property and casualty insurance market, and generates annual profits of approximately JPY 7 billion.

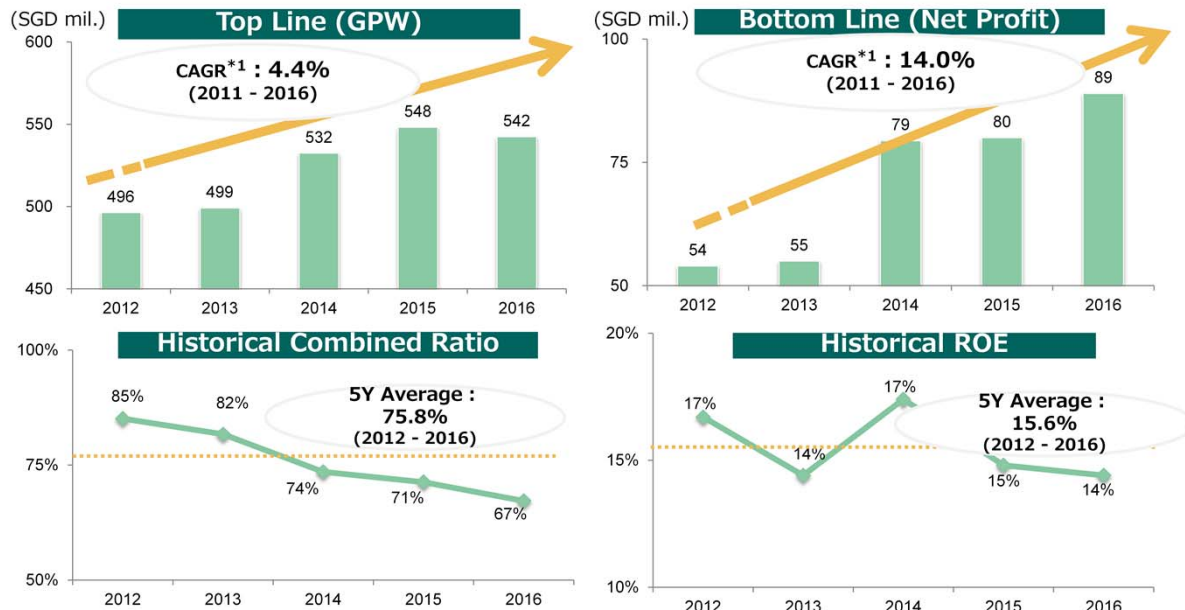
At present, the MS&AD Insurance Group is ranked fifth in the overall Singapore market, including the reinsurance market, which handles risks outside Singapore. However, with the acquisition of First Capital, we will establish a dominant No. 1 position in this market and dramatically enhance our earning power.

Furthermore, First Capital has strength in underwriting Asian local commercial risks in the Singapore market, the insurance hub of the Asian region, and also has a mutually complementary relationship with the MS&AD Insurance Group, which has strengths in the Japanese corporate market as well as the local individual and SME markets. By leveraging both companies' strengths, we believe it will be possible to mutually achieve further growth.

### 3. Rationale for the Acquisition

#### (1) Enhance profitability and realize further growth in Singapore

- Mutually improve growth prospects by capturing First Capital's profitability as well as complementing each other's strengths



Source: First Capital's Annual Report 2011~2016 \*1 CAGR (Compound Average Growth Rate): 5-year average from 2011 to 2016

Please turn to page 8.

When we look at past performance, First Capital steadily expanded its top line and bottom line at an annual average rate of 4% and 14%, respectively, from 2011 to 2016. Moreover, it has maintained high profitability with a five-year average combined ratio of 76% and ROE of 15%.

By welcoming First Capital Insurance to the Group, we believe we will be able to further enhance the Group's growth and profitability.

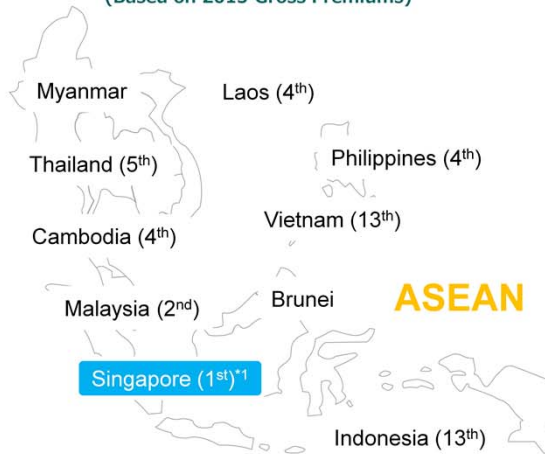
### 3. Rationale for the Acquisition

#### (2) Further Strengthen our leading position in the ASEAN Region

- Secure our leading position in the ASEAN region by welcoming First Capital which is a leading insurance company in the ASEAN region in terms of both GWP and profit.
- Expand new business by utilizing First Capital's know-how on retail business and digital technologies and our network in the ASEAN region.

#### MS&AD Group's Ranking in ASEAN Markets

(Based on 2015 Gross Premiums)



(Source) MS&AD compilation based on public data of general insurance companies in each country (FY 2015 gross written premium basis)

\*1 Simple sum of FY2015 GWPs of MSIG SGP and First Capital

#### Synergies in ASEAN region



The second effect is the "maintenance and reinforcement of our leading position in the ASEAN market."

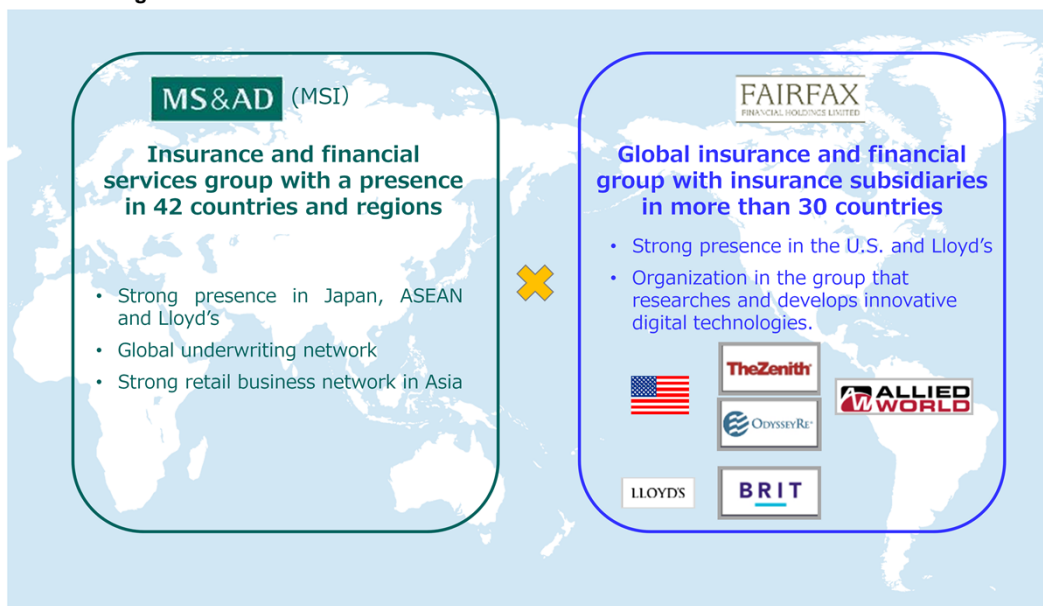
Please look at page 9.

First Capital is a company that displays a strong presence in the ASEAN region as well, and we will be able to solidify the MS&AD Insurance Group's position as No. 1 in the ASEAN market by welcoming it to the Group.

In addition, First Capital is currently advocating the development and reinforcement of retail business by making use of digital technologies, and we will combine its expertise with the MS&AD Insurance Group's network spanning all ASEAN countries. We believe this will enable us to develop new business in the entire ASEAN region and realize further growth.

#### 4. Enhance further growth through a Strategic Alliance with Fairfax

- Fairfax is a global insurance and financial group with insurance subsidiaries in more than 30 countries
- The global partnership with Fairfax in areas including reinsurance and digital technologies will enable further growth in our international business



Please turn to Page 10.

Together with this acquisition, the MS&AD Insurance Group will establish a partnership with Fairfax as well.

Fairfax Financial Holdings, the parent company of First Capital Insurance, is a global insurance and financial group with insurance subsidiaries in more than 30 countries.

In particular, it has a strong presence in the United States and Lloyd's of London. It owns Allied World, a major specialty insurer in the U.S., as well as Zenith National, which specializes in workers' compensation insurance, OdysseyRe, a major reinsurer, and Brit Limited, which owns leading Lloyd's syndicates.

Furthermore, it possesses within its group an organization to research and develop innovative digital technologies, and has an advanced expertise and know-how.

Going forward, we intend to investigate cooperation in various business areas such as reinsurance transactions and the use of digital technologies. We are convinced that this will enable the MS&AD Insurance Group to further accelerate its growth.

## 5. Impact on Group Core Profit and Group ROE

• Improves Group Core Profit by +¥7.0 billion and Group ROE by +0.3pt based on FY2016 actual results

### Impact on Group Core Profit and Group ROE (based on FY2016 results)

	MS&AD (a)	Net Impact (b)	MS&AD + First Capital Total (a)+(b)
<b>Group Core Profit</b>	¥213.7billion	+ ¥7.0billion* <sup>1</sup>	¥220.7billion
<b>Group ROE</b>	7.9%	+0.3pt* <sup>2</sup>	8.2%

※<sup>1</sup> Net Impact on Group Core Profit = Net Income (First Capital FY2016) (1SGD=¥80) x 97.7%

※<sup>2</sup> Net Impact on Group ROE  
= Net Income (First Capital FY2016) x 97.7% / MS&AD Group's consolidated total net assets excluding equity warrant and non-controlling interests (average of beginning and ending amounts of B/S in FY2016) (1SGD=¥80)

Finally, I will explain the effect on Group Core Profit and group ROE.

Please look at page 11 .

In regard to the effect of this transaction on Group Core Profit and group ROE, we estimate that it will boost Group Core Profit by JPY 7 billion and group ROE by 0.3 percentage point, based on the simple sum the disclosed data concerning FY2016 business results.

Finally, as I explained at the beginning, First Capital is a company that we definitely intended to conduct business together with us in the future, and we are very happy to welcome it to the MS&AD Insurance Group on this occasion.

Moreover, as we will be able to have a global partnership with Fairfax, a global insurance and financial group, we believe that we have managed to take another good step toward becoming a world-leading insurance and financial services group.

The MS&AD Insurance Group intends to strive to further enhance its enterprise value by leveraging this acquisition and partnership. Therefore, I look forward to the continued support of all our shareholders and investors.

That concludes my presentation.

End



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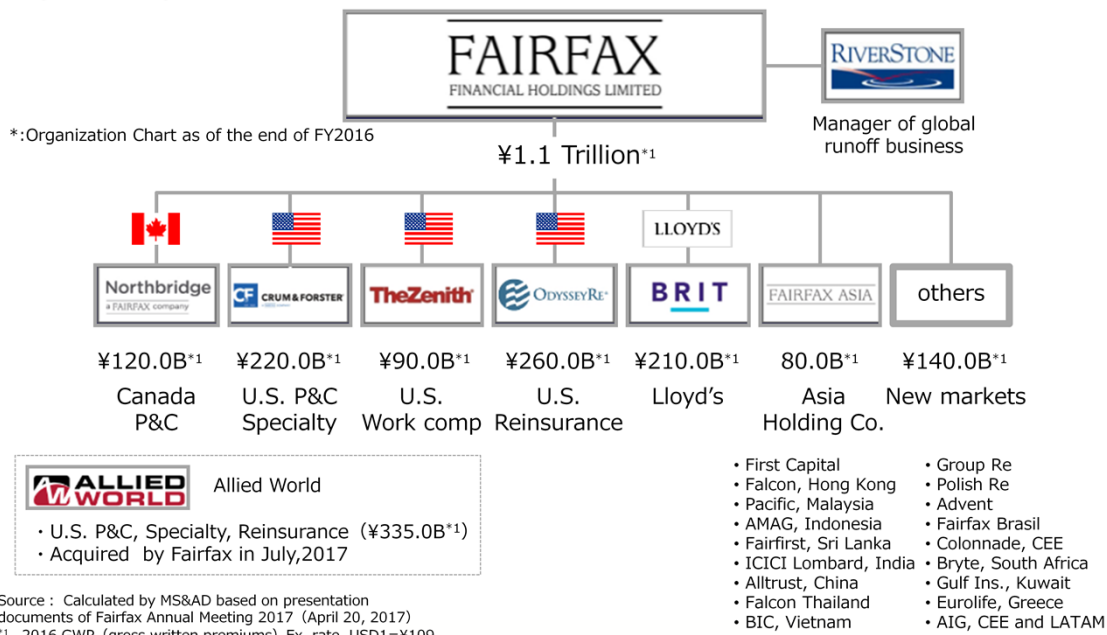
INSURANCE GROUP

## Appendix

MS&AD Insurance Group Holdings, Inc.

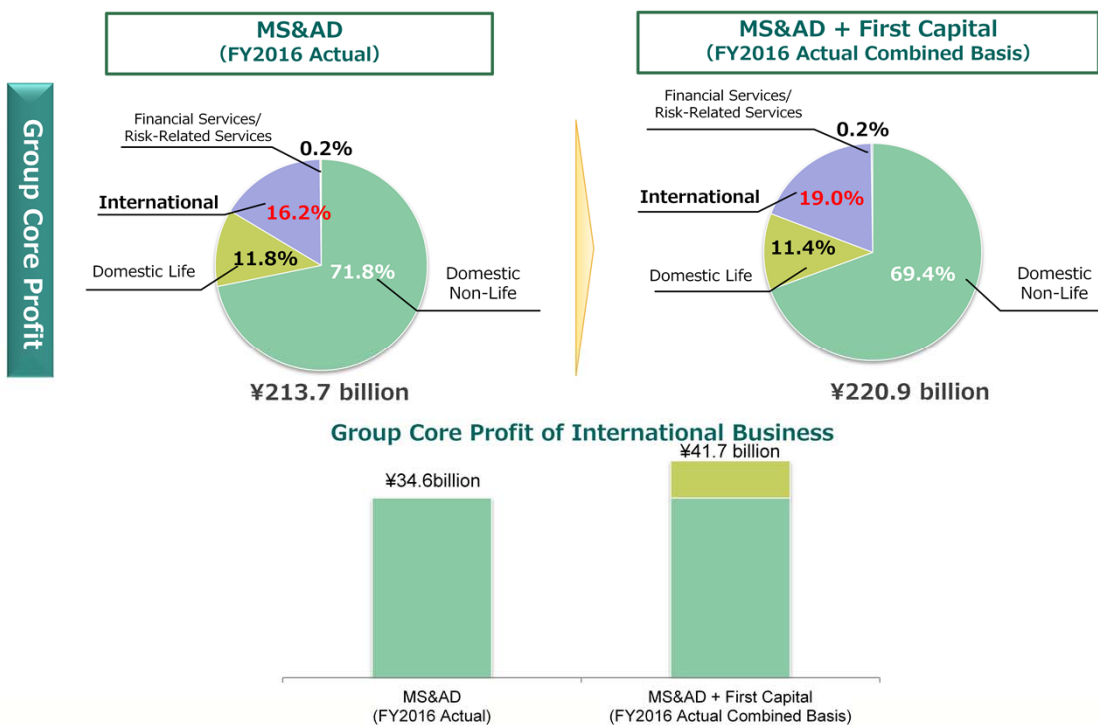
## [Appendix] Overview of Fairfax Group

- A global insurance and financial group with insurance subsidiaries in over 30 countries
- Has a strong presence in the U.S. and Lloyd's and an organization that conducts research and development of innovative digital technologies

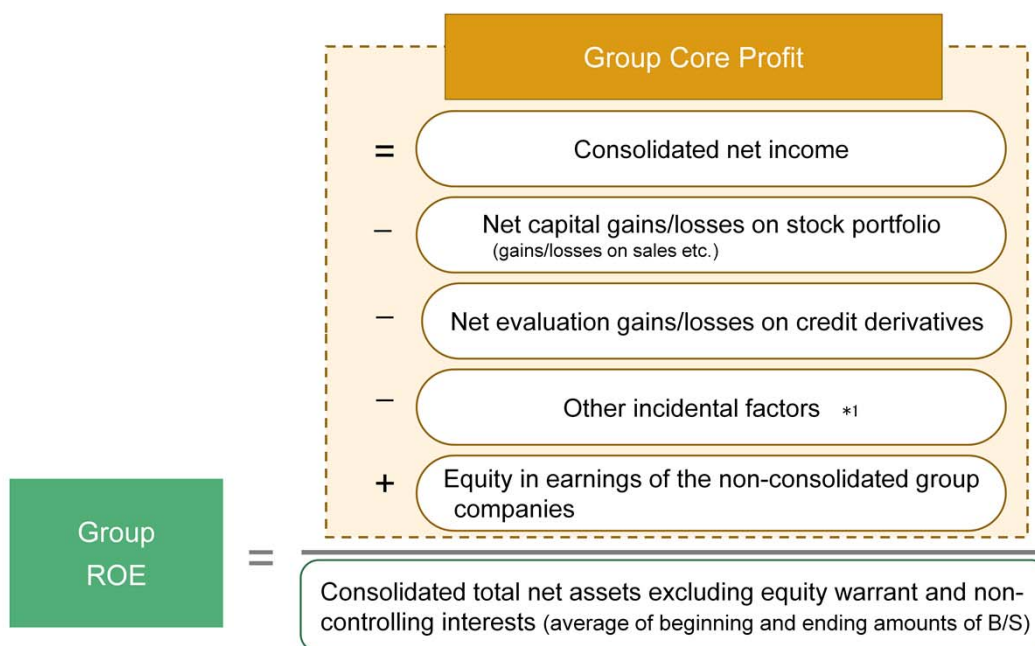




## 【Appendix】 Impact on Group Core Profit



## **[Appendix] Calculation Methods of “Group Core Profit” and “Group ROE”**



\* 1 Extraordinary income/loss after-tax (excluding provision for/reversal of reserve for price fluctuation), amortization of goodwill and other