Tokio Marine Holdings

HCC

# Acquisition of HCC

## *Significant international expansion by Tokio Marine*

June 10, 2015

Tokio Marine Holdings, Inc.
President, Tsuyoshi Nagano

*To Be a **Good Company***

# Disclaimer

**Additional Important Information About the Proposed Merger and Where to Find It**

This communication relates to a proposed merger between HCC and a subsidiary of Tokio Marine Holdings, Inc. that will be the subject of a proxy statement that HCC intends to file with the U.S. Securities and Exchange Commission (the "SEC"). This communication does not constitute an offer to sell or the solicitation of an offer to buy any securities or a solicitation of any vote or approval, and is not a substitute for the proxy statement or any other document that HCC may file with the SEC or send to its stockholders in connection with the proposed merger. Investors and stockholders are urged to read the proxy statement and all other relevant documents filed with the SEC or sent to HCC's stockholders as they become available, because they will contain important information about the proposed merger. All documents, when filed, will be available free of charge at the SEC's website (www.sec.gov). You may also obtain documents filed by HCC with the SEC by contacting HCC at Investor Relations, HCC Insurance Holdings, Inc., 13403 Northwest Freeway, Houston, Texas 77040, by email at InvestorRelations@hcc.com or by visiting HCC's website at www.hcc.com.

**Participants in the Solicitation**

Tokio Marine Holdings, Inc. and HCC and its directors, executive officers and other members of management and employees may be deemed to be participants in any solicitation of proxies in connection with the proposed merger. Information about HCC's directors and executive officers is available in HCC's proxy statement dated April 9, 2015 for its 2015 Annual Meeting of Stockholders. Other information regarding the participants in the proxy solicitation and a description of their direct and indirect interests, by security holdings or otherwise, will be contained in the proxy statement and other relevant materials to be filed with the SEC regarding the merger when they become available. Investors and stockholders should read the proxy statement carefully when it becomes available before making any investment or voting decisions.

**Cautionary Statement Regarding Forward-Looking Statements**

This communication and other written or oral statements made by or on behalf of HCC or Tokio Marine contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that are made under the "safe harbor" provisions of The Private Securities Litigation Reform Act of 1995. In particular, statements using words such as "may," "will," "should," "estimate," "expect," "anticipate," "intend," "believe," "predict," "plan," "project," "continue" or "potential," or their negatives or variations, and similar terminology and words of similar import, generally involve forward-looking statements. Forward-looking statements reflect HCC's or Tokio Marine's current views, plans or expectations with respect to future events and financial performance. They are inherently subject to significant business, economic, competitive and other risks, uncertainties and contingencies. The inclusion of forward-looking statements in this or any other communication should not be considered as a representation by HCC, Tokio Marine or any other person that current plans or expectations will be achieved. Forward-looking statements speak only as of the date on which they are made, and neither HCC nor Tokio Marine undertakes any obligation to update publicly or revise any forward-looking statement, whether as a result of new information, future developments or otherwise, except as otherwise required by law.

There are or will be important factors that could cause actual results to differ materially from those expressed in any such forward-looking statements, including but not limited to the following: the occurrence of any event, change or other circumstance that could give rise to the termination of the merger agreement; required governmental approvals of the merger may not be obtained or may not be obtained on the terms expected or on the anticipated schedule, and adverse regulatory conditions may be imposed in connection with any such governmental approvals; HCC's stockholders may fail to approve the merger; the parties to the merger agreement may fail to satisfy other conditions to the completion of the merger, or may not be able to meet expectations regarding the timing and completion of the merger; operating costs, customer loss and business disruption (including, without limitation, difficulties in maintaining relationships with employees, customers or suppliers) may be greater than expected following the announcement of the proposed merger; HCC may be unable to retain key personnel; the amount of the costs, fees, expenses and other charges related to the proposed merger; and other factors affecting future results disclosed in HCC's filings with the SEC, including but not limited to those discussed under Item 1A, "Risk Factors", in HCC's Annual Report on Form 10-K for the year ended December 31, 2014, which are incorporated herein by reference.

# Discussion Topics

# Transaction Highlights

## Key Strengths of HCC

- A **world leading specialty[1] insurer** with strong underwriting capability
- **Diversified** and **highly profitable portfolio**
- Proven track record of **disciplined growth** and **best-in-class underwriting profitability**

## Strategic Rationale of the Transaction

- Establishment of a **more solid Group business foundation**, through **capital efficiencies and sustainable profit growth**
- Continued **expansion of International business**, which results in a more **globally diversified portfolio** and solidifies Tokio Marine's standing as **a truly global insurer with premier specialty franchises**
- **Complementary strengths** to create long term **synergies**

(1) Specialty insurance is a type of insurance product that often covers risks that are not covered by standard insurance policies and requires specific underwriting capability and technical expertise.

# 1 Overview of the Transaction

# Transaction Structure and Key Terms

| | |
|---|---|
| **Transaction Structure** | • Acquisition of 100% of the outstanding shares of HCC by TMNF in cash |
| **Consideration** | • $78.00 per HCC share / approximately $7.5 billion[1] (JPY 940 billion[2]) total consideration<br>• 1.90x book value per share as of March 31, 2015<br>• 35.8% premium to HCC's average share price over the past one month, 37.6% premium to closing price of $56.69 on June 9, 2015<br>• Implied maximum goodwill of $4.5 billion (JPY 560 billion[2]) |
| **Funding** | • Cash on hand together with external funding (no equity financing) |
| **Required Approvals** | • Approval of HCC shareholders<br>• Customary regulatory approvals |
| **Expected Closing Date** | • During October to December in 2015 |
| **Management** | • Highly experienced HCC management team to continue to lead the business |

(1) Tokio Marine received opinions from each of Credit Suisse Securities (USA) LLC and Evercore Group LLC, dated June 9, 2015, to the effect that, based upon and subject to assumptions made, procedures followed, matters considered and limitations on review undertaken by each such financial advisor, in each case noted in the respective opinion, the consideration to be paid in the Transaction was fair, from a financial point of view, to Tokio Marine. (2) FX rate ($1=125 JPY).

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# Key Strengths of HCC

# Key Strengths of HCC

HCC

**A World Leading Specialty Insurer**

- Specialty businesses that require strong underwriting technical expertise
- Market leading positions in A&H, D&O, agriculture and other specialty lines

**Diverse and Highly Profitable Portfolio**

- Over 100 classes of largely non-correlated lines of business
- Less dependent on the traditional P&C market cycles
- Limited exposure to natural catastrophe risks

**Disciplined Growth and Best-in-Class Underwriting Profitability**

- History of disciplined growth / best-in-class underwriting profitability
- Sustainable profit generation with low volatility
- Superior long term value creation
- Financial strength with solid Enterprise Risk Management

# A World Leading Specialty Insurer

## Company Overview

- Founded in 1974; listed on NYSE with a market cap of $5.5 billion (JPY 688 billion[2])
- Headquartered in Houston, Texas with offices in the United States, the United Kingdom, Spain and Ireland
- Chairman: Robert A. Rosholt; CEO: Christopher J.B. Williams
- Credit ratings: S&P: AA (Very Strong) <ERM: strong>; AM Best: A+ (Superior); Moody's A1 (Good Security); Fitch: AA (Very Strong)
- Approximately 2,500 employees

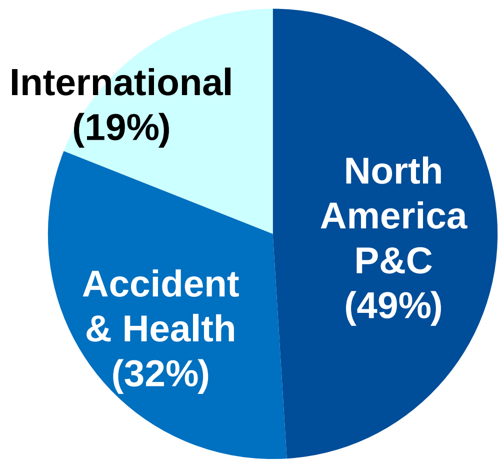
## Financial Highlights (2014)

- GWP: $3,002M[1]
- Net Earnings: $458M
- Total Assets: $10,714M
- Book Value: $3,903M
- COR: 82.5%
- ROE: 12.1%

## Details of Key Segments

| | |
|---|---|
| **North America P&C** | • Comprised of D&O, agriculture, primary casualty, aviation, surety, sports & entertainment disability / contingency, public risk, etc. |
| **Accident & Health** | • Comprised of medical stop-loss and other short term medical products, etc. |
| **International** | • Comprised of energy & marine, property, A&H, D&O, professional indemnity, surety and credit, etc. |

## Pre-Tax Earnings (2014)

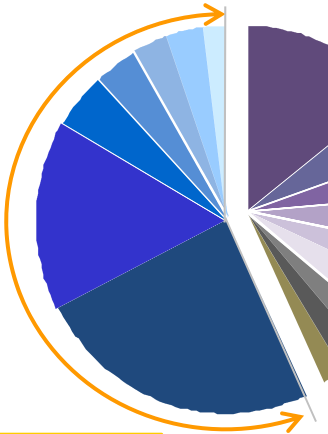



(1) On a proforma basis including ProAg acquisition on 1/1/15, GWP is $3.6bn. (2) FX rate ($1=125 JPY).

# Diverse and Highly Profitable Portfolio

## HCC's Gross Written Premiums[1] Mix (2014)

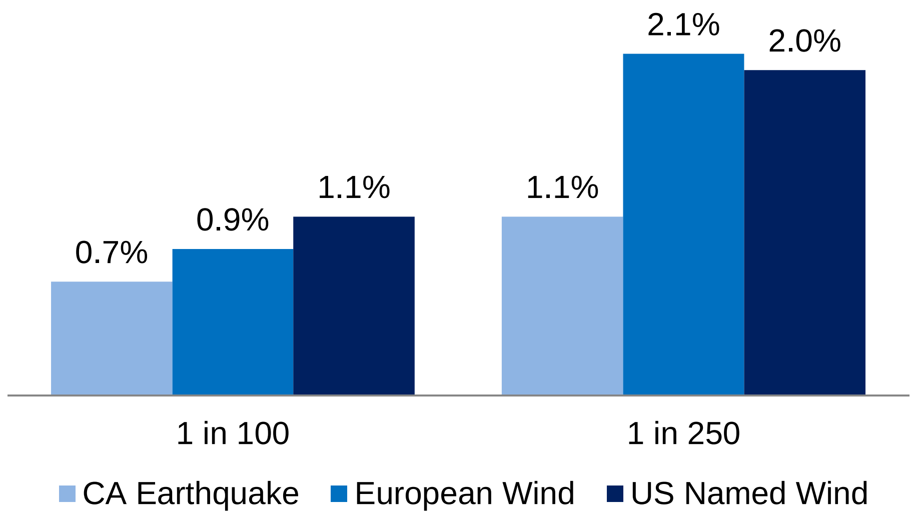
LOBs that are less dependent on the P&C market cycles (approx. 58%)



| | |
|---|---|
| Medical Stop-loss | 25% |
| Agriculture | 16% |
| US Surety | 5% |
| Sports & Entertainment | 4% |
| International Surety & Credit | 3% |
| Other A&H | 3% |
| US Credit | 2% |
| **Total** | **58%** |

| | |
|---|---|
| D&O | 15% |
| US Liability | 5% |
| Aviation | 4% |
| Energy & Marine | 4% |
| Property Treaty | 4% |
| Other Specialty | 4% |
| International Liability | 3% |
| Other International | 2% |
| Public Risk | 2% |
| **Total** | **42%** |

## After-Tax PML[2] as % of Shareholders' Equity

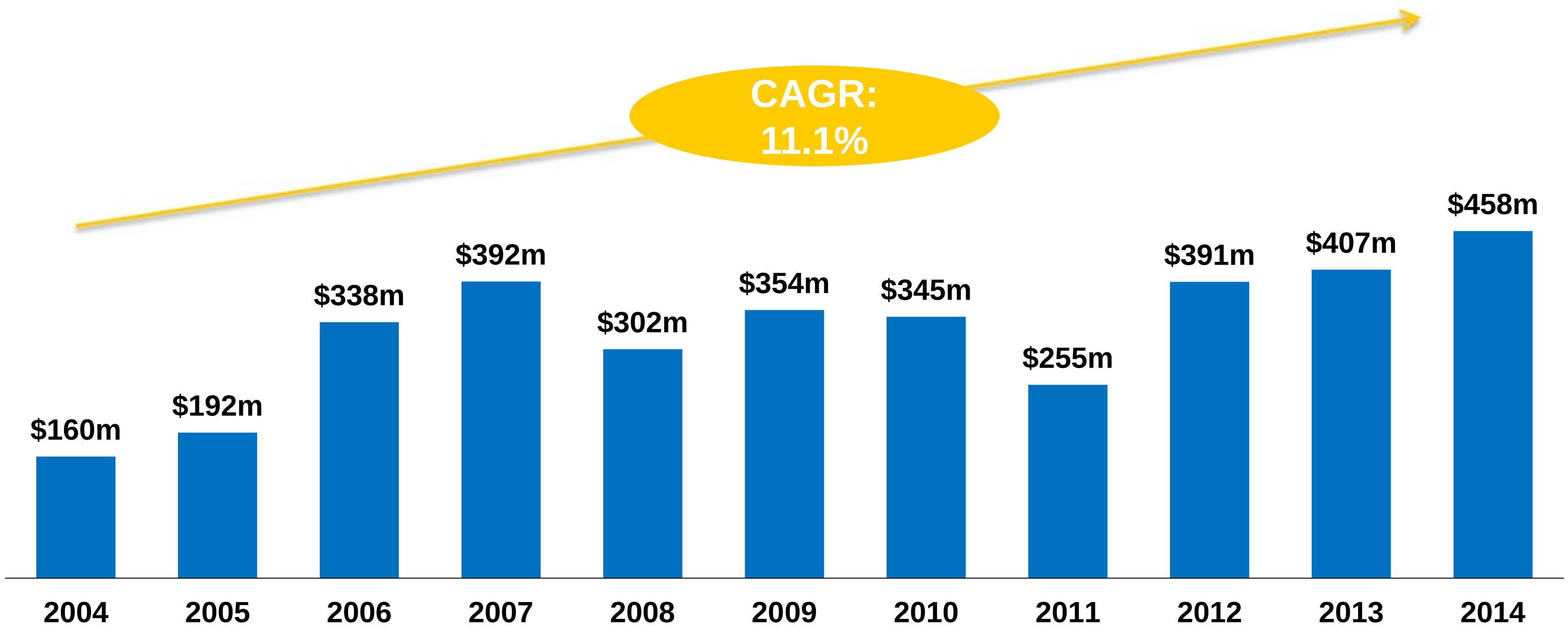



- **Over 100 classes of specialty insurance products which are largely non-correlated**
- **The vast majority of the lines of business are less dependent on the traditional P&C market cycles**
- **Limited exposure to natural catastrophe risks**

(1) Proforma including agriculture; (2) 1/1/15 PML excludes reinstatement premium and is based on 1 in 250 year estimates from RMS models and internal PML estimates for lines not modeled in RMS.

# History of Disciplined Growth

**Total Historical Net Earnings**

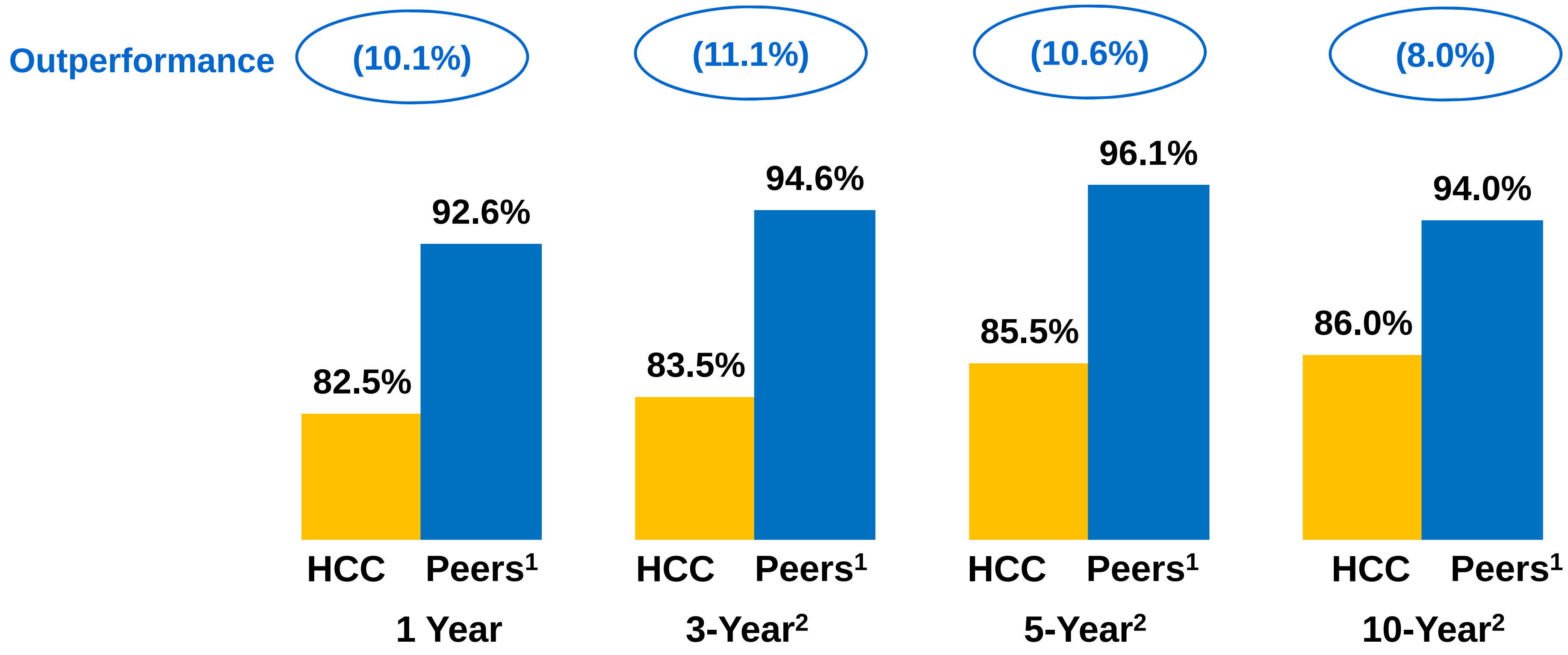



**Disciplined profit growth due to its consistent underwriting expertise and lowest expense ratio among its industry peers**


Source: 10K reports of HCC and HCC management.

# Best-in-Class Underwriting Profitability

## Combined Ratio – HCC vs. Peers

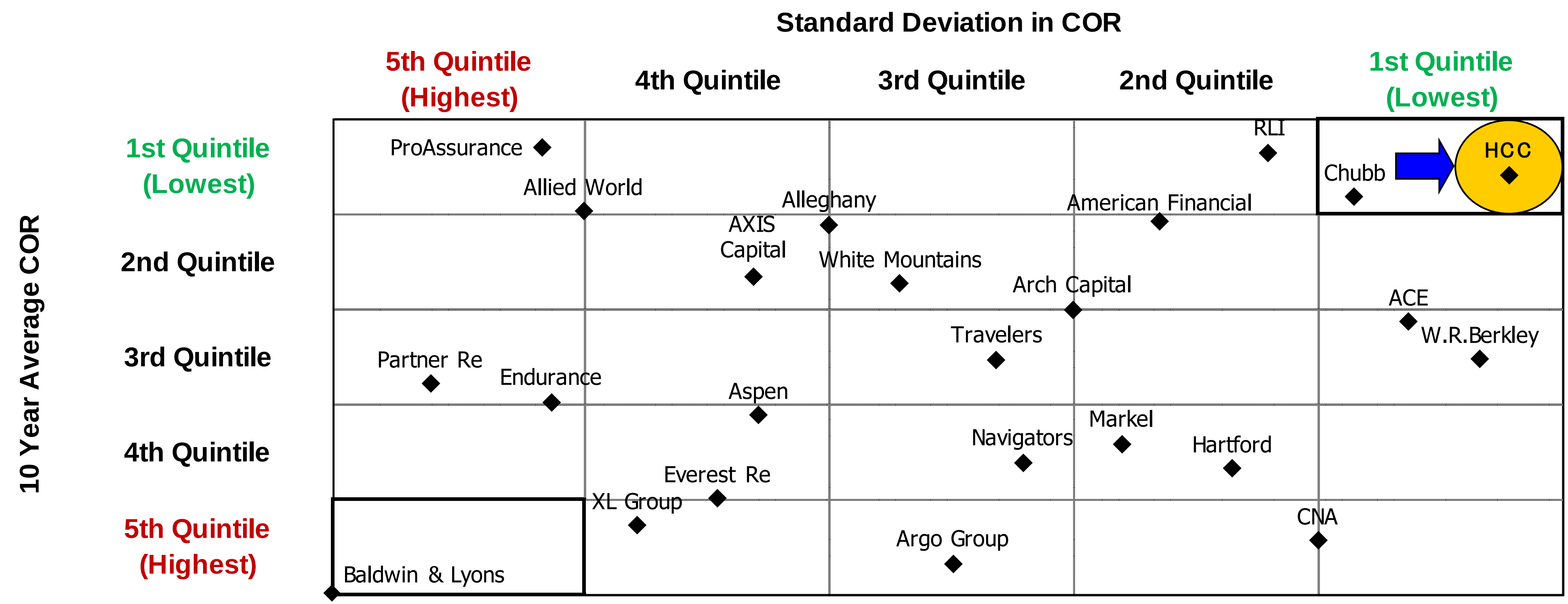



**COR of HCC is consistently lower than the peer average, demonstrating strong focus on underwriting profitability**

(1) Source: HCC investor presentation. SEC filings. Peers reflect average for peer companies (AFG, Argo, Chubb, Markel, Navigators, Old Republic, RLI, Travelers and WRB). (2) Reflects average for three-year, five-year and ten-year result.

# Sustainable Profit Generation with Low Volatility

**Comparison of 10-Year Average Combined Ratio and its Variance (Standard Deviation) with Peers**



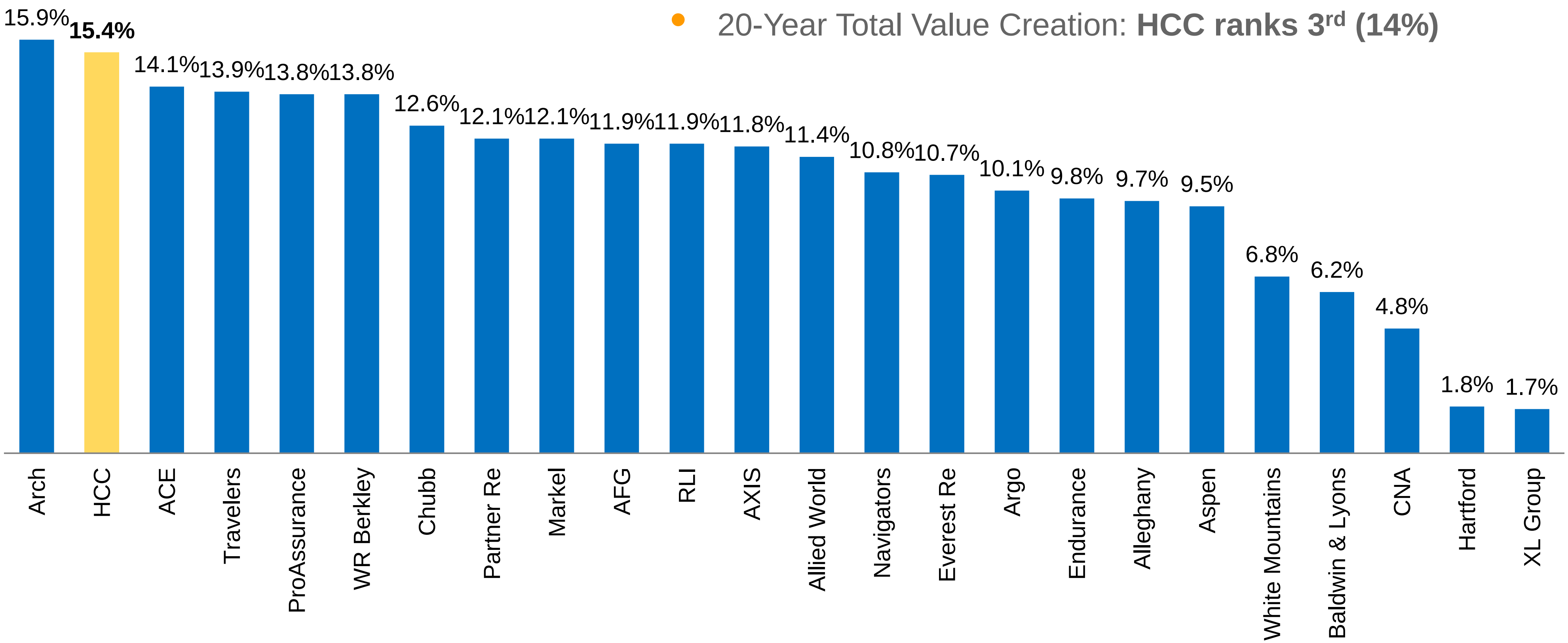

**HCC has one of the lowest average COR and the lowest volatility in COR over the past 10 years**


Source：HCC investor presentation. Dowling & Partners; data through 12/31/14.

# Superior Long Term Value Creation

## Total Value Creation CAGR (2004-2014)

- 15-Year Total Value Creation: **HCC ranks 1st (19%)**
- 20-Year Total Value Creation: **HCC ranks 3rd (14%)**




**HCC is one of the best P&C companies in terms of long term value creation**

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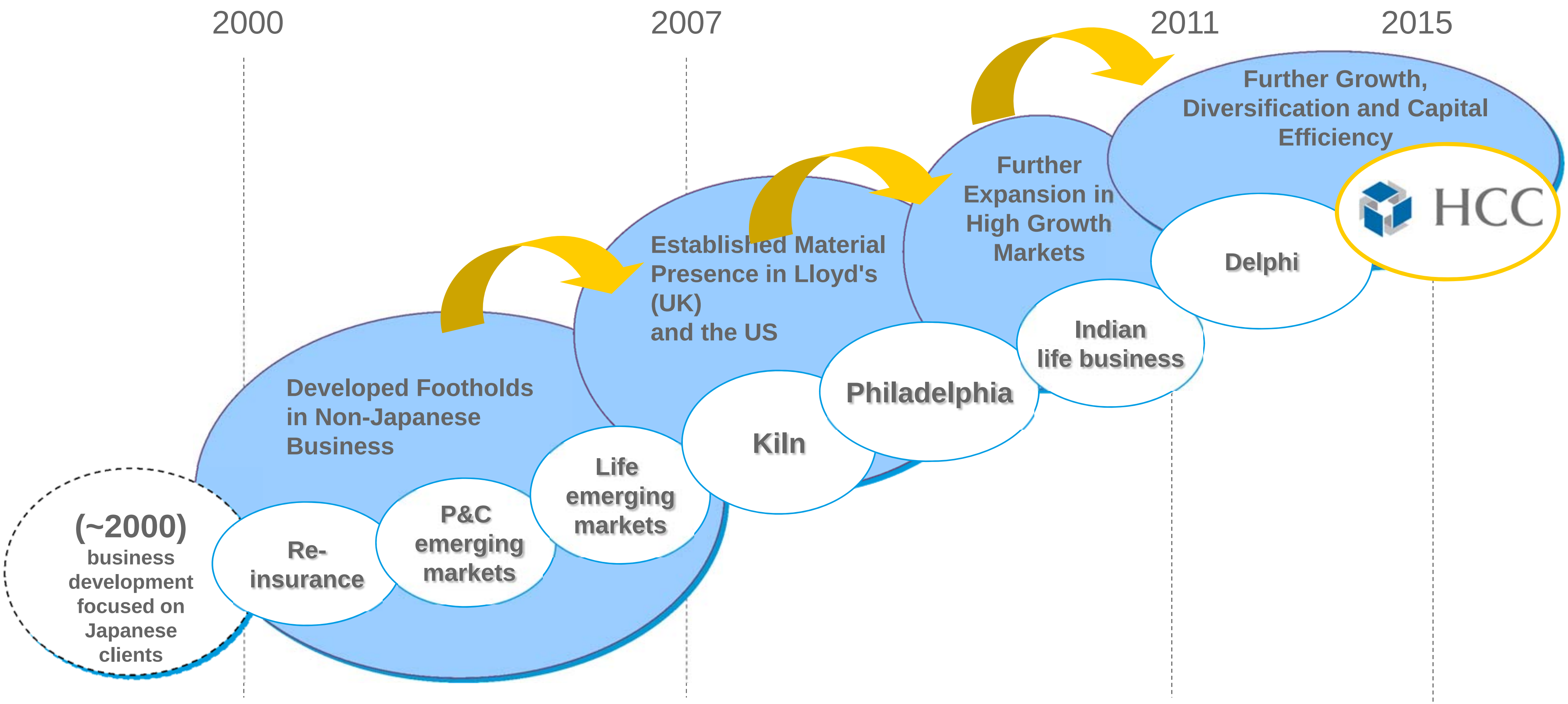
# Strategic Rationale of the Transaction

# Continued Expansion of our International Businesses




**Step by step expansion since the year 2000**
**International business grew substantially after 2007 due to transformational acquisitions of Kiln, Philadelphia and Delphi**

# Our Proven Track Record in M&A

**Significant Contribution to the Group's Profit Growth through M&A Strategy and Smooth PMI**

## Acquisition Principles

- ✓ Management strength and compatibility
  (High quality management sharing our values )
- ✓ Robust business model
- ✓ High growth potential

## Smooth PMI (Post Merger Integration)

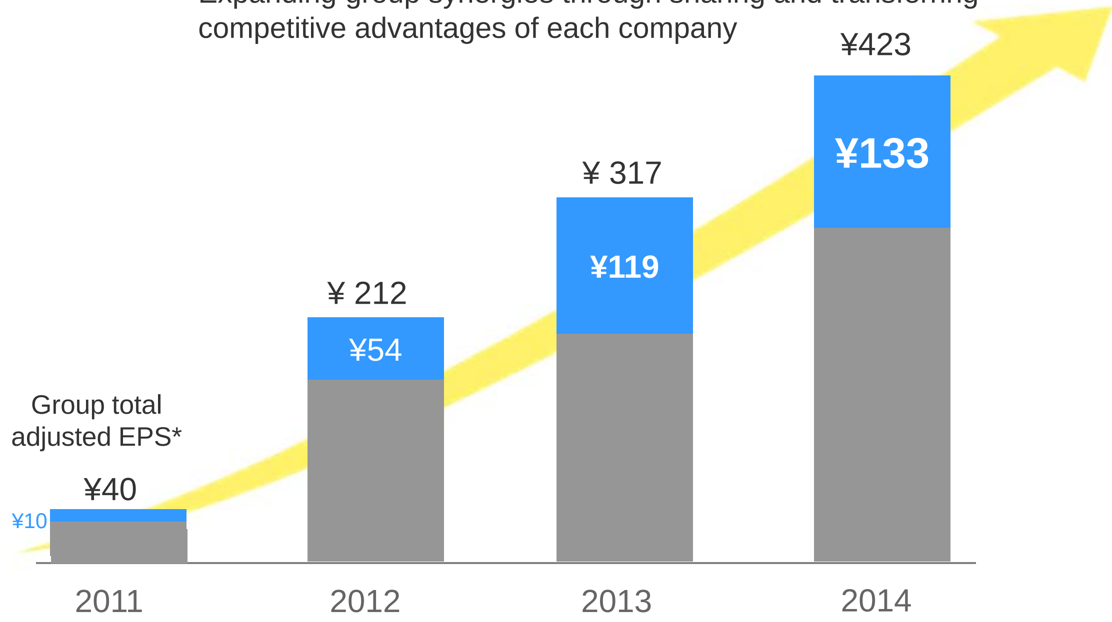
- ✓ Establishing strong relationship with local management based on mutual trust
- ✓ Implementing effective governance structure while respecting local management
- ✓ Expanding group synergies through sharing and transferring competitive advantages of each company

### Trend of adjusted EPS*

- ✓ Solid track record of growth post merger

Total adjusted EPS* of 3 companies

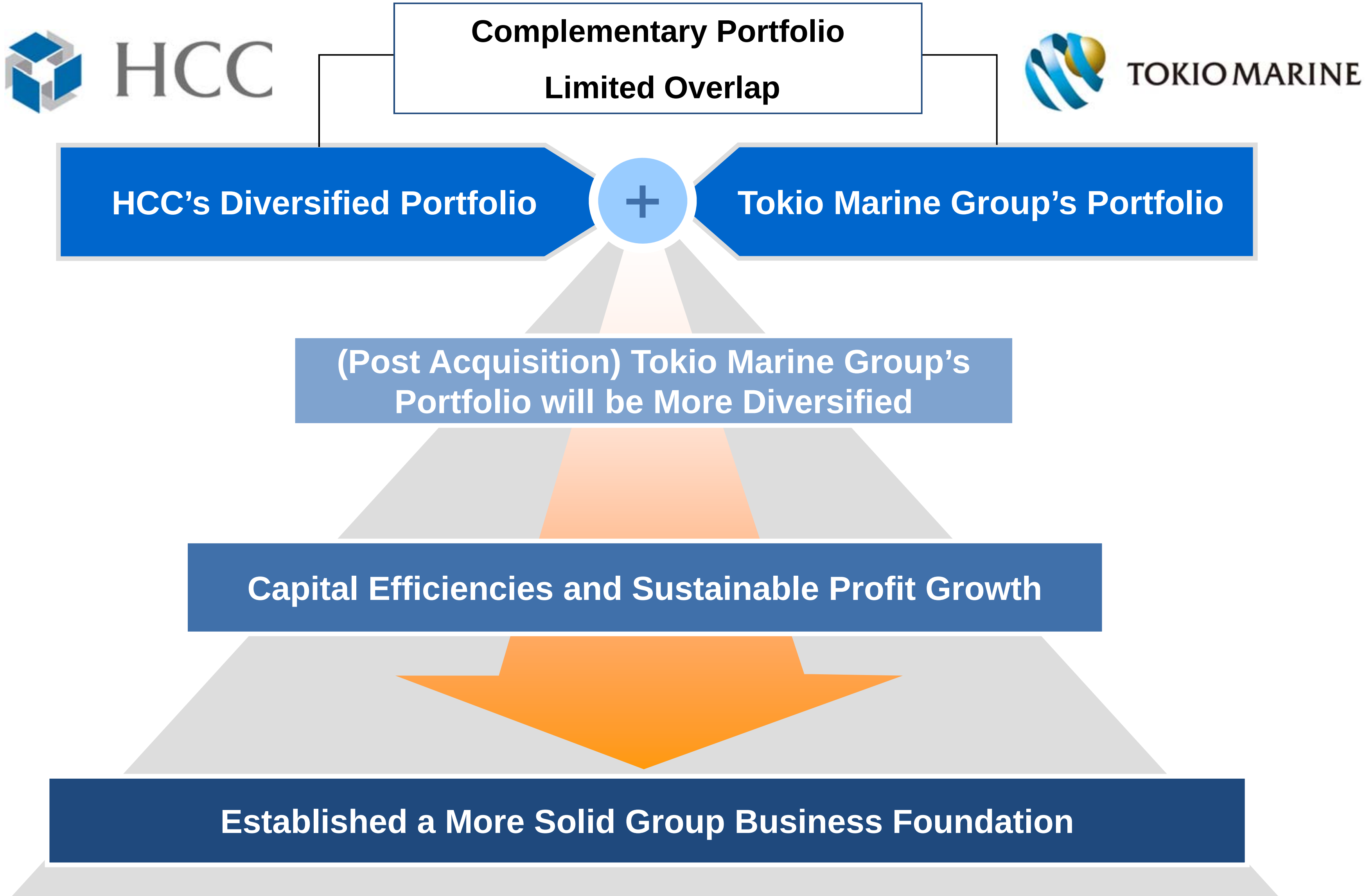
| | |
|---|---|
| Kiln | Mar. 2008 |
| Philadelphia Insurance Companies | Dec. 2008 |
| Delphi | May 2012 |



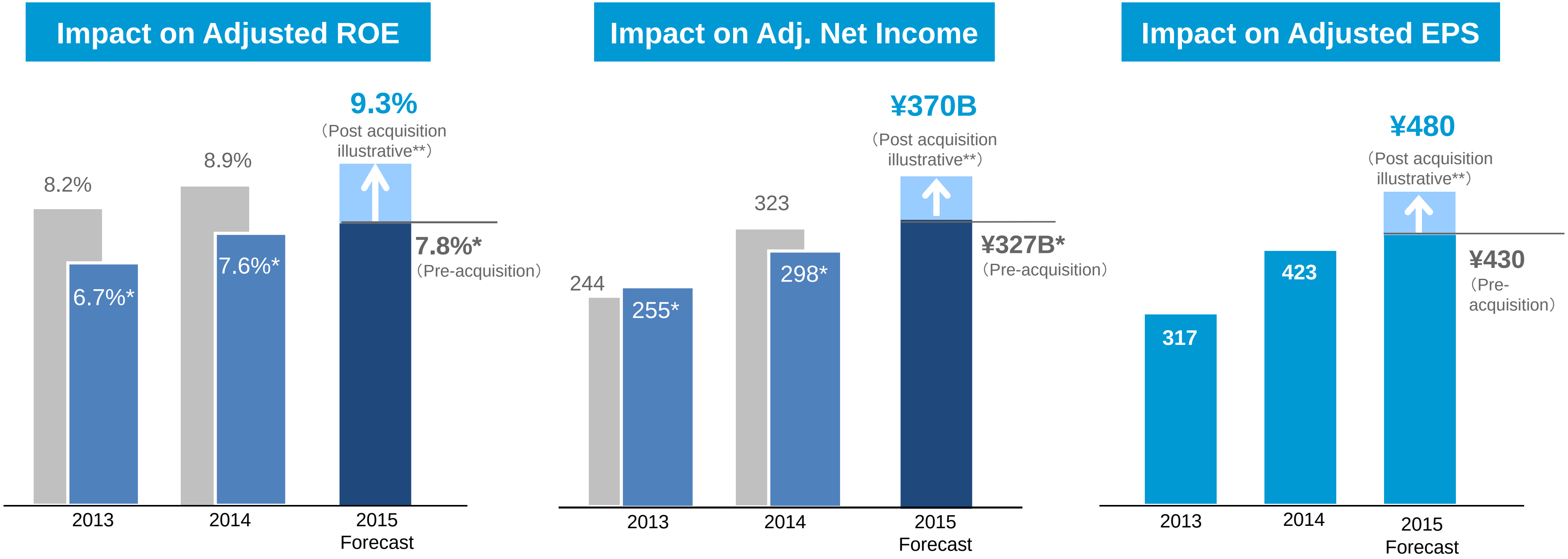

* Group: adjusted net income per share
3 companies: total of business unit profits per share

**Continue to consider new business investment opportunities both in developed and emerging markets while maintaining M&A discipline**

# Establishment of a More Solid Group Business Foundation



# Establishment of a More Solid Group Business Foundation




* Adjusted basis: Adjusted Net Income includes amount of claims related to natural disasters is adjusted to the average level. Adjusted Net Assets include share price and exchange rates which were adjusted to the level at the end of March 2015.

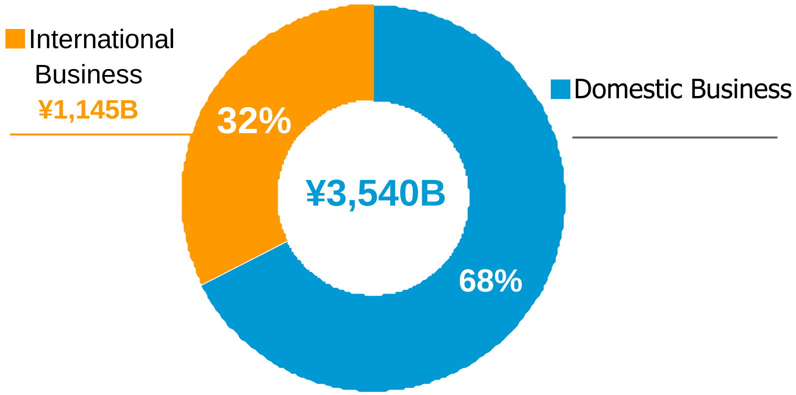
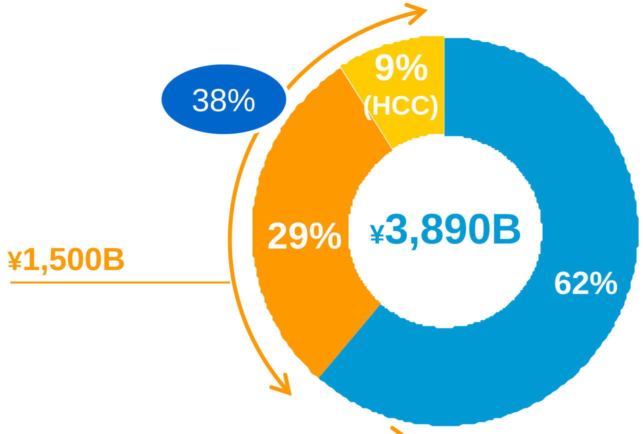
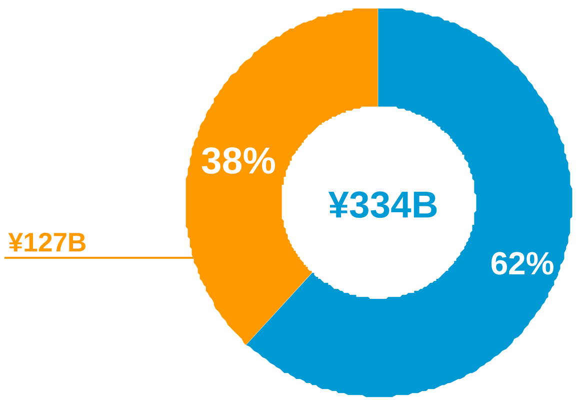
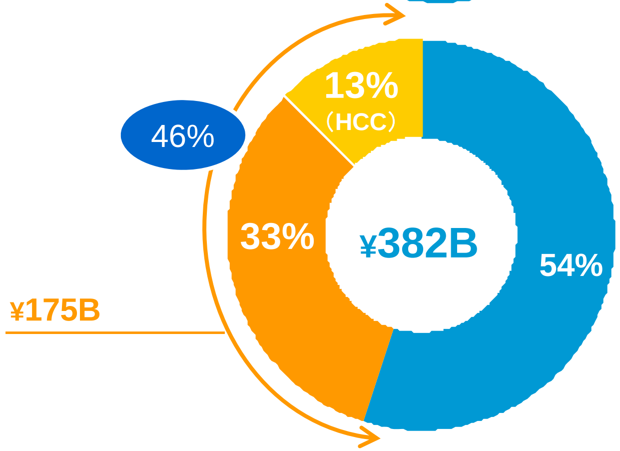
**Post acquisition illustrative：Calculated based on TMHD's preliminary estimates of full year profit contribution net of expenses in relation to the acquisition.

**Post transaction, the proforma adjusted ROE will increase by 1.5% and EPS will improve by 12%**

The figures shown here are the simulated simple sum of the annual projection for TMHD's FY2015 results and TMHD's preliminary estimates for HCC's 2015 calendar year results. We will disclose the financial impact of this Acquisition on Tokio Marine Group's consolidated results for the fiscal year ending 2015 when available during our standard reporting period.

# Further Expansion of International Business

<2015 Forecast>

| | Pre-Acquisition | Post Acquisition (Pro forma Basis) |
|---|---|---|
| **Insurance Premiums*** |  |  |
| **Business Unit Profits**** |  |  |









- **Post Acquisition, the share of premiums for International will increase from 32% to 38%**
- **The share of profits for International will increase from 38% to 46%**

The figures shown here are the simulated simple sum of the annual projection for TMHD's FY2015 results and TMHD's preliminary estimates for HCC's 2015 calendar year results. We will disclose the financial impact of this Acquisition on Tokio Marine Group's consolidated results for the fiscal year ending 2015 when available during our standard reporting period.

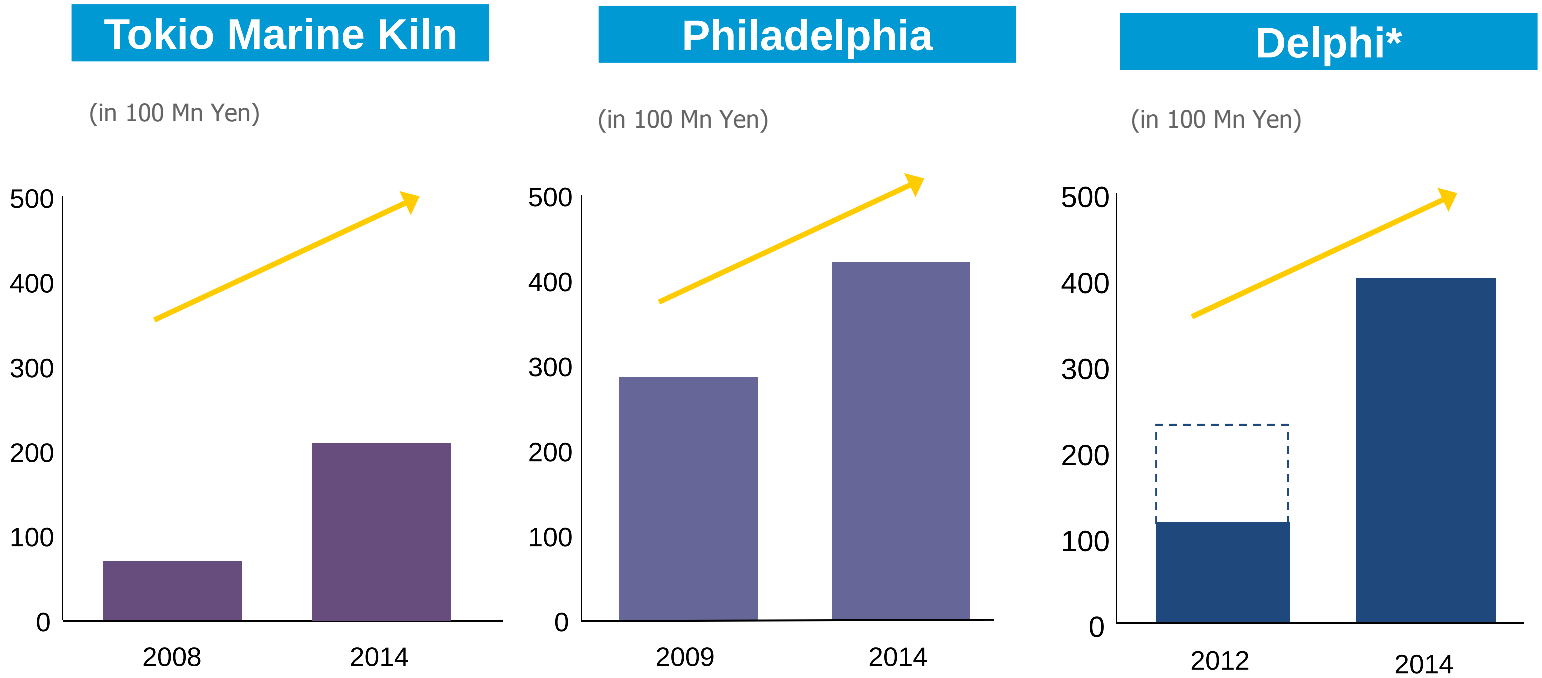


Note: *Includes net written premiums and Life Insurance premium. **Includes Domestic Non-Life, Domestic Life, International business and Financial and General businesses. FX rate as of end 3/31/15 ($1=120.17 JPY).

# A Truly Global Insurer with Premier Specialty Franchises

## Adjusted Earnings Growth of our Past Acquisitions (2014 vs. First Year after Acquisition)

- All three acquired specialty companies grew significantly post acquisition as part of Tokio Marine Group




+ HCC

**Combining HCC with Tokio Marine Kiln, Philadelphia and Delphi, the transaction solidifies Tokio Marine's standing as a truly global insurer with premier specialty insurance franchises**


Note: (*)In 2012, Delphi's profit was consolidated for half year only, so it is annualized for the calculation of the multiple.

# Expansion of our Product Offering and Capability

## US Medical Stop-loss

| Insurer | 2013 Market Share | |
|---|---|---|
| Cigna | 14.5% | |
| **HCC** | **7.6%** | #2 |
| Sun Life | 6.9% | |
| United Health | 6.9% | |
| Wellpoint | 6.7% | |

## US D&O

| Insurer | 2014 Market Share | |
|---|---|---|
| AIG | 16.3% | |
| XL Group | 9.8% | |
| Chubb | 9.2% | |
| CNA Financial | 6.7% | |
| **HCC** | **5.1%** | #5 |

**Expansion in new lines of international business with market leading positions, including A&H, D&O, agriculture and other specialty lines**

## US Aircraft (all perils)

| Insurer | 2014 Market Share | |
|---|---|---|
| AIG | 18.3% | |
| Starr Int. | 12.5% | |
| Allianz | 12.1% | |
| XL Group | 9.9% | |
| Berkshire | 6.5% | |
| **HCC** | **5.5%** | #6 |

## US Agriculture (MPCI)

| Insurer | 2014 Market Share | |
|---|---|---|
| ACE | 19.9% | |
| Wells Fargo | 19.1% | |
| QBE | 13.3% | |
| Grt. American | 8.5% | |
| Endurance | 8.0% | |
| **HCC** | **5.1%** | #7 |

## US Surety

| Insurer | 2014 Market Share | |
|---|---|---|
| Travelers | 14.6% | |
| Liberty Mutual | 13.4% | |
| Zurich | 9.2% | |
| CNA Financial | 7.6% | |
| Chubb | 3.8% | |
| **HCC** | **3.0%** | #8 |



Source: MSL: National Association of Insurance Commissioners (NAIC); US D&O: SNL; Agriculture: USDA Risk management Agency 2014 reinsurance year data as of Nov 2014; US Surety and US Aircraft: SNL

# Complementary Strengths to Create Long Term Synergies

**Significant synergy potential by combining HCC's underwriting expertise in diverse classes of business with Tokio Marine's global footprint, financial strength / underwriting capacity and investment expertise**

**Leverage Tokio Marine's Global Footprint**

- Cross sell A&H, D&O and other specialty products to Tokio Marine's existing clients, in both developed (including Japan) and emerging markets

**Leverage Tokio Marine's Financial Strengths / Underwriting Capacity**

- Larger underwriting capacity
- Efficiencies on outward reinsurance treaty programs

**Leverage Delphi's Investment Expertise**

- Utilize Delphi's superior investment expertise to enhance investment return

# Transaction Highlights

## Key Strengths of HCC

- A **world leading specialty insurer** with strong underwriting capability
- **Diversified** and **highly profitable portfolio**
- Proven track record of **disciplined growth** and **best-in-class underwriting profitability**

## Strategic Rationale of the Transaction

- Establishment of a **more solid Group business foundation**, through **capital efficiencies and sustainable profit growth**
- Continued **expansion of International business**, which results in a more **globally diversified portfolio** and solidifies Tokio Marine's standing as **a truly global insurer with premier specialty franchises**
- **Complementary strengths** to create long term **synergies**

# Appendices

# Appendix: Financial Statements

## HCC Historical Income Statement

| ($ in millions) | 2010 | 2011 | 2012 | 2013 | 2014 | Q1 2015 |
|---|---|---|---|---|---|---|
| **Revenues** | | | | | | |
| Gross written premiums | $2,579 | $2,649 | $2,784 | $2,880 | $3,002 | $826 |
| Net written premiums | $2,026 | $2,182 | $2,253 | $2,255 | $2,373 | 669 |
| Net premiums earned | $2,042 | $2,127 | $2,243 | $2,239 | $2,324 | 601 |
| Net investment income | 204 | 212 | 223 | 220 | 222 | 53 |
| Other operating income | 45 | 36 | 30 | 35 | 41 | 9 |
| Net realized investment gains / OTTI | 12 | (1) | 30 | 42 | 66 | 13 |
| **Total revenues** | **$2,302** | **$2,374** | **$2,526** | **$2,537** | **$2,653** | **$676** |
| **Expense** | | | | | | |
| Losses and LAE incurred | $1,242 | $1,429 | $1,338 | $1,322 | $1,327 | $365 |
| Policy acquisition costs | 255 | 266 | 281 | 279 | 295 | 75 |
| Other operating expense | 294 | 300 | 326 | 336 | 341 | 77 |
| Interest expense | 21 | 23 | 26 | 26 | 28 | 8 |
| **Total expenses** | **$1,812** | **$2,019** | **$1,971** | **$1,964** | **$1,991** | **$526** |
| **Income (loss) before income taxes** | **$490** | **$355** | **$554** | **$573** | **$662** | **$151** |
| ( - ) Tax (provision) / benefit | (145) | (100) | (163) | (166) | (203) | (38) |
| **Net income after tax** | **$345** | **$255** | **$391** | **$407** | **$458** | **$113** |
| **Main indicators** | | | | | | |
| ROE | 11.0% | 7.8% | 11.5% | 11.3% | 12.1% | 11.5% |
| Expense ratio(1) | 24.7% | 24.4% | 24.4% | 24.8% | 25.4% | 25.7% |
| Loss ratio(1) | 60.8% | 67.2% | 59.7% | 59.1% | 57.1% | 60.8% |
| Combined ratio(1) | 85.5% | 91.6% | 84.1% | 83.9% | 82.5% | 86.5% |

(1) Expense, loss and combined ratios are revised to reflect a change in the basis of calculation in the first quarter of 2015.

# Appendix: Financial Statements

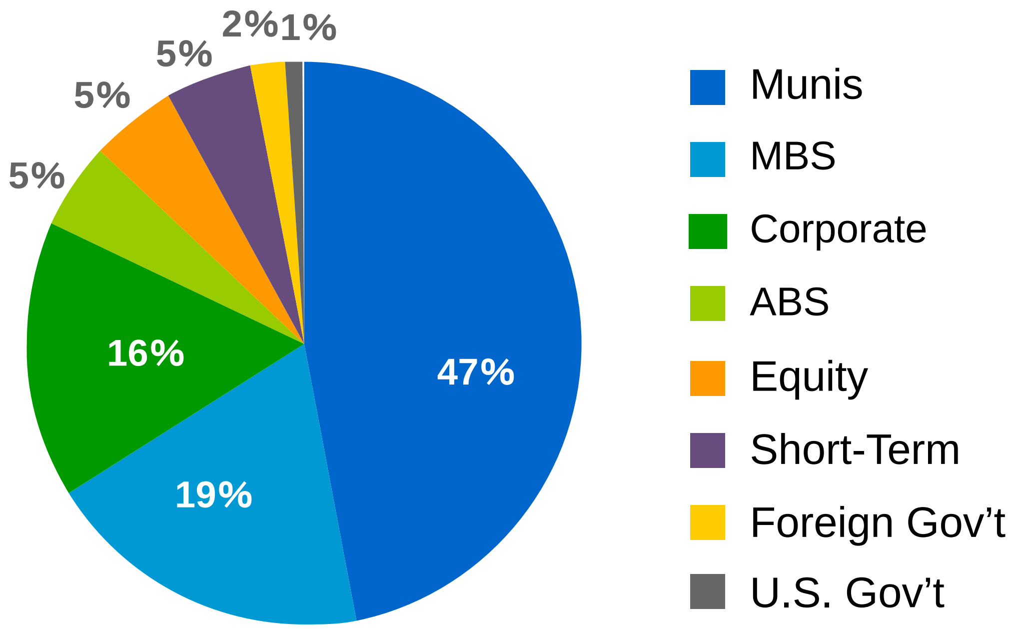
## HCC Historical Balance Sheet

| ($ in millions) | 2010 | 2011 | 2012 | 2013 | 2014 | Q1 2015 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Invested assets[1] | $5,933 | $6,384 | $7,123 | $6,903 | $7,386 | $7,328 |
| Premium, claims and other receivables | 636 | 689 | 550 | 580 | 553 | 728 |
| Reinsurance recoverables | 1,007 | 1,056 | 1,071 | 1,277 | 1,169 | 1,176 |
| Ceded unearned premium | 279 | 222 | 257 | 305 | 317 | 333 |
| Ceded life and annuity benefits | 58 | 61 | 59 | 56 | 48 | 49 |
| Deferred policy acquisition costs | 185 | 190 | 192 | 202 | 220 | 237 |
| Goodwill | 822 | 873 | 886 | 895 | 906 | 949 |
| Other assets | 116 | 123 | 130 | 126 | 115 | 227 |
| **Total assets** | **$9,036** | **$9,597** | **$10,268** | **$10,345** | **$10,714** | **$11,026** |
| **Liabilities** | | | | | | |
| Loss and LAE payable | $3,472 | $3,658 | $3,768 | $3,902 | $3,728 | $3,693 |
| Life and annuity policy benefits | 58 | 61 | 59 | 56 | 48 | $49 |
| Reinsurance, premium and claims payable | 346 | 366 | 295 | 333 | 301 | 434 |
| Unearned premium | 1,046 | 1,031 | 1,070 | 1,135 | 1,199 | 1,305 |
| Deferred ceding commissions | 73 | 62 | 75 | 90 | 94 | 101 |
| Notes payable | 299 | 479 | 584 | 654 | 824 | 889 |
| Accounts payable and accrued liabilities | 465 | 665 | 876 | 500 | 616 | 621 |
| **Total liabilities** | **$5,758** | **$6,323** | **$6,725** | **$6,670** | **$6,811** | **$7,093** |
| **Equity** | | | | | | |
| **Total shareholders' equity** | **$3,278** | **$3,274** | **$3,543** | **$3,674** | **$3,903** | **$3,933** |


(1) Invested assets include total investments, cash and restricted cash.

# Appendix: HCC Asset Allocation (as of March 31, 2015)

## Asset Allocation




## Fixed Maturity Securities

| | |
|---|---|
| – Average Rating | AA |
| – Average Duration | 4.7 years |
| – Average Yield | 3.3% |


Source: HCC investor presentation. Data as of 3/31/15.

# Appendix: Definition of Adjusted Net Income, Adjusted ROE

## Adjusted Net Income*1

Adjusted Net Income = Net income (consolidated) *2 + Provision for catastrophe loss reserves*3 + Provision for contingency reserves*3 + Provision for price fluctuation reserves*3 - Gains or losses on sales or valuation of ALM*4 bonds and interest rate swaps + Amortization of goodwill and other intangible fixed assets - Gains or losses on sales or valuation of fixed assets - Other extraordinary gains/losses, valuation allowances, etc

## Adjusted Net Assets*1（average balance basis）

Adjusted Net Assets = Net assets (consolidated) + Catastrophe loss reserves + Contingency reserves + Price fluctuation reserves − Goodwill and other intangible fixed assets

## Adjusted ROE

Adjusted ROE = Adjusted Net Income ÷ Adjusted Net Assets

*1: Each adjustment is on an after-tax basis

*2: Net income is attributable to owners of the parent

*3: Reversals are subtracted

*4: ALM:
Asset Liability Management. Excluded as counter balance items against market value fluctuations of liabilities under ALM

# Investor Relations Contact

For further information, please contact:

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