



**China Reinsurance (Group) Corporation
(1508.HK)
Acquisition of Chaucer**

September 2018



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Agenda



1

Transaction Overview

2

Overview of Chaucer

3

Investment Highlights

Transaction Overview



01

Vendor

- ❖ The Hanover Insurance Group, Inc

02

Assets to be acquired

- ❖ 100% of the issued share capital of three Target Companies (together, “Chaucer”)
 - The Hanover Insurance International Holdings Limited
 - Chaucer Insurance Company Designated Activity Company
 - Hanover Australia HoldCo Pty Ltd

03

Consideration

- ❖ Total consideration of US\$865 million, comprised of:
 - US\$820 million initial consideration
 - US\$45 million contingent consideration in escrow, subject to a dollar-for-dollar reduction if Chaucer’s 2018 current accident year catastrophe losses are above 10% of its net earned premiums

04

Financing

- ❖ The Group intends to fund the acquisitions by its internal financial resources and/or merger and acquisition financing of not more than US\$550 million

05

Approvals and timing

- ❖ Closing subject to domestic and overseas regulatory approvals, in addition to approval from China Re shareholders
- ❖ Closing expected late this year or in the first quarter of 2019

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1

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Chaucer: Business Overview



Overview

- Headquartered in London with overseas offices set up in various locations around the world, Chaucer is a global (re)insurance company with strong underwriting capabilities and expertise in specialty insurance
- Chaucer owns syndicate 1084, the 11th largest syndicate at Lloyd's, and syndicate 1176, a world leading nuclear insurance syndicate
- Underwriting portfolio covers 45 lines of business, recording gross premium of US\$1.2 billion in 2017
- Led by John Fowle (CEO & CUO) who has more than 26 years of Lloyd's experience and a seasoned management team

Business Platform

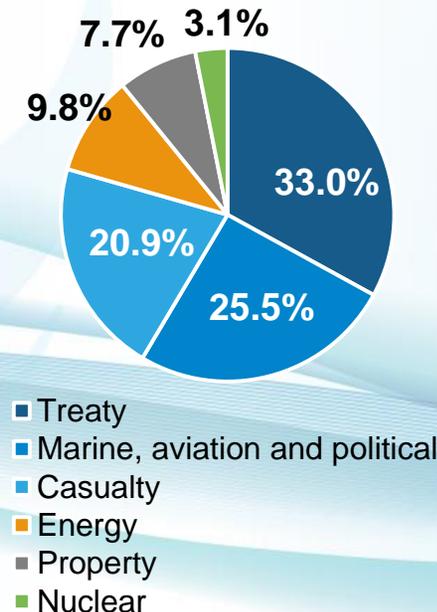
Lloyd's Platform

- Manage syndicate 1084 and syndicate 1176 with 100% and 57% of economic interests respectively
- Australian MGA to provide business channels

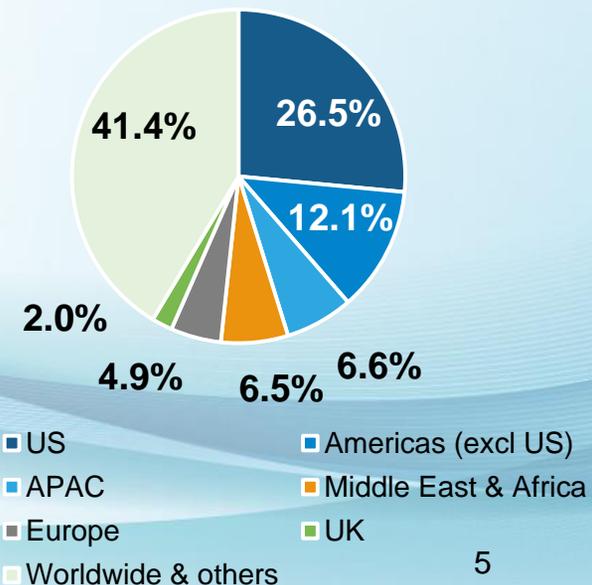
Dublin Platform

- Underwriting insurance and reinsurance business outside the Lloyd's market to provide multiple choices for clients

2017 GWP split by Product¹



2017 GWP split by Region¹



¹ Data from The Hanover Insurance Group

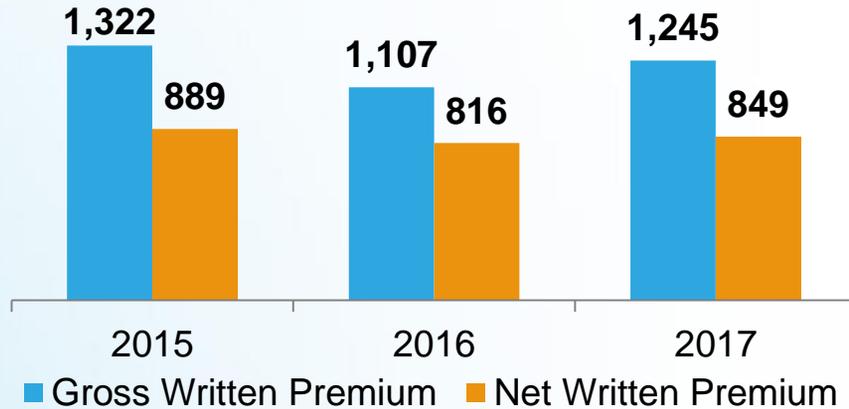
Chaucer: Financial Information



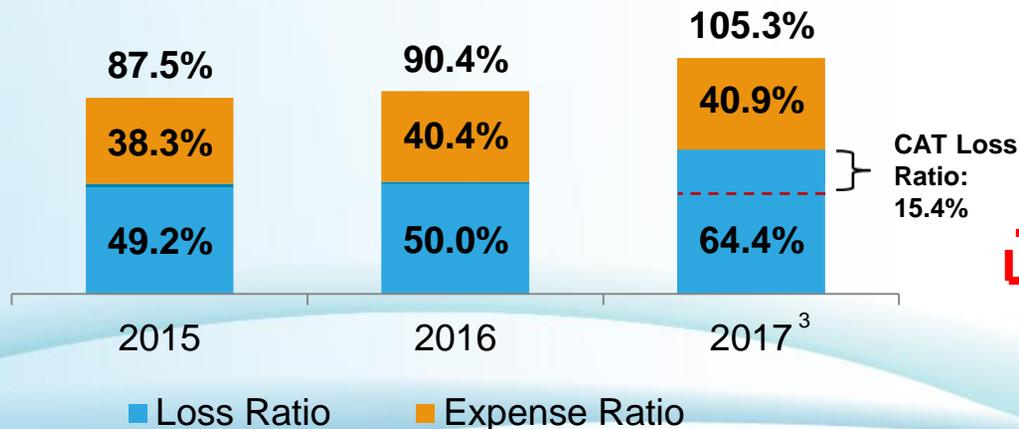
Tier 1 syndicate at Lloyd's with stable premium income and underwriting profit

Premiums¹

(US\$ in millions)

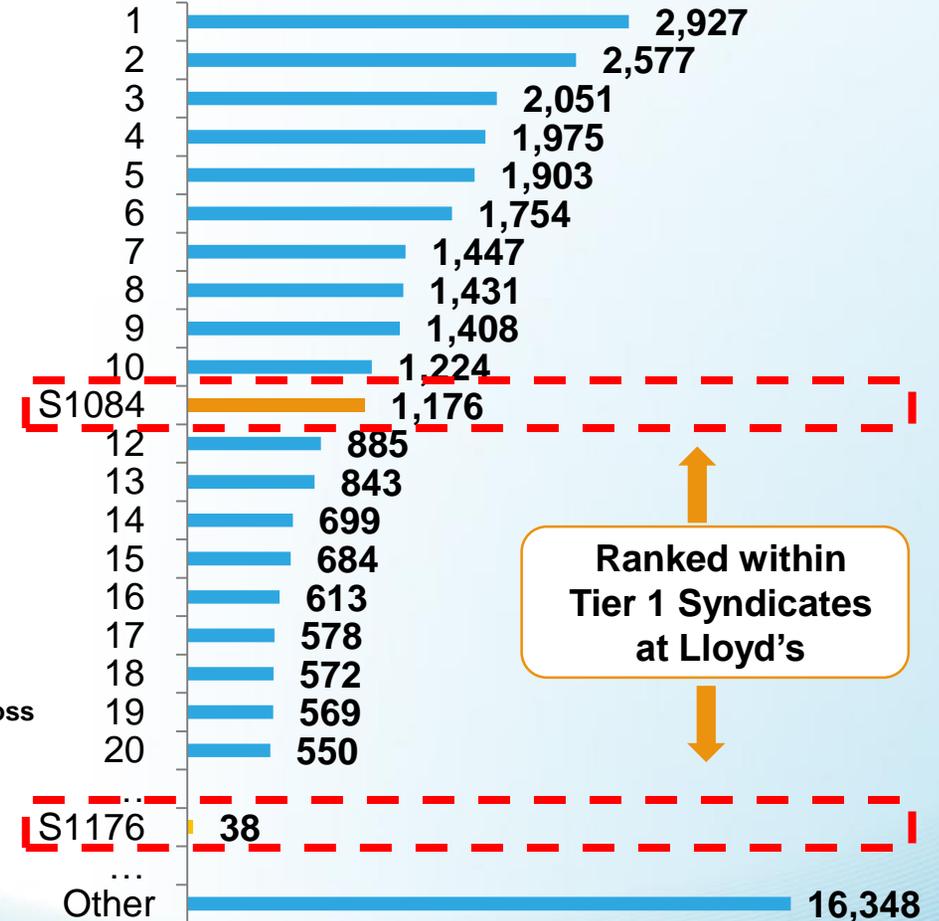


Combined Ratio¹



Top 20 Syndicates, 2017 GWP²

(US\$ in millions)



¹ Sources: The Hanover Insurance Group; ² Sources: Lloyd's annual report; ³ Combined ratio was higher than previous years due to catastrophe losses

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1

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3

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Investment Highlights Summary



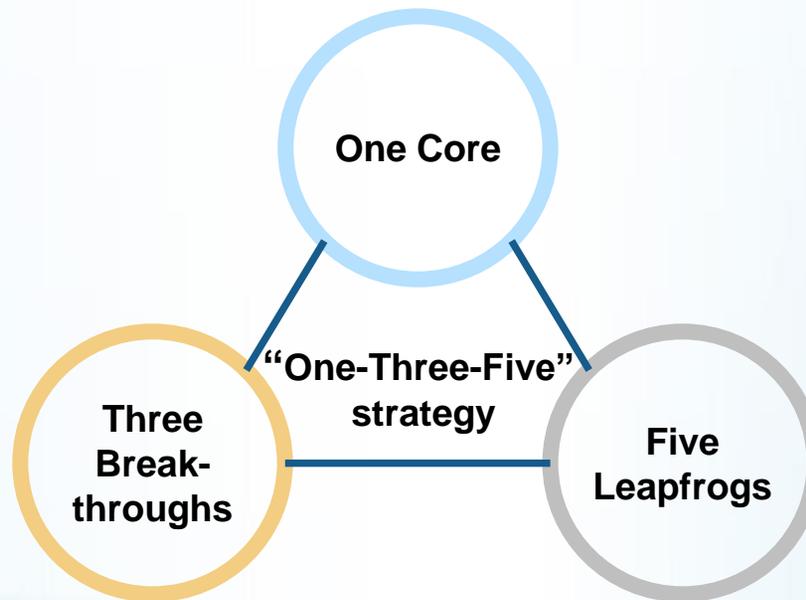
- Supports “One-Three-Five” Strategy and accelerates overseas layout
- Exerts synergy effect and enhances international expansion capability
- Incorporates top performing syndicates and accesses the global resource of Lloyd’s
- Introduces advanced underwriting technology and develops specialty lines
- Expands overseas business and offers more balanced geographical diversification
- Chaucer’s solid performance brings China Re a growing capital return
- Introduces an excellent management team to enhance China Re’s international influence



Investment Highlights (1/7)

Supports “One-Three-Five” Strategy and accelerates overseas layout

Chaucer is a leading player in specialty insurance and reinsurance. The acquisition fully aligns with the “one core” spirit of China Re which points out that the most important role of China Re is to be wholly embedded in the reinsurance business.



As a leader at Lloyd’s, syndicates of Chaucer will bring synergies to China Re’s domestic and overseas business, and will raise China Re’s profile at Lloyd’s as well as in the global insurance market.

With global business access, Chaucer actively explores business both from mature markets including the U.S. and Europe, as well as emerging markets, leading China Re to gain a global presence and strong market influence.

Investment Highlights (2/7)



Exerts synergy effect and enhances international expansion capability



✓ Ranked 1st in Asia and 8th globally in terms of reinsurance premiums

Market Position

✓ Global specialty insurance and reinsurance expert with syndicate 1084 as the 11th largest syndicate at Lloyd's ¹

✓ The only state-owned reinsurance group in China with dominant position in the market. Positioned as a pioneer of Going-Global

Global Presence

✓ Global business access via Lloyd's with presence in a number of regions including Dublin, Sydney, Dubai, etc.

✓ Leading position in the traditional lines in China

Product Advantages

✓ A world-class leader in specialty lines

✓ Pioneer of risk management along Belt and Road countries

Business Direction

✓ Expert in political risk products

✓ Strong capital and financial position

Complementary Resources

✓ Excellent underwriting teams and extensive business channels

¹ Ranked by 2017 premiums

Investment Highlights (3/7)



Incorporates top performing syndicates and accesses the global resource of Lloyd's

- ❖ Lloyd's is the world's leading specialty insurance and (re)insurance market place. Participants in the market enjoy a number of benefits including resource access and capital flexibility
- ❖ The two complete, independent syndicates Chaucer manages at Lloyd's (Syndicate 1084 and Syndicate 1176) will help China Re to participate actively in the Lloyd's market and implement its strategy for international growth

LLOYD'S

Global
Insurance
Network

- ✓ Global (re)insurance footprints:
>200 markets
- ✓ Entities / representative offices in emerging markets

- ✓ S&P: **A+**
- ✓ Fitch: **AA-**
- ✓ A.M. Best: **A**

Strong
Credit
Ratings

Lloyd's

Flexible
Capital
Advantage

- ✓ Flexibility over assets used to satisfy FAL requirements drives superior capital efficiency

Sound
Operating
Results

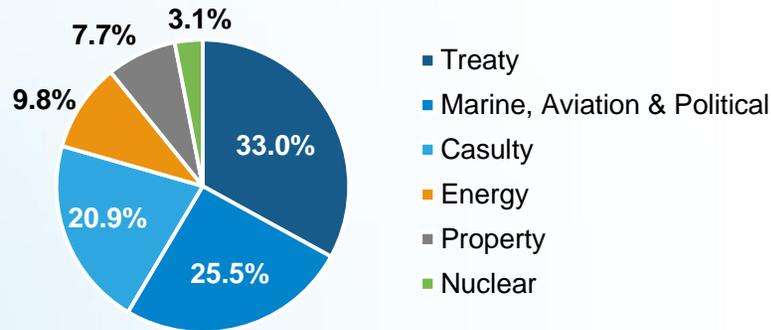
- ✓ Premiums grew steadily over the past 10 years with an average growth rate of **6%**
- ✓ Average combined ratio for the past 10 years: **90.8%**



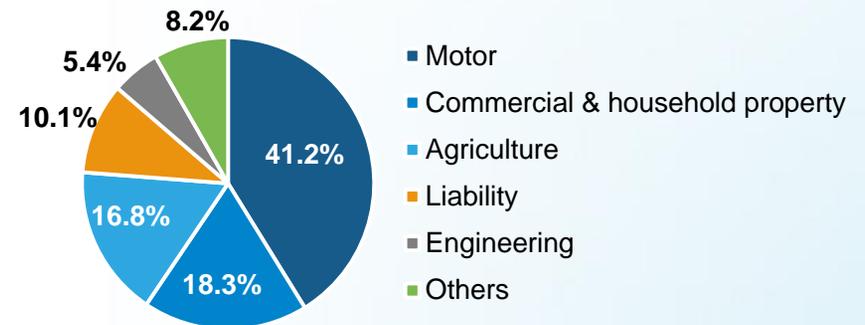
Investment Highlights (4/7)

Introduces advanced underwriting technology and develops specialty lines

Chaucer 2017 GWP split by Product¹



China Re Group 2017 P&C GWP split by Product (China)



Political Risk

Cooperation under Belt and Road Initiative drives increased insurance demand from Chinese enterprises' "Going Global"

- Covering more than 60 countries and regions
- Complex geopolitical and religious issues
- Insufficient supply of professional insurance solutions

Chaucer's strength in political risk

- Chaucer has leading capabilities to provide professional solutions
- Excellent underwriting team: well-known political violence and political risk insurance underwriter

Nuclear Insurance

Addressing the growing needs for nuclear insurance solutions arising from rapidly growing nuclear industry in China, and leveraging China Re's role as Chairman of China Nuclear Insurance Pool

- Rapid growth of nuclear industry in China
- As Chairman of China Nuclear Insurance Pool, China Re will be the leader in developing know-hows and talents

Chaucer's expertise in nuclear insurance

- Syndicate 1176 is a leading nuclear insurance provider, uniquely positioned in the Lloyd's market
- Syndicate 1176 plays an important role with strong influence in the field of nuclear insurance

As a leader in political risk insurance and nuclear insurance, Chaucer will bring China Re talent and expertise in the sector, enhancing the underwriting capabilities in specialty lines.

¹ Source: The Hanover Insurance Group



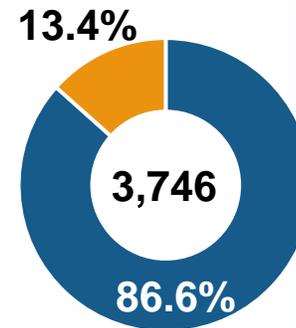
Investment Highlights (5/7)

Expands overseas business and offers more balanced geographical diversification

- ✓ As the 11th largest Syndicate at Lloyd's, Chaucer's business comprises of 45 lines of business, which will add sizable premiums to China Re's portfolio and boost China Re's position in the international market
- ✓ Chaucer has experienced underwriting team and extensive distribution channels in Dublin, Sydney, Dubai and other major regions, expanding China Re's international footprint
- ✓ China Re's pro-forma overseas reinsurance assumed will increase substantially, forming a more balanced business structure

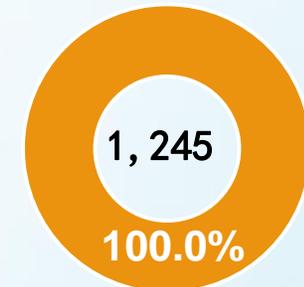
China Re P&C 2017 GWP

(US\$ in millions)



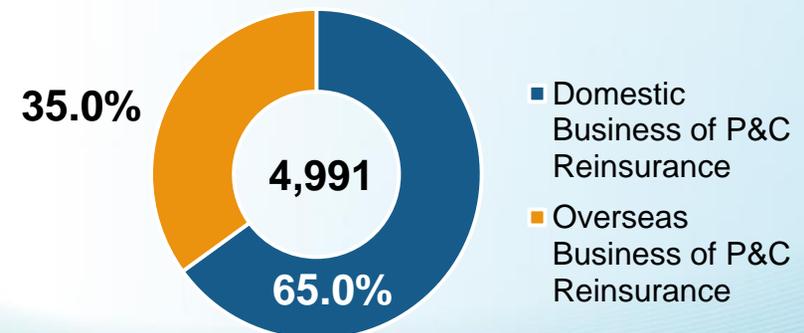
Chaucer 2017 GWP¹

(US\$ in millions)



Pro Forma Consolidated 2017 GWP

(US\$ in millions)



China Re + Chaucer

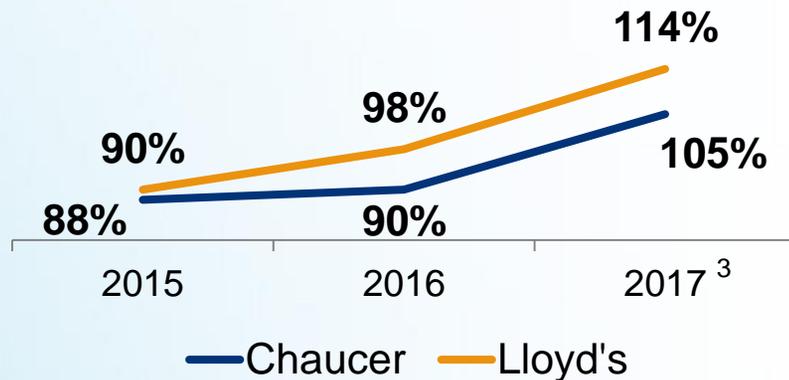
¹ Sources: The Hanover Insurance Group



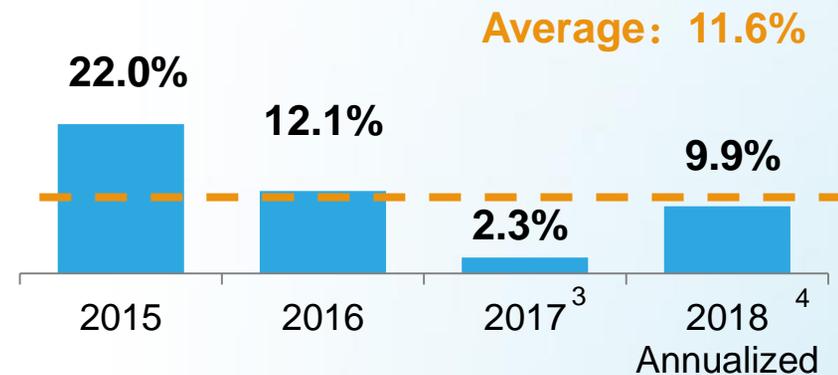
Investment Highlights (6/7)

Chaucer's solid performance brings China Re a growing capital return

Combined Ratio of Chaucer vs Lloyd's¹



Chaucer ROE²



- ✓ Historically, Chaucer maintained a combined ratio lower than Lloyd's for years, which is helpful to boost underwriting profitability of China Re
- ✓ Chaucer's average ROE in the past 4 years was 11.6%, which is helpful to improve China Re's capital return post acquisition

¹ Sources: The Hanover Insurance Group; ² ROE = Net Income / Average Equity; ³ Due to catastrophe losses, combined ratio in 2017 was higher than previous years and profitability went down accordingly; ⁴ Equity as of 30 June 2018 equals US\$520 million tangible net assets plus US\$73.2 million intangible assets. Net profit after tax for 6 months ended 30 June 2018 equals US\$31.6 million.

Investment Highlights (7/7)



Introduces an excellent management team to enhance China Re's international influence



Experienced Team

- ❖ Chaucer's senior management team has significant experience and expertise in the Lloyd's market. Their average tenure at Chaucer is 14 years
- ❖ Chaucer's team is able to bring advanced technical know-how and international management capability, enhancing the international development of China Re
- ❖ By setting up retention plans and incentive schemes, China Re will ensure Chaucer's core team to remain stable



Sound Market Reputation

- ❖ Long track record of delivering diverse and customized products and services have brought Chaucer a good reputation globally
- ❖ Chaucer's claims team received Outstanding service rating (Gracechurch report) – the highest possible rating as voted by brokers
- ❖ Chaucer maintains a high customer retention rate



Definitions

- ❖ Exchange rate of USD / CNY of 6.737 (2017 average)
- ❖ Financial information of Chaucer from annual reports of The Hanover Insurance Group, Inc.
- ❖ Financial information of the syndicates and Lloyd's market from annual reports of each syndicate and Lloyd's
- ❖ Combined Ratio (including CAT) = Expense Ratio + Loss Ratio (including CAT)
- ❖ Expense Ratio = Underwriting Expense / Net Premium Earned
- ❖ Loss Ratio (including CAT), or Loss and Loss adjustment expense ("LAE") Ratio = Loss and loss adjustment expenses incurred / Net Premiums Earned
- ❖ CAT Loss Ratio = Catastrophe Losses / Net Premium Earned
- ❖ Non-CAT Loss Ratio = Loss ratio (including CAT) – CAT loss ratio
- ❖ Combined Ratio reconciliation (source as annual reports of The Hanover Insurance Group):

	2015	2016	2017
Expense Ratio	38.3%	40.4%	40.9%
Loss Ratio (including CAT)	49.2%	50.0%	64.4%
Non-CAT Loss Ratio	47.6%	49.0%	49.0%
CAT Loss Ratio	1.6%	1.0%	15.4%
Combined Ratio (including CAT)	87.5%	90.4%	105.3%



Q&A