



**SOMPO  
HOLDINGS**

Innovation for Wellbeing

  
**Endurance**  
YOUR RISK IS OUR FOCUS

# Acquisition of Endurance Specialty Holdings

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October 5, 2016

**Sompo Holdings, Inc.**

# Disclaimer

The information in this presentation is subject to change without prior notice. Financial data included in this presentation relating to Endurance Specialty Holdings Ltd. (“Endurance”) is based on its public filings with the United States Securities and Exchange Commission. Statements contained in this presentation that relate to the future operating performance of Sompo Holdings, Inc. (the “Company”) or other future events, transactions or conditions are forward-looking statements. Forward-looking statements may include – but are not limited to – words such as “believe,” “anticipate,” “plan,” “strategy,” “expect,” “forecast,” “predict,” “possibility” and similar words that describe future operating activities, business performance, events or conditions. Forward-looking statements relating to the transaction involving the Company and Endurance include, but are not limited to: statements about the anticipated benefits of the transaction, including future financial and operating results; the Company’s plans, objectives, expectations and intentions; the expected timing of completion of the transaction; and other statements relating to the transaction that are not historical facts.

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# Highlights (1)

## Key points of the transaction

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- We agreed with Endurance Specialty Holdings Ltd. (“Endurance” hereafter) today (October 5, 2016) to commence procedures on the acquisition of Endurance.
- Total consideration is \$6,304 million (about ¥637.5 billion<sup>\*1</sup>), and PBR is 1.36x.
- Closing (100% acquisition) is expected around February 2017 or later, subject to the approval of Endurance shareholders and required regulatory approvals.

## Overview of Endurance

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- Specialty insurance group who writes both insurance and reinsurance mainly in US and Bermuda
- Experienced management team with an exemplary track record of achieving sustainable growth (Gross premiums CAGR of 7.1%<sup>\*2</sup> over the last 10 years)
- High profitability as seen by the 10 year average ROE of 11.8%
- Stable operation with a diversified portfolio and sophisticated risk management (ERM score from S&P is rated “Strong”)

\*1 \$1=¥101.12 as of the end of September 2016 (The same shall apply hereafter.)

\*2 Calculated based on publicly disclosed figures of Endurance.

## Highlights (2)

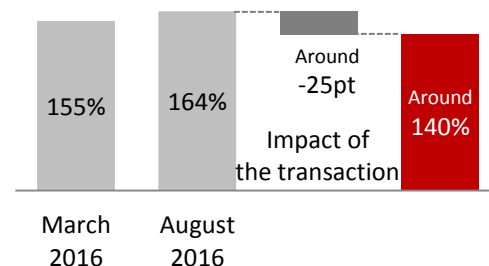
### Strategic rationale of the transaction for the Group

- Improve capital efficiency and adjusted consolidated ROE, one of the key management indicators, by conducting a disciplined investment consistent to our overseas strategy as explained in our mid-term management plan.
- Increase the probability of achieving our management targets: expect contribution to adjusted consolidated profit of around +¥40.0 billion (FY2018).
- Acquire business base in developed market: will establish truly integrated global insurance platform.

### Financial soundness and shareholder return

- The impact on internal solvency ratio is around -25 points. We have no issue since we can keep our target range of 120 to 170%.
- We can keep improving our shareholder return sustainably through EPS growth.
- Adjusted EPS is expected to increase by around ¥100 (FY2018), and is projected to expand further.

(Reference) Internal solvency ratio



# Summary

Transaction Structure	<ul style="list-style-type: none"> <li>Sompo Japan Nipponkoa Insurance Inc. will acquire 100 % of Endurance's outstanding shares (all in cash) and make Endurance a consolidated subsidiary.</li> </ul>
Consideration, etc.	<ul style="list-style-type: none"> <li>Consideration: \$6,304 million (¥637.5 billion)<sup>*1</sup> (\$93 per share)</li> <li>1.36x book value per share (PBR)<sup>*2</sup> (Reference) 1.44x average book value per share of the precedent M&amp;A transactions of US P&amp;C insurers over the last 3 years from 2013 to 2015 (1.49x over the last 1 year)</li> <li>Expected maximum goodwill of approximately ¥223.0 billion</li> </ul>
Funding	<ul style="list-style-type: none"> <li>Excess cash on hand (no equity financing related to the transaction)</li> </ul>
Required Procedures	<div style="display: flex; justify-content: space-around; align-items: center;"> <div style="text-align: center;"> <p>Dec. 2016-Jan. 2017</p> <div style="border: 1px solid black; padding: 5px; width: 150px;">Approval by Endurance shareholders</div> </div> <div style="font-size: 2em;">▶</div> <div style="text-align: center;"> <p>Jan. 2017 or later</p> <div style="border: 1px solid black; padding: 5px; width: 150px;">Required regulatory approvals</div> </div> <div style="font-size: 2em;">▶</div> <div style="text-align: center;"> <p>Feb. 2017-Mar. 2017<sup>*3</sup></p> <div style="background-color: #cccccc; padding: 5px; width: 150px;">Completion (Expected)</div> </div> </div>

<sup>\*1</sup> We have received an opinion from Citigroup Global Markets Inc., dated October 4, 2016, to the effect that, based upon and subject to assumptions made, procedures followed, matters considered and limitations on review undertaken, as noted in the opinion, the consideration to be paid in the Transaction was fair, from a financial point of view.

Premium is 41.7% to 1 month average price and 43.2% to the latest price (\$64.96 market close on October 3, 2016, EST).

<sup>\*2</sup> Calculated based on the consolidated net assets of Endurance of \$4,615 million (¥466.7 billion, excluding preferred shares) as of end of June 2016.

<sup>\*3</sup> Expect to close the acquisition immediately after obtaining required regulatory approvals.

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# About Endurance

◆ Specialty insurance group with experienced managements and strengths in underwriting.

## Strengths

### ■ High growth and strong underwriting capabilities

- Proven high growth driven by experienced underwriters
- Strong expertise in areas such as D&O and Agriculture

### ■ Stable profitability in reinsurance

- Developed a stable portfolio by reducing CAT risk and increasing new lines
- Acquired Montpelier<sup>\*1</sup> in 2015 and improved business efficiency through economies of scale

### ■ Robust governance by best-in-class management

- CEO with rich experience and track record in the US and European insurance space
- Diverse management team exemplifying sound governance

\*1 Bermudian reinsurer also operating underwriting business in Lloyd's

## Overview

- Founded: 2001
- Headquarters: Bermuda (listed on the NYSE)
- Representative (Chairman and CEO): John Charman
- Number of Employees<sup>\*2</sup>: 1,154
- Key Figures (US-GAAP)<sup>\*2</sup>:

Gross Premium	\$3.32 bn.	(¥335.8 bn.)
Consolidated Net Income	\$0.34 bn.	(¥34.8 bn.)
Market Cap.	\$4.26 bn.	(¥431.1 bn.)

- Business: P&C (insurance and reinsurance)
- Credit ratings of main insurance subsidiaries:

S&P	A
Moody's	A2
A.M. Best	A

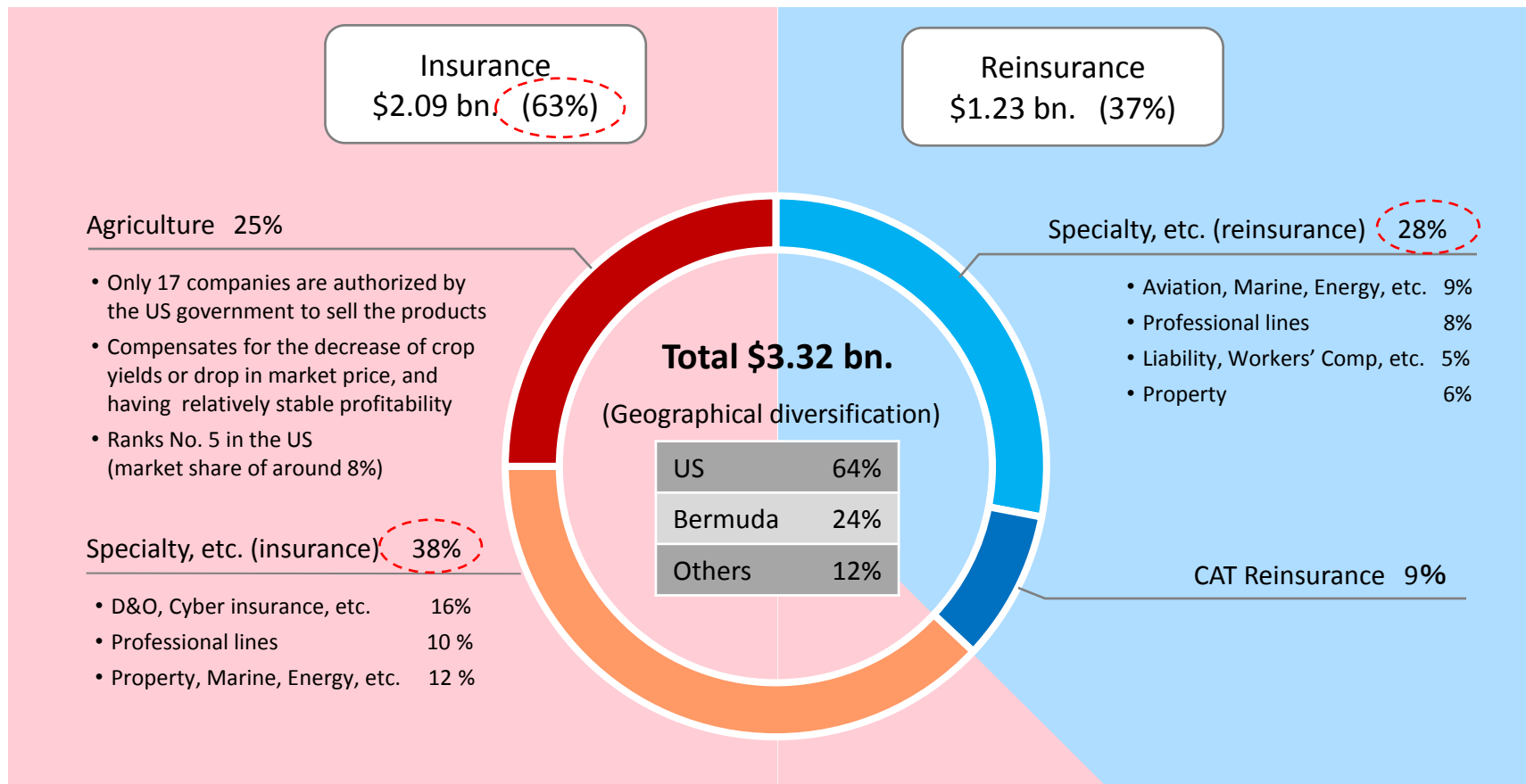
\*2 Figures disclosed by Endurance (FY2015).



# Business Portfolio

- ◆ Business portfolio balanced in both insurance and reinsurance.
- ◆ Recently focusing on specialty business in the US and primary underwriting in the UK.

## Breakdown of gross premiums in 2015

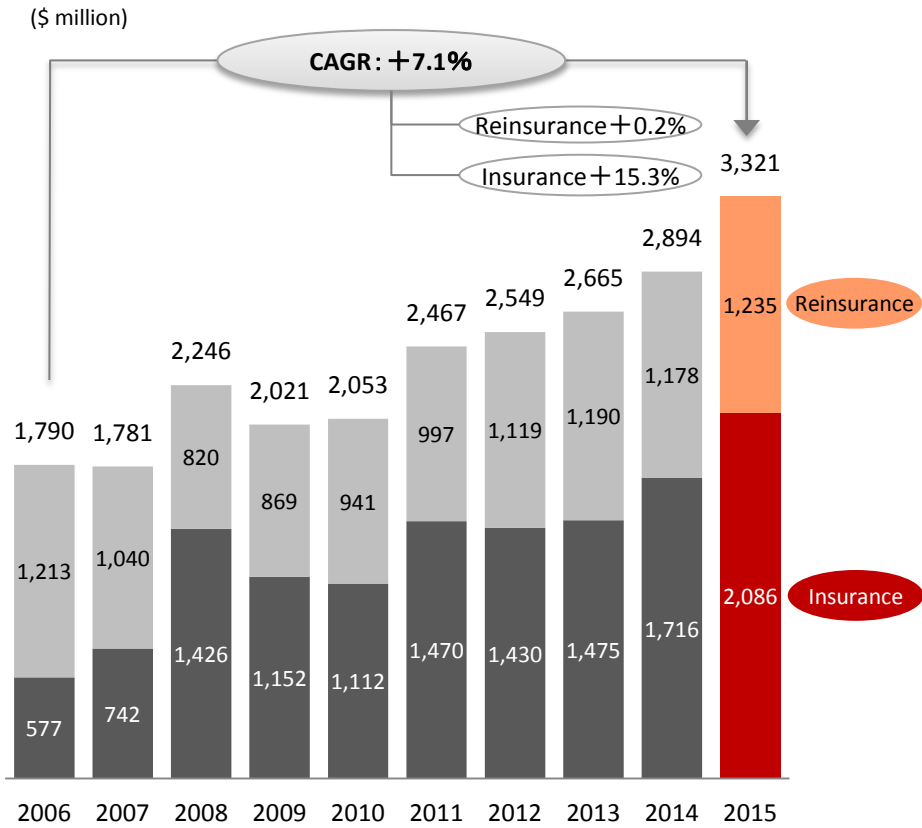


# Gross Premiums and Combined Ratio

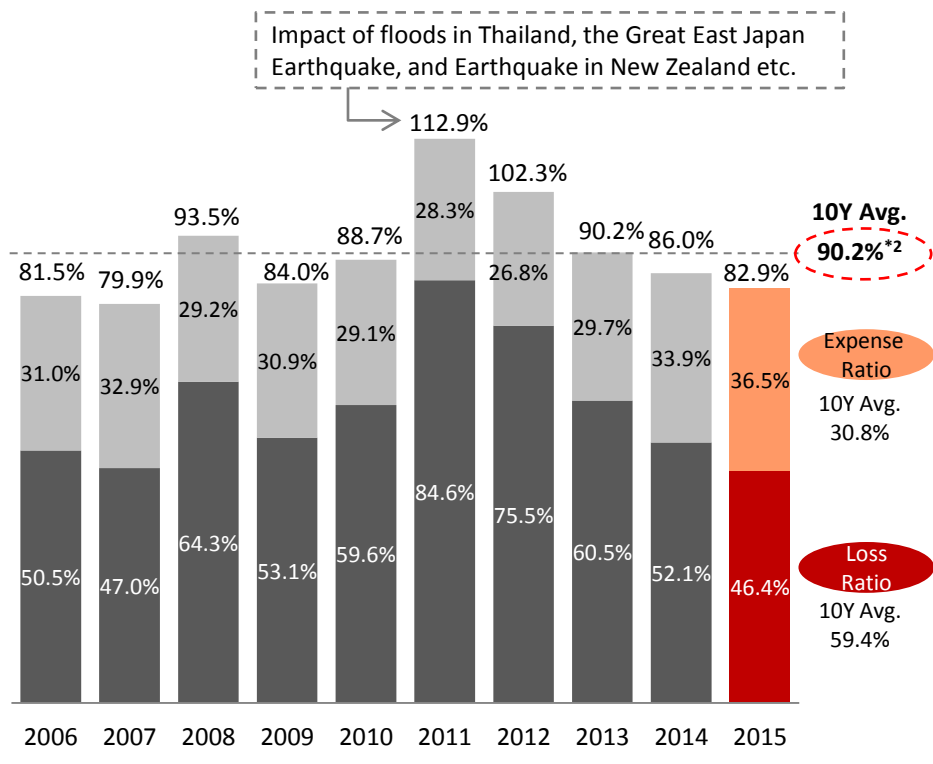
◆ Achieved strong growth of gross premiums of 7.1%\*<sup>1</sup> mainly in primary insurance, and maintained an improving trend to achieve an average combined ratio of 90.2%\*<sup>1</sup>.

\*1 10 year average

## Trends of gross premiums



## Trends of combined ratio

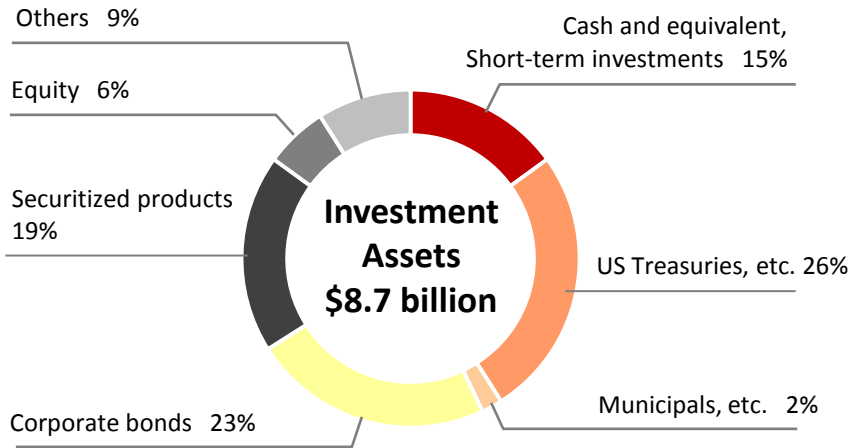


\*2 Average figure excluding FY2011 is 87.7%

# Asset Management

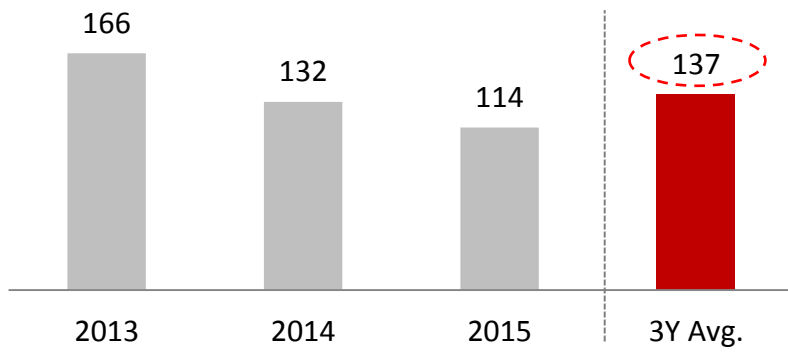
◆ Investment portfolio focused on high stability and liquidity, mainly in fixed income assets.

## Investment portfolio (As of end of June 2016)



## Investment results

Investment income (\$ million)

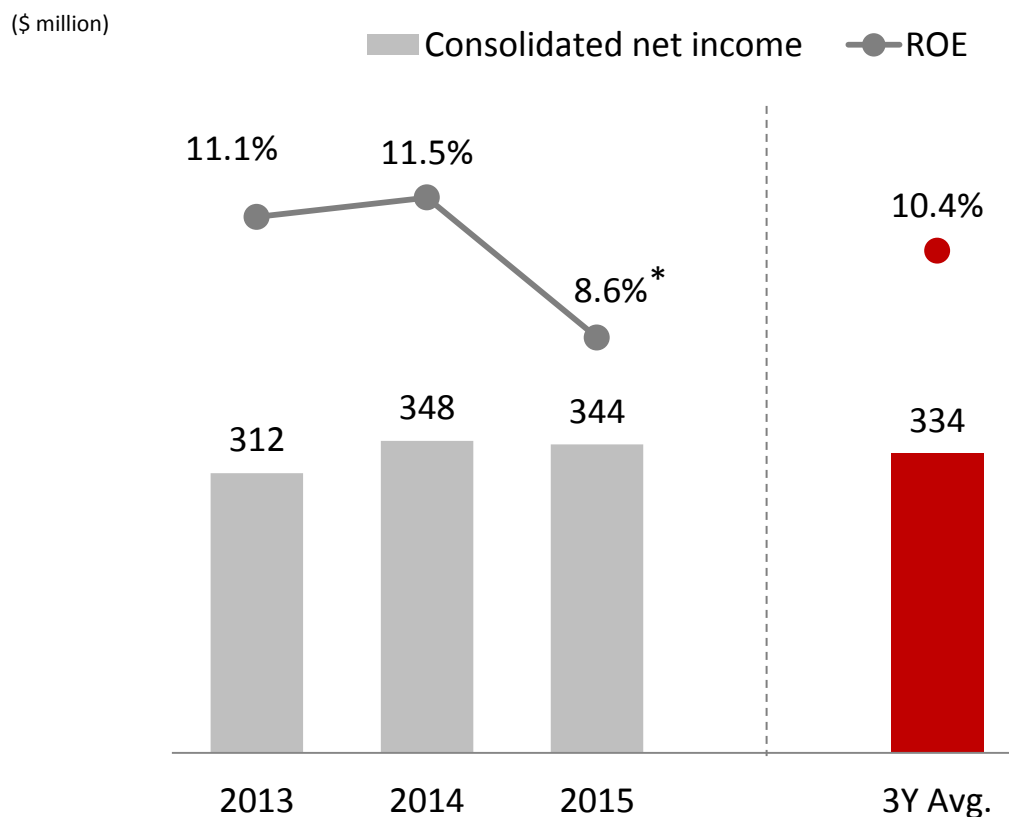


	2013	2014	2015	3Y Avg.
Investment Yield (%)	2.6%	2.0%	1.5%	2.0%
Duration (years)	3.1	2.9	2.7	2.9

## Consolidated Net Income and ROE

◆ Profit level of over \$300million and ROE of around 10%, and planning for further growth.

### Trends of consolidated net income and ROE



\* Decline of ROE is due to the acquisition of Montpelier in July 2015 and the increase of consolidated net assets (while 5 months of profits contribution).

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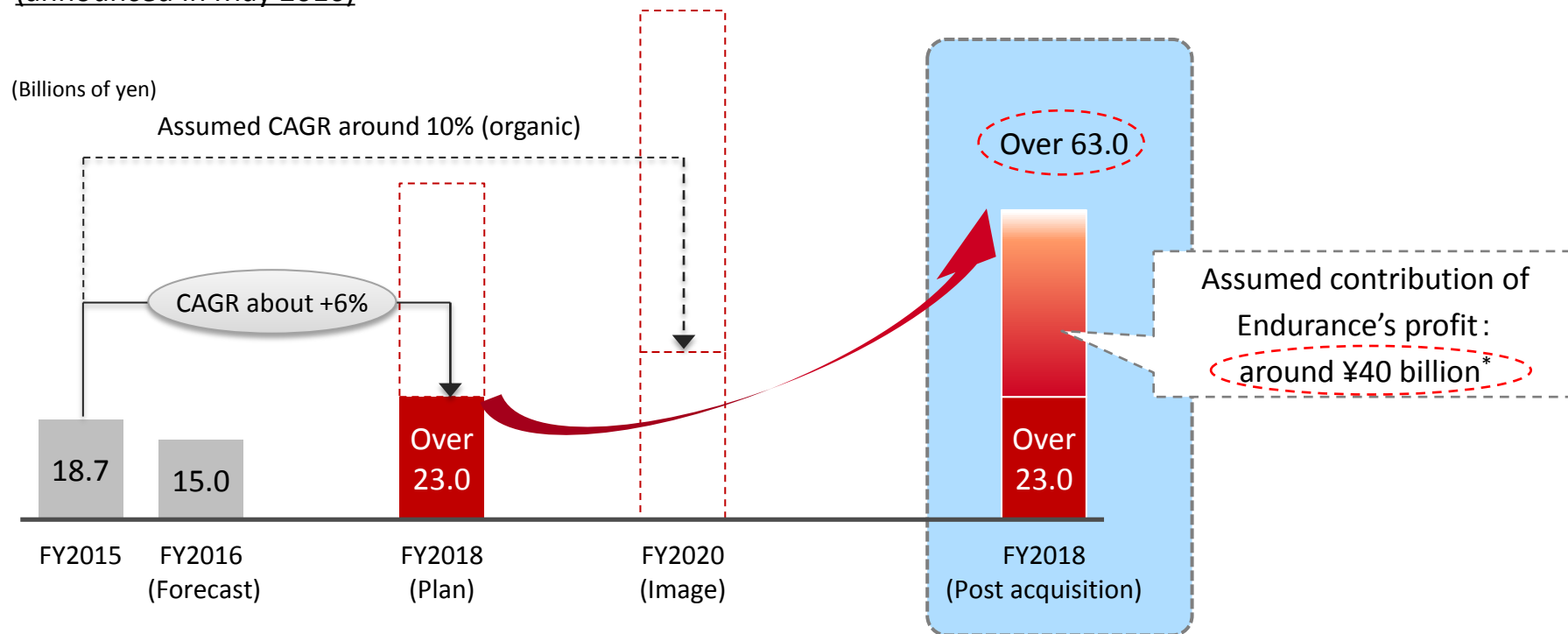
# Impact on Mid-term Management Plan

◆ Estimated profit contribution to the overseas insurance business is around ¥40 billion in FY2018, improving the likelihood of achieving our targets in the mid-term management plan.

## The mid-term management plan of overseas insurance business

Trends of adjusted profit of overseas insurance business (announced in May 2016)

Pro-forma profit illustration

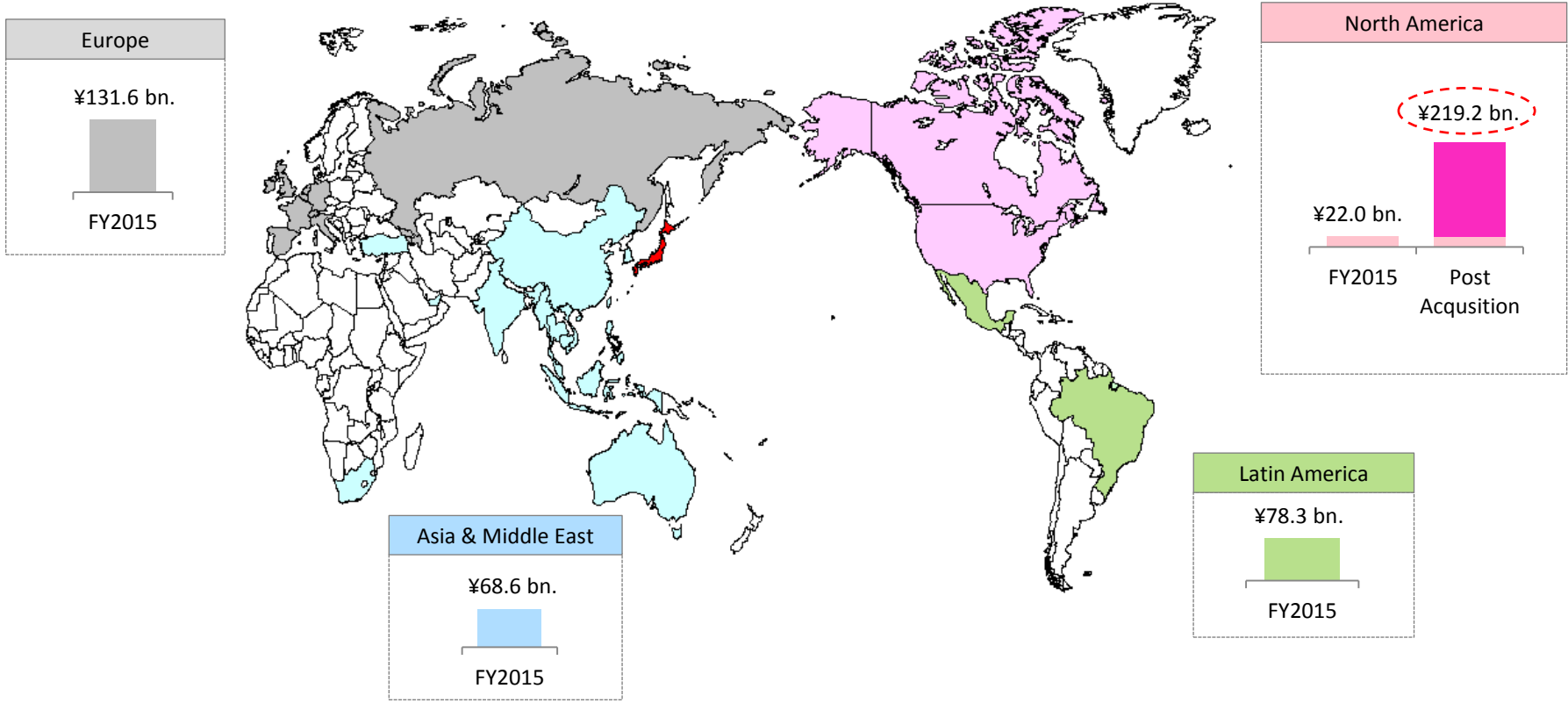


\* Proportion of overseas insurance business within the group adjusted consolidated profit would rise to 29% or above (in FY2018) due to the profit contribution from Endurance.

# Global Geographical Diversification

◆ Further global geographical diversification due to the acquisition of an underwriting business platform in North America.

## Premium income by region



\* Premiums written are those underwritten only by foreign subsidiaries, and, therefore, do not include those underwritten abroad by Sompo Japan Nipponkoa.  
 \* Post-acquisition figure is the simple sum of Endurance's company filings (FY2015 actual).

# Growth Opportunities

◆ Mutually utilize strengths in underwriting, and pursue streamlining of resources.

## Pursuit of growth opportunities

### Utilize global network

- Expand Endurance’s business through the existing global business network of SOMPO Holdings.



### Optimize resources

- Aim for improved business efficiencies by streamlining resources between existing foreign subsidiaries and Endurance.
- Accelerate leveraging Endurance’s superior skills, including risk management knowhow, across our group.



### Leverage underwriting knowhow

- Leverage product development capabilities and strong underwriting knowhow of Endurance.
- Offer Endurance’s products with customers of SOMPO Holdings globally including Japan.

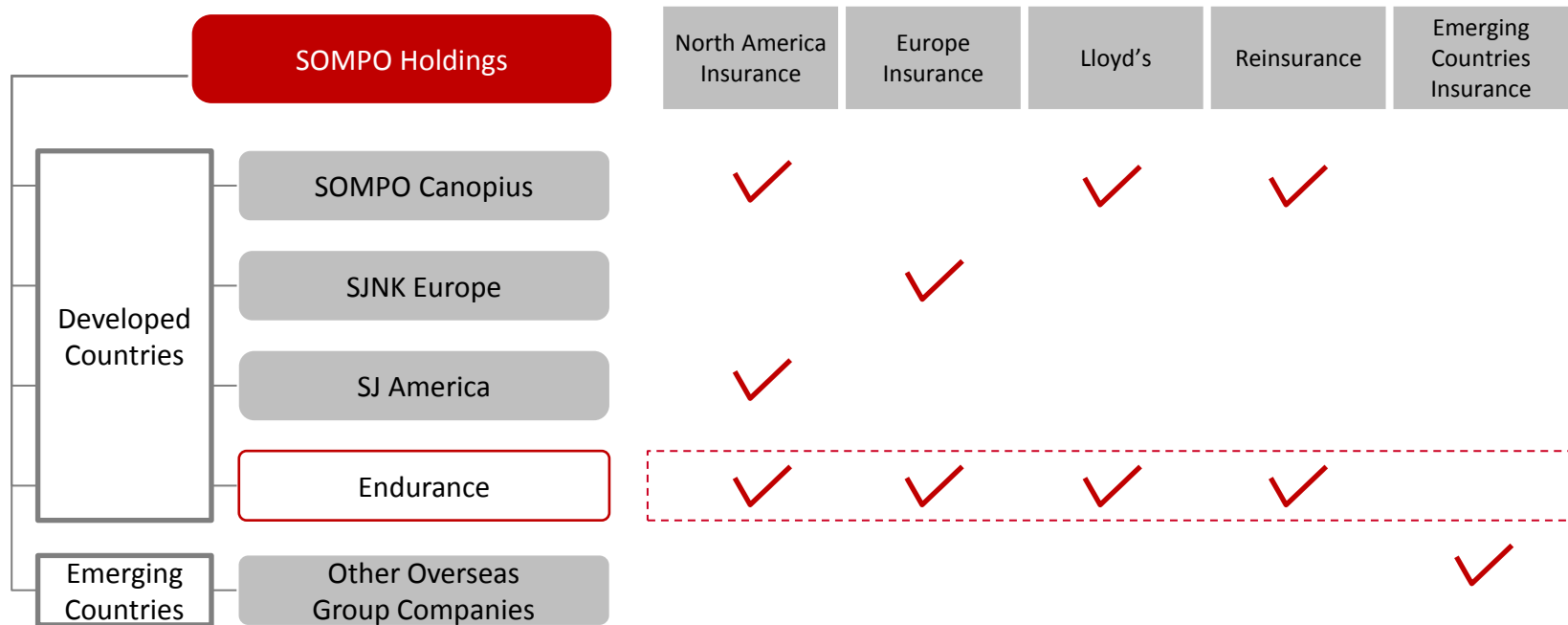


# Group Overseas Underwriting Development

◆ Realize group structure to achieve the most effective and Integrated operations through post merger integration (PMI).

## Overseas underwriting structure

- Accelerate global expansion, such as underwriting in the US, based on an established business platform for developed countries.
- Review organization by functional lines including back office integration to create the most effective business structure in the US and Europe through PMI.



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# Endurance's Historical Stock Price and Summary Financials

## Historical stock price (Since 2014)



## Summary financials

### Income Statement

(\$ million)	2013	2014	2015
Gross premiums written	2,665	2,894	3,321
Net premiums written	2,049	1,934	1,950
Net losses and loss expenses	1,220	970	917
Acquisition expenses	304	320	348
General and administrative expenses	237	247	260
Underwriting income	253	321	450
Net investment income	166	132	114
Net income	312	348	344

### Balance Sheet

(\$ million)	2013	2014	2015
Total assets	8,973	9,641	13,242
Total liabilities	6,091	6,455	8,117
Net assets	2,887	3,185	5,124

### Others (Ratio, etc.)

(\$ million)	2013	2014	2015
ROE	11.1%	11.5%	8.6%
Combined Ratio	90.2%	86.0%	82.9%
Share price (\$) *	58.67	59.84	63.99
Market cap*	2,601	2,678	4,263
PBR*	1.06	0.97	0.97

\* Data as of the end of fiscal year

# Numerical Management Targets, etc.

## Numerical targets

(Billions of yen)	FY2015	FY2016	FY2018	
	(Actual)	(Forecast)	(Plan)	(Post Acquisition / Image)
Domestic P&C insurance	111.9	120.6	Over 117.0	—
Domestic life insurance	30.4	23.0	Over 32.0	—
Nursing care & healthcare, etc.	1.5	0.8	Over 8.0	—
Overseas insurance	20.4	15.0	Over 23.0	Over 63.0
<b>Total (adjusted consolidated profit)</b>	<b>164.3</b>	<b>160.0</b>	<b>180.0 – 220.0</b>	<b>Over 220.0</b>
<b>Adjusted consolidated ROE*</b>	<b>6.9%</b>	<b>6.8%</b>	<b>Over 8%</b>	—
(Reference) ROE (J-GAAP)	9.2%	8.4%	Around 10% level	—

## Definition of adjusted profit

### Domestic P&C insurance

Net income  
 + Provisions for catastrophic loss reserve (after tax)  
 + Provisions for reserve for price fluctuation (after tax)  
 – Gains/losses on sales of securities and impairment losses on securities (after tax)  
 – Special factors (e.g. dividend from subsidiaries)

### Domestic life insurance

Net income  
 + Provision of contingency reserve (after tax)  
 + Provision of reserve for price fluctuation (after tax)  
 + Adjustment of underwriting reserve (after tax)  
 + Deferral of acquisition cost (after tax)  
 – Depreciation of acquisition cost (after tax)

### Nursing care & healthcare, etc.

Net income

### Overseas insurance

Net income  
 (including major non-consolidated subsidiaries)

\* Adjusted consolidated ROE = Adjusted consolidated profit / Adjusted consolidated net assets (The denominator is the average balance at the end/start of each fiscal year.)  
 Adjusted consolidated net assets = Consolidated net assets (excluding life insurance subsidiary's net assets) + Catastrophic loss reserve in domestic P&C insurance (after tax)  
 + Reserve for price fluctuation in domestic P&C insurance (after tax) + Domestic life insurance adjusted net assets  
 Domestic life insurance net assets = Net assets (J-GAAP, after tax) + Contingency reserve (after tax) + Reserve for price fluctuation (after tax)  
 + Adjustment of underwriting reserve (after tax) + Non-depreciated acquisition cost (after tax)

## **Note Regarding Forward-looking Statements**

The forecasts included in this document are based on the currently available information and certain assumptions that we believe reasonable. Accordingly, the actual results may differ materially from those projected herein depending on various factors.

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