Questions and Answers from October 5, 2016 Telephone Conference Regarding "Acquisition of Endurance Specialty Holdings"

Details of the Acquisition

Q: When did you start considering this acquisition? Also, what was the decisive factor behind your final decision to acquire Endurance Specialty Holdings ("Endurance") from among other candidate companies?

A: Overseas M&A activity had been an ongoing priority even during the previous Mid-Term Management Plan running through FY2015. When formulating the current Mid-Term Management Plan, the management of Sompo Holdings clarified its vision for becoming one of the top 10 global insurance companies and generating adjusted consolidated profit of ¥300 billion on the long run. In parallel, a strategy for considering overseas M&A opportunities on an ongoing basis, in addition to driving organic growth, was incorporated into the new Mid-Term Management Plan. Under these circumstances, the beginnings of this deal can be traced back to the appointment of Mr. Nigel Frudd, a UK national, as an executive officer responsible for overseas M&As in July 2015. Under Mr. Frudd's leadership, we prepared a list of acquisition targets from around the end of 2015. From this list, we screened targets based on multiple conditions, including having U.S. insurance footprint, having a moderate risk exposure to natural disasters, and offering an appropriate valuation (goodwill burden). As a result of this process, we ultimately selected Endurance as a final negotiation counterparty.

In regard to the specific timing of negotiations, given that Sompo Holdings executed share buybacks and issued hybrid bonds in August 2016, we decided to commence negotiations at an appropriate time after these transactions were completed.

Shareholder Returns

Q: What impact will this acquisition have on shareholder returns?

A: There has been no change in our policy of targeting a total payout ratio of 50% over the medium term. Although we have said that the total payout ratio could be adjusted in a single year under special conditions, such as the execution of a large M&A deal, we have also announced a numerical floor of 30% for the total payout ratio. In light of factors such as our track record for the total payout amount, the level of capital and the maintenance of ratings, we will seek to achieve optimal shareholder returns. We aim to ensure that the total payout amount for FY2016 does not fall below the amount for FY2015. At present, we don't believe that it will be necessary to reduce the total payout ratio all the way down to the floor of 30%.

Impact on Business Performance

Q: If the acquisition is completed in February 2017, when will it start being reflected in your consolidated business performance?

A: We expect to include earnings from Endurance in our income statement from the first quarter of FY2017. The balance sheet is scheduled to be consolidated at the end of March 2017.

Q: What factors are behind Endurance's earnings volatility?

A: We believe that natural disasters were the main factor behind the company's earnings volatility in the past. Earnings went down sharply as a result of the Thailand floods and the Great East Japan Earthquake in 2011 and were impacted by Hurricane Sandy in 2012.

However, Endurance has recently been reducing the weight of CAT reinsurance business in step with the expansion of its insurance business. As a result, we believe that its earnings volatility has been decreasing.

Future Outlook

Q: Endurance is a company that has achieved growth over a relatively short space of time. Will it be able to maintain this growth even after joining Sompo Holdings?

A: Looking at Endurance's history, the company started out in the reinsurance business with a focus on CAT reinsurance. Thereafter, Endurance worked to diversify its business portfolio by entering agriculture and other insurance lines. Moreover, following the appointment of Mr. John Charman as Chairman/CEO in 2013, we believe that Endurance has now entered a phase of making strides toward an even stronger business portfolio by, for example, expanding its U.S. insurance business in conjunction with curtailing CAT Risk.

Mr. John Charman, the CEO, is a highly experienced insurance professional with a career in the insurance industry spanning more than 40 years. We also see significant value in gaining access to talent like Mr. Charman. Although Endurance has so far achieved growth independently, Endurance management believes that the company will be able accelerate its growth even more than before by joining the Sompo Holdings Group. For example, we own a global license network, and could consider supplying Endurance's products over this network. By the same token, it could be possible for Endurance to use our licenses to provide services to its customers.

Q: What are your plans for M&A activity going forward?

A: Our first fundamental priority is to ensure that we achieve organic growth. Meanwhile, we understand that further M&A activity will be necessary to achieve our goals of becoming one of the top 10 global insurance companies and generating adjusted consolidated profit of ¥300 billion.

However, considering that this deal is the largest acquisition to date by Sompo Holdings, we believe that our most urgent priority is to surmount various issues in the post-merger integration (PMI) process. Therefore, although there are absolutely no problems with our level of surplus capital, we believe that our primary focus should be on PMI for the time being. During this intensive PMI period, we will take a cautious approach to advancing other M&A deals.

Q: What roles will Mr. John Charman fulfill within the Group?

A: Nothing has been officially decided through formal bodies at this time. However, in the course of the PMI process, we will clearly identify what kinds of roles we should assign to Mr. Charman, for the purpose of achieving goals such as building a global business platform. We have reached an agreement with Endurance to the effect that key management personnel, from the CEO and below, will, in principle, continue to serve the company for five years after the acquisition.