

# Acquisition of Endurance Specialty Holdings by Sampo Holdings Call

## Company Participants

- Shinji Tsuji, Group CFO & Representative Director
- Takashi Kurumisawa, Head of Global Strategy-Global Business Planning Dept.
- Unverified Participant

## Other Participants

- Futoshi Sasaki, Analyst
- Koichi Niwa, Analyst
- Masao Muraki, Analyst
- Natsumu Tsujino, Analyst
- Wataru Otsuka, Analyst

## MANAGEMENT DISCUSSION SECTION

### Operator

Good evening, ladies and gentlemen. Thank you very much for attending the Telecom Conference by Sampo Holdings tonight. From this point onwards, we would like to invite Mr. Shinji Tsuji, the Group's CFO, to come and give us a presentation for about the first 15 minutes, and then we will hold a Q&A session afterwards in Japanese. This telecom conference is planned to last 60 minutes.

Before we begin the telecom conference, we would like to give you a word of remarks for what we're about to explain. We might be talking about some forecast based on the assumptions at this point in time, and those forecasts will include some risk as well as uncertainties. To all of the investors, may we inform you that our forecast may differ from the actual results.

Now, Mr. Tsuji, please begin your presentation.

### Shinji Tsuji {BIO 16148256 <GO>}

Yes. I am Shinji Tsuji, Group CFO of Sampo Holdings. Thank you for taking your time to participate in our conference call despite the short notice. Before starting, I'd like to mention the fact that we've changed our company name to Sampo Holdings from this month. We ask you for your continued support.

Now, I would like to talk about the acquisition of Endurance by Sampo Holdings. And then, following my presentation, we would like to take your questions. Please note that the presentation material has been uploaded onto our website.

So, allow me to start from page two. Today, we agreed with Endurance Specialty Holdings that we will commence procedures on the acquisition of Endurance, a Bermuda-based specialty provider of property and casualty insurance and reinsurance. The total transaction value was ¥637.5 billion, which represents 1.36 times book value per share.

Going forward, we expect to complete the transaction by around February 2017, after obtaining approvals from Endurance's shareholders and regulators as required. Endurance is a specialty insurance group who have both insurance and reinsurance capabilities providing risk coverage from their offices in the U.S., Bermuda, and other locations.

Endurance has achieved strong premiums growth and profitability led by the senior management team including British CEO, John Charman, who all have many years of experience and established track records.

So, by welcoming Endurance into the Sampo Group, it would be possible for us to expand our overseas business including the United States, the world's largest insurance market. We also plan to develop our group management by leveraging Endurance's sophisticated ERM expertise.

Please move on to page three. We have been explaining to the investor community about our strategy to increase the weight of the overseas insurance business within our business portfolio, and this transaction is a step towards the realization of this strategy. Obviously, this transaction would boost the group's profit and EPS, and it will also lead to the increase of ROE or capital efficiency, one of our most important management indicators, which would enhance the probability of achieving our Mid-Term Management Plan.

We expect that the transaction would contribute around ¥40 billion to our consolidated adjusted profit for FY 2018. Endurance has been expanding the U.S. insurance business, an area where we could not expand meaningfully alone. We believe this is a great opportunity for our group to strengthen our business in the developed markets. And as CFO, I would like to mention that this transaction would not have any adverse impact on our financial strength.

Although we estimate a reduction on our internal solvency ratio by 25 percentage points, this does not raise any issues on our capital or funding position, given our capital strength, including the issuance of ¥200 billion of hybrid bonds this August. And we intend to maintain our policy around shareholder returns too. We described our policies to enhance shareholder returns in our Mid-Term Management Plan, and this still stands. Particularly after Endurance's profit become consolidated within our group, we estimate an increase of EPS by around ¥100, uplifting the base for a distributable earnings stand initially describe.

Let us move on to page four. This page shows the transaction summary. As I mentioned previously, valuation is 1.36 times book value, a level that is not expensive compared to precedent transactions in the United States. And we have been pursuing disciplined M&A opportunities and we believe this transaction is consistent with our policies.

Furthermore, goodwill generated from the transaction is expected to be less than ¥223 billion. The duration of amortization has not been decided yet, but assuming an amortization of goodwill in 10 years hypothetically, the annual cost would be ¥20 billion for accounting purposes.

Please turn to page six. This page is showing the overview of Endurance. Allow me to touch upon some key points here. So, first of all, Endurance has strength in U.S. geographically. And as for balance between insurance and reinsurance, the company has strength in insurance underwriting.

Within the reinsurance business, Endurance has stable profitability with a reorganized portfolio by managing CAT risk. Further, John Charman, the CEO of Endurance, is a remarkable insurance executive, with deep knowledge in the insurance industry and the high quality of the management team, including the CFO and the underwriting talent, was an essential part to our decision for this transaction.

Please see page seven - slide seven please. Endurance has a well-balanced business portfolio with an insurance business focused on the U.S. as well as reinsurance. And this is the breakdown. Specialty is the main business line, and the sum of specialty in insurance and reinsurance comprises 66% of gross insurance premium. And agriculture or crop insurance produces stable profits and contributes 25% of the total gross premiums, where Endurance ranks number five in the U.S. market. CAT reinsurance contributes only 9% of the total limited risk exposure.

Please turn to page eight. On this page, you can see the historical trends of gross premium and combined ratio. As you can see, Endurance has a strong and proven track record. Going forward, we plan to further expand its insurance business, centering around primary underwriting while maintaining profitability.

Please move on to page nine. This slide illustrates the asset management of Endurance. While taking into account stability and liquidity, Endurance's asset management policy is to invest mainly in deposits and high-grade fixed income securities. Average credit ratings for fixed income investments are maintained at the AA-minus level. While taking into account the market environment, Endurance wants to maintain its prudent investment strategy going forward.

Please turn to slide 10. These are the track record of their profit and ROE. Based on past performance, Endurance has continuously achieved consolidated net income of roughly ¥35 billion and ROE of approximately 10%. Although detailed estimate figures cannot be disclosed at this point in time, we expect an expansion in the profit levels along with growth of the business, especially for primary underwriting business.

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Please turn to page 12. We would like to talk about the positive impact this acquisition would bring to Sampo Holding's management plans. We have plan to achieve overseas insurance profits of over ¥23 billion in fiscal 2018 according to our Medium-Term Management Plan through organic growth. Endurance's profit contribution will increase our profit level by ¥40 billion.

As a result, the contribution from overseas insurance business is expected to increase to around 30% in 2018 from 12% in 2018. In the Medium-Term Management Plan, we have set the target-adjusted consolidated ROE of 8% or higher. As I explained at the beginning, contribution from this transaction will help achieve this target ROE of 8% or higher.

Please turn to slide 13. We have achieved an addition of a meaningful U.S. insurance business platform through this transaction. This significantly expands the gross written premium contribution from the U.S. market and also helps to achieve global diversification.

Please turn to page 14. Going forward, in addition to the closing procedures, we will devote all our group resources to a successful post-merger integration. At this point, we expect positive impact through mutual utilization of strength in underwriting as well as improved efficiency of resources and others.

For example, we will be able to provide Endurance's high-quality specialty products to our commercial customers. On the other hand, Endurance will be able to expand its business through Sampo's network in geographies where they didn't have access before.

With regard to the business in the U.S. and Europe, we expect to effectively utilize existing business and resources of Endurance. As a result, we would like to realize business efficiency improvement.

In addition to the above, Endurance is rated highly with a strong evaluation from S&P with regards to ERM ratings. We will be able to sophisticate our group-based ERM by leveraging risk management expertise from Endurance.

Please turn to page 15. Lastly, let us touch upon our achievement in global expansion pro forma for this transaction. By welcoming Endurance to our group, we will be able to enhance our business platform in the U.S. and other developed countries and pursue various possibilities.

Specific actions to achieve this acceleration of global expansion will be taken into consideration over the post-merger integration phase. We believe this transaction is a huge step towards our global expansion goals and would like you to understand that we are taking steps towards our management goal to become a top 10 global publicly-listed insurance company.

This is the end of my presentation. Thank you for your patience. And now, we would like to start Q&A.

For Q&A, we have Mr. Kurumisawa, the General Manager of Global Strategy Office; and Mr. Mori (14:10) from the same department; as well as Mr. Kuroda from the Investor Relations Department. And I will also join Q&A to answer some of the questions.

## Unverified Participant

Thank you, Mr. Tsuji. Now, we'd like to take your questions in Japanese. So, if you have a question, we'd like to have the Japanese audience submit.

Now, we'd like to start the Q&A session.

## Q&A

### A - Operator

We'd like to hear from Mr. Muraki of Deutsche Securities.

### Q - Masao Muraki {BIO 3318668 <GO>}

Thank you. I'd like to submit my first question. In terms of this transaction, when was it that you started this negotiation? When did you start considering this transaction, this acquisition and how did you reach today? I'd like you to explain the processes, the considerations that you've made, not just Endurance, but other companies that you must have had in your candidate shortlist, why did you choose Endurance ultimately? This is my first question.

### A - Shinji Tsuji {BIO 16148256 <GO>}

Yes. Thank you, Mr. Muraki for your question. I am Tsuji. I would like to answer your question. Since when did we start these negotiations? Since when did we start considering this transaction? Well, in terms of overseas M&A transactions, ever since the year 2010, in the first midterm plan, we have been working on this theme ever since. So from this year, we put together a new midterm plan, which started from this fiscal year. And in this, we have incorporated various visions as a group, as a whole, to become one of the top 10 members in the global companies, achieve ¥300 billion in profit, ROE 10%. These were some of the visions that we have clarified.

And it all started from Nigel Frudd, Mr. Nigel Frudd, we had as a member of the executive officer in our company, who we welcomed to be in charge of the M&A. And at the latter half of 2015, he started putting together the long list, and then narrowed it down to the shorter list. We started from a list as long as 46 companies, candidates for our target, then have narrowed down the targets ever since.

Now, in looking at the target of our acquisition, we have some points to consider. One was, we wanted to increase the insurance business in America, so we had to have a foothold for the primary business. And then also reinsurance weight, CAT weight, we didn't want so much of a high weight in these two. Also, the goodwill amount was one of our considerations. We didn't want to leave a big burden of amortization for the

generations going forward, so we had to take these points into consideration, and we found Endurance at the top of the shortlist. And we decided to start negotiations with them.

Now, in terms of timing of this negotiation, it was - well, this year in August, we did the issuance of the hybrid and then decided to do a buyback. We started buying back - we completed the buyback of the shares at the end of August. After this was finished, we started the negotiation with the Endurance management members and ultimately welcomed this day of agreement.

Why did we choose Endurance? Well, we narrowed it down from the 46-something list and we had Endurance at the very end.

**Q - Masao Muraki** {BIO 3318668 <GO>}

Thank you. Here is my second question. You have some - if you complete the integration in February, when are you going to start reflecting the result - the actual result on to your financials? Does it impact the shareholder returns? You said there's no impact at all, but for a payout, what would you say? This fiscal year, next fiscal year, will there be a difference, because I would say that this year, there is no contribution. Next year, there is contribution. Do you think 50% for each fiscal year?

**A - Shinji Tsuji** {BIO 16148256 <GO>}

Thank you for your questions. This also will be answered by myself. In terms of Endurance's performance, the first quarter in next fiscal year, FY 2017, first quarter, is the first quarter we will consolidate Endurance's members onto our fiscal reporting. March end next year will be a consolidation just on the balance sheet.

In terms of your question regarding shareholder returns, there's this original mid-term plan, which is 50% of the total return to shareholders. This is the policy and it still stands.

With this transaction that we've just announced today for the FY 2015, it was ¥65.8 billion at that time. Now based on this actual track record, with the capital level and the ratings level in consideration, we'd like to make sure that we choose an optimum level in the shareholder returns going forward.

As a result of the calculation, even if the total return is in the 40% of the percentages, there is a possibility that it would reach this level of number. But after all, the FY 2015 total return, which is ¥65.8 billion, in absolute numbers, we will never go below this number; would make sure that we don't go below this number.

**Q - Masao Muraki** {BIO 3318668 <GO>}

That's very clear. Thank you.

**A - Operator**

Thank you.

Thank you. Next question will be from Mr. Tsujino of JPMorgan. Please ask your questions.

### **Q - Natsumu Tsujino** {BIO 2234779 <GO>}

Thank you for this opportunity. First, Endurance, in this industry, is a company that relatively has a short premium and Mr. Charman has done some acquisitions and he has led this company to grow so far. So, our managing agent by Lloyd's is a little bit different, because its history is relatively short, because Lloyd's companies are longer in history. This company is little bit different. But under a strong leadership of the CEO, I believe it has grown significantly in a relatively short time, and such a company to join the Sampo Group and so considering the growth potential, the capability and the growth momentum, do you think you will be able to keep all those, even if it becomes part of Sampo Holdings? And the current CEO, who is Mr. John Charman, what have you discussed and what have you agreed with him in order for them to keep their momentum of growth?

### **A - Takashi Kurumisawa** {BIO 21025219 <GO>}

This is Kurumisawa speaking. I'd like to answer your questions. So, first of all, the company, Endurance, how do we view Endurance? What you have just said is very correct. And it was founded in 2001. So, it is a young company. However, just in the history of over a decade, they have had three major waves. So, first it focused as a reinsurance company and they were underwriting a lot of capturing insurance in order to grow the business. And then, they were down to ARMtech business, which is agricultural insurance business, from the latter half of the 2000, and they have been diversifying their business in order to enter into the next phase of growth.

In 2013, Mr. John Charman also acquired a primary underwriting business in U.S., and they have become more international. They bought the company called Montpelier, which we ignited the growth in the third phase. So, those are the three phases which Endurance has gone through in order to expand its business.

Though it is a young company and also, prior to John Charman joining Endurance, and also after John Charman joining Endurance, the characteristic of the company had changed. That's how we see this company, Endurance, not in a bad way, but in a very positive way. The company have changed.

So, how do we view a young company? Mr. John Charman, as you might know, he has a career of over 40 years. He worked in the Lloyd's Syndicate. He started the Lloyd's Syndicate, sold it to ACE and then started Axis, and then grew Axis to be as big as who they are today. And so this is a career that's behind Mr. John Charman. So, he is a well-experienced, seasoned player in the insurance sector, especially in the reinsurance market where it is so cyclical. It is a matter of his caliber to go over many cycles and still grow the business. And in that aspect, we have our full trust in him, and this is not something that's easy to obtain as a career. So, it is a dynamic company, and such a dynamic company be coming together with Sampo Holdings. Would they be able to still continue to grow in the past phase?

I would say that they will be able to grow even more so than they have in the past. The reason why we think that is because they believe that they can still grow the business organically and they were actually a buyer in the market rather than a seller. And we wanted to globalize our business, including business platform in U.S., but we couldn't really do this alone.

However, we did have the capital to be able to do so. So those two companies facing the same direction and coming together and getting integrated, holding hands, walking together along the same path, what we can do together, is the topic that was discussed in between the two CEOs and had come to - reached a conclusion that we're announcing today.

### **Q - Natsumu Tsujino {BIO 2234779 <GO>}**

So, you said that you'll be able to still grow this business even if it becomes part of Sampo Holdings, but I don't think it's just because you're willing to inject the capital. I don't think it is a matter of capital. Therefore, when it's within the Sampo Holdings, what is the reason? Is it because you believe that you'll be able bring their products to be introduced in Japanese market, et cetera?

### **A - Operator**

Yes. Exactly. (27:03) we have a lot of potent or inherent asset which we are under-using right now. For example, we have a license network, and as we have been a global business for over 50 years in Asia and other parts of the world that we have expanded into, we have a license. And then, Endurance is a new company, so they want to be able to sell, but they have to have the underwriting license in many markets to be able to sell insurance. And so, we can help them in that regard. Or what they do in U.S., for example, for a global conglomerate, combined corporate underwriting business, that requires global license for many different markets. And they will be able to use that, which we have, so that they can offer businesses to multi-national conglomerates. So, these are just some examples of what we can potentially do together.

### **Q - Natsumu Tsujino {BIO 2234779 <GO>}**

Okay. Then, my next question is about the total payout. So, over the medium- to longer-term, you said the total payout ratio is 50%, and for fiscal 2015, ¥68.5 billion and you will not go below that. That means 2015, the adjusted net profit was ¥164.3 billion and it was the payout of 40.1%. 2016, I believe, the adjusted profit will be ¥160 million and the payments per share is going to be ¥80. Is it 50% total payout? Then, that means you'll be able to do a lot of share buybacks.

But you have you just mentioned earlier, does that mean that for fiscal 2016, the total payout, which is supposed to be 50% over the medium- to longer-term and where it was 40% last year, are you still assuming 40%-ish payout ratio for 2016? And based on that, for 2017, the adjusted consolidated profit is going to expand. But still, in terms of the payout ratio, it is still going to be below 50%, in the 40% mark. So, is that the forecast that I should have (29:44)?



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**A - Shinji Tsuji** {BIO 16148256 <GO>}

This is Tsuji speaking. Thank you for your question. So, about the total payout ratio, I said that for 2016, ¥65.8 billion, the total profits, then we will not go below that. But the Medium-Term Management Plan, which we originally (30:10) announced, we will be targeting the 50%. However, in case we do some large-scale M&A, then considering ESR and other factors, it might go down to be as low as 30%. However, it will - we will not let it go below 30%. By doing this, what we have explained is part of the mid-term plan.

And right now, considering the ESR situation, for this particular transaction, it's just being decided recently. So, we are doing a lot of the estimation work right now. And so far, the impact of ESR is I have explained, and therefore, according to our company forecast, if we achieve the financial target, as we have announced, then, obviously, the total payout ratio could still be 50%.

And I believe, still, there is a possibility of that. But the point is that we will not go below 30% even if we do M&A, that's what we have been explaining to the investors. Therefore, the 30% total payout, is not the point, but I have said that we will not let the source of the payment go below ¥65.8 billion.

**Q - Natsumu Tsujino** {BIO 2234779 <GO>}

So, that means this time, we shouldn't really expect the payout ratio to be in the 30% mark?

**A - Shinji Tsuji** {BIO 16148256 <GO>}

That would be the correct understanding, yes.

**Q - Natsumu Tsujino** {BIO 2234779 <GO>}

Thank you very much.

**Operator**

Thank you. We'd like to take the next question which is from Mr. Niwa, SMBC Nikko Securities.

**Q - Koichi Niwa** {BIO 5032649 <GO>}

Thank you. I have two questions, but I should submit the first one. Going forward, with you, Sampo, and also Endurance as well, what is your acquisition strategies going forward? I understand that you've been saying that you have now a platform, a foundation. So, in that sense, I guess, you still have potential for further expansion and development into other countries and markets, I think that's how I interpreted it, but I'd like to confirm your directions. I think it's mid- to long-term kind of a direction, but if you can give color on your directions, it would be great.

**A - Takashi Kurumisawa** {BIO 21025219 <GO>}

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Sure. This is Kurumisawa and I'd like to answer your question. Acquisition strategy going forward, yes, to this point, of course, we have goals in our midterm plans and the numbers that we will acquire with Endurance will not take us to the achievement of the midterm plan goals yet. And we're trying to, beyond this, become one of the top 10 in the global enterprises. And to do that, we still have a gap and we need to fill it in. The transaction of Endurance is not enough to fill this gap.

In terms of midterm perspective, yes, we do not deny possibilities of further acquisitions. But in terms of short-term perspective, after having acquired such a large-scale company, and furthermore, for us an integrated insurance global platform is really the ideal that we like to pursue, which is a very easy thing to say but difficult to execute. I'm sure that we're going to be facing various challenges that we pursue this integration, and we will be having to make more efforts. So, it's really challenges that we need to focus on PMI and to realign this platform that we'd like to establish completely.

**Q - Koichi Niwa** {BIO 5032649 <GO>}

Understood. Follow-up question on this one. Now, conventionally, you've said that you had enough physical strength to invest of about ¥1 trillion. So, I guess that leaves more room for further investment?

**A - Shinji Tsuji** {BIO 16148256 <GO>}

Oh, thank you for your question, Mr. Niwa. This is Tsuji. In terms of further capability for investments, yes, we do have more leeway. Now, having said that, I have a few remarks. This acquisition of Endurance for Sompo Japan is one of the unprecedented large-scale acquisitions that we have ever made in the history of our company. That's why Mr. Kurumisawa mentioned that we'd like our best efforts for the both post-merger integrations. And then after having settled that, we'd like to go on with our pursuit to further acquisitions. We'll have to hold looking for further targets until we complete this. And it's not just about the - it's not about our investment strength, it's really about the priorities.

**Q - Koichi Niwa** {BIO 5032649 <GO>}

And thank you. And here is my second question. For this management members of Endurance, I understand that this Mr. Charman, you have very high hopes for him. And I do understand that there is a lot more that we can expect from this management group. But in Sompo's Group, how are you going to position the company, Endurance, and how are you going to adopt the talent from Endurance? Is it just for the U.S. business that you're going to have them active or are you going to deploy them elsewhere for them to be active in other areas of your business?

**A - Shinji Tsuji** {BIO 16148256 <GO>}

Yes. I am Tsuji. I'd like to answer this question. Now, as a company, in terms of your question, there is no resolutions or decisions that we have made officially as a company. But as we have been mentioning, we are creating this platform so that it will allow us to grow further, and at the same time, rationalize and streamline our business. We need to

do both of these. So, to think about the role of Mr. Charman going forward, this is something that we will consider during the PMI process.

**Q - Koichi Niwa** {BIO 5032649 <GO>}

Understood. Thank you very much.

**A - Shinji Tsuji** {BIO 16148256 <GO>}

Thank you.

**Operator**

The next question will be from Mr. Sasaki of Merrill Lynch.

**Q - Futoshi Sasaki** {BIO 17564798 <GO>}

This is Sasaki speaking. Thank you for this opportunity. Just some numbers to confirm. So, the amount of the goodwill, you have announced some estimated number. So you said that at maximum, it might be ¥323 billion of goodwill, and can you tell us the assumptions behind this calculation that made you derive this goodwill number of ¥323 billion? And also, (37:34) and this amount of ¥637.5 billion, and this amount, you'd have 100% stake over the company, what will be the profit that will allow you to have the 100% stake?

**A - Operator**

This is Murata (37:54) speaking. I'd like to answer your question. So, the total transaction value, as you can see, is on page four, and so it's ¥637.5 billion. And down below, on the second bulletized point, as a consolidated net asset, it is going to be ¥666.7 billion, plus, on top of this, (38:19) goodwill, there are still about ¥50 billion of that. And so, when you combine the three numbers, then that comes to be about ¥223 billion of goodwill for this transaction.

**Q - Futoshi Sasaki** {BIO 17564798 <GO>}

I got it. As for the transaction value, what do you think about it?

**A - Shinji Tsuji** {BIO 16148256 <GO>}

This is Tsuji speaking. Thank you for your questions. About the total consideration, this will be about \$93 per share and that's what we agreed on. This is a listed company, and we have the - we will have the control over Endurance, and therefore, we have to pay some premium on top of the share price. And as for the level of the premium, through various calculation methods, we have done the estimations that we negotiated and we came to an agreement of \$93 per share.

**Q - Futoshi Sasaki** {BIO 17564798 <GO>}

So, was it between Sompo Holdings and Endurance that's agreed on the \$93 and then that will allow you to have 100% stake over Endurance?

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## A - Operator

No. No. I believe you're asking about the M&A profits in the United States. We have to make an offer to their BoD and BoD reviews the offer and they consider whether it will be valuable to the shareholder value and they approve if it does contribute to the shareholder value.

In a longer process, the BoD reviewed our proposal and to the existing shareholders, the BoD decided that the price was fair enough for it to be agreed by the shareholders. And so, BoD backed us up in proposing our proposal to the existing shareholders and made a resolution in the BoD.

## Q - Futoshi Sasaki {BIO 17564798 <GO>}

So, if the shareholders came back and said this is not enough - I'm sorry, this is such a primitive question, but what if they say this is not enough?

## A - Operator

The shareholders, if they say no, well, the BoD members have fiduciary duty and they have to - they can only propose something that would be beneficial to the shareholder return. In the U.S., this point is very clear. And so, we are not really expecting such a no answer from the shareholders. However, if there is another buyer and if another buyer comes out and proposes a higher price, that could technically happen.

## Q - Futoshi Sasaki {BIO 17564798 <GO>}

In this scheme, this time, to John Charman, is there a binding contract? So, I wonder if you can tell at this point, if such a binding contract included in the deal.

## A - Operator

Mr. John Charman and other management team members are there and basically after the acquisition, they need to continue working at Endurance for at least five years and that was also agreed on.

## Q - Futoshi Sasaki {BIO 17564798 <GO>}

Then next I'd like to talk about the business aspect. Agricultural insurance, I believe, is one of their key product. For example, there is a agricultural cooperative reform taking in place in Japan, and going forward, in the Japanese agricultural industry, if the reform pursues, then do you think there is going to be some strategy with the products offering by Endurance for the next five years?

## A - Operator

That's a very interesting area of business. And for agricultural insurance data is vital (42:30) the agricultural insurance. So, what area or what crop do we underwrite? That has to be decided on abundance of data and make the underwriting decisions accordingly. And therefore, if it's a country where we have that data, the know-how can't be applied to different markets. Of course, we don't have 100% understanding of all the details of the

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business. So, we still need to learn from them. But as a profitability, we believe this is going to become an interesting area.

**Q - Futoshi Sasaki** {BIO 17564798 <GO>}

Thank you. Thank you.

**Operator**

Thank you. We'd like to take the next question. This is from Mr. Otsuka, Nomura Securities.

**Q - Wataru Otsuka** {BIO 16340098 <GO>}

Yes. I'm Otsuka from Nomura. I have my first question, it's regarding Endurance and their bottom profit. I'd like to understand the structure for their profit, so please help me understand.

On slide eight, there is the gross premium, which is going up in a very linear manner. I do understand this part. But according to the disclosures by Endurance, the original net profit seem to have been a little bit different or wavering. Is this - which section? Is it the reinsurance business or is it because of their history of starting from reinsurance and expanding to agriculture insurance? Is that why the profit seems to be fluctuating a little bit? Please explain the structure?

**A - Operator**

Yes. Morito (44:19) would like to answer that one.

Thank you for the question. In terms of the fluctuation in the bottom, it's due to CAT, natural catastrophe, especially in 2011, 2012, these two were the years where there was the Great East Japan Earthquake and tide flood in 2012. And we also have the Sandy in the United States as well. So these were some of the impact that have been reflected to a certain level to the bottom line.

And having said that, after the year 2013, that is when Mr. Charman became the leader and started to conduct the business. Relatively speaking, it is not reinsurance, not CAT, it's about the insurance and also casualty that the company has been weighing more importance on. So, we believe that it will continue to be an area that will expand and provide stable contribution to the overall business.

**Q - Wataru Otsuka** {BIO 16340098 <GO>}

I see. So, is it from 2013, I see the bottom profit is becoming more stable growing at a linear manner. I do see that. Should I just watch this trend here?

**A - Operator**

Yes. Yes. That is the way we would perceive it.

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**Q - Wataru Otsuka** {BIO 16340098 <GO>}

Thank you. I'd like to submit my second question which is quite similar to the first. Looking at today's deck, I think slide six, where you have the current bottom profit of Endurance, ¥34.8 billion, and on another page, you have FY 2018 ¥40 billion, give or take, which seems to be a little bit of a band in the way you described it.

I guess you're seeing there is - will be a little bit of increase in profit. Is it because you've extended the linear growth from 2013? Is that how you forecasted it? Or is it because of your disclosure on slide eight, 7% CAGR growth in gross premiums for the insurance business overall? Are you just calculating based on these numbers plus delta? Just trying to hear what you can disclose. What is the driver of the growth going forward?

**A - Operator**

I see. In terms of the growth in premiums, I've heard from the management of Endurance that it will continue to grow. But this is a relatively conservative number. So, in terms of the growth of the bottom line as well, based on the top line growth, we may have more CAT, various elements that have been considerably reflected. Usually, we would have set like ¥40 billion to ¥50 billion. We've heard that from the management, but we have said in a very conservative manner that it will be around ¥40 billion.

**Q - Wataru Otsuka** {BIO 16340098 <GO>}

How about the growth of premiums? CAGR of 7% seems to be the average in the tax? Where are we going to see synergy.

**A - Operator**

Thinking - considering synergy, I guess you're still being conservative against past the track records?

**Q - Wataru Otsuka** {BIO 16340098 <GO>}

Yes.

**A - Operator**

From FY 2013 to 2015, where Mr. Charman was leading, the growth has been over 10%. So, if you ask us if this 10% level will continue, we would have to say with stability that 7% is more realistic. That's why we mentioned 7%, excluding synergy.

**Q - Wataru Otsuka** {BIO 16340098 <GO>}

I see. Understood very well.

**A - Operator**

We are approaching the time to conclude the telephone conference. So, I would just like to take one more question before we conclude. If you have a question. The operator is asking for questions from the Japanese audience.

## A - Unverified Participant

That concludes the Q&A. And this concludes this telephone conference. I thank you for your participation. Thank you very much all of you.

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