May 20, 2015 IR Conference Call – FY2014 Results Q&A

Domestic P&C Insurance Business

Q: What are the factors behind the improvement in E/I (earned-incurred) loss ratio and the substantial increase in underwriting profit of Sompo Japan Nipponkoa in the business forecasts for FY2015?

A: A main factor is an improvement in profitability of automobile insurance and fire & allied lines insurance.

In FY2014, the premium rate of automobile insurance was revised in July by Sompo Japan and in September by Nipponkoa. The impact of the revision will continue in FY2015. Since we are projecting net losses occurred to remain little changed, the E/I loss ratio should improve as a result. Meanwhile, we are projecting net losses occurred on fire & allied lines insurance in FY2015 to decline substantially in the absence of the additional claims we paid on natural disasters from years past in FY2014. A decline in the amount of projected outstanding loss reserve provisioned for other lines of insurance is also a factor behind the E/I loss ratio improvement.

As for net expenses, we are forecasting a savings of approximately ¥18 billion compared with FY2014 due to the cost reduction through the merger. On the other hand, we are forecasting net expenses to remain mostly flat in FY2015. However, this is primarily as a consequence of expenses rising in step with revenue growth and the upfront investments we have budgeted for systems upgrades. As a net outcome, we are in fact forecasting an improvement in our net expense ratio.

Q: What is your outlook on the frequency of accidents occurring in the FY2015 business forecasts?

A: We have applied a flat accident occurrence rate to our forecasts in contrast to an ongoing decline in the number of reported claims we have received recently. A revision of the automobile insurance driver rating system was a significant factor behind this decline until last fiscal year, but this impact has almost realized. I think the downtrend at this point is probably underpinned by a decline in traffic volume and the actual number of traffic accidents in Japan.

Q: The provision rate of catastrophic loss reserve for your voluntary automobile insurance group was lowered from 5.5% to 3.2%. How will this affect the Group?

A: We expect the provision of catastrophic loss reserve on voluntary automobile insurance to decrease by around ¥28 billion in FY2015, which will have a positive impact on underwriting profit. Part of the reason for this change is that it turned out from our past results that claims paid on automobile insurance in the wake of natural disasters were proportionately lower than those on fire & allied lines insurance. We concluded that the lower level was sufficient while still recognizing the importance of the reserve. As for the matter of timing, we took a pass on lowering the rate last fiscal year because unifying the accounting policies of the two companies in the September 2014 merger had overriding priority. The rate was lowered for FY2015 as a result of having established Sompo Japan Nipponkoa, and of having made fresh efforts to determine an appropriate provision rate for the new company.

Q: Why is there a substantial difference in the amount of consolidated adjustment and others to ordinary profit between the FY2014 results and FY2015 forecasts?

A: It’s mainly to eliminate from consolidation an impairment losses on securities of consolidated subsidiaries that we expect to record in FY2015 for Sompo Japan Nipponkoa on a non-consolidated basis.

Capital Policy

Q: What is the Group’s internal solvency ratio?

A: As a result of rising stock prices and other factors, it was 170% as of March 31, 2015.

Q: What is the amount of strategic-holding stocks you are planning to sell in FY2015?

A: Under our four-year plan from FY2012 to FY2015 for selling strategic-holding stocks, we frontloaded disposals on the scale of ¥200 billion a year in the first two years of the plan, and sold off ¥86 billion of the stocks as budgeted in FY2014, in the third year of the plan. In FY2015, in the final year of the plan, we intend to sell off about the same amount of stocks as FY2014 as planned.

Q: Total shareholder return ratio was 50% in single year of FY2014 after you increased dividends and decided to conduct share buybacks. How does this tie in with your shareholder return policy you have explained?

A: During the timeframe of the current mid-term management plan, there will be no change in our shareholder return policy of aiming for a total shareholder return ratio of 50% of adjusted consolidated profit (excluding the domestic life insurance business) over the medium term, achieved primarily by paying a stable dividend and flexibly conducting share buybacks in view of our capital conditions. We think of the dividend of ¥60 per share we have paid out until now as representing the level we need to maintain at a minimum, which by no means precludes the possibility of an increase. The decisions we made in FY2014 were based to a large extent on a substantial improvement in our base profitability, as well as on a comprehensive view of market expectations. As for FY2016 onward, we plan to update our capital policy for disclosure along with our next mid-term management plan.