

**Domestic P&C Insurance Business**

Q: Sompo Japan and Nipponkoa plan to raise premiums because of the consumption tax rise and other factors. At the same time, you believe the fiscal 2014 written basis loss ratio in automobile insurance will slightly worsen year on year. What are the reasons for these two things?

A: Although the rise in insurance premiums would have a positive effect, as regards automobile insurance, we have to take into consideration such factors as that the consumption tax rise will have a negative effect of ¥19 billion for automobile insurance, the trend of rising unit repair costs is continuing, and premium decrease due to the fall in the number of claims paid accompanying the revision of the non-fleet driver rating system. As a result of factoring in these elements somewhat conservatively, we expect that the loss ratio will worsen by 1.2 points in fiscal 2014.

Moreover, we plan to reduce the number of unpaid claims as an initiative in response to our customers' expectation. The reason for the rise in the written basis loss ratio is that by making progress with insurance claim payments, we will reduce our loss reserve by about ¥10 billion, and at the same time increase claims paid by the same amount.

Q: Could you please tell us your fiscal 2014 forecast for the number of accident claims in automobile insurance?

A: At present, there is a trend for the number of accident claims in automobile insurance to decrease. Because the revision of the non-fleet driver rating system was applied to the automobile insurance policy from October 1<sup>st</sup>,2012, I believe that we will see a continuing decrease trend in the first half of fiscal 2014. However, from the second half it seems that the number of accident claims may stay at the low level once the impact of last year's revision will have settled in.

Q: Can I correctly assume that the expansion of top-line revenues is the main factor in the expansion of underwriting profit in fiscal 2014, against the backdrop of various changing elements such as the decline in natural disasters and the rise in the consumption tax.

A: Your understanding is correct. We are projecting an increase of ¥85.1 billion in net premiums written on the basis of excluding compulsory automobile liability insurance and earthquake insurance, partly due to projected increases in fire & allied lines insurance and automobile insurance, as well as a decrease in ceding reinsurance premiums.

## **Merger of Sompo Japan and Nipponkoa**

Q: The one-time merger costs are around ¥98 billion: please give us a breakdown of these costs.

A: In the past, we projected fiscal 2014 one-time merger costs of ¥75 billion, but we have now factored ¥78 billion into the performance forecast. The accredited factors in the increase of ¥3 billion include the impact of the consumption tax rise and the additional system cost. We project overall extraordinary losses of ¥98 billion, which is approximately ¥20 billion after deducting the ¥78 billion of one-time merger costs. The extraordinary losses of around ¥20 billion comprise provisions for price fluctuation reserve of less than ¥10 billion, and the remainder is an impairment loss on idle real estate generated as the result of the arrangement for the legal merger.

Q: What is your projection as regards cutting costs with this forecast?

A: We projected approximately ¥30 billion in fiscal 2014 as regards the merger synergies, and therefore we can extrapolate from the figure of approximate ¥18 billion obtained from the fiscal 2013 synergies that the effect of reducing operating expenses in fiscal 2014 will be approximately ¥12 billion.

Now, the projected amount for the fiscal 2014 merger synergies is ¥10 billion less than the figure shown in the past. This reflects the impact of the consumption tax rise and the increase in the general development items of systems. However, the amount of projected synergies for fiscal 2015 is unchanged at ¥56 billion.

## **Overseas Insurance Business**

Q: What is the background to your projection of the drop in profits other than in Europe?

A: In Asia, a profit of around ¥3 billion was generated at Tenet Sompo in fiscal 2013 associated with the reversal of the reserve for outstanding losses/claims related to the Thai floods. The absence of this in fiscal 2014 is a significant factor in the projection of the drop in profits. In addition, another factors are the costs related to the merger of Yasuda Seguros S.A. and Maritima Seguros S.A. in Brazil and so on. Overall, the picture is that Europe saw increased profits due to the contribution of the Canopus, while Asia saw decreased profits due to technical factors.

Q: To achieve the fiscal 2015 profit target of ¥20 billion in the overseas insurance business, is the full contribution of Canopus alone sufficient, or are there other M&As?

A: I believe that we can achieve the target by means of both organic growth other than Canopus and by the full 12-month contribution of Canopus.

## Asset Management

Q: What was the reduction of strategic-holding stocks in fiscal 2013?

A: The total reduction was ¥206.1 billion, comprising ¥131.9 billion at Sompo Japan and ¥77.2 billion at Nipponkoa.

Q: You plan to significantly reduce the monetary amount of strategic-holding stocks sold in fiscal 2014: does this mean you are changing policy regarding the sale of strategic-holding stocks?

A: We are projecting the amount sold in fiscal 2014 to be less than half the figure from fiscal 2013. In our reduction plan for the four years from 2012 to 2015, we have had a policy of reducing ahead of schedule. In fact, in the last two years we have achieved a large reduction of about ¥200 billion each year, which is in line with the plan. We are still holding around ¥1.5 trillion in domestic stocks at present, which means that it is necessary to continue reducing our equity risk. However, it is also important to consider our relationship with the issuing entity when making a sale: it is not always the best strategy to try to move quickly and increase the monetary amount of strategic-holding stocks sold. Accordingly, the fiscal 2014 plan does not necessarily mean that we will slow down the reduction of strategic-holding stocks thereafter.

## Shareholder Returns

Q: While the resource for shareholder returns amounted to ¥15.8 billion, the total shareholder returns amount to ¥34.7 billion, comprising dividends of ¥24.7 billion and stock buybacks of ¥10 billion. In this context, I would like to confirm your policy to shareholder returns.

A: In the medium term, our policy is to maintain a payout ratio of 50% of an adjusted profit basis excluding life insurance. We continued to make shareholder returns even when there was the Thai flooding or when we were in the red. Basically, we aim to continue keeping this standard in the medium- and long-term, and we will not suspend shareholder returns simply because we happen to make insufficient profit in a given fiscal year. Furthermore, there is no change in our stance of considering shareholder returns based on such varied perspectives as ensuring financial soundness and making investments in growing business fields.

Q: What is the background to deciding to conduct stock buybacks of ¥10 billion in the situation where the shareholder payout ratio exceeds 100%?

A: We want to show the self-confidence of management as regards the continuing steady

improvements in profitability in the P&C insurance business in fiscal 2014, and the increasing probability of achieving our planned targets in fiscal 2015. As for the level of stock buybacks, we determined the monetary amount after comprehensively considering the relevant factors, including the previous fiscal year's performance results.

Q: Is my understanding correct that you will make a decision of stock buyback for the fiscal 2014 performance while looking at the management environment in the future?

A: Your understanding is correct.