November 18, 2016 Conference Call – 1H FY2016 Results Q&A

Mid-term Management Plan and Related Matters

Q: What led you to revise the adjusted consolidated profit target for FY2018 in the Mid-Term Management Plan to ¥220 to ¥230 billion?

A: The initial adjusted consolidated profit target announced in May 2016 was ¥180 to ¥220 billion. The ¥180 billion figure was positioned as the minimum we needed to achieve. Adjusting this for the anticipated profit contribution of around ¥40 billion from Endurance Specialty Holdings Ltd. ("Endurance"), and a positive effect of just over ¥10 billion from the postponement of the planned consumption tax hike in Japan, adjusted consolidated profit would amount to around ¥230 billion. Barring any special factors, we believe this level of adjusted consolidated profit is achievable. Meanwhile, considering changes in the market environment such as the yen's appreciation, medium-term uncertainty concerning natural disasters and other factors, we have set the target as a range, with ¥220 billion being the lower bound of the range at this time.

Q: What is your shareholder return policy following the commencement of procedures on the acquisition of Endurance?

A: There has been no change in our shareholder return policy. We are targeting a total payout ratio of 50% over the medium term. Our policy is to flexibly combine the payment of stable dividends in consideration of factors such as the dividend yield, and the share buybacks, taking into account the stock price level, our financial soundness and other factors. Even after we announced the commencement of procedures on the acquisition of Endurance, there has been no change in our credit ratings or outlook, so we have maintained our financial soundness. We will decide on shareholder returns based on the amount of total shareholder returns in prior years, business performance and other trends.

Q: Have any problems occurred in the regulatory approval procedures for Endurance?

A: Since our announcement on October 5, no events that should be reported to investors have occurred up to now. We are taking appropriate steps in order to complete the acquisition procedures by the end of March 2017 as planned.

Domestic P&C Insurance Business

Q: What is the current status of the earned/incurred (E/I) loss ratio?

A: In automobile insurance, we have been working to expand coverage since product revision in October 2015. While these efforts have helped to push up unit premiums, the E/I loss ratio has increased slightly due in part to the gradual recognition of incurred claims in step with the expanded coverage. With improvement in the E/I loss ratio in personal accident and other product lines, the E/I loss ratio for all product lines is improving as a whole.

Q: The combined ratio has been trending at a low level. Is there any possibility of lowering automobile insurance premium rate?

A: Under the Mid-Term Management Plan, we are targeting a combined ratio of around 92-94%. Although the combined ratio is currently trending below this level, we would like to maintain the combined ratio at this level for a certain period. For example, in product revisions for automobile insurance in January 2017, we plan to implement revisions that will keep premium rates flat as a whole, despite some differences in enrollment conditions. Nothing has been decided on subsequent revisions. However, if Advanced Safety Vehicle (ASV) discounts and other such initiatives reported by the press are introduced, there is a possibility that we may apply these discounts to premiums.

Q: What factors were behind changes in net premiums written in other product lines?

A: In other product lines as a whole, net premiums written increased by ¥1.7 billion year-on-year in 1H FY2016. Although net premiums written for liability insurance decreased, the main reason was the impact of a good result return reflecting a favorable loss ratio for major policies in the previous fiscal year. There has thus been no change in the growth trend for net premiums written in new product lines. Notably, we posted strong sales of packaged products to small and medium-sized enterprises. This field still has a low insurance penetration rate, so has potential for further growth in net premiums written. Additionally, the use of Endurance’s products could serve as our next step toward growth in the future.

Q: What was behind your decision to set the full-year forecast for losses from domestic natural disasters for FY2016 at ¥50.0 billion?

A: The full-year forecast for domestic natural disasters was set at ¥50.0 billion as we added the impact of ¥7.0 billion from the Kumamoto Earthquake, etc., to the initial forecast of ¥43.0 billion. Net losses incurred in 1H FY2016 were ¥35.0 billion. The forecast conservatively reflects factors such as the occurrence of typhoons in October onward and a certain amount of snow damage in the winter.

Q: Why has the net reversal of the catastrophic loss reserve increased in the full-year forecast?

A: The main reason is that we revised our forecast of several factors in light of our interim business performance, including the impact of the rebound of frontloaded demand for fire and allied lines ahead of product revisions in the previous fiscal year. The revisions were due to changes in provisions and reversals reflecting the decrease in net premiums written.

Asset Management

Q: I believe the sale of strategic-holding stocks will be concentrated in the second half as in normal years. However, as stock prices increase, how will derivative gains or losses on futures hedging positions arise going forward?

A: We plan to sell strategic-holding stocks of around ¥100 billion in the current fiscal year, and have been making steady progress against this plan. We will be releasing our futures hedging positions when we sell the actual stocks. If a hedging position remains at the closing of our financial accounts, derivative gains or losses could arise.

Q: What impact will negative interest rates have on interest and dividend income?

A: At the beginning of the fiscal year, we anticipated negative impacts of just over ¥1.0 billion at Sompo Japan Nipponkoa and nearly ¥0.5 billion at Himawari Life mainly due to changes in currency hedging costs. Therefore, we believe the impact on interest and dividend income in 1H FY2016 is about half of those amounts.