Questions and Answers from January 27 2012 IR Telephone Conference Regarding Revisions to Business Forecasts

■ Flooding in Thailand

Q. What was the average damage ratio?

A. At the time of the interim financial report it appeared to be around 30%, but it has since risen to over 50%.

Q. Increase in loss was the result of an increase in the aggregate of individual losses and in the damage ratio. Which was the stronger factor?

A. An on-site survey was unfeasible at the time of the interim report, so we were obliged to calculate loss estimates by estimating a damage ratio from past experience. The revised figure is based on aggregating individual estimated incurred losses, and incorporating a certain safety margin based on an assessment by actuaries. The potential for a further increase in losses is therefore low.

Q. Why did the amount of losses increase more than three times compared to the increase of the damage ratio?

A. This is due to the increase in the amount of individual claims. For example, industries susceptible to water damage and so forth saw their damage ratios increase.

Q. What is the status for each insurance line? How are payouts progressing?

A. Property insurance accounts for 90%, business interruption insurance 8%, and the remainder is cargo, automobile and others. As of January payment has not progressed much, but we expect to have paid out on around 50% of claims by the end of March.

Q. What changes will you be making to your methods for managing overseas risk as a result of these floods?

A. We set a cap on aggregate risk for each factor and area to manage risk, but the aggregate risk for Thailand had not been evaluated. In response to the floods we are conducting risk surveys in other areas too, but at this point there is no significant aggregate risk.

Q. Will there be any changes to your overseas strategy?

A. There is no change in our policy of reducing our strategic-holding stocks to invest in overseas M&As. Investing overseas also has the effect of dispersing our risk geographically. Looking ahead, we will ensure that our overseas risk evaluation can be managed with models.

■ Dividend and Capital Management Policy

Q. The dividend for this fiscal year has been left unchanged, but you are expecting to book system integration costs for the next fiscal year. Do you intend to maintain dividends at the same level next year by decoupling them from the level of single-year earnings?

A. The decision to maintain the dividend forecast for the current fiscal year was the result of thorough and repeated discussion by management. We consider maintaining a stable dividend to be the first priority in our policy on returns to shareholders. Moreover, we determine the level of dividend payments by looking at our income and expenditure over the medium to long term, rather than our single-year earnings. We have also established the “Exploratory Committee for Establishing a New Company” to accelerate the execution of our management plan. Our decision to maintain the level of dividend should be interpreted as a demonstration to the market of managements’ determination to execute this plan.

Q. Does the decision to maintain the dividend level in this year’s forecast despite relatively harsh business conditions mean you have a strong determination to maintain dividends next year and onward?

A. That is how management sees it, yes.

Q. How do you see the balance between maintaining capital standing and maintaining dividend payments?

A. Executing the medium-term management plan will raise our level of earnings and strengthen our capital standing. At the same time, we will combine strategies for reducing risk by ramping up the reduction of strategic-holding shares and the use of reinsurance schemes to ensure soundness.

Q. Would you maintain your dividend policy even if the Company’s credit rating were lowered?

A. In principle, yes. But we are also very particular about our credit rating and work to maintain it as much as possible.

Q. What is the status of your capital surplus against risk after reflecting the impacts of the flooding in Thailand and the corporate tax rate cut. What is the relationship between appropriate levels of surplus and dividends?

A. The surplus at the end of September was approximately ¥690 billion, shrinking to about ¥500 billion after taking into account subsequent factors.* In our effort to be globally competitive, we strive to retain a firm hold on our target AA rating. We expect measures to reduce risk such as paring back our holdings of strategic-holding shares and executing our medium-term management plan will help us to build up capital. For this reason we believe we can ensure AA rating soundness even if we retain the dividend.

* Since we were unable to supply this answer at the time, we add it here.

Q. Would you not change the dividend policy even if the company incurred a loss next period, for example because of a harsh typhoon season?

A. We have no plan to change the dividend policy.

Q. What will the level of adjusted consolidated net assets be at the end of the fiscal year?

A. At the end of the previous fiscal year it was just under ¥1,900 billion. After reflecting a decline in net assets based on earnings forecasts, a decrease in unrealized gains due to the fall in stock prices, a decrease in deferred tax liabilities (positive effect), and other factors, we think that a rough estimate of the current level of net assets would be down ¥200 billion to about ¥1,700 billion.

■ Acceleration of Group Strategy

Q. A recent press release has announced the acceleration of Group strategy. Is this in response to the recent heavy loss?

A. Yes.

Q. Is the “Exploratory Committee for Establishing a New Company” that was announced in the release examining options for a merger?

A. We are planning to establish an entirely new company that is neither Sompo Japan nor Nipponkoa. It is quite likely that the committee will select a merger, but many issues remain to be resolved before that decision can be taken. The result of the committee’s deliberations will be announced by the end of March.

Q. What measures are currently being accelerated?

A. The Management Plan Promotion Committee is discussing ways for Sompo Japan and Nipponkoa to share business platforms and unify the measures and strategies for the two companies, among other ideas. The committee is headed by the presidents of the two P&C insurance companies, and subcommittees headed by officers in charge are making steady progress. This structure will allow us to progress quickly.

■ Other

Q. What are the extraordinary items amounting to ¥46.4 billion in the adjusted profit for the domestic P&C insurance business?

A. The reduction in the corporate tax rate had an impact of -¥31.4 billion at Sompo Japan, and -¥15.0 billion at Nipponkoa. This was excluded from adjusted profit as extraordinary items. Moreover, we also expect the corporate tax cut to increase the embedded value of in-force business for life insurance by about ¥35.0 billion, which we also intend to deduct as an extraordinary item.