

Question and Answers from November 19, 2013 Telephone Conference
Regarding FY2013 Interim Results

Management Plan and Business Forecasts
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Q: Could you please confirm the changes in the ordinary profit basis as regards the reason for the upward revision? While ordinary profit has been upwardly revised by 57 billion yen on a consolidated basis, the two P&C insurance companies have made upward revisions of 34.5 billion yen. Would my understanding be correct that the breakdown of this 34.5 billion yen is +7.8 billion yen for net interest and dividend income, and +8.7 billion yen in capital gains or losses, making a total of 16.5 billion yen in investment income for the upward revision, an upward revision of 12.5 billion yen from the revised reserve for outstanding claims for the Thai floods, and the other factors of improvements in profitability in automobile insurance and a reduction in operating expenses?

A: Your understanding is correct as regards the asset investment. The initial forecast for the impact of the Thai floods was a total of 16.3 billion yen in profits for Sampo Japan and Nipponkoa, but this was revised to 19.4 billion yen. The positive impact on ordinary profit for the revised performance forecast is +3.1 billion yen. The remaining impact is mainly on improvements in profitability in automobile insurance.

Q: The FY2013 business forecast was upwardly revised, but on the other hand the FY2015 target value remained the same. Please explain the FY2015 outlook and if there is any possibility of an upward revision.

A: As regards the domestic property and casualty (P&C) insurance business, I believe our progress has exceeded our medium-term management plan, mainly in the automobile insurance business. Looking ahead, we are preparing our responses to the hike in consumption tax, and observing the completion of the merger between the two P&C insurance companies. Although we are just monitoring, at this stage we do not plan to change FY2015 plan's forecasts.

Q: I would like to confirm the relationship between the upward revision and the rate of progress against your this FY's forecast. As regards the ordinary profit forecast after the revision, the interim performance was ¥53.7 billion and the rate of progress seems to be around 40%. What are the factors that will enable you to catch up in the second half?

A: One factor enabling us to catch up, is the gains on sales of strategic-holding stocks. The planned reduction in the FY2013 level was close to the sales amount of 197.8 billion yen of last fiscal year. Sales of 43.7 billion yen occurred in the first half, and both the sales amount and the gains on sales are expected to be biased toward the second half. The total gains on sales of the two P&C insurance companies is estimated to be 106.5 billion yen for the full year, against actual sales of 23.3 billion yen in the first half. On a consolidated basis after purchase adjustments, the first half performance is estimated to be 19.7 billion yen and the full-year figure is estimated to be 80.5 billion yen.

Automobile Insurance

Q: In regard to the E/I loss ratio forecast for FY2013, you are now expecting a much stronger recovery in profitability than initially anticipated. Could you please go over the background?

A: The revision to the forecast is based on the performance in the first half. In the 1H FY2013, the actual E/I loss ratio was 66.1%, an improvement of 2.8 points from 68.9% in the 1H FY2012. On this basis, we estimate there will be an improvement of 2.7 points from the performance of 70% last fiscal year to 67.3% for the current full fiscal year.

Q: If you factor in all the trends that you have seen in the first half, I think that you may be able to forecast a little more improvement. Have you factored in the impact of the provision for reserve for outstanding claims at the fiscal year-end, arising from the consumption tax increase?

A: The revision to the forecast is based on the performance in the first half. In the 1H FY2013, the actual E/I loss ratio was 66.1%, an improvement of 2.8 points from 68.9% in the 1H FY2012. On this basis, we estimate there will be an improvement of 2.7 points from the performance of 70% last fiscal year to 67.3% for the current full fiscal year.

Q: We have seen a reduction trend in the number of reported claims during the interim period, but what is the more recent situation in October and November?

A: On the basis of the preliminary figures for October, it will be 5.5% down compared to the same month of previous year. However, the number of reported claims each month varies greatly: looking at single-month results, we see large fluctuations, with April down 14.3%, May down 0.5%, and June down 0.7%. I believe that

instead we should look at the trend for each quarterly period.

Q: As a result of the amended driver rating systems of the two P&C insurance companies, some policyholders are avoiding making insurance claims, and the number of reported claims has decreased. On the other hand, is it possible that since October this restraint will cause the rise in insurance premiums per policyholder to slow down? Also, is it correct that the impact on this fiscal year's results is not so great?

A: As you suggest, there is certainly a chance that direct premiums written will decrease as the number of insurance claims goes down. That said, the effect of amending the driver rating system will not start filtering through until October 2013. Therefore, the impact on business performance in FY2013 will not be significant.

Q: The revised catastrophic loss reserve for automobile insurance shows a net provision. What is your projected provision for the catastrophic loss reserve for automobile insurance on a full-year basis? What are the provisions for Sompo Japan and Nipponkoa?

A: Sompo Japan is projecting a net provision of 1.5 billion yen, while Nipponkoa is projecting a net provision of 0.1 billion yen. The initial assumptions for the catastrophic loss reserve have not been revised.

Overseas Insurance Business

Q: I believe that NKSJ was initially forecasting ordinary profit of about 6.0 billion yen from overseas subsidiaries. What is your revised forecast?

A: We have upwardly revised the forecast to 9.4 billion yen.

Q: NKSJ was initially forecasting overseas net premiums written of 164.3 billion yen. However, the forecast for overseas net premiums written has now been reduced to 152.9 billion yen. Why?

A: The main reason is that the yen has started to appreciate against the currencies of emerging countries where we generate a large amount of net premiums written, such as Brazil and Turkey. The impact of the yen's appreciation is 13.7 billion yen.

Natural Disasters

Q: NKSJ reported actual losses from natural disasters of 15.5 billion yen, and is forecasting losses from natural disasters of 46.5 billion yen for the full year. What is your estimate of the losses from Typhoon No. 26?

A: Although this is not the most recent estimate, we are provisionally estimating losses of around 16.3 billion yen from Typhoon No.26.

Q: NKSJ is projecting losses from natural disasters of 31.0 billion yen for the second half. Excluding the impact of Typhoon No.26, does the rest of these losses reflect snow damage and other assumptions? Have you recognized losses from any major natural overseas natural disasters that should be considered, such as Typhoon No.30 in the Philippines, in addition to the losses from domestic natural disasters?

A: We believe that our losses from the typhoon that struck the Philippines will be fairly limited. No other natural disasters that would warrant the recognition of losses have occurred. Other than Typhoon No. 26, the amount of losses from natural disasters is mainly based on snow damage.

Others

Q: Won't you disclose the amount of the impact on the reserve for outstanding claims due to the consumption tax rise from April 2014?

A: Although there are many uncertainties involved, we believe the size of the impact will be in the lower range of several billions of yen.

Q: Have you reflected the impact of the abolition of the special reconstruction corporation tax one year earlier than scheduled?

A: We have not reflected this impact. We expect the size of the impact to be in the middle range of several billions of yen.