May 20, 2016 Conference Call – FY2015 Results Q&A

Business forecasts for FY2016 (Including the Next Mid-Term Management Plan)

Q: You are forecasting a decline in earnings for FY2016. To the extent possible, could you please discuss your medium-term outlook at this time?

A: We expect the benefits of medium- to long-term projects, such as upfront investments, to gradually appear from FY2018. In FY2016 and FY2017, our earnings level could decline slightly compared with FY2015. However, the crucial point to recognize is that we do not expect any decline in our earnings power in insurance underwriting and asset management that we achieved in FY2015. We are making forward-looking investments in conjunction with maintaining core profitability.

Domestic P&C Insurance Business

Q: What is your outlook for the Earned / Incurred (E/I) loss ratio in FY2016?

A: In automobile insurance, we are conservatively forecasting a slight increase in premiums as the effect of premium rate revisions in FY2014 runs its course. Meanwhile, we expect net incurred losses to decrease slightly. As a result, we are projecting a decline in the E/I loss ratio from 60.3% in FY2015 to 60.0% in FY2016. For all lines of insurance (excluding CALI and household earthquake), the E/I loss ratio is projected to improve by 2.3 points from the previous year to 59.3% in FY2016.

Q: What is your forecast for upfront investments?

A: We have initiated a long-term project at Sompo Japan Nipponkoa aimed primarily at driving innovation in systems and business processes. The costs will be spread out over around six years, and planned to peak out in FY2019-2020. In FY2016, we are planning to invest ¥12.0 billion, roughly half the peak level. At Himawari Life, investment is scheduled to remain at around the ¥5.0 billion level annually from FY2016 and

beyond.
The benefits of these investments should gradually appear from FY2018, and we expect to reap the full positive impact in FY2021 or FY2022. Under those conditions, Sompo Japan Nipponkoa's net expense ratio will be on track to fall below 30%.

Q: Could you please explain the impact of the Kumamoto Earthquake that struck in April?

A: Based on figures aggregated at this time, we anticipate a net incurred loss of around ¥2.0 billion in the corporate sector. For regulatory reasons, household earthquake insurance is provided on a "no loss, no profit" basis. Therefore, household earthquake insurance has no impact on our profitability.

Q: In recent years, you have often exceeded your annual natural disaster budget of ¥43.0 billion. What are the reasons for the budget overruns? Also, are you considering any particular measures to mitigate the increase in the impact of natural disasters?

A: Although our general impression is that natural disasters have become increasingly frequent, we have seen incurred losses fall below ¥43.0 billion in some fiscal years. With this in mind, we have not changed our assumption of setting ¥43.0 billion as an average level for the natural disaster budget over a certain period of time. When natural disasters strike in regions where we have a relatively high market share, such as the Kyushu region, we could be impacted proportionally. From an ERM standpoint, our analysis shows that fire insurance does not generate an adequate return relative to risk. Although we revised our premium rates in October 2015, we believe that appropriate premium rate revisions and product design will remain crucial going forward.

Q: Is the trend of a declining number of reported claims continuing in automobile insurance?

A: In April 2016, the number of reported claims (preliminary estimate) declined by just under 1%. The trend of a declining number of reported claims has continued mainly because of a decrease in the number of reported claims for small losses following the revision of the driver rating system in October 2012. We believe that another reason for this continuing trend is a decrease in the number of accidents itself, mainly due to recent innovation in automotive technology and enhanced safety features, notably automatic braking.

Overseas Insurance Business

Q: Some believe that the softening market is finally coming to an end. However, your profit forecasts for the overseas insurance business seem conservative. Why?

A: We plan to increase net premiums written in tandem with carrying out cautious underwriting based on the softening market. Meanwhile, it is true that there are insurance lines and policies that are experiencing declining profitability due to the softening market. We have set a cautious outlook for these parts of the overseas insurance business.

Capital Policy

Q: Could you please discuss your approach to shareholder returns in FY2016 and beyond?

A: We seek to increase shareholder returns. To this end, we are considering including the profit of the domestic life insurance business in the funds available for shareholder returns. Previously, this profit was excluded. Meanwhile, in light of our basic policy of providing steady dividends and our forecast for decline in our earnings in FY2016, we have decided to leave our dividend forecast unchanged for now.
Looking ahead, we intend to provide shareholder returns with an emphasis on the total payout ratio, which includes share buybacks, in conjunction with increasing the funds available for shareholder returns.

Q: Sales of strategic-holding stocks seem to have declined in FY2015. Have you reached an impasse, making the sale of strategic-holding stocks difficult going forward?

A: Recognizing the sale of strategic-holding stocks to be a crucial management priority, we have pushed ahead with the sale of strategic-holding stocks, and plan to continue these sales in the future. As stated in our Corporate Governance Report, our policy is to increase return on risk (ROR) and return on equity (ROE) for the Group as a whole primarily by giving priority to selling stocks with a low ROR and making investments that have a higher ROR. We plan to reduce strategic-holding stocks by about ¥100.0 billion in FY2016. We do not expect to reduce the pace of the sale of strategic-holding stocks thereafter.