May 19, 2017 Conference Call – FY2017 Results Q&A

Domestic P&C Insurance Business

Q: Amid rising repair costs per claim in the automobile insurance business, upfront investments in systems and other factors, what are the main factors behind the higher earnings forecast for underwriting profit at Sompo Japan Nipponkoa in FY2017?

A: We anticipate factors such as top-line growth based on rising premiums per policy through the attachment of automobile insurance riders to policies and the strong small and medium-sized enterprise market for new lines of insurance, along with the normalization of the excessive downturn in demand in FY2016 caused by the rebound from last-minute demand ahead of revisions to fire insurance products in FY2015 (including the abolition of long-term policies of more than 10 years). While we are making slightly conservative estimates of insurance claims, we expect upfront investments included in expense to decrease by ¥4.7 billion year on year. Based on these factors, we expect earnings to increase slightly.

Q: What are your policies on addressing the revision of automobile insurance premium rates in the future?

A: At this time, a decision has been made to introduce Advanced Safety Vehicle (ASV) discounts in January 2018. However, no other specific policies on premium rate revisions have been determined. Going forward, if the General Insurance Rating Organization of Japan announces revisions to advisory rates, we will comprehensively consider various elements, including the revision of consumption taxes and the Civil Code (law of obligations). With this in mind, we will determine the timing and the details of the revisions.

Q: Why is the adjusted profit of Sompo Japan Nipponkoa projected to decline by ¥19.2 billion in FY2017?

A: The main reasons were asset management-related changes, such as the rebound from gains on fund cancellation being around ¥10.0 billion higher than usual in FY2016, and a decrease in dividends from equities in line with a reduction in strategic-holding stocks.

Domestic Life Insurance Business

Q: What impact will the revision of the standard yield rate have on the domestic life insurance business (Himawari Life)?

A: We have revised assumed interest rates primarily for savings-type products. In parallel, we plan to revise our mainstay medical insurance and related products while closely monitoring future trends. As a result, we are forecasting an impact of approximately ¥3.0 billion from an increase in provision of policy reserve in FY2017. The provision of policy reserve is adjusted for in the calculation of adjusted profit. Accordingly, this provision will have virtually no impact on adjusted profit.

Q: Why did paid claims decrease in FY2016, and why is it expected to increase in FY2017?

A: In FY2016, we believe that paid claims were less than the usual year’s level mainly because there were fewer major loss events, in addition to a lower-than-usual mortality rate. On the other hand, in FY2017, we expect paid claims to return to the usual year’s level. Based on this, we have factored a conservative estimate of paid claims into the adjusted profit forecast for FY2017.

Q: What is the likelihood of achieving the adjusted profit forecast of ¥32.0 billion for FY2018?

A: We believe that the achievement of the forecast is well within reach, based on steady progress with the growth of profits in line with the accumulation of policies in force, as well as the fact that we have set conservative forecasts for FY2017.

Nursing Care & Healthcare Business, etc.

Q: In the nursing care & healthcare business, have you set the adjusted profit forecast for FY2017 at an appropriate level to achieve the adjusted profit forecast for FY2018?

A: We expect adjusted profit to increase to ¥3.4 billion in FY2017. We believe that our progress against the FY2018 target (¥8.0 billion or more) is slightly behind schedule mainly because occupancy rates have not yet recovered to the level anticipated in the initial plan. However, the measures we have laid out to date have been achieved on schedule, and the occupancy rate in the nursing care business has been improving. We will continue to implement measures as planned. The delays in improving the occupancy rate will have an impact of several hundred million yen on profit, which will not have a significant impact on the entire Group.

Overseas Insurance Business

Q: Why has the combined ratio of Sompo International (Endurance) (hereafter, “SI (Endurance)”) been increasing?

A: The combined ratio of SI (Endurance) was stronger than usual up to FY2015, due partly to the impact of only a few natural disasters. In our business forecasts for FY2017, we are expecting a steady top-line increase. However, at the beginning of the fiscal year, we are initially factoring in a conservative estimate of net losses and loss expenses from major loss events in reinsurance and certain other sectors, even though these events have not yet occurred.

Q: To what extent will the business results of SI (Endurance) contribute to consolidated net income for FY2017 (J-GAAP)?

A: We plan to recognize ¥20.9 billion as SI (Endurance)'s net income on a J-GAAP basis. This figure represents SI (Endurance)'s profit forecast of ¥39.3 billion less amortization of goodwill and other items of ¥18.4 billion.

Q: Can I correctly assume that the major risk factor behind underperformance in the adjusted profit of SI (Endurance) will be reinsurance stemming from natural disasters, particularly reinsurance for storm and flood damage caused by hurricanes in the U.S. and other such events?

A: SI (Endurance) has been working to reduce natural disaster risk. Notably, ever since John Charman was appointed as CEO in 2013, SI (Endurance) has been devoting greater efforts than ever to reducing natural disaster risk. That said, SI (Endurance) still holds natural disaster risk to a certain extent. An increase in U.S. hurricanes and other such events could become a risk factor for underperformance in adjusted profit.

Asset Management

Q: What was the amount of gains on cancellation of funds in Sompo Japan Nipponkoa's investment profit for FY2016? Sompo Japan Nipponkoa recorded realized losses on sales of securities in the fourth quarter of FY2016. What were the main components of those losses?

A: Sompo Japan Nipponkoa usually records around several billion yen of gains on cancellation of funds in normal years. These gains are recorded under interest and dividend income. In FY2016, Sompo Japan Nipponkoa recorded around ten and several billion yen of these gains, which was around ¥10 billion more than in normal years. The realized losses on sales of securities recorded in the fourth quarter of FY2016 mainly comprised losses on the replacement of foreign bonds and certain other securities to improve the investment portfolio, with the aim of improving yields and other aspects.

Shareholder Returns

Q: Why did you set the total payout ratio at 50% relative to earnings for FY2016?

A: We have announced that we will set the total payout ratio at 50% as our medium-term target level for shareholder returns, and that the total payout ratio could be adjusted up or down according to major changes in the environment. In FY2016, although we acquired SI (Endurance), the PBR was around 1.3 and we were able to alleviate goodwill and other impacts on capital to a certain extent. We continue to maintain solid financial soundness and our credit ratings remained unchanged. Our financial results for FY2016 outperformed our initial plan and market conditions were favorable. Based on comprehensive consideration of these factors, we decided to set the total payout ratio at 50%.

Q: What actions will you take if you are unable to steadily implement the share buyback (¥56.2 billion) announced today?

A: The share buyback we announced reflecting our performance for FY2016 will be our largest ever. We have set a long acquisition period running through November 2017 as the period for the share buyback, and expect to be able to acquire all of the shares during this period. If we face the circumstances you describe, we will reexamine our policy and properly disclose it at that time.