

November 17, 2017 Conference Call – 1H FY2017 Results Q&A

The revisions to the business forecasts

Q: What are the main reasons for the reduction of ¥14.6 billion in the forecast of adjusted profit for the domestic P&C insurance business, and the increase of ¥4.7 billion in the forecast of adjusted profit for the overseas insurance business?

A: In the domestic P&C insurance business, the main reasons for the reduced forecast were (1) an increase in the estimated loss from domestic natural disasters; (2) the impact of hurricanes in North America; and, (3) a conservative estimate of large losses. In the overseas insurance business, the main reason for the increased forecast was that we expect to benefit from the positive effect of the reorganization of Sompo International (SI), despite the negative impact of hurricanes in North America and a conservative estimate of SI's loss ratio.

Q: One-time factors seem to be the main reasons for the revisions to the business forecasts. Can I assume that you will still be able to achieve your plans of adjusted profit in the domestic P&C insurance and overseas insurance businesses in FY2018, when those one-time factors will no longer be present?

A: The revisions was largely attributable to one-time factors. In this respect, it will not affect our plans for FY2018. As we have noted before, there has been no change in our expectation that we seem to outperform our plans for adjusted profit for FY2018. At this time, we believe that our forecasts of adjusted profit are achievable.

Q: Did you incorporate the effect of the reorganization of SI into your previous forecast?

A: In April 2017, we initiated the post-merger integration (PMI) process for SI. In this process, we set out to establish SI as a global business platform in developed countries through measures including the integration and reorganization of existing companies. As these measures progressed, we decided to incorporate the effect of the reorganization of SI into our forecast this autumn. Initially, we had recognized this step as one of our options. However, we did not factor it into our previous forecasts because conditions were fluid and subject to change.

Q: Will tax reforms in the U.S. have an impact on the effect of the decrease in tax expenses in connection with the reorganization of SI?

A: The decrease in tax expenses in connection with the reorganization of SI is based only on the tax code in Japan. It will not be impacted by tax reforms in other countries.

Impact of Natural Disasters (Hurricanes in North America, Typhoon No. 21, and California wildfire)

Q: To what extent have you been impacted by natural disasters (Typhoon No. 21, California wildfire) since October?

A: We are forecasting a gross incurred loss of approximately ¥32.0 billion from Typhoon No. 21 at this time. However, due to the expansion of reinsurance, we expect the incurred loss to be mitigated to a certain extent on a net basis. Although we are currently ascertaining the detailed impact of California wildfire, the loss could amount to around several billion yen at SI and Canopus. We don't believe that the loss will reach a staggering amount at this time. In addition, we have reflected a certain amount of losses into our forecast as a factor that could push up the loss ratio in the second half of FY2017.

Q: If natural disasters similar to those in FY2017 occur in FY2018, do you expect to experience the same impact?

A: While our top-line grows as a whole, we are controlling the natural disaster risk. Therefore, we believe that we will also be able to mitigate the volatility of profits.

Domestic P&C Insurance Business

Q: The progress rate was low for core underwriting profit in the first half of FY2017. Can you really achieve your forecasts of underwriting profit for FY2017?

A: We have set conservative estimates for large losses and domestic natural disasters. Under current conditions, we believe that we will be able to achieve the business forecasts you mentioned.

Q: Extraordinary losses related to the sale of fixed assets are forecast at ¥23.7 billion. What do these losses consist of?

A: They are losses on the sale of real estate. The Company has formulated a real estate strategy and holds an appropriate real estate portfolio. However, since Sampo Japan and Nipponkoa merged in 2014, we have accelerated the sale of real estate and other actions in order to optimize our real estate portfolio. These real estate sales are an integral part of this real estate strategy, and were also decided upon based on current real estate market conditions and related factors.

Overseas Insurance Business

Q: What is the top-line growth rate at SI? To what extent has the loss rate excluding natural disasters

increased?

A: We have revised the forecast for the top-line growth rate from 15% previously to just over 10%, based on the impact of a softening insurance market and other factors. For the loss ratio, the revised business forecast reflects to a large extent conservative estimates of the hurricanes in North America and natural disasters in second half. However, we have also reflected an increase of several points in the loss ratio in the base components, including certain property insurance lines. That said, SI has robust enterprise risk management (ERM) in place. We will strive to ensure stable profitability through such means as optimizing future premium rates and underwriting.

Q: Do you still expect to be able to outperform your profit forecasts based on the revisions to SI's current top-line growth rate and its persistently high loss ratio?

A: When we decided to acquire SI, we announced that SI's profit contribution would amount to around ¥40.0 billion. At the beginning of the current fiscal year, we had expected SI's profit contribution to far surpass ¥40.0 billion. Under current conditions, although we should expect the profit contribution to be lower, we believe that the profit contribution could still outperform the level we had indicated previously.

Shareholder Returns

Q: I would like to confirm management's discussions on shareholder returns.

A: There has been no change in our shareholder return policy, particularly our policy of setting the total payout ratio at 50% over the medium term. Management discussed shareholder returns, including dividends, in the first half of FY2017. Our policy is to consider ways of returning profits to shareholders, including balancing dividends and share buybacks, based on the stock price level and other factors.

Q: If the impact of hurricanes in North America had not occurred, would there have been a large increase in the funds available for shareholder returns?

A: Yes. That's right.