

Y 2014 Earnings Call

Company Participants

- Yukinori Kuroda, Manager, Corporate Planning Department

Other Participants

- Futoshi Sasaki, Analyst
- Jun Shiota, Analyst
- Koichi Niwa, Analyst
- Masao Muraki, Analyst
- Natsumu Tsujino, Analyst
- Unidentified Participant
- Wataru Otsuka, Analyst

Presentation

Yukinori Kuroda {BIO 19776286 <GO>}

I am Kuroda, responsible for Investor Relations at NKSJ Holdings. Thank you very much for joining us for conference call today. I will explain about fiscal 2013 results and fiscal 2014 forecasts, focusing on numbers in particular. As for the management strategies, we plan to hold an IR meeting on May 27, where our Group CEO, Mr. Sakurada, will make presentation.

Please take a look at page 2. This is the overview of fiscal 2013 results. This is mostly in line with the modified forecast that we announced May 1st. And P&C net premium written increased by 10%, due to increase in revenue by two major P&C insurers, Sampo Japan and Nipponkoa, and contribution from Maritima in Brazil. And the ordinary profit was JPY112.3 billion, up JPY7.6 billion year-on-year. Net income was flat at JPY44.1 billion, maintaining the same level from the year before despite the snow damage. As for return to shareholders for fiscal 2013, we have announced JPY10 billion of share buyback will be carried out.

Page 3, please. This is the underwriting profit. The core underwriting profit, which excludes large fluctuations, showed a significant increase of JPY76.5 billion to JPY14.4 billion, mainly due to improved profitability in automobile insurance. The underwriting profit was a negative JPY62.5 billion. The negative effect of snow damage on the underwriting profit was JPY64.6 billion, which had a great impact.

Turning to page 4, this is a breakdown of the ordinary profit, which showed an year-on-year increase. Main factors include increasing investment profits, mainly due to gain on

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sales of securities; and furthermore, life insurance and overseas businesses contributed steadily to profits as well. Last year, as the market environment was favorable, evaluation loss declined and so did purchase adjustments, which also pushed up profits. These helped offset the impact of snow damage and led to the ordinary profit of JPY112.3 billion, up year-on-year.

Page 5 shows the net income. I'm not going into details, but domestic P&C and life insurance businesses and overseas subsidiaries all contributed to profits to bring above the net income JPY44.1 billion.

From page 6 onward I will explain about business forecast for fiscal 2014. As for top line, Sompo Japan and Nipponkoa, we expect an increase in revenue of those two companies, as well as contribution from Canopus, which we acquired; leaving us to forecast a significant growth in net premium written. And with the expected steady improvement in underwriting profit, forecast a growth of JPY40 billion in ordinary profit.

However, due to the one-time merger costs to be recognized as extraordinary losses, net income is expected to be JPY33 billion, down JPY11.1 billion. In Sompo Japan and Nipponkoa, one-time merger costs are assumed to be JPY98 billion.

Page 7, I'll explain about composition of ordinary profit forecast. In fiscal year 2014, core underwriting profit is expected to be JPY32.5 billion, which shows a steady improvement. Investment profit is expected to be, and as for the loss of JPY64.6 billion due to the snow damage in fiscal 2013, due to gain on reversal of underwriting reserve of catastrophic loss associated with the progress in payment, there will be a positive contribution to profit of JPY46.1 billion.

On the other hand, investment profit is expected to be JPY105.5 billion, down JPY87.2 billion year-on-year. This is mainly because we assume the gain on sale of strategic equity holdings to be half of what it was in fiscal 2013. So overall, ordinary profit is forecasted to be JPY152 billion, up JPY39.6 billion year-on-year.

Page 9, please. First on top line of domestic P&C insurance. From the page onward, the numbers shown are the combined total of Sompo Japan and Nipponkoa and you can see the continued upward trends of premiums on the performance evaluation basis. In fiscal 2013, positive growth of 6.6% was posted.

And Page 10 shows loss ratio on the written paid basis. In fiscal 2013, mainly because of the improvement in our main stay, automobile insurance profitability, loss ratio improved by 6.2 percentage points to 62.7%, which was a great improvement. In fiscal 2014, loss ratio is expected to increase to 65.1%, due to the completion of claims payment for snow damage in February.

Page 11 shows loss ratio on earned and incurred basis. In fiscal 2013, because of incurred losses due to snow damage, the loss ratio was almost flat. But in fiscal 2014, it is expected to improve by 3.6 points to 64.4%.

Page 12 shows net expense ratio, which showed steady improvement. In fiscal 2013, it went down by 1 percentage point to 34.2%. In fiscal 2014, it is expected to continue to improve another 1 point to 33.3%.

Page 13 shows the combined ratio, which is a sum of loss ratio on a written paid basis and expense ratio. In fiscal 2013, it dropped below 100%, indicating a turning point in our business stages.

Page 14, auto insurance. In fiscal 2013, similar to the trend in the combined ratio, loss ratio was 65%, an improvement of 5.6 percentage points. Auto insurance combined ratio dipped below 100%. Main factors include increasing revenue owing to products and rate hikes; and a decrease in the number of reported claims, particularly small amount claims. In fiscal 2014, we are expecting an increase in the loss ratio against the backdrop of the impact of the consumption tax hike and a continued increase in the unit repair costs.

Page 15, here you can see the developments of the number of reported claims, declining trend continued. In the fourth quarter, excluding the impact of snow damage, the number of reported claims declined by 8.5%. Since the fourth quarter prominent declining trend was observed.

Page 16, here you can see the breakdown of investment profits. In fiscal 2013, total investment profit was 192.7 billion. We expect this to decline to JPY105.5 billion for fiscal 2014. Main reason being, as was mentioned earlier, the profit from the sale of strategic holding stocks, which in 2013 was 112.1 billion. This is expected to be 46 billion in fiscal 2014. The total profit from the sale are expected to decline from 128.2 billion in fiscal 2013 to 49.2 billion in fiscal 2014.

We plan to continue with the reduction in strategic holding stocks. In fiscal years 2012 and 2013, we did this rather aggressively. So for fiscal 2014, the amount would be less than half compared to fiscal 2013.

Pages 17 and 18, here you can see the forecast for domestic P&C insurance business of Sampo Japan and Nipponkoa. Please look at the numbers later. We're expecting the net premiums written to increase and expect E/I loss ratio to improve. We expect significant improvement in the underwriting profit. Investment profit will decline, but ordinary profit is expected to increase. With the one-time merger cost, net income is expected to increase to 30 -- or decrease rather to 33.7 billion, down JPY15.7 billion.

Page 19, here you can see the development of domestic natural disasters. In fiscal 2013, incurred losses totaled 111.7 billion. Impact of snow damage in February was 73 billion, excluding which the incurred losses totaled 38.6 billion. For fiscal 2014, based on recent trends, we are expecting incurred losses to total JPY43 billion.

Page 20, you can see the impact of the snow damage. Net loss occurred in 2013 totaled JPY73 billion. Ratio between fire and auto was 9:1. With partial reversal of catastrophic loss reserve, impact on underwriting profit was minus 64.4 billion in fiscal 2013.

Page 21, impact of flooding in Thailand. With the progress in payment of claims and corresponding reversal of catastrophic loss reserve or a provision of outstanding loss reserve, profit for fiscal 2013 totaled about JPY25 billion. Some payment remains in fiscal 2014, but the impact is expected to be rather limited.

Domestic life insurance business, page 23. Here you can see the annualized premium in force and MCEV. Annualized premium in force is growing steadily, centering on medical insurance. MCEV is also on the increasing trend as has been explained earlier. At the end of fiscal 2013, 750.3 billion and as of the end of 2014 we expect the amount to be JPY834.3 billion.

Page 24, summary of annualized new premium and annualized premium in force. Amount of new business in fiscal 2013 with more fierce competition declined to 30.4 billion. In fiscal 2014, with new products launched in May, in medical insurance and others, we expect this to expand to JPY41 billion. Ordinary profit in fiscal 2013 was 17.2 billion. For fiscal 2014, we expect 16.2 billion. Net income 8 billion in 2013; and for fiscal 2014, 7.5 billion is expected. Annualized premium in force, as shown at the bottom, centering on protection-type products, is expected to increase.

Page 25, premium and other income. Income from insurance premiums excluding lump sum payment, growth trend continues. Page 26, profit on J-GAAP basis. Basic profit grew to 16 billion in fiscal 2013; and for fiscal 2014, similar level, JPY15.8 billion is expected. And we expect to keep the same level due to the accumulation of business in force and one-time system integration-related expenses.

Page 27, EV. Adjusted EV in fiscal 2013 was JPY85.7 billion. For fiscal 2014, we expect JPY84 billion. So, we are expecting steady increase. In fiscal 2014, with the effect of new products, sales expansion is expected, but conservatively we are considering the surrender of existing policies, and we are expecting the flat growth in adjusted EV. Basic MCEV growth is expected.

Results of overseas insurance business, page 29. Net premiums written in fiscal 2013 was 158.5 billion, with the consolidation of Maritima in Brazil mainly. For fiscal 2014, on May 1st of this year, we completed the acquisition of Canopus in UK. We expect contribution of that and also for Maritima, in fiscal 2013 the contribution was only for three quarters, but we expect a full-year contribution for fiscal 2014. So, we expect the total to grow to JPY296.8 billion. Net income in 2013 declined to 7.8 billion, this is because at the subsidiary in Singapore in the previous year there was a profit from the reversal of reserve in relation to the flooding in Thailand. But with the absence of this technical factors, it declined to 7.8 billion. But for fiscal 2014, we expect a growth to JPY13 billion. Big factor is the start-up contribution from Canopus. For fiscal 2014, we are expecting a profit contribution of Canopus to be JPY6.2 billion.

Page 30, overseas business by region. Net premiums written in fiscal 2013, we saw an increase in all regions, particularly from Maritima in Brazil.

As for the bottom line, we saw a decline in 2013 due to merger cost in Europe and due to some noises in Asia, such as the impact of flooding in Thailand. But on a year-on-year, we're seeing growth in fiscal 2014, particularly in South America.

Page 34, numerical management targets. In fiscal 2013, group total consolidated adjusted profit JPY101.5 billion, a slight decline due partly to the snow damage. For fiscal 2014 through steady improvement in P&C insurance, we expect an increase to JPY146 billion. Adjusted EV ROE in fiscal 2014 is expected to reach 5.9%, no change for targets for fiscal 2015. The details are shown in the Excel sheet formats uploaded on our web page.

That concludes my presentation. Thank you for your attention. Thank you very much. Now we'd like to move to question-and-answer session.

Questions And Answers

Q - Masao Muraki {BIO 3318668 <GO>}

I'm Muraki from Deutsche Securities. I'd like to ask about the automobile insurance. The interest and dividend income and investment profit is something that I want to ask about. The loss ratio of automobile insurance for fiscal 2014, as shown on page 14, are showing some increase. And you have made significant raise in premiums, so you can expect premium revision effect much greater than negative impact of consumption tax hike. Can you explain why you expect deterioration in this regard?

And second question, in fiscal year 2014, as you see the Excel data sheet that you explained about toward the end, the combined total of interest and dividend income for both companies is forecasted to be decreased by JPY18 billion. How much capital gain and other one-time factors were included in the income of fiscal 2013 and how much of income of that nature included in fiscal 2014?

A - Yukinori Kuroda {BIO 19776286 <GO>}

First on the automotive insurance loss ratio. The automobile insurance is expected to be 66.2% in expense ratio. For fiscal 2014, a deterioration of 1.2 points. In April of fiscal 2013, the increase in the price of automobile insurance had impact. And Sampo Japan plans to raise price in July, and Nipponkoa in September. So, we don't expect that much contribution from that price rise for fiscal 2014. But considering the impact of price increase, one of the negative factor is consumption tax hike.

In automobile insurance, we expect an approximate impact of JPY19 billion. And also unit repair cost increase is another one, this is continuing at the levels of several percentages. So, we have made slightly conservative assumption on these negative factors.

And from this fiscal year, due to the amendment of Driver Rating System, the number of claims payments is declining, so we are anticipating a slight increase in those qualified for discounts. And this was also assumed slightly conservatively. And that was the reason for 1.2 point deterioration.

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For fiscal 2014, in automobile insurance, we're trying to reduce the number of unpaid claims, and this is part of our group's efforts to improve the customer evaluation. So, we have incorporated our efforts to reduce outstanding cases, which is expected to reduce reserve for outstanding losses while the paid claims would increase. And that impact is expected to be worse [ph] about JPY10 billion. And that explains the written paid base loss ratio.

And with regard to the second question about interest and dividend income; first of all, we're making much progress in selling equities. So, there will be a slight drop in dividend income. And under the current low interest environment, product loans [ph] are going to be ruled over. And again, if we take conservative view on that, this is the forecast that we came up with. And in fiscal 2013, in interest and dividend income, a favorable exit from a private equity deal amounted to JPY3.6 billion. And the yen's depreciation had a positive impact of JPY2 billion, mainly on holding of foreign securities.

And dividend income due to liquidation of a group affiliate amounted to JPY2.5 billion to JPY2.6 billion, which is also an one-time factor. Therefore, we posted a total one-time income of about JPY8 billion in the last fiscal year.

Q - Masao Muraki {BIO 3318668 <GO>}

Thank you.

Q - Koichi Niwa {BIO 5032649 <GO>}

Niwa from SMBC Nikko Securities. I have two questions about this fiscal year's plan. As you said in the conference call, the first question is about one-time merger costs of JPY98 billion, if I remember correctly. Can you give us the breakdown of this amount?

And the second question is about assumptions for profit and loss on sale of securities for fiscal 2014. Your plan shows a significant decline from the last fiscal year. Have you mostly completed the process of sale of equities or how should I interpret this? Can you elaborate on that?

A - Yukinori Kuroda {BIO 19776286 <GO>}

As for the first question on one-time merger costs, we had said that in fiscal 2014, JPY75 billion would be expected. However, now our assumption is JPY78 billion approximately. The difference of JPY3 billion includes the impact of consumption tax hike and some additional measures. And the remaining 20 billion is assumed as extraordinary losses. And half of that is the provision for price fluctuation reserve; and as for the remaining half, the last year substantial integration of Sampo Japan and Nipponkoa was carried out and there were some idle properties identified and the impairment losses were incurred. And if we add all these up, JPY98 billion of loss is now expected to be posted in fiscal 2014.

As for the gain on sale of strategic shareholding, the assumptions used in the calculation were consistent with the market environment as of the end of March 2014. And we expect the amount of sale to be half of that of last fiscal year.

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And details will be given in next year's -- next week's meeting. And we have a four-year plan of equity sale from fiscal 2012 to fiscal 2015. And we want to front-load this plan if we can, and we have sold as much as JPY200 billion worth in fiscal 2012 and 2013, respectively. So, it just happened that the amount was planned to be half in fiscal 2014 and '15 compared to the preceding two years, that was the biggest reason.

And as for the question of whether we will slow down the process of the sale of the equities, we still have equity portfolio of over JPY1.5 trillion, so we need to continue to reduce the portfolio. And we tend to have discussions with the issuers about the possible sale of share. So, it's difficult to change courses immediately, but we hope to figure out the solid numbers in the current and next term.

Q - Koichi Niwa {BIO 5032649 <GO>}

Thank you.

Q - Wataru Otsuka {BIO 16340098 <GO>}

This is Otsuka from Nomura Securities. My first question is on your capital policy shareholder return. I have to ask because I missed the first part of your presentation. For the shareholder return, what would be the profit level that will be the basis for fiscal 2013 and fiscal 2014, respectively?

A - Yukinori Kuroda {BIO 19776286 <GO>}

Your question is on the profit level that will be the basis for the shareholder return. For fiscal 2013, it was JPY15.8 billion; and for fiscal 2014, we are forecasting JPY62 billion.

Q - Wataru Otsuka {BIO 16340098 <GO>}

I see. Dividend would be 24.7 billion and the share buyback that you announced today, which I understand would be included in the March 2014 period, which means that against the profit of 15.8 billion, the shareholder return would total of 34.7 billion. Am I correct?

A - Yukinori Kuroda {BIO 19776286 <GO>}

That is correct. Our basic policy is that over a medium term, about half of the adjusted consolidated profit excluding the adjusted life insurance profits would be used for shareholder return. We have maintained that even at the time of the impact of the flooding in Thailand, as well as when we were recording loss.

So, over a medium term, we'd like to maintain this level. We would not be changing the dividend looking at the single year profit. So, it will be based on the financial soundness, as well as the investment for growth.

Q - Wataru Otsuka {BIO 16340098 <GO>}

So, for fiscal 2013, your total shareholder return exceeded 100%. So, where does this JPY10 billion of share buyback come from?

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A - Yukinori Kuroda {BIO 19776286 <GO>}

Well, one factor is the results in fiscal 2013 and we are expecting a steady recovery in the P&C insurance business for fiscal 2014 and we have a better confidence in achieving the target for fiscal 2015. And also for the previous year, the share buyback totaled about 8.3 billion and that was one reference point in deciding on JPY10 billion.

Q - Wataru Otsuka {BIO 16340098 <GO>}

For fiscal 2014, your share buyback would be decided looking at the situation for fiscal 2014, correct?

A - Yukinori Kuroda {BIO 19776286 <GO>}

Yes. That is correct.

Q - Wataru Otsuka {BIO 16340098 <GO>}

Thank you. My next question is on the possible profit projection. On page 32, it says that premiums will be raised on Sompo Japan in July and for Nipponkoa in September. With that included you are expecting the underwriting profit of Nipponkoa to improve this fiscal year. I suppose that the full contribution will be felt in fiscal 2015. So, I wonder if you have any projected profit level that you expect from this?

A - Yukinori Kuroda {BIO 19776286 <GO>}

The direct impact of the higher premiums is not disclosed. But for instance, the impact of the higher consumption tax for this fiscal year is expected to be around 33 billion for Sompo Japan and Nipponkoa, and including Himawari a total of about JPY35 billion.

For fiscal 2015, the adjusted combined ratio of 95%, we want to achieve that target. So, the impact of the higher consumption tax rate is a big factor. And we would like to offset that impact. And one way to do that is increasing the auto insurance premium.

Q - Wataru Otsuka {BIO 16340098 <GO>}

I see. Thank you.

Q - Jun Shiota {BIO 4127431 <GO>}

This is Shiota of Daiwa Securities. My question, first, is on page 15. You are showing the claims reported there. With the impact of the Driver Rating System amendment complete, what is your projection for fiscal 2014?

A - Yukinori Kuroda {BIO 19776286 <GO>}

Well, the number of claims reported, as you can see, is steadily declining. The introduction of the Driver Rating System amendment was on October 1st. And so, for the first half of fiscal 2014, we expect this declining trend to continue. And assuming that all the customers would behave reasonably, for the second half, we expect flat growth or no change from this low level in the first half.

Q - Jun Shiota {BIO 4127431 <GO>}

I see. My next question is on your overseas business. On page 30, you are showing the results by region. Can you tell us the projection by region? Earlier, you said that you expect the Canopus contribution for this fiscal year to be 6.5 billion, which should mean higher profit from Europe. So, can you give us the breakdown of the JPY30 billion -- JPY13 billion? Thank you.

A - Yukinori Kuroda {BIO 19776286 <GO>}

JPY13 billion, 1 billion from North America, the contribution from Canopus is expected to be 6.2 billion. And including that, we are expecting Europe to total 6.5 billion and Asia with Sigorta in Turkey and Berjaya in Malaysia 3.4 billion, and Brazil between Yasuda Seguros and Maritima 1.9 billion, 13 billion in total. And with regards to the premiums written, 296.8 billion is the total. The largest would be the South America, JPY133 billion. And next would be Europe, including the contribution of Canopus 92.9 billion; and Asia, with Turkey and others JPY49.7 billion; North America 20.9, to total JPY296.8 billion.

Q - Jun Shiota {BIO 4127431 <GO>}

In terms of net income, of course, you can expect big growth in Europe, but it appears decline in net income in the rest of the world. Can you give us the background to that?

A - Yukinori Kuroda {BIO 19776286 <GO>}

Well, big drop will be in Asia, a drop of about JPY1 billion or so. This is in relation to Tenet in Singapore. In fiscal 2013, with the payments progress in relation to the flooding in Thailand, the profit from the reversal of reserve totaled about 3 billion and the absence of that would be a big factor, and there are some other factors as well.

As for Brazil and others, in the early part of May, it was disclosed that Maritima and Yasuda Seguros are expected to emerge, which would incur some expenses, and therefore, some decline is projected.

And then there are some differences by company. So overall, growth in Europe and the absence of technical factors in Asia would be the reason.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

Sasaki from Mitsubishi UFJ Morgan Stanley. I have questions about strategic shareholding. In the fiscal 2013, how much was the amount that you sold? And secondly, I recall you have taken short positions for futures at the beginning of the fiscal year. Have you done so for fiscal year 2014 already? Those are the two questions I have.

A - Yukinori Kuroda {BIO 19776286 <GO>}

With regard to the amount that we sold for fiscal 2013, it was JPY206.1 billion. Of this, Sampo Japan JPY131.9 billion and Nipponkoa 74.2 billion. As for futures, at the end of fiscal 2013, the position was an amount to zero. And as for the positions more recently, it's about half of JPY10 billion.

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Q - Futoshi Sasaki {BIO 17564798 <GO>}

So half of what you sold in fiscal 2013 would be sold in this fiscal year, that's what you said. And the absolute amount seems very big. So, have you changed your commitment to selling?

A - Yukinori Kuroda {BIO 19776286 <GO>}

No, we haven't changed our commitment. But it just happens at the four-year plan turn out to be that way. So, we will need to continue to reduce the risk in equities. So, the future plans will reflect such intention.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

Tsujino from J.P. Morgan Securities. In your company's forecast, what would be the effect of cost reduction for the total of Sampo Japan and Nipponkoa? That's my first question.

A - Yukinori Kuroda {BIO 19776286 <GO>}

What we call the integration synergy for fiscal 2014 is about 30 billion that is assumed for the total of Sampo Japan and Nipponkoa. And in fiscal 2013, the synergy was JPY18 billion worse. So, the merger impact is expense reduction or -- this merger impact in expense reduction is JPY12 billion compared to fiscal 2013.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

In the bar chart of cost reduction shown so far, I recall the amount was to be increased by more than JPY10 billion in fiscal '14 from fiscal '13. Am I wrong?

A - Yukinori Kuroda {BIO 19776286 <GO>}

No, you're right. Synergy effect assumed has been reduced by close to JPY10 billion in this forecast. And we have taken into account the impact of consumption tax hike and also slightly more than expected increase in the system building [ph] cost, has been also incorporated.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

In my note, it says in fiscal 2015, another cost reduction of JPY16 billion is expected. Has this been also changed?

A - Yukinori Kuroda {BIO 19776286 <GO>}

In fiscal 2015, the original forecast of JPY56 billion has not changed. So from fiscal 2014 to fiscal 2015, JPY26 billion improvement is expected, including the amount reduced in this fiscal year's forecast.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

I see.

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A - Yukinori Kuroda {BIO 19776286 <GO>}

As the financial guarantee being taken into account, there are contracts of financial guarantee for US municipal bonds. We assume we will be able to terminate those contracts based on agreement in our forecast at the beginning of the fiscal year, although we don't know if we can do this actually. And on the basis of sum insured, for this fiscal year, JPY6.6 billion is assumed and loss of more than JPY1 billion is incorporated. But what often happens is that around the interim earnings report every year, we have better idea about the forecast. And for the past several years, we've eliminated this item from the forecast.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

Okay. Then there are many factors involved, but in underwriting profit improvements, decline in cost of natural disasters and reversal of catastrophic loss reserve are included, but as a result if you exclude those two factors, the natural disasters and catastrophic loss reserves on an adjusted basis underwriting profit should increase by several billions of yen in this fiscal year, from the previous year, in my calculation. And I would assume that there will be an impact of consumption tax hike of JPY30 billion. So, does that mean that top line growth will be the biggest factor in the increased profit that you expect? Am I correct in understanding that way?

A - Yukinori Kuroda {BIO 19776286 <GO>}

The factors you mentioned are all included, especially the increase in top line or premiums written will have positive impact on underwriting profit. As for fiscal 2014, we expect rather big year-on-year growth, especially for fire and automobile insurance. As the reinsurance market softens and the reinsurance is being reviewed, the cost of reinsurance is declining and the net premiums written is to increase by JPY85.1 billion excluding CALI and earthquake insurance.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

How much is the cost of reinsurance ceded?

A - Yukinori Kuroda {BIO 19776286 <GO>}

The premiums of reinsurance ceded is expected to be reduced by JPY23.7 billion in fiscal 2014.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

Is it because you changed the way reinsurance is ceded or is it because of softer market?

A - Yukinori Kuroda {BIO 19776286 <GO>}

Well, both have the impact. The environment was favorable. And based on the assumption of merger of Sampo Japan and Nipponkoa, we have worked out the optimum scheme for the merger structure and consequently costs of premium for reinsurance ceded has declined.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

Thank you.

Q - Unidentified Participant

This is Noda [ph] of Goldman Sachs. I have two questions. My first question is on the expected profit contribution of Canopus of 6.2 billion. Do I understand correctly that this is after the subtraction of the goodwill?

A - Yukinori Kuroda {BIO 19776286 <GO>}

No, actually this is before subtracting the goodwill. As for the contribution to fiscal 2014, the goodwill of Canopus is about 1.1 billion, and therefore, the actual contribution is expected to be around JPY5 billion.

Q - Unidentified Participant

I see. So, fiscal 2015, your overseas target profit is JPY20 billion and you're expecting the full-year contribution of Canopus. Do you think that would suffice to achieve that target, or are you thinking of some other additional mergers and acquisitions?

A - Yukinori Kuroda {BIO 19776286 <GO>}

The profit targets for fiscal 2015, in addition to Canopus contribution, we are of course expecting the organic growth of the existing companies. And for Canopus, for fiscal 2014, the contribution would be only for nine-month period from April to December. And as you have correctly described, we are expecting a full-year contribution in fiscal 2015. And basically, we believe that those factors would be sufficient to achieve the target profit.

Q - Unidentified Participant

Thank you. My next question is on the profit from the sale of stocks. Your Excel sheet document says JPY46 billion for this fiscal year and that would indicate that the total amount of sale would be around JPY100 billion. Is that correct?

A - Yukinori Kuroda {BIO 19776286 <GO>}

Well, the amount would be little less than 50% of the amount in fiscal 2013, which should be around 100 billion. But the unrealized profits and losses vary from stocks to stocks. So, that would be about the amount.

Q - Unidentified Participant

So, am I correct to understand that the target is the amount of sales and not the profit?

A - Yukinori Kuroda {BIO 19776286 <GO>}

Well, actually, internally, we are trying to achieve both.

Q - Unidentified Participant

I see. Thank you.

This is Kawajiri [ph] of Daiwa SB Investments. I have a question about the cost reductions. For fiscal 2013, it is estimated that the cost reduction effects, the plan was 14 billion, but the actual you said was JPY18 billion, which means JPY4 billion more than the plan. Whereas for fiscal 2014, the plan has been 40 billion, but now you are saying 30 billion. You said this is in relation to the development of systems.

In terms of the merger cost, it is going to go up from 75 billion to 78 billion. And you said this is in relation to the higher consumption tax rate. Could you elaborate on that? Is the figure different for fiscal 2014 because of the difference in fiscal 2013 or are there any structural reasons?

A - Yukinori Kuroda {BIO 19776286 <GO>}

So, you are asking about the one-time merger cost and the synergy?

Q - Unidentified Participant

Yes.

A - Yukinori Kuroda {BIO 19776286 <GO>}

For fiscal 2013, the cost reduction effect, it's larger than what you had anticipated.

Q - Unidentified Participant

And is that the reason for the difference in fiscal 2014? You did mention the higher consumption tax rate. So, I was wondering if you could elaborate on this difference in figures?

A - Yukinori Kuroda {BIO 19776286 <GO>}

For fiscal 2013, I think we were saying during the year that it will be around 14 billion, but the actual was 18.1 billion, a difference of about JPY4 billion. This is in relation to the solicitation of the volunteers for the early retirement program, which we conducted twice; and this resulted in lower personnel cost, this was a big factor.

For fiscal 2014, we were thinking around JPY40 billion previously. But now in the guidance, we are forecasting JPY30 billion. This has an impact of higher consumption tax rate and some of the system developments being added as well. And that is the reason for lower figures.

For fiscal 2014, one-time merger cost, previously, we have been indicating 75 billion. But with further calculation in our current guidance, we are expecting JPY78 billion, part of that JPY3 billion difference is in relation to the higher consumption tax rate. And also in relation to the system integrations, we are conducting various tests and we feel that maybe for even safer integration, some additional expenses might be needed and those are incorporated in different figure.

Q - Unidentified Participant

I see. Thank you.

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