

Sampo Holdings Inc Mid-term Management Plan Presentation

Company Participants

- Kengo Sakurada, President, Group CEO, Chairman & Representative Executive Officer
- Masahiro Hamada, Group CFO, Group CIO, Executive VP & Executive Officer
- Shinji Tsuji, Group COO, Group CBO, Deputy President, Representative Executive Officer & Director
- Unidentified Speaker, Unknown

Other Participants

- Kazuki Watanabe, Research Analyst
- Koki Sato, Senior Analyst
- Masao Muraki, Senior Analyst and Global Financial Strategist
- Natsumu Tsujino, Senior Analyst
- Tatsuo Majima, Senior Analyst
- Wataru Otsuka, Analyst

Presentation

Kengo Sakurada {BIO 15149542 <GO>}

My name is Sakurada from Sampo Holdings. Thank you very much for coming at the expense of your very busy schedule.

We just made the announcement of the results of the first half of FY '19 on the 19th. So I'd like to present the progress of the midterm plan toward the second half and the management strategy going forward.

First, Page 4, please. So first of all, I'd like to I talk about the positioning of each initiatives for the second half of the midterm plan. We are striving to be a theme park for the security, health and well-being of customers over the midterm and the long terms. That means, as a group, we would like to provide products and services beyond the scope of conventional insurance products.

Insurance provides services reactively after something happens. This is a last resort. However, beyond that, we are going to provide proactive services including preventive services. And services to reduce disasters. And this is how we are aiming to be a theme park. Also, we can obtain data from each business, especially we can obtain real data from the data source. This is not a virtual data source that comes from the website.

So with the data sources, we would like to provide additional value to be a theme park. And also based on safety, security and health, well-being of customers, we will address social issues and requirements coming from ESG and SDGs to enhance our corporate value.

So under such initiatives for the medium and long terms, in the second half of the mid-term management plan, we'll further enhance the firm management foundation especially qualitatively. This period is the one to prepare for a drastic growth of the group in the next midterm plan and onwards. In the background, there are frequent and more serious natural disasters. And rapid progress of digitization and business environment surrounding our company and the other companies globally is rapidly changing.

Next page, please. In the time of (Fukka) cyclical changes in external environment have become even shorter. Well even within one day, there is a drastic change. For example, following the previous year, for two years in a row, a major domestic natural disasters have occurred. And looking at the financial situation in Japan, low interest rate has already been the norm. And because of the demographic changes and the sluggish economy, easy money situation, ultra-low interest rates are beginning to be the norm globally.

Is this really abnormal or unique? To that question, I always say that this is the stage of new normal, at least this is our strong concern to face our business management. When people start to realize that this situation really was the new normal, it's too late. Our business foundation, including insurance business, will already have been largely eroded. That is our very strong sense of crisis.

Please turn to Page 6. Especially natural disasters have given a large impact on our business performance this year as well following the previous fiscal year. Recently, the meteorological agencies started to point out the association between global warming, climate change and the natural disasters according to the report issued in May this year. So we are in the premise of certain natural disaster level. And also, it's possible that flooding and also wind -- kind of wind disasters are going to be more serious. Risk management is our group company. And that conducted an analysis.

The analysis is the forecast for 2040 or so. But under such a new normal stage, the profitability of domestic P&C business, which is the core of the group now might be greatly damaged. We need to be prepared to accept the current situations as new normal and not abnormal.

For that, ALM is very important. For now we will control the impact of natural disasters by optimizing premium rates and reinsurance schemes considering the cost. In fact, by strengthening reinsurance protection in recent years and by having such know-how compared to the past reinsurance schemes, the impact of the natural disasters this year is expected to decrease by approximately JPY 60 billion. Meanwhile, even in the new normal stage, our initiative to become the theme park does not change. Because of the new normal, it shouldn't change. We will reduce the impact of the natural disasters on the group fundamentally while accelerating qualitative evolution. That's a key priority for the second half of the mid-term plan, to enhance profitability of the domestic P&C business.

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At the same time, we will diversify and expand business field with globalization to distribute business risks.

For more details, please turn to Page 7. To address the changes of the business's environment and to secure our advantage in domestic insurance business, we are strengthening initiatives to enhance profitability. In domestic P&C, following the fire and allied insurance in October, we are planning for a rate increase in automobile insurance in January. We will also optimize premium rates in commercial lines in which loss ratio increased. We are improving the profitability by taking individual measures. We'll continue our efforts in rate optimization and strengthening underwriting and loss prevention to improve loss ratio.

In terms of productivity, we'd like to use AI and digital technology to automate or retain business processes. In the next midterm plan, we are going to completely renew core system infrastructure. By taking such solid steps, we are going to challenge our goal of JPY 60 billion and over of pretax profit in domestic P&C within the first half of 2020s. In domestic life insurance business also, in the new normal situation of ultra-low interest rates, we'll further promote ALM as well as to promote protection-type products more which have higher profitability to be more resistant to interest rate risks.

Next page, please. To address environmental changes, we'll further globalize to diversify geography and products. Acquisition of Sampo International in 2017 contributed to the group in terms of the increase of net premium return from overseas business and specialty insurance products which have lower correlations with traditional insurance. That means we are able to diversify building Sampo International. As a global platform, we would like to integrate even -- ever important overseas insurance business into group strategy.

To accelerate the transformation, I will delegate the task of the CEO of Sampo International to the current CSO, Okumura, from January next year. Of course, the top of the overseas business is John Charman, the same as now. And under him, Okumura is going to be the CEO of Sampo International to promote global platform and also to strengthen ties with the core businesses and overseas businesses.

In addition to such an organic growth for us to achieve further qualitative evolution, the importance of M&As hasn't changed. Because of that, I will once again assign Frudd to the position of concentrating on M&As as he led the way of the transformation of overseas business as the CEO of Sampo International. And market information is concentrating on Mr. Frudd as well, because he's in London and New York. We can obtain such very important information. And because it's Mr. Nigel Frudd, he can obtain such information. So not only the top of M&A committee, he is going to be the special adviser to CEO.

Page 9, please. The third pillar is diversification of the business field. When the business environmental changes further in the future, we would like to be on the disruptor side. That is the most important thing. It's easier to say than done. But this also is an essential element to be a theme park for the security, health and well-being of customers. The first step of the diversification was to enter the nursing care business in 2015 that was already

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shown to the world. By operating nursing care facilities, very close to 450 facilities are already operated nationwide. And we have been capturing such big and quality real data, 24/7 real data. That means that the data source is very solid. And of course, we have to enhance privacy protection. 24/7 we can obtain such real data. And we are accumulating such real data, 100,000 people's equivalent of real data. So using real data and digital technology. And we would like to analyze big data. And we are aiming to be a real data platformer, not only in nursing care business. But as a whole group. As in GAFA, we are not a virtual data platformer. We already have a caliber. But in terms of real data, our strength shows such a huge powerful potential to conquer the world.

So first of all, we'd like to focus on senior wellness area that has great synergy with the nursing care business. And ultimately, the whole group will use the platform of real data to create further synergies between different businesses of the group.

Maybe you remember, on the 18th of this month, we formed a partnership with the U.S. company Palantir with a prominent big data analysis software platform. We formed an agreement to establish a 50-50 joint venture. Our CDO is going to be the CEO of the company.

And the world's #1 technology is held by Palantir. Pentagon and CIA use the platform of Palantir. And they do have the know-how. So we have a contract with Palantir to utilize this platform and by having a joint venture with Palantir, we can analyze big data in the group.

And also, we can take a huge step forward for our real data platform. We are also aiming to achieve JPY 100 billion (cash) of revenue by selling the software of Palantir.

Page 10, please. In terms of challenges towards major environmental changes in the future, the -- are some initiatives underway in an area expected for a high-growth such as MaaS, whether it's MaaS or SaaS, I believe MaaS is a promising growing area in the near future.

While we are approaching the timing for the penetration of fully autonomous vehicles, we have established a joint venture company with a major player in the area of peer-to-peer car share business DNA. And this was back in February.

In July, we have formed the capital alliance with Tier IV which is a company developing autonomous driving technology and applying it to society. In October, we have invested in akippa, which is a company doing parking space sharing business.

Even after fully autonomous driving technology has penetrated and sharing economy has progressed further, at some point in the future, we will still collaborate with platformers to expand our business. At the same time, point of contact with customers will expand from point (to line to plain) so that we can expect a positive effect to the existing businesses.

On top of the data and know-how we already hold, there will be more data and intelligence we can gain through such alliances. So that we can accelerate business

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development in this area of MaaS. I will refer to the specifics later on.

On the next page, we would like to reiterate what I have been explaining using some numbers. Continuing from last year, we have had major natural catastrophes this year. And we have to make a downward revision to our annual guidance. As it was disclosed last week on November 19, fiscal year 2019 adjusted consolidated profit guidance is now JPY 128 billion, which is going to be an increase in profit year-on-year.

On the other hand, we will be working on qualitative evolution, as I have been explaining, a more expedited manner. And I believe in this very strongly. So that we are aiming to achieve the financial targets we have towards the final year of the medium-term management plan in fiscal 2020, which are adjusted consolidated profit of JPY 205 billion to JPY 215 billion, adjusted consolidated ROE of around 8%.

What we have announced as medium-term vision, which is adjusted consolidated profit of JPY 300 billion level and adjusted consolidated ROE of 10% or more in the early part of 2020s are also targets we mean to achieve.

Please turn to Page 12. To conclude on the topic of group overall management strategy, I'd like to mention a very important topic of shareholder return. Regarding shareholder return policy, in order to realize an attractive shareholder return from this year, we are targeting total payout ratio of 50% to 100% range based on adjusted consolidated profit and also continue to increase dividend at the same time.

Consolidated profit for fiscal 2019 was revised downwards from the original JPY 185 billion to JPY 128 billion, which is a downward revision by JPY 57 billion. However, for the shareholder return against this fiscal year's earnings, we are assuming that there is no major change to profit. And we are at least planning to exceed the amount of total return over last year.

As I have been discussing, the situation that surrounds Sompo Group is changing to become tougher. However, there are more opportunities as well. How we can respond to such changes is where we need to show our agility. And therefore, speed is the key. In order for us to meet the expectations of shareholders, we are committed to growing the group profit and fulfill shareholder return.

From the next page, I will be adding some explanations that we have not touched upon regarding each business line. Please turn to Page 18. This is a domestic P&C business. This business generates the biggest cash flow in the group. This business had to revise its annual guidance downwards due to the impact of natural catastrophes. On the other hand, as I have explained, to improve profitability in the new normal era, we are strengthening support for agencies and also improving the quality of claim services by innovating claims handling which should lead to improved customer satisfaction towards Sompo's quality and will aim to enhance Sompo brand value. To add, we will be providing line platform to add new customer perspectives. And as a way to roll out new products and services. Already, online platform, we have a system where the whole process from buying a policy to receiving claims can be done online.

By strengthening these functions, we will aim to improve productivity and achieve growth through tapping on to a new customer base.

Please turn to the next page. Please turn to Page 20. This is the international insurance business. As a booster of the group's profit growth, our overseas insurance business, it's steadily expanding its profit. Due to large losses, we made a small revision to fiscal 2019 guidance. But on year-on-year basis, it is expected to achieve over 40% growth in profit.

On this page, I'd like to explain the development we have had with the platform of Sampo International. In the corporate business where reorganization is now complete, it is now equipped with global product platforms, such as AgriSampo and SomPro, which are helping with expansion of revenue.

In the retail business, we are already starting with the sharing of best practices within the retail platform in a level that has never been seen before by peers. And gradually, we are seeing the fruit of labor surface in formal financial performance. There's also an accelerated move towards reorganization, including that for Sigorta in Turkey.

For large M&As, we will continue to look for more opportunities. But there is no change to our view and the view of Mr. Nigel Frudd that the current valuation in the market is still staying high and what's behind it is the easy money. So there is no change to this recognition. And therefore, we will be maintaining investment discipline. And we will continue to look for more opportunities.

Please turn to Page 22. This is the domestic life insurance business. As a front-runner of security, safety and well-being, this is the front-runner of a theme park and has been and will always be leading the group. We are aiming to transform ourselves to become a whole support enterprise. On top of providing conventional protection to prepare for unexpected events, we are also providing Insurhealth -- a coined word, Insurhealth -- products since last year, incorporating health support functions.

In April, income protection product was launched. And this was the first Insurhealth product which became the #1 product in the market, exceeding over 110,000 policy sales. Other than that, by offering other Insurhealth products such as dementia product which has high affinity with nursing care and Nineguard for corporations, we will be growing the in-force number of policies centering around protection products.

On top of exceeding top line growth with Insurhealth products, we will also aim to achieve productivity improvement by concentrating back-office functions. We have also achieved bottom line growth. Increasing sales of protection-type products, which have relatively smaller interest rate risk is one of the responses we have against the new normal era where prolonged super low interest rate is expected.

At the same time, on the asset management front, while taking into account -- taking into account market environment and profitability by lengthening duration, we will further contain interest rate risk.

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Please turn to Page 24. Nursing Care business is a business that represents uniqueness of Sompo Group. Its KPI, measured by occupancy, continues to improve. And we are seeing steady profit growth. We are promoting the utilization of future care lab where digital technology to support an overwhelming productivity is being verified and researched.

From October this year, we have improved compensation scheme so that we are equipped to recruit high-quality nursing care staffs. We will also be recruiting them, training them and using them at our nursing care facilities. Further, as I have been explaining, we are providing services centering around dementia which is an example of expedited business development in preventive care to extend healthy life expectancy. We can also accumulate and utilize high-quality and wide range to real data on 24 by 3 67 basis so that we can create other sources of income in peripheral areas other than nursing care such as food business.

As a business that outstands uniqueness of Sompo Group, we are going to further show uniqueness and will nurture the business so that we will have a bigger presence in the group. From the next page, we have some references on the topic of share price, asset management and ERM. We are working on each of these areas in a dedicated manner. So I hope you have some time to look at the rest of the material later on.

That concludes my presentation. Thank you for listening.

Questions And Answers

A - Unidentified Speaker

Thank you very much, Mr. Sakurada. Now we would like to take questions. Please raise your hand. Mr. Muraki?

Q - Masao Muraki {BIO 3318668 <GO>}

SMBC Nikko. My name is Muraki. I have 2 questions. The first one is about the overall profit for the next fiscal year about the direction. And the second question is about the overseas business.

Page 13 shows the plan of your adjusted profit. Your forecast was 150 -- JPY 185 billion and that was revised down. The reason was JPY 40 billion and plus were domestic P&C and overseas, JPY 10 billion and plus in next fiscal year. According to the plan, JPY 205 billion and over is your plan. But the reinsurance cost goes up and also the underwriting reserve related to natural disasters might increase. And also overseas business profit because of the major incidents, it is reduced.

And how do you achieve more than JPY 200 billion of the level of profit? And what's the factor? That's the first question. The second question is the overseas business. As for the HR in the morning teleconference, we were talking about this in the conference call. And my additional question is the owner of the overseas business, John Charman, how about the succession plan of him? Right now, he still is on the contract period, I understand. And the second question is Mr. Nigel Frudd. After PMI, he's going to concentrate on M&As

again. So for the next M&A, is this a preparation for the next M&A project? Is my understanding correct? In May, you were talking about high valuation. So for the next two years, major M&As would not be the scope. But if you have changed your mind, could you please update on that matter, please?

A - Masahiro Hamada {BIO 20083917 <GO>}

So the first question, my name is Hamada, CFO. I would like to answer. First, domestic P&C business. The overall group, according to the '19 plan about a JPY 20 billion to JPY 30 billion loss was the forecast and JPY 8.5 billion of the reserve for the next year was the plan. That time, we were thinking about the negative impact, as you know, of the consumption tax increase and the management of the civil code. That was JPY 12 billion from FY '19 to '20.

And also, expense ratio should be addressed. So JPY 12 billion was included. And also, about JPY 10 billion was additional forecast as well in those days. And as you have mentioned, again, reinsurance cost increase was taken and also the budget itself should be reviewed. And I'm not really sure how much. So a year ago, we had a plan for the increase of the rate for automobiles and the presentation now is different. And as Mr. Sakurada mentioned, combined ratio drastically should be reduced. We have initiatives related to underwritings and so on. And we are accumulating our efforts for the next fiscal year, we are not finalizing yet. In February, we are going to have a global expo meeting to discuss this matter. So I cannot answer specifically. But we don't really think that is impossible. The gap is in the overseas business, in the overseas business as well. In terms of loss ratio compared to the plan in fiscal year '19, we have a gap lower. So overseas business is three months ahead. So we are planning for the next year as well. JPY 65 billion is the plan and the target for the overseas business for the next year. The factor for FY '19, the decline, out of which we were talking about social inflation and also low interest rate. Because of that, we had lower profitability. Some of them will be carried over next year. Of course, we have to consider the platform. And also, continuously, we are going to have a hard situation. And right now our overseas business, we are estimating about JPY 65 billion is going to be visible very soon. That's what we are doing right now.

A - Kengo Sakurada {BIO 15149542 <GO>}

So I'd like to answer the next question. This is a very good question. I'm not really sure if I should answer this. But of course, as investors, I think this is a question you want to ask. So John Charman's succession plan, this is a business owner succession plan. According to our governance rules Sampo Holdings Nomination Committee should handle this matter. So this nomination committee, of course, has my succession plan as well. And Mr. Tsuji's and also CxOs and (Sawa) and the other business owners' succession plans. They already started discussions. But of course, they are not talking about specific people but under which the environment what kind of qualification are required, what kind of experience is required. That's the discussion they started. I cannot really specifically say the timing. But they started the discussion. So they have multiple candidates regardless of nationality. That's what they are doing.

The second point, Mr. Nigel Frudd for M&A. Well as I have mentioned before, he can capture a lot of information. The reason is because of the allocation (sic) (location). For

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example, London and New York are very good locations, Bermuda can be a very good place to obtain information about the insurance. And Mr. Frudd has good experience. And also well, he can obtain some information before investment bankers can capture that information. So he can already analyze such information before investment bankers. And that is our experience, too. So a special adviser to CEO position is because of the information that's not confirmed yet. But he can obtain such information. And he can give the information to me. So it's not only the M&A top but as an adviser to me, Tokyo, London, maybe Tokyo, London and New York frequently or he can fly and he can come to me. That's my instruction. And he accepted.

Q - Masao Muraki {BIO 3318668 <GO>}

Thank you very much. So using that information. So if the valuation is very high, even in this year and next year, do you think you can explore good opportunities?

A - Kengo Sakurada {BIO 15149542 <GO>}

Yes. However, overseas investors are very severe in that sense. And they should never allow us to make mistakes in that regard. So I'd like to be solid. Thank you very much.

A - Unidentified Speaker

Next question, please.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

My name is Tsujino from Mitsubishi UFJ Morgan Stanley. I have 2 questions. The first question is about continuing on with the M&A story. So as I listen to you, it sounds like you're not going to do anything immediately. But you are thinking of something large. And of course, you'll be selective. You'll be looking at the price, et cetera. But in your case, it's not that your net asset size is so large. And you already have 13%, 14% in hybrid capital out of your equity and the strategic holding stocks in a relative manner, it's about JPY 1.2 trillion. So perhaps smaller than the peers.

And so how would you do it? If it's hybrid, what is the maximum percentage of the hybrid capital you can have within the capital? And also, can you reduce the strategic holding stocks to half? Then, if it's such an asset level, would you still be willing to do M&A? If you can explain or add color to that, I'd appreciate it.

The second question is that you have seen frequent occurrence of natural catastrophes and that might become a new normal. That's what you said in the very beginning. So if that's the case, then looking at your ESR, et cetera, according to your risk model, have you factored that new normal into your risk model? And also in terms of capital adequacy, is it adequate? And if you're going to be revising your models, at what time point would you be revising your models?

A - Masahiro Hamada {BIO 20083917 <GO>}

Thank you for your question. So first, on the topic of M&A and how much capital cushion we have to do M&A. As it was discussed, at this point in time, it is difficult for us to find the

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specific deals, timing-wise. However, we do have strong appetite towards doing the next M&A. And to that, capital strategy-wise, about once in every three months, we review our capital and estimate how much of an M&A we could do at each point in time. Hybrid capital, hybrid bonds, we have about JPY 403 billion outstanding in hybrid bond. But I believe we can issue additional half of that amount. And so that could be one way to bring in cash. Especially when we do M&A, goodwill. So how big the M&A is, will make a difference to how much the capital will be impaired. So if we do a good M&A, at this point in time, we could -- we barely could buy another endurance in terms of size of M&A. Of course, we will continue to accumulate profit. So the sides should change, we might be able to buy something bigger in terms of strategic holding stocks. In the next mid-term plan for 2021 and after, we will be showing you that we will continue to sell down decided quoting stocks for a while.

Pertaining to your question of fire insurance, natural catastrophes and what timing can we recover that, once we get into a new normal, if we are in a new normal, how is it? The ESR, we have not really calculated that yet. So as of today, we are raising the premium rate for fire insurance now. But there is a net incurred loss. For this year, it's about JPY 100 billion. But if it's JPY 100 billion every year, then we would have to double the premium that we charge, hypothetically. And to realize that in the short-term is quite difficult for us. And therefore, it's not just an individual company's issue. But maybe in the industry or in a wider economic circle, we need to have a full discussion on that.

As for the premium hiking, in October, we have raised the rates for fire. And next year. And also, again, in January, the year after, we will be hiking rates. Fire insurance for a few years back, we have had bad results. And in the past 1 to two years, even with all the natural catastrophes that we had in the recent year, fire insurance was always in red ink. And therefore, we have to recover the underwriting loss and achieve, for example, combined ratio of 95%. And so without the natural catastrophes, the series of price hikes should be adequate to return us to black ink. However, if we are going to continue to see JPY 100 billion of incurred loss every year, then the clear answer has not yet been created.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

In the first half of your answer, you could buy another Endurance with the current valuation, you mentioned. According to the current ESR, which is at 227%. So is it okay if it goes down to about 200%. And then you could still buy Endurance? I interpreted your answer to be that way without really being concerned about the risk with the strategic holding stocks. Is that the right interpretation?

A - Masahiro Hamada {BIO 20083917 <GO>}

ESR-wise, the lower threshold is 180%. But considering the volatility, we don't really want this to get close to 180%. And the calculation base is, of course, ESR. And also, the point that we do not get downgraded with credit ratings.

A - Kengo Sakurada {BIO 15149542 <GO>}

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It's not really to add anything. But for what purpose do we do M&A? We have to review that once again, because we have never seen rising stock price after an M&A. So after all, we don't really know why we are doing M&A. And so that's a question that I ask myself all the time. So why did we decide to buy the company? And we need to explain that clearly to investors. That's an important point. And if it's very expensive. And if it exceeds JPY 1 trillion, we have to give up. If we can be lavish. And if we could buy it, we want to buy it. And so with Nigel and others, we are having a heated discussion on why we are doing M&A. And so we are telling people to have an intrinsic reasoning for why we do it. And the answer is not now. It might be a few years down the road that we realistically do it. It doesn't mean that we will never do anything for the next three years. But the goodwill is just too high, valuation is too high. And I believe, according to our estimate, this abnormal financial market situation might need to get back to normal. Looking at Lloyd's, they are suffering because the P&C market right now, it's not retail. But looking at the B2B P&C market, I think we are at a fork road. So whether if it's going to bring us good fortune or bad fortune, we don't really know where it's going to go. And we don't really want to be betting our future. Then it sounds like we will not do anything. That's not correct because we do have appetite. But just a way of thinking, the numbers will be provided by CFO. But then at the same time, we need to really ask ourselves, why do we do M&A? Why do we want to do M&A?

Q - Kazuki Watanabe {BIO 15948747 <GO>}

My name is Watanabe from Daiwa Securities. I have 2 questions. The first one is about Page 12 about shareholder returns. At this time, the lower limit was more than JPY 82 billion. As for the upper cap payout ratio supports 100%, JPY 128 billion. So JPY 82 billion to JPY 128 billion. So in this range, around where is the management's point of view? That's first.

And the second question is about Page 6, fire and allied insurance. When you just look at fire and allied, other than reinsurance and also rate hike, how much room do you have for qualitative evolution? In Page 5, it shows the cycle is getting shorter and shorter around the environment. But 10 years up for long-term fire and allied might be very long. Well of course, ultimately making it consistent with the reinsurance might be ideal. But have you been talking about this scheme? So these are 2 of my questions.

A - Masahiro Hamada {BIO 20083917 <GO>}

So about shareholder returns, I'd like to talk about our concept. Still, we just ended at the midterm, the first half. So I cannot really go specifically. But just the idea, as we shown in this presentation, JPY 82 billion, that should be the minimum line based on the previous year's performance. Just simply about 64% of the payout ratio in terms of retained earnings of listed companies, we have some topical things. So this might be the appropriate level. And as for the dividend, JPY 130 to JPY 150 was announced in the beginning of the year. And of course, this is lower than the plan. However, since we have increased the profit, of course, we are going to increase the dividend payment. And including a share buyback, the total payout ratio might be your question.

Six months ago, I said already here, this fiscal year, at least 50% of the payout ratio is our stance. And in this fiscal year, M&As and also large events, if we don't have them, we

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could make it 50% to 100% and upper level in this range. That's what I mentioned six months ago. And the second point is selling of the cross holding. And that is not included in this estimate. As for the life insurance profit, well, before tax, we do have adjusted profit that's larger. So the difference of the definition compared to other peer companies should be taken into consideration. And that's what I mentioned as for the first point -- well, actually, we had a major incident. However, we would like to raise the lower -- lowest level. And we are not very sure if we have large M&As within this fiscal year, the possibility is low. And also because of financial instability, M&A capability is a little bit lower right now. And right now, we are working on this situation. And the definition is different with the other peer companies, that's the second point. As we have mentioned at the beginning of the year, other than the payout ratio, we have a difference in definition. Of the -- for example, yield, especially in the domestic insurance sector, we can be comparable. And that's the level we are aiming at. So with this stance, now looking at the share prices and also snow events, we would like to set the appropriate value.

A - Shinji Tsuji {BIO 16148256 <GO>}

What Mr. Hamada said right now is, as for shareholder recurrence, our CFO is the initiator in our company. And how to make the decision in this organization is, for example, in May, it was different. But right now, we are shifting toward Nominating Committee. And in May, we were using auditors and also Global ExCo is Mr. Sakurada is the Chairperson and also Managerial Administrative Committee, which is, I am the Chairperson. To determine, Global ExCo is the sole body to determine the strategy of the company and also to determine the strategy of the company in our Managerial Administrative Committee. We can make the decision. So Mr. Hamada gave me the proposal about the shareholders' return and in our Managerial Administrative Committee. Based on Mr. Hamada's idea, we had a deliberation. And there are 2 points for deliberation. Right now, we have the management strategy and to execute that, well, we shouldn't have any obstacles. That's the first point. And 50% of -- to 100%, that means not more than 100%. If those 2 are met, I am thinking about approving the proposals. And if this proposal goes up to the Board meeting in the Board of meeting, of course, probably, it's going to be approved. So 50% to 100% is the range compared to the other countries and also other companies and also sectors, as we have mentioned. So why 100% -- why not 100% return? We need to explain why and why not. We have to be prepared to be able to explain. So that's one of the basis for the discussions, too. If we can do 100%. And why not, if that's the question, we need to be prepared to answer that kind of question. I think that's necessary.

A - Masahiro Hamada {BIO 20083917 <GO>}

Second question about Page 6, based on new normal qualitative evolution. This page is the core message for us. What we can do in short-term is pricing and also reinsurance schemes; in medium and long terms, diversification of the business field. And also for the theme park, combined ratio, how we can reduce it, that's a challenge here. And also a quality, global M&A and platform and also for the next midterm plan, what's the focus for our investment. We started that discussion as well. So to expand the business field, that is the qualitative evolution for us and how to expedite that is very important for us to make it concrete. In long-term fire and allied, I really agree with your opinion, where 10 years, when you look at the situation might be too long, I can already say specifically. But well,

this is a topic in the industry. That's what we hear, too. So as much as possible, we would like to address this situation. Thank you. Thank you very much.

Q - Koki Sato {BIO 19983862 <GO>}

My name is Sato from Mizuho Securities. I have 2 questions. My first question is regarding the new normal that you have mentioned. And you have explained your short-term view. But for the early part of 2020s, which is the target year for achieving adjusted profit of JPY 300 billion and also ROE of 10% or more, would you be altering your target figures towards the early part of 2020? Because for the shorter term, because we are in a new normal. But we are still in the early part of a new normal, you have a visibility into your short-term profit estimation. But then the M&A, the trend of natural catastrophes, the natural catastrophes are becoming more disastrous, et cetera. There are various risk factors, which must be pressuring you. And so what is your view on those risk factors versus your target towards early 2020s?

My second question is very detailed. Your adjusted net profit, what the natural catastrophe, what you have excluded from the adjusted profit is underwriting, as it's related to natural disaster. And you have excluded that. But how would you develop that for next year and after?

For the unearned premium, you multiply that with a certain factor to decide on how much you provision for the underwriting reserve for natural disaster and whatever becomes earned will be added to the reserve. But then next year, again, you will take the unearned premium and then multiply it with the factor again. And so I am thinking that there might be another provision towards underwriting reserve. Would you be excluding this? Whatever the amount is. But would you be excluding it from your calculation of adjusted profit?

A - Masahiro Hamada {BIO 20083917 <GO>}

Thank you for your question. As you mentioned. So before talking about new normal, we had an internal discussion over achieving JPY 300 billion of adjusted profit. And once we are seeing such large scale natural disasters, what would happen to this number? As you know well, according to the meteorological agency and other public organizations, the relationship between global warming and the relationship between the moisture in air has been verified to be related and also the scale of disaster is becoming more disastrous is true. But then are we going to see the increase in a number of typhoons? Or do we see more typhoons landing, et cetera? There are uncertainties related to the trend. Some people are saying that we will see the reduction in number of typhoons to land, et cetera. However, as management, we have to stay cool. And we need to stay objective in planning for the business and in creating the next midterm plan. As much as possible, we have to factor in the information that we know and we have to have a normal scenario versus stress scenario. Then we have to decide by when we can achieve this JPY 300 billion. And so that will be our future initiatives to happen. And as for the underwriting reserve related to natural disaster, next year, we will not see the occurrence of this reserve. However, our policy is the same because this amount will get deducted from the calculation of adjusted profit.

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Q - Koki Sato {BIO 19983862 <GO>}

When you say that it would not recur again next year, other than the funding we had for the underwriting reserve related to natural disasters, you had the loss ratio rising. And that became the trigger. But you're saying that loss ratio itself is going to be normalized again?

A - Masahiro Hamada {BIO 20083917 <GO>}

Including the policy reserve, we are saying that they will not exceed 1 next year.

Thank you, Mr. Sato.

Q - Wataru Otsuka {BIO 16340098 <GO>}

JPMorgan, my name is Otsuka. I have 2 questions. I wanted to ask quick 2 questions. But sorry, the first 1 is, again, new normal. This idea, since some years ago, Mr. Sakurada has been talking about new normal in food, cars era and so on. And you have this recognition that this transformation is occurring in this world. So the environment is changing. So how have you evolved with it? How have you changed in that regard?

In May meeting, I have talked about you have a platform already established to face such a future. I understand. But once again, you once again stressed that we are entering the new normal era. And other than that, well, you don't have to talk about numbers. But against the future transformation, how are you prepared? What have you achieved in terms of your transformation?

Page seven is my second point. I'm sorry, if I took it wrong. But according to your explanation, our JPY 60 billion improvement pretax. And what were you talking about the JPY 60 billion pretax plus? It's an improvement.

A - Kengo Sakurada {BIO 15149542 <GO>}

Yes. Thank you very much. Yes. We -- I was talking about new normal. Sorry, I understand your question. When I say new normal, I have so many meanings. One, natural disasters might be really serious. And it's getting more and more serious that's -- because of global warming. And that's one of the new normal. Well this is really relevant to insurance companies. In another new normal I mean is digital disruption insurance companies and financial institutions. If we continue traditional business models to face customers, there will be some kind of disruption we are going to provide only some money. So GAFA and that leave-or-take-it kind of program is presented to us. And if you don't receive it, they go to different businesses instantaneously. And that could happen within a year. So that means we might lose tens of millions of customers. And another new normal is super ultra-low interest rates. So all of them are really entangled to have a negative impact on the market. So the market has been very turbulent because of that. And for us to face that situation, of course, we have foreign businesses and digitization should be added by doing that. We can diversify risk and return of each business. Well we can have some other rates, for example, including overseas and domestic P&C companies can geographically diverse to diverse return on risks.

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And Sompo International was established in our group as well. And using this company, we are diversifying by acquisition. And in Japan, we have natural disasters and where we can introduce more products, which don't have such a strong correlations with natural disasters. But we might have to consider the impact on the P&C. In terms of risk and premiums, where we have risks. But premium is not really being raised. And also, low interest rates and so on. If we continue only in insurance business and also diversify, we cannot really go away from this transformation. More than 80% is consumer insurance business for us. So how to diversify that is very important for us. Rather than expanding, diversification is very important. When we diversify well, how much will shareholders' capital we cannot use is very important. M&As, you mentioned should be approached from that aspect.

But -- well, again, you have to go back to our core business, that's insurance and we need to look at medium and long terms. Next 10 years, when you look at the next 10 years, maybe not FinTech. But InsureTech, maybe not Techfin or tech insurer. Technology people are coming into this insurance business maybe and they are going to disrupt this market. So we have to be a disruptor with technology. So digital business, even if it's not right now, in some years, we really have to have this digital technology as one of our pillar businesses. And another one, this might not be relevant to insurance business, globally, the biggest challenge is aging and dementia issues and what kind of solutions every company is trying to provide is discussed in Davos convention and the other conventions as well. And this is a theme in Japan as well. So we provide this vision of theme park for security, health and well-being of customers.

So why do we have this kind of business? Based on that vision, we have to really have a solid pillar. In our Board meeting, this was discussed. We have 4 pillars of business. And the fifth one is digital. So in each pillar, revenue and profit are not really the values, only the values of those businesses. If it's good right now, you have to transform thinking about five years, 10 years in the future. Now we are big in this business. So you just focus on this business, you just focus and concentrate your resources. If you do it in the future, looking back, you might regret. I'm sorry, I'm getting longer. But other than insurance business, we have to concentrate our resources in nursing care business and also overseas business. We have to really diversified. So resources, not only capital, human capital as well.

A - Masahiro Hamada {BIO 20083917 <GO>}

The second question, JPY 60 billion improvement was explained. The underwriting profit, yes, that's true. As for details, we cannot disclose today. I'm sorry. But by when, well, as I mentioned before, our goal is JPY 60 billion reduction before tax and also JPY 44 billion after-tax. And underwriting profit should increase.

And right now, we are working on the detailed date and also plan. Well internally, we had medium; and long-term plans. And against the plan, JPY 44 billion, additional JPY 44 billion. To achieve that, what should we do is being discussed. And it has been implemented already and thinking about new normal. This might not be enough, that's part of the discussion as well. I am not going into the details today. But as long as I think pricing is important for this kind of scheme. And cost reduction is important in underwriting and also increasing revenue and top line increase, we have a lot of elements. But what we

can do autonomously is cost reduction and also rate increase, underwriting rate increase is very difficult because we have customers so pricing and cost reduction are something we can do seriously. That's my valuation as a holding company. Today, I'd like to talk up to now.

Q - Tatsuo Majima {BIO 15338044 <GO>}

My name is Majima from Tokai Tokyo Securities. It's not really related to your financial earnings. But in October, Toyo Keizai media talked about proactive utilization of ESR -- ranking of companies that utilize the CSR. And Sompo Japan Nipponkoa was ranking as #1. And the reason why is because of the utilization of female workforce, et cetera. And in today's presentation, you did talk about ESR. But the ESG was not really mentioned. And in the previous announcement meeting we didn't -- or you didn't really mention the word ESG. But any ESG measures that you are taking internally that you're focusing on, if there's anything that you can share with us in the ESG front. And those investors who focus on ESG such as GPIF, et cetera, there are others, too. And those investors -- so ESG-focused investors, do more of them approach you and talk to you? Or when you do your research and find out your list of investors, do you happen to find those names on the top of your list? If you go to Page 27, if I look at the total shareholder return, your performance is very good. So I wonder if those names are included in your list of shareholders now more so than before.

A - Masahiro Hamada {BIO 20083917 <GO>}

So we are ESG #1, not ESR #1. But ESG number -- because if we were #1 with ESR, I will be very happy. If it's ESG -- on the first page, we do mention a little about SDGs, et cetera. But we are aiming to become a theme park. And that concept itself is a way to put a resolution to societal issues. And regarding ESG, we are putting a lot of focus on the ESG, especially if it's E, it's environment or there are measures against environment. Historically, for a long, long time, we have been working on the environment. And so for S, nursing care, nursing care is very much at the center of our mission. And governance, we have changed governance. And we are quite innovative in terms of setting the right governance structure. So the issue is when we have ESG incorporated in our day-to-day business, do we have the right KPIs and are we measuring them and are we disclosing the results? Perhaps, there's more for us to do in this regard. So those are we would like to be more focused on going forward. About the list of shareholders in the (VC) more ESG-focused names, I do not have a clear answer to you today. In fact, when we do meet investors, I see that there is an increasing number investors interested in the topic of ESG. Thank you.

A - Unidentified Speaker

If there is no other question, thank you very much. With this, we'd like to close this meeting. Thank you very much.

(Statements in English on this transcript were spoken by an interpreter present on the live call.)

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