

Q2 2015 Earnings Call

Company Participants

- Unverified Participant
- Yukinori Kuroda, Head-Investor Relations

Other Participants

- Futoshi Sasaki, Analyst
- Koichi Niwa, Analyst
- Masao Muraki, Analyst
- Natsumu Tsujino, Analyst
- Taichi Noda, Analyst
- Wataru Otsuka, Analyst

MANAGEMENT DISCUSSION SECTION

Yukinori Kuroda {BIO 19776286 <GO>}

Hello, everyone. I'm Kuroda of Investor Relations of Sompo Japan Nipponkoa Holdings. Thank you very much for joining us today in this conference call. Today I'm going to explain about the first half business performance of FY 2014, which were announced today and also the revision of annual forecast. These documents and information is up on our Web page in Excel format. Would you please check them out later?

And when it comes to the business strategy, we have set up the meeting on November 27, Thursday. In that IR meeting, Mr. Sakurada, CEO, is going to explain that. Would you please look at page 2?

This is the summary. In the first half of the fiscal year, now we have recognized the double of the consolidated ordinary profits of ¥103.9 billion, and we have recognized the ¥71.8 billion of extraordinary loss due to that one-time – that merger costs. And the net income was ¥15.4 billion, but we have secured the profits.

There are several factors. For one thing that's the investment environment was remarkably favorable, but at the same time and the continued improvements of a profitability of domestic P&C and the life insurance. Overseas operations also have contributed. And based on this, the business performance and the market environment, we have upwardly revised that to our forecast. And including of all this, the investment of gains now we have improved that the ordinary profit by ¥20 billion to ¥172 billion, and also we have further revised the net income by ¥12 billion.

These are the actual business performance numbers. Net premium income have increased by 11.2% including Sampo Japan Nipponkoa and the Maritima in Brazil and also the Canopus, and with the P&L has been consolidated since first half. When it comes to ordinary profit and net income, we already had presented that domestic P&C business have contributed a lot on the ordinary profits.

Let me explain in details. Would you please, page 4.

First of all, this is the breakdown of underwriting profit. And excluding (02:05) - the core underwriting profits improved by ¥28.5 billion (sic) [¥28.4 billion] (02:10) year-on-year basis to the ¥25.6 billion as underwriting profits in the first half. Catastrophic loss reserve has mixed impact on underwriting profits and additional provision for the [ph] O2 Mobile insurance (02:26) due to the progress of a claim as a payment was negative, and the impact [ph] while a (02:34) reversal of the reserve had a positive impact for the snow damages.

And page five, this is the breakdown of ordinary profits. Major factors for this did - begun (02:45) the double of the ordinary profits. And for number one and improvements of that underwriting profits; number two, and now, we have the gains on the investments due to that favorable investment environments; and the number three, is that incremental profits from Himawari Life Insurance.

The page 6 represents the net income. Just like this (03:04) ¥11.6 billion Sampo Japan Nipponkoa and ¥7.9 billion for Himawari Life Insurance, and overseas facilities at ¥6.5 billion, and they all contributed to the ¥15.4 billion of net income.

Now, our next page, page 7. And now, we have the heavy financial cost on the - as a one-time merger costs. And as an extraordinary loss, so let me explain about it. The one-time merger costs, we're watching in a couple of plans, amounted to the ¥71.8 billion, whether (03:40) the system cost, that's primarily the cost factors. And then we have recognized it, about ¥80 billion of this - the one-time merger costs, so that the balance of ¥80 billion of the cost would be recognized after the Q3 by the end of this fiscal year.

Next, page eight. This is about the revision of the forecast of business, and would you please look at the numbers we have. This is the revision based on - that's the favorable investment environment and another business environments. Let me explain in details.

And this is - the breakdown of ordinary profits for the annual business forecast. The core underwriting profits, I've explained in - further from the first-and-a-half (04:26) to ¥51.6 billion. On the other hand due to that improved profitability of automobile insurance, we needed to provide that additional - the catastrophic reserves.

So this mean that we have the decreased and the reversal from this reserve. When it comes to the gains from the investments, we have incorporated a situation in end of September and increased by ¥26.7 billion. Forecasting for the Himawari Life Insurance and overseas operations are also revised upwardly. Consequently, and our forecast was the

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¥172 billion and it was increased by ¥20 billion from the previous forecast, and ¥59.6 billion year-on-year basis.

Next, would you please look at page 11. This is the trend of premiums on the performance evaluation basis, would you please check out that this trend is in upward. Now the incremental ratio is 2.1%. The 2012 indicated that net premium return, and into the first half it was plus 5.9% and domestic will be increased and then the fire insurance is high, but this is due to that now we have been favorable and in household, corporate and also an underwriting reinsurance and then also in automobile insurance, we have a favorable effect from that changing that premium ratios and then other new types of insurance, so including liability insurance, we have a large wealth contracts and have been very steady.

Page 13 represents the loss ratio, and within (06:01) loss ratio have risen from 60.5% to 63.3% in the first half due to the payment for the snow damage, but excluding the natural disaster and this reference ratio had been kept improving.

Page 14 represents that the loss ratio on an earned and incurred basis has been flat in the first half with 63%, and annually, we expected improvements from the 68.1% from the first half to the 64.5%. And for the second half of FY 2014, we have been conservative in estimating about an expansion of business of undertaking reinsurance business in overseas market or the incremental outstanding loss reserve due to the depreciation of the yen, and then also our estimates are that the loss on the large wealth (06:52) contracts of the new types of insurance. Taken all this included that we have been rather conservative.

Page 15 represents the net expense ratio. Expense ratios have steadily declined was that the primary factor of the labor cost decline and now in the first half, we have improved it by 0.5%, it's 33.9% and annually, we plan to decline up to 33.2%.

Page 16 shows that the combined ratio. This is combining that written loss ratio and expense ratios, and would please check out the figures and annually, it will be 97%.

Page 17 indicated that combined ratio for the automobile insurance and this is due to the revision of a payment rates or the revision on the driver rating and those have a revision have contributed to the improvements steadily. And combined ratio in the first half is 94.6%, this is a 1.6 point improvement, but on annually, now we have the forecast annually for the 94.5% quite flat from the first half, and we expected 1.8 point (08:00) of improvement.

On page 18, you can find out the trend of the number of reported claims historically. The number of reported claims has been steady and - but we assume part of that reason for this might include reduced number of low valued (08:18) claims due to the revision of the driver rate, and in Q2 it was minus 5.9%.

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Next, please look at page 19 for the investment profit. The investment profit is trending relatively high, reflecting the high stock prices and also the weak yen. The total investment profit recorded for the first half was ¥72.4 billion.

As for the gain on securities sales, we reduced the exposure of ¥42.9 billion for strategic-holding stocks. Among this, the actual stock sales was ¥30.5 billion, and we're proceeding with this very steadily. As for the forecast of the full year, we have added net interest and dividend income as well as gain on securities sales, and now we are forecasting ¥132.2 billion as a result.

Please turn to page 20. This is regarding the forecast for the P&C business. Please confirm the details later. This time, we're looking at the insurance underwriting profit. It is minus ¥5.5 billion compared to the previous forecast. We are very steady here, but when it comes to the loss reserve, and also reversal of the provision, which has gone down, we believe that we should be conservative for the second half. This is reflected into the numbers here. Therefore, in terms of the investment profit, this is the part where we have revised upwards.

We have calculated the numbers according to this thinking. At this point, if there is any uncertainties, it will be the reduction of the corporate tax. If this happens, that impact has not been reflected into these numbers.

Now please turn to page 22. I would like to add some information regarding natural disasters. For the first half, we had impact from typhoon number 11 and torrential rain from Hiroshima Prefecture, but the incurred losses totaled ¥13.4 billion. Even if we take into account the typhoon number 18 and 19, which occurred in October, we do not expect to achieve ¥43 billion. Our initial forecast for this fiscal year, so our revised forecast is now ¥35 billion.

Please turn to page 23. This is the snow damage from February. In the first half, we have a positive effect of ¥28.4 billion due to the reversal of outstanding reserve. And the remaining outstanding loss reserve is ¥11.7 billion as of September end, mainly related to corporate properties. But we plan to complete payments by the end of this fiscal year.

Now, I would like to talk about the life insurance business, which starts from page 25. So for both premium in force and MCEV, these are both trending well. Please confirm those points.

Moving on to page 26. We have the premiums and various other figures. And because we're doing well with the sales of medical insurance products, the annualized new premium is going to go up dramatically. For FY 2014, we expect the annualized net premium to reach ¥43.6 billion, up 43.4% year-on-year. As for the ordinary profit and net income, we looked at the first half results and decided to upward revise our numbers. The amount of business in force continues to increase, mainly due to the protection-type products.

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Next, please turn to page 27. This is regarding the payment method at Himawari Life. As for the payment method, this excludes the lump sum payment. So basically, it is the installment payment, which is growing in the base. Page 28, this is the sales from the P&C insurance channel. It's growing steadily, and the protection-type products now comprise about 70% of the total products, and this level has been maintained.

Please turn to page 29. This is regarding the JGAAP profits. As for the first half, basic profit and net income both trended very well. In the first half, basic profit was ¥13.9 billion, which is ¥6.5 billion up, and the net income was ¥7.9 billion, which is ¥4.6 billion up. The business side is also good, but also related to the medical insurance-related new products, there are some movements in the switch-over to new products. And so, therefore, we have some technical issues that helped push the profit up. Technically, the reversal of insurance provision due to surrenders from existing products is the cause.

Looking at the first half numbers, for the full-year estimate, we have a basic profit ¥20.4 billion, which is ¥4.4 billion up and net income ¥11 billion, which is ¥3 billion up.

Please turn to page 30. This is MCEV for your reference. As for the full year growth and adjusted EV, this is ¥80 billion, which is still a very high level of continued growth. Initially, we actually showed you the guideline of ¥84 billion, but this reflects the switchover to new medical insurance products, as I mentioned earlier. As for the EV as of the end of this fiscal year, it is expected to reach ¥830.3 billion.

From page 31 and on, we talk about our overseas business. The overseas business is good in the first half. The net premiums written was ¥129.3 billion. With the impact of Canopus included and through our (14:28) consolidated P&L numbers and also the Brazil Maritima impact, we have a very good increase in the income. For the full year, we expect an incremental growth close to ¥130 billion to achieve ¥285 billion.

As for the net income, it has increased to ¥6.3 billion from ¥4.9 billion last year, due to good business in Canopus and also Turkey, Singapore. And also for the full-year performance, we have revised the net income to ¥14.2 billion, up ¥1.2 billion from the beginning of this fiscal year.

Please turn to page 33. This is by geography. The top-line grew in Europe and in South America. And for the net income, Europe and Asia has made a good contribution. So please confirm these points.

Page 34, we have some numbers by company, companies in our group.

Please turn to page 36. This is showing the asset management portfolio as of September end.

Please look at page 36 for non-life and page 37 for life businesses. For both life and non-life there has been no change in our management policy. The asset portfolio as of September end had some changes due to high stock prices and the weak yen, but when

you look at in comparison to the end of March, there has been no big changes. As for the duration, it tends to be slightly long for liability for both non-life and life. We will continue to manage our investments with a focus on profitability and also stability and liquidity.

At the very end, I'd like to talk to page 39. This adjusted performance has been shown here reflected in our business management numerical targets. When you look at the number, second line from the bottom, you can see that we had accounted for 1.460 in the beginning, but now it's up to 1.569. And also the ROE is up from 5.9% to 6.2%. This concludes my presentation.

Q&A

A - Yukinori Kuroda {BIO 19776286 <GO>}

I'd like to move on to the Q&A. And first of all from Deutsche Securities, Mr. Muraki, please.

Q - Masao Muraki {BIO 3318668 <GO>}

Okay. Thank you very much.

A - Yukinori Kuroda {BIO 19776286 <GO>}

Okay. Thank you.

Q - Masao Muraki {BIO 3318668 <GO>}

And first of all, I'd like to make my - the first question is that on page 13 and page 14 and you indicated about this, the loss ratio. And this gray line indicated this is about the loss ratio excluding natural disasters. And written premium based loss ratio have improved, and also it's about - it will be - declined to 57.5% and the loss ratio, and earned and incurred basis loss ratio is about 61.1%. So, when I look at this compared to that written premium based loss ratio it's rather higher. And also on your annual basis, it seems like it will DT analytics (17:48) from last year. But what do you explain about this difference between the two? This is my first question.

A - Yukinori Kuroda {BIO 19776286 <GO>}

Okay. Thank you very much for your question. And your question is about the difference between the written premium loss ratio and the earned and incurred loss ratio. First of all, when it comes to the written premium loss ratio, this is due to that - the improvement of the profitability of the automobile insurance. And all in all, we have an improvement of the profitability all in all and they have reflected to these improvements.

On the other hand, when it comes to the earned and incurred basis loss ratio it's about - excluding natural disaster, it's 61.1%, a little bit slightly deteriorate year-on-year. And the factor of this is that basically on estimates of the outstanding loss reserves is the major factor, for example, and fire insurance or the marine insurance. Now when you expand

that the business and the entity insurance and then also the depreciation of the yen, we have provided additionally for these outstanding loss reserves.

And also starting from the last year, we have some kind of large life contracts and including the liability insurance, we have gained that kind of new contracts. So we try to be conservative in some of the expected loss of these contracts. So we have revised this, the amount of the outstanding loss reserve. And when it comes to automobile insurance, actual the claim payments and it will decrease substantially. But on the other hand, when it comes to the actual claim, when it comes to the outstanding loss reserve, it would be almost flat.

So probably this difference will be reflected on the difference between the written premium based loss ratio and then earned and incurred based loss ratio.

Q - Masao Muraki {BIO 3318668 <GO>}

Okay, thank you very much. And then when it comes to automobile insurance, if this trend will continue, if it is the case and also you have just a partial release the reverse that part of the reserves, but when it comes to IBNR, by the end of the term, if this trend will continue also we'll expect it to reverse - that to reverse, but it's not incorporated in the forecast, is that correct?

A - Yukinori Kuroda {BIO 19776286 <GO>}

Yes. And at this moment of time, and we think that we have a very specific, the popular level of the reserves we have that. Even this trend will continue by the end of this fiscal year. We need to review the amount of the outstanding loss reserve that might be possible. So at this moment of time, at this stage now and including that forecast on the second half, we try to be as conservative as possible.

Q - Masao Muraki {BIO 3318668 <GO>}

Okay. Thank you very much. My next question is about page 21. This is about the catastrophic loss reserve. Now, in initial plan - now you have the forecast of the gains from the reversal of the reserves of ¥16.5 billion, but actually it declined to the ¥1.3 billion. You have downward reserve that gains from that reversal. But would you please just explain the details about an automobile insurance?

A - Yukinori Kuroda {BIO 19776286 <GO>}

Yes, as far the catastrophic loss reserves, and initially, we have the forecast of ¥16.5 billion of gains due to the reversal of the reserve. But now, but downwardly revised it to ¥1.3 billion. So the balance is ¥15 billion. So the most of these values comes out from that automobile insurance. As far as the automobile insurance is concerned, and initially, we expect (21:23) ¥1.5 billion of additional reserve, but now because due to that improved profitability, now we have ¥21 billion of that additional provision to the reserves. That's why the balance would be up at ¥20 billion of minus impacts on the forecast.

Q - Masao Muraki {BIO 3318668 <GO>}

Okay, thank you very much.

A - Yukinori Kuroda {BIO 19776286 <GO>}

When it comes to the catastrophic loss reserve is about this automobile insurance, and then you have the premium income of ¥1 trillion, so if the 5.5% will be provided for the reserves and you will – that provide ¥55 billion annually. So, so far, you reverse all these amounts each year. So that's why, this did not have impact on the P&L, but now due to that improved profitability, out of this ¥55 billion, you cannot, all of this reserves. That's why, for example, in this year that you can reverse only the ¥30 billion, it is right. Yes, that's right.

And the way to think of it, for example, so far we have provided that we – due to the higher loss ratio, we have reversed all the amounts, but now with the improvements of the loss ratio, then part of that reserve cannot reverse. So that's why that is about the ¥20 billion, so this is the impact. But eventually and this is that reserved money, so there will be that additional value for the corporate value better, when it comes to this the business performance, and you're right, that's the impact on our focus.

Q - Masao Muraki {BIO 3318668 <GO>}

Okay, thank you very much.

A - Yukinori Kuroda {BIO 19776286 <GO>}

Thank you.

Thank you very much. Next from Merrill Lynch Securities Japan, Mr. Sasaki, please.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

I'm Sasaki from Merrill Lynch. Okay, thank you very much. And I have two questions and the first question is about that the loss ratio of that earned and incurred basis ratio of annual forecast of it, and the initial plan, 66.3% was the initial forecast, but on this forecast, what happens and what – is there any change? This is my first question.

And my second question is about, now, you mentioned about expansion of underwriting the reinsurance business, but you haven't changed your business scheme (23:37) of this and about reinsurance or the one half is with it, would you please be more specific about it, please?

A - Yukinori Kuroda {BIO 19776286 <GO>}

Okay. Thank you very much. First of all, responding to the first question. So, this is about in earned and incurred basis loss ratio, the automobile insurance. And (23:52) mentioned and initially 66.3% was the initial forecast for the now (23:57), we revised that to the 63.1% so that we have improvements of about 3.2%. And responding to two questions, I got a question two about the expansion of business of underwriting reinsurance and this is – they have nothing (24:15) change, any change of that are the scheme of reinsurance, but

the factor here that's the - our risk is focused more on (24:25) to that of the domestic direct sale (24:28), we'd like to (24:28).

So that's - we can take in a more risk in overseas market. So, this is that - the reason why we try to expand that the reinsurance business and this is the first half, and just expand it gradually. Okay, if it's the case, and so, you mean that this reinsurance business mean that you simply try to and expand the business, also device find a (24:49) type of risk, right, yes, you're right.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

And getting back to my first question, when you look at the ARPU, the forecast of the other (24:59) income base loss ratio, you do not change so much, but basically, now for those ratio for the automobile insurance have declined, but for other insurances have improved, right?

A - Yukinori Kuroda {BIO 19776286 <GO>}

Yes, that's right. And it's the decline in the automobile insurance, but when it comes (25:15) and the liability insurances and marine and other types have improved. So, that's they have an offset with each other.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

Okay, thank you very much.

A - Yukinori Kuroda {BIO 19776286 <GO>}

Thank you very much. Next?

From Daiwa Securities, Mr. Shiota (25:30), please.

Okay. I'm Shiota (25:34) from Daiwa Securities. My first question is about on page 15. This is about the expense ratio on page 15. And the focus of this year is that the expense ratio was originally 33.3%, but now it almost - 32.1%. But when it comes to the corporate expense, 13.7% was the initial focus, but now just declined to 13.2%. What is the background of it? What's the reason? This is my first question.

Okay. As far as the expense ratio is concerned, for one thing and for the corporate, the reason why it declined in the corporate expenses, that basically due to reduction of labor costs. And based on the plan and also - and we have the synergy effects of that merger and we can have - already have the merger effect even before the actual formal merger. So that now, we could reduce the labor costs.

And that contributes to a lot to this improvement of the corporate expenses. And when it comes to the decline in the expense ratio overall, we think that this is the commission rate have contributed and with the expansion of business of life insurance and also expansion

assumed reinsurance business, we can expect higher commission. That's why we can expect that's the higher premium ratio, so that can offset that impact.

Okay. Thank you very much. And my next question is about on page 34. This is about your overseas business. And this time we have a consolidated Canopus, and about the contribution to net income was recognized as ¥3.3 billion and I think, that this was included in nine months of the performance and FY 2014, it would be ¥7.9 billion. It will be still rather higher. So what is the background of this, the contributions to the profit? And also, I suppose that you excluded the goodwill, but then, actually, what would be the net contribution to the net income excluding goodwill? Okay.

Yeah, first of all, this is ¥3.3 billion. And now about the combined ratio is about 92%. So a little bit better than we had expected. And when it comes to the forecast, now we tried to be conservative and with this ¥7.9 billion (28:02). So I think that this is the achievable forecast, we suppose.

And when it comes to about the actual contribution after the adjustments on the consolidations, first of all, our estimates on this goodwill this year would be about ¥1.1 billion on a full-year basis. So if you subtracted this ¥1.1 billion from the ¥7.9 billion, this ¥6.8 billion would be about the contribution after excluding goodwill.

And the other thing I'd like to talk about is that about (28:34). In the first half, we recognized ¥3.3 billion. But when it comes to the actual consolidations of the Canopus, actually we incorporated the (28:46) of the Canopus starting from April and the nine months (28:51) incorporated. But actually we completed that merger process on May 1. But before that, in April, we had rather heavy gains on the asset selling. And these gains were recognized as the end surplus, as a part of the balance sheet already. So that ended the first half business performance announcement.

We cancelled with this - of the ¥3 billion so then actually subtracted the ¥3 billion. And this (29:18) row of the single digits amount is reflected in the bottom line.

And after next year, we expect about 4 times of ¥3.3 billion or about the ¥6.8 billion by 4 times. That would be rather too much of the profits you could expect.

Yes. When I look at the past trend of the business, and although there was some kind of impacts of the currency, but we expect about ¥9 billion to ¥10 billion of contribution of profit can be expected. So, unless there was not any major dramatic change of the business model, we expect this ¥9 billion to ¥10 billion of profit level can be expected constantly.

Okay. Thank you very much.

Okay. Thank you very much. Next?

From Mr. Otsuka from Nomura Securities, please.

Q - Wataru Otsuka {BIO 16340098 <GO>}

Okay. I'm Otsuka from Nomura Securities. My first question is about on page 39. This is about your - the management target. And I'm afraid it's too early to make these questions, but I'd like to make questions on your plan on FY 2015. And the forecast of this revised of the profit this year is ¥156.9 billion. And the target for the FY 2015 is about between - ¥180 billion to ¥210 billion. But how this - the forecast in FY 2015 is accurate and achievable. What's your idea on this?

A - Yukinori Kuroda {BIO 19776286 <GO>}

Okay. And as far as this, the forecast in FY 2015 is concerned that next year, (30:47) that's the strategy briefing meetings including our CEOs, so would you please check them out again next week? But now and when we look at the current progress and everything is going very well. So now about a ¥70 billion to ¥80 billion was about this in the first half of the profit, and we have already exceeded and the ¥60 billion and also for the overseas business operations. And we - now that the achievement of this target is already invisible and getting in our sights (31:17) so that I think that ¥180 billion to ¥210 billion, we can achieve the rather higher portion of the target. That is available.

Q - Wataru Otsuka {BIO 16340098 <GO>}

Okay. Thank you very much. Next, my second question is about also - it would be also explained next week, but about your investors' dividend payments or the share buybacks for the returns to the investors, now, you made a further revision and it seems like your business is going very well. And now - we had a very good performance in the first half. So, based on all these facts and current situations, and then also I expect that you also can see this year is improved and you having a more a kind of latitudes to make more returns to the investments, but you do not change the amount of the dividend. So, what do you think about this returns to the investors in the future? Why don't you change the amounts this time?

A - Yukinori Kuroda {BIO 19776286 <GO>}

Okay, first of all, when it comes to return to the investors and shareholders and in our current medium-term business plan will continue by the end of FY 2015, so while this new current medium-term business plan will continue and now ¥60 per share this is the stable payment. Of this amount will be that the basic ideas and the policies and - also if we can do and we'd like to have some share buybacks. So, this is our basic policy.

And when it comes to FY 2014, and we need to pay that about one-time merger cost or also when you look back in that couple of weeks - in the past couple of years, and we have some kind of struggling situation, a struggling time with the flood in the Thailand, but still we still kept this, the level of ¥60 billion of the amount of dividend. So that we think that within this current mid-term business plan and the period of the mid-term business plan, we don't change but we maintain this level. But when it comes in next year after this closing this year, we'd like to consider it again. And after FY 2016 and onward and we're going to have that - we're going to announce the new business plan, so that we're going to clarify our new returns to the shareholder policies in that new plan.

Q - Wataru Otsuka {BIO 16340098 <GO>}

Okay. Thank you very much.

A - Yukinori Kuroda {BIO 19776286 <GO>}

Thank you.

Thank you. The next question is from JPMorgan Securities, Ms. Tsujino.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

First of all, I'd like to ask about the figures. Regarding the E/I loss ratio, excluding all natural disasters, I'd like to ask, what is the forecast for the fiscal year 2014?

A - Yukinori Kuroda {BIO 19776286 <GO>}

We'd like to confirm that.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

Then I'd like to move on to my next question. You show the revision in the forecast and you see an improvement in the automobile business, right?

A - Yukinori Kuroda {BIO 19776286 <GO>}

Yes, in the earned basis. Yes.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

But when you look at the P&L base, it's basically neutral because the catastrophic loss reserve is up in its net reversal, but then the incurred losses from Fire and Allied Lines figures went up. This is minus to the P&L. So therefore, is my understanding correct to say that when I take this part out, the underwriting profit, it has gone down from ¥42.2 billion to ¥32.6 billion? Is my understanding correct?

A - Yukinori Kuroda {BIO 19776286 <GO>}

Yes, you are correct. I'm still confirming your numbers. Please allow us to come back to you later.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

Then I'd like to ask my third question. It's a really detailed question about the figures. First of all, on page 20, you have the previous forecast, which was revised. And you see the change in the investment profit.

On the bottom here you show that, but then on the next page, on page 21, you show the net, you show the interest and dividend income as well as the realized gains on securitized securities and you see the realized gains on security sales and impairment losses. So I'd like to ask what is the rest. Among the investment profit, if you take out the

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interest and dividend income, as well as the realized gains on securities, we still have the remaining amount. What is this improvement of ¥9 billion or a bit less than ¥10 billion? And my next question is about the asset management, this time you don't have information regarding the hedge for sales of stock, does it mean that you're not hedging?

A - Yukinori Kuroda {BIO 19776286 <GO>}

Well, first of all, regarding your first question. There's a big impact from the currency gains and loss. For this, we are seeing ¥7.5 billion more than the initial forecast. Among this number, a bit less than ¥3 billion is for gains of sale on a foreign denominated currency fund. This is the gain from currency, and the rest is on the asset side coming from the foreign agencies' balances. This also is a positive number. These are some of the major pieces to answer your question. And the other point, while we need about ¥2 more billion to reach ¥9 billion, this is valuation loss. So we have reduced loss compared to the previous forecast. This is how the revisions have been made.

Next moving on to talk about the strategic holding stocks, the exposure of this is \$42.9 billion, the reduced exposure. And when you look at the breakdown of this, this time we used hedge again, and so ¥30.5 billion is actual stock sales and regarding the hedge, it is remainder, ¥12.4 billion. Thank you very much.

Thank you. And the next question is from SMBC Nikko Securities, Mr. Niwa.

Q - Koichi Niwa {BIO 5032649 <GO>}

Yes. I'd like to ask about the effect of the merger and also shareholder returns. I'm interested to know if you already have merger effect in the second half of this fiscal year. Focusing on the net expense ratio, for this fiscal year, the actual amount comparing the first half and second half, it seems like there's a reduction of about close to ¥20 billion. And so does this mean that you're already seeing some integration effect?

And for the next fiscal year, what is the scale of the decline in the expenses here?

I have another question. It's regarding the shareholder return. I think it's a repetition of what we've heard already, but I'd still like to ask about the profit relevant to shareholder returns, I think it is up by approximately ¥15 billion. Is this relevant to this fiscal year? Or am I not suppose to consider this so much? In terms of the shareholder return, is it not relevant this fiscal year?

A - Yukinori Kuroda {BIO 19776286 <GO>}

Yes. I'd like to answer your first question, regarding the merger effect. In the net expense ratio, yes, we are seeing some effect. It's already reflected into the expense numbers, this fiscal year. As we have forecasted in the beginning of this fiscal year, we have the amount and the same amount is in the first half. The reduction effect is approximately ¥30 billion for this fiscal year. This number, ¥30 billion, is in comparison to FY 2011.

Among this the effect that we will see for this fiscal year is approximately ¥12 billion. This ¥12 billion is a number that has come up from last fiscal year. So among the merger effect that we see, ¥12 billion is the effect that we estimate for this fiscal year.

And your second question about shareholder return. The details will be explained in our conference next week, and we'd like to talk about that there. But it is a very important factor, for this single year, this fiscal year the adjusted profit is important, but this is also important in the mid-term plan as well. So we'd like to make a judgment according to the balance of these two.

Q - Koichi Niwa {BIO 5032649 <GO>}

I have an additional question, if you have a figure on the internal solvency ratio, can you let me know, please?

A - Yukinori Kuroda {BIO 19776286 <GO>}

Yes. As of September end, the internal solvency ratio is approximately 163%.

Q - Koichi Niwa {BIO 5032649 <GO>}

Thank you.

A - Yukinori Kuroda {BIO 19776286 <GO>}

Thank you. We'd like to take the next question from Goldman Sachs, Mr. Noda.

Q - Taichi Noda {BIO 16478436 <GO>}

Hello. Regarding the onetime merger costs, it has been changed from ¥78 billion to ¥80 billion, but I think your original plan was ¥75 billion. So I'd like to ask about this gap of ¥5 billion or the ¥2 billion this time?

A - Yukinori Kuroda {BIO 19776286 <GO>}

Yes. To the numbers that you have mentioned, we put this plan together in November 2012. That is the forecast of FY 2014, ¥75 billion. But then this time, we have this onetime merger cost, and we have revised it up to ¥80 billion this time around.

Now in our forecast at the beginning of this fiscal year, we had ¥78 billion. We revised that up from ¥75 billion because we saw the impact from VAT, and also we have some general system development expense. And so, the synergy was reduced a bit.

Now on top of that, we've changed ¥2 billion more, and we have been preparing very well for the merger that happened on September 1. But to make that merger even more secure, we worked a little bit more on the call center functions and also printing costs as well - as we have mentioned earlier. And so, this is what increased the expense furthermore, up by ¥2 billion, but basically, we're trending in line with the plan.

Q - Taichi Noda {BIO 16478436 <GO>}

I have a follow-up question, is this unrelated to the adjusted profit?

A - Yukinori Kuroda {BIO 19776286 <GO>}

Yes. It is excluded from the adjusted profit, it's unrelated.

Q - Taichi Noda {BIO 16478436 <GO>}

Thank you. Here's my second question. If you have some numbers at hand, please let us know regarding the reduction of the corporate tax rate? I was wondering, if there's an impact to the DTA? What is the impact to the profits here? Maybe you can tell me by 1%, if you can?

A - Yukinori Kuroda {BIO 19776286 <GO>}

Yes. For the whole group, hypothetically, if the corporate tax rate is reduced by 1%, then it has an impact of roughly ¥10 billion.

Q - Taichi Noda {BIO 16478436 <GO>}

Thank you. This is also irrelevant to adjusted profit?

A - Yukinori Kuroda {BIO 19776286 <GO>}

Well, last time, and that was like two years ago, at that time, we did take it out of the adjusted profit, it's an extraordinary event.

Thank you very much. Next, I'd like to move on to Tokai Tokyo Research Center. Please ask your question.

Yes, I'd like to ask regarding the page 22, natural disasters. This time, the full-year forecast has changed from ¥43 billion to ¥35 billion. So this is rare, I have not really seen this reduction in the natural disaster numbers at the interim of a company's fiscal year. What is the thinking behind this? Have you sort of reflected the lower numbers in the first half to the full-year numbers? Does that mean the second half snow damaged related numbers are unchanged?

Well, in that sense, to answer your question, yes, it includes the lower numbers in the first half, but also the October situation and also the November situation up to yesterday. And we have reflected the current situation as accurately as possible and decided that the remaining year, we can absorb any snow damage that happens, if it is the normal level.

Thank you very much.

I'd like to go back to Ms. Tsujino, JPMorgan Securities' question.

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I would like to answer the question from Ms. Tsujino, JPMorgan Securities, the earned, incurred, excluding natural disaster forecast numbers. For this, this is 61.1%. The previous year was 60.8%, so it is 0.3 points up.

A - Unverified Participant

With this, we would like to end the conference call. Thank all very much.

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