

## S1 2016 Earnings Call

### Company Participants

- Yukinori Kuroda, Head of Investor Relations

### Other Participants

- Futoshi Sasaki, Analyst
- Kazuki Watanabe, Analyst
- Koichi Niwa, Analyst
- Masao Muraki, Analyst
- Natsumu Tsujino, Analyst
- Taichi Noda, Analyst
- Wataru Otsuka, Analyst
- Yusuke Yabumoto, Analyst

### Presentation

#### Yukinori Kuroda {BIO 19776286 <GO>}

So this is Kuroda from Sampo Japan Nipponkoa Holdings. Thank you very much for participating in today's conference call.

So let me explain on the first-half fiscal '15 results that was disclosed earlier mainly on the numbers. We have also uploaded the presentation materials as well as excel spreadsheet datasheet on our website. So hope you can refer to those information. And when it comes to business strategies, we are planning to have an IR meeting on Thursday, 26th, next week, which will be explained by our CEO, Sakurada.

Please turn to page three. So this is our key message. So when it comes to first-half results, basically, the progress seems to be a bit behind compared to the forecast, but that was due to the early recognition of the incurred losses due to the domestic natural disasters, such as Typhoon number 15. Also, we will have a concentrated the amount of sales of strategic stocks in the second half. So overall, there is no problem in terms of progress for the full year. So the bottom line that we forecasted, the JPY230 billion in the operating profit, as well as JPY160 billion as net profit, that will both maintain.

So we continue to see the improvement in earnings on P&C business in Japan. Both on life insurance business and overseas insurance business are going in line with our original forecast for the full year.

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Let me elaborate on the reduction of strategic stocks. I mentioned the gain on the sales would be mostly booked in the second half. However, we reduced the amount of exposure during the first half with the JPY42.6 billion, and the negotiation is going well so far. But at the end of first half, of this JPY42.6 billion, we actually had a short sales of JPY26.1 billion in the futures' market, and we had JPY16.5 billion in a spot sales. So, therefore, we will have more sales gain on the spot market in the second half. Also, the dividend amount per stock is JPY40, so that was increased by JPY10 compared to the previous half.

And let me explain on the results of the first half. Net premium written had an increased revenue from Sampo Japan Nipponkoa. Also, there was the full-year contribution of Canopus, which we consolidated and from the second quarter of last year. And so the overseas business increased to contribute, to have an increase of 6.9%. And life insurance has also increased by 6.9%. So the operating profit for the first half was JPY43.5 billion. Net income was JPY28.5 billion, up by JPY13.1 billion.

Let me explain the details on page five. Here is the breakdown of the underwriting profit. Compared to the previous half-year, we had a domestic natural disaster, so we had to book a loss reserve. Also, last year, we had to reverse the catastrophic loss reserve due to the snow damage and, therefore, we saw a drop in underwriting profit. However, this year, when it comes to natural disasters, we expect to have a reverse of reserve in the second half, so the impact on a full-year impact will be limited. So excluding the impact of natural disasters, the base profitability has seen substantial improvement, that was the important point.

On page six, let me share the breakdown of operating profit. The first-half consolidated operating profit was JPY43.5 billion. As explained just now, there is an impact of underwriting profit for Sampo Japan Nipponkoa, which was the impact of natural disaster that affected largely.

And when it comes to investment profit, for the first half, we recorded impairment losses on securities for subsidiary that on a consolidated basis this would be eliminated. So such a technical action is taken.

On page seven. So first-half our net income on a consolidated basis was JPY28.5 billion. The reasons were already explained on the ordinary profit. So on a net income level, in the previous half-year, we had extraordinary loss of one-time merger costs worth JPY71.8 billion, and that is gone now, which increased the profit amount.

On page eight, this is fiscal '15 forecast. As I mentioned at the beginning, there is no change to the ordinary profit and net income. As we indicated at the beginning of the year, the consolidated net income is expected to have a substantial increase, up to JPY160 billion. And based on the recent natural disasters, as well as the market trends, we have revised -- our full-year forecast, which will be explained later on.

And please refer to the next page for the breakdown of ordinary profit for the full-year forecast.

Please move on to slide 11, and let me elaborate by each business. The numbers related to Sampo Japan Nipponkoa can be confirmed on this slide, and then we use the following pages for other items.

On page 12, that is the net premiums written. Overall, it increased by 3.9%. The fire and allied lines became a driver for pushing up the revenue, but also, we have revised the production rates in this October and so there was a last-minute contract that we sold in September, and that affected the increase. In automobile insurance, we also enjoyed the benefit of revised products and rates, which sustained the increasing trend.

On page 13 showing the loss ratio. The written loss ratio for the first half improved by 6.9 percentage points to be 56.3%. That is mainly due to normal payment claims on snow damage that was posted in the previous half-year. Excluding the natural disaster impact, we saw the improvement of 2.3 percentage points maintaining a strong trend.

On page 14, this is on earned and incurred basis, the loss ratio. So this loss ratio was affected by the natural disasters, such as Typhoons, but the first half, this number improved to 62.6%, so up by 0.4 percentage points. Without thinking of the natural disaster impact, overall improvement was 3.1 percentage points, and improvement was seen in the extensive areas in automobile, fires, and others.

On page 5 [ph], there was the expense ratio. The expense ratio has been on the declining trend and mainly driven by company expense ratio. So the expense ratio for the total of non-public insurances for the first half became 33.4%, mainly due to the reduction in labor cost improvement of up by 0.4 percentage points.

Then starting page 16, we explain the combined ratio for the first half. So this is based on written loss ratio. We saw a substantial improvement in the combined ratio to go below 90%.

On page 17, this is the combined ratio for automobile insurance. For the first half the automobile combined ratio was 90.7%, as was explained. So we have repeatedly revised product and rates. Also, we revised the drivers' rating system, and that drove the improvement on a steady basis.

On slide 18, this is showing the synergy and the cost condition along with the merger of P&C business. As explained at the beginning of the year, there was no change. So basically, one-time merger cost would not be posted from this year onward. Also, comparing to fiscal 2011, cost reduction is expected to reach JPY50 billion in amount.

Page 19, on the investment profit. Net interest and dividend income; among others, they have an increase in dividend receipts from the Sampo -- shareholdings as they increased. Realized gains on security sales vis-a-vis the annual budget of JPY59.8 billion was JPY16.7 billion. This basically has to do with the actual speed of the sales of strategic holding stock and progress itself and the seasonal problems. As to impairment losses on securities, JPY17.4 billion as of the end of September, mainly having to do with increase of subsidiary, and on a consolidated closings, the effect is neutralized.

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Moving on to page 20, please take a look at the forecast for Sompo in Japan, Nipponkoa. Natural disaster effect has been there, and so mindful of the actual conditions at the end of September, details for the assumptions have been modified. And just let me confirm about that, starting on the following page, which is page 21. So business assumptions and key changes from the beginning of the fiscal year is that given the actual conditions of natural disaster occurrence, the initial JPY43 billion has been adjusted up to JPY66 billion. Also, market assumption refers to the actual level of the market as of the end of September.

Starting on the following page, you see the list of information such as the premium on a performance evaluation basis per month, the number of hurricanes, the requests received, natural disasters, as well indirect business.

Two points to confirm, please move on to page 23. On this page shows the number of reported claims in automobile insurance. The second quarter, if you take a look at the right most column, minus 3.8% having coming down, and though on the preliminary basis, and we do have the information pertaining to the month of October, where a further 2% have declined, we haven't been able to check.

And the second point has to do with what's written on page 24. As I said, JPY56.3 billion was the actual a bit of [ph] number that we reported for September, which breaks down to JPY40 billion for Typhoon number 15, and JPY12.4 billion for Typhoon number 18. And please take a look at the details later.

And let's move on to the domestic life business, which is on page 27, note for the Himawari Life. Medical insurance sales have been quite favorable. So annualized new premiums, that has been on the uptrend continuously. For the September period, ordinary profit of JPY11.9 billion with a net income of JPY6.3 billion vis-a-vis the full-year forecast, the progress as of the end of September was quite favorable. As to the increase in the MCEV, which is being scheduled for JPY90 billion on a full-year basis, for the time being there's no problem that we anticipate.

Page 28 is next, sales of medical insurance products, which is our mainstay. It was back in April that we launched a new, simple underwriting medical insurance whose good effect was there. So as of the end of September, the number of the policies written was 160,000, which is against the full-year goal of 300,000 contracts. It's quite good in terms of the progress to date.

And please take a look at page 29 and is showing that the trend of P&C insurance channel, as well as the weighting yield of protection-type and products, and that has been expected.

Page 30 shows the J-GAAP-based profits in Himawari Life. Last fiscal year, there was a technicality having affected basic profit. In line in turn with the launch of the new medical insurance product, there was the policy transfer from the previous into the new product, which pushed up the gains and the reversal and they're from net policy reserves. But this effect is no longer important and in the current fiscal year on the basic profit as we began

the current fiscal year and the (inaudible) has slightly come down. However, as against such an expectation, the bottom line stayed in line. For the September period, the basic profit of JPY12.1 billion with the net income with JPY6.3 billion.

Let's move on to page 32, so that I can start to discuss overseas business performance. Overseas, the conditions were good all in all. Net premiums written, I did make reference to the Canopus full-year contribution added to the consolidated book results. Net income, mindful of the most recent ForEx in the market fluctuation, the full year, the amount is JPY18.4 billion. As of the end of September, JPY9 billion was booked. So against the current valid guidance, the tracking is quite good.

Page 33 shows the breakdown by region. For the top-line performance I talked about the Canopus effect, which pushed up the performance in Europe. And net income contributions are basically from North America as well as from other Latin American regions.

Page 34, business results by company for your reference. There were special factors in the B2B [ph] claims, or the booking of debt on gains from the sales of stocks. However, other than that, there were no Group companies who dragged the overall performance of the Group.

Let's move on to page number 36, asset portfolio. On the Group-wide basis, JPY9.2 trillion as of the end of September, (inaudible) to P&C or life, there have been no dramatic changes or fundamental changes in the investment policy. Basically, for the domestic stocks and whose mainstay is strategic holding stocks, JPY1.6 trillion, our management aspiration is to continue to settle down.

Details of this portfolio for Sompo Japan Nipponkoa, please take a look at page 37. And for Himawari Life, please take a look at page 38. And finally, if you take a look at page 39, you can see the progress to date as against our management targets.

And with that, I would like to complete my presentations to you. Thank you.

## Questions And Answers

### Operator

Thank you very much. Now we are starting a Q&A session. Okay, then the first question from Mr. Muraki from Deutsche Securities.

### Q - Masao Muraki {BIO 3318668 <GO>}

I have a couple of questions. The first question is about automobile insurance business. In your supplementary documentations, it says that your non-fleet volume went down by 0.9% and premium was slightly reduced from October. However, October flash number seems not to be so strong. Also from sales, seems not to be so strong since July onwards for automobile insurance. So how are you going to bolster this business from

now on? And can you explain this, including your pricing strategy, for the October next year as well?

My second question is about -- related to asset management. There are two questions on this point. The first point is about the impairment and loss was posted JPY15 billion for three months in the second quarter. I think that was due to a single stock in Japan, I believe. Is this the correct understanding?

The second point is interest in dividend income. It seems to be coming down year-on-year. When we look at the details, it seems like the received income from foreign bonds seems to be coming down slightly. So what will happen to this in the second half and beyond?

### **A - Yukinori Kuroda** {BIO 19776286 <GO>}

Thank you very much for your questions. In response to your first question on automobile insurance, as indicated, in terms of the volume, it went down by 0.9% at the end of September. However in October, the flash number showed increase by 0.7%, so it is on the increase.

So when it comes to the reasons for the drop of 0.9%, the first reason is related to the merger that happened last September for P&C business. And as you know, the P&C contracts are basically annual contracts, so the very first year would be spent on taking various actions regarding new contracts in the new team. So because of that, we weren't able to spend much time on capturing new premium users. That was the very first reason. However, now that we have done the first year, the things have improved.

On the second point, actually we have been quite aggressive in terms of timing and the amount of premium increases so far, so I think that was another factor. So we revised the rate in October, which were pretty much flat overall. The news report says it went down by 0.2%, but overall it was a flat revision. But what we did was, try to match the premium rate with the actual risk conditions. And especially on the target layer that we're forecasting, we tried to be competitive. So we slightly improved our price conditions where it used to be inferior to the peers.

We also shifted human resources from the head office over to sales offices, so we are now focusing more on the field by taking actions. So because of these factors we expect to see the volume increase in the second half.

When it comes to pricing, there's nothing decided regarding next year pricing at this point. But based on the current combined ratio, we do not have to have a big increase, that's how we understand. But on the other hand, I don't think we also need to have a decrease. So we're just making adjustment to match the rates with the actual risk conditions, which could end up being flat, also be up or down. In a mid and long-term perspective, we could have a consumption tax increase. Also, there could be potential events which may have an impact on the premiums. So in that case, we will take proper actions, maybe in products or the rates.

On the second question regarding asset management, and then the answer to the second question. Impairment loss. In the second quarter we had a loss over JPY10 billion. This came from our consolidated subsidiary. So on a consolidated basis, this impact will be eliminated.

Interest and dividend income. As you pointed out, this was the foreign securities. To be more specific, these are the foreign stocks or foreign funds, and we had a negative impact on interest and dividend income from those foreign stocks and funds. So based on the currency conditions, we did have a certain cancellation of funds. However, we were more aggressive last year in cancellation, so the drop in interest and dividend income by cancel is -- the funds had a certain impact on the first half. That's why we had a huge drop due to such an extraordinarily factors. But we're not expecting to see that big of an impact in the second half. There may be a slight decline, but we should be able to achieve what we have forecasted so far.

**Q - Masao Muraki** {BIO 3318668 <GO>}

That clarify my questions. Thank you very much.

## Operator

Thank you very much. The next is from Ms. Tsujino, JPMorgan.

**Q - Natsumu Tsujino** {BIO 2234779 <GO>}

So the first half natural disaster results. Since second [ph] net loss occurred, seems to be increasing from the original forecast. I think this applies to any players in the same industry, but since repair cost has been increasing that is being confirmed within the industry. So why do we see a difference created here? Is there a need for you to adjust your premiums rate?

The second point. In your full-year forecast, you forecasted the natural disaster loss to be JPY66 billion. The actual was JPY56.6 billion, so it seems like that you still have some buffers for the second half, so if you had no snow damage, like you had in February of 2014, I don't think you can have a huge amount in loss in the second half. That's why did you forecast conservatively, or are you expecting more to happen in the second half? So far, I don't think you've experienced any, but can you elaborate on this?

**A - Yukinori Kuroda** {BIO 19776286 <GO>}

Yes. Thank you for your question. In response to the first question regarding the forecast for the natural disasters, so when we had a typhoon, basically we monitored a number of reports for a few days. Also based on the past experiences, we predict a number of accidents; also we calculated the price. So there will be a gap from the numbers that we calculate based on individual case. So that's why in this case we saw some upside to the number.

When it comes to natural disasters, since there is a global warming impact, so it is an increasing trend. Since like, it's also happening at a different time from what's expected,

so we need to be closely watching the trend.

So you also mentioned about the premium rates, internally, we manage using the KPI called ROR, but if they do not match the actual condition, then we try to optimize the premium rates in the long run. I think that's how it should be done and that's how it's been incorporated in our ERM.

In your second point, the natural disaster budget for this full-year forecast, so as we mentioned, it's forecasted to be JPY66 billion versus JPY56.3 billion, so we have a margin of JPY10 billion. And as you know, there was no major accident or disaster happened recently, so we still have a margin of 10 billion.

Normally, on a regular year, we have about JPY3 billion to JPY5 billion worth of snow damage to be incurred. So this whole 10 billion may not be the complete margin, but I think it was about a year ago we had the snow damage in Tokyo, right? So, without such a major snow impact, and if nothing happens for about a month, I think there would be a margin of a few billion, so meaning this number is on the conservative side.

**Q - Natsumu Tsujino** {BIO 2234779 <GO>}

Thank you very much.

## Operator

So next is Mr. Otsuka from Nomura Securities.

**Q - Wataru Otsuka** {BIO 16340098 <GO>}

This is Otsuka from Nomura. Let me first ask you the first question. On your page nine, basically, you maintain the ordinary profit forecast from the beginning of the year. But since there are some changes in the breakdown, especially on core underwriting profit and investment profit, and then consolidated adjustment others, they moved by about JPY10 billion. Could you explain why there were those changes?

**A - Yukinori Kuroda** {BIO 19776286 <GO>}

Yes. As you mentioned, there were changes in the breakdown. Let me give you some major factors for those items. For core underwriting profit, that was -- the change was mainly driven by the natural disaster impact. We reflected that to reduce by about JPY20 billion. For the investment profit, we had a sales of foreign bonds, which were not included at the beginning of the year, so we had a positive impact on the sale of such foreign bonds. And impairment losses were slightly less than what we had forecasted at the beginning of the year, because we had a conservative forecast at the beginning of the year. So we had an upside to this investment profit.

For consolidated adjustment and other. At the beginning of the year, when it comes to sales gain, we apply the purchase method adjustment, and we were not able to identify the specific name, so we just utilized a logic -- general logic to calculate the amount, but



now that we've finished the first half, we know which stocks that we have sold and we know which stocks to be sold in the coming months. That's why we had more accurate calculation to have some upsides.

**Q - Wataru Otsuka** {BIO 16340098 <GO>}

I have an additional question. On your core underwriting profit, on page five, you have a breakdown of other than domestic natural disaster and domestic natural disasters. So this full-year number of JPY31.2 billion, what is the breakdown between the two?

**A - Yukinori Kuroda** {BIO 19776286 <GO>}

Let me check the numbers and let me get back to you later.

**Q - Wataru Otsuka** {BIO 16340098 <GO>}

So my second question is about your strategic holding stocks. So those three megabanks seems to be announcing aggressive sales of those stocks. Also, the peers in the industry seems to be announcing more reduction of such stocks as in the four-year plan. I guess they're announcing about today. So are you going to change your plan? For example, that Tokio Marine seems to be making the change due to the change in the environment; for example, affected by the corporate governance code trend. Can you comment on this?

**A - Yukinori Kuroda** {BIO 19776286 <GO>}

When it comes to strategic holding stocks, so for the past four years, we have been making steady steps in reducing the amount of those stocks.

And looking at the environment, since there is also a corporate governance code trend, so we are feeling there's a potential of seeing more aggressiveness in selling those stocks, and that may be accelerating our actions in the future and so that is also possible.

But in the future, we think the most important thing is to reduce the strategic holding stocks on a constant basis. Of course, it is for the purpose of reducing risks, and also for distributing risks. And once we sell those stocks, by investing the gains into other growth businesses, it's also possible for us to improve the ROE, which are often requested by the investors. And in the next mid-term plan, which will be announced next year, we will include a plan to have another steady reduction on those strategically holding stocks.

**Q - Wataru Otsuka** {BIO 16340098 <GO>}

Thank you very much.

**A - Yukinori Kuroda** {BIO 19776286 <GO>}

Thank you very much.

**Operator**

Next is Mr. Noda from Goldman Sachs.

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## **Q - Taichi Noda** {BIO 16478436 <GO>}

Thank you, very much. This is Noda from Goldman Sachs. Let me first ask you a question about overseas insurance business. In your adjusted profit by business, it said it was JPY19.2 billion and revised to JPY18.4 billion, but pre-adjustment number was JPY24 billion on page nine. So I think how much did you have as an impact by the big claims and what kind of big claims are you expecting, such as aircrafts or something else?

## **A - Yukinori Kuroda** {BIO 19776286 <GO>}

Exactly as we mentioned, JPY19.2 billion for overseas; insurance profit forecast is adjusted to 18.4 billion. This was just simply due to the change in the currency timings. The biggest impact was the Brazilian currency, which was fluctuating by about 15%, so we have incorporated this change in the recent calculation.

And as I just mentioned, we did have couple big claims. When we say big claims, these are big claims for the overseas business profit. So each one of them could be something around JPY1 billion per claim, so -- and we had about a couple of them.

And basically, these were the claims underwritten by Canopus which became our new subsidiary. And, for example, one was the claim related to the failure in launching a satellite, and another one was a claim related to the accident in oil digging in the Gulf of Mexico.

## **Q - Taichi Noda** {BIO 16478436 <GO>}

Thank you. My second question to you about impairment loss of a Group subsidiary. The page where you talk about JPY17.4 billion versus the full-year forecast of JPY17.5 billion. JPY17.5 billion and the full-year forecast, this is going to be reflected. It impacts the consolidated net results, whereas JPY17.4 billion does not. How am I supposed to understand these two numbers? By the way, the numbers are on page 19.

## **A - Yukinori Kuroda** {BIO 19776286 <GO>}

Okay. Let me respond to that. As of September end, 17.4 billion that number, that basically -- and that was referred to and rounded into the 17.5 billion number on a full-year basis, that impairment loss of a Group subsidiary actually was 14 billion out of the 17.4 billion. The rest had to do with other listed stocks. So on the consolidated adjustment, for that purpose, 14 billion was the effect, namely coming from the Group subsidiary. But marking to the market, this is the process that we do each year. So given the current market, and if that stays, then it is likely to be JPY17.5 billion full-year basis.

## **Q - Taichi Noda** {BIO 16478436 <GO>}

I see. So 17.5 billion on the marking to market. So --

## **A - Yukinori Kuroda** {BIO 19776286 <GO>}

Yes. Thank you very much. That is correct.

## Operator

Next Mr. Yabumoto of Mizuho Securities.

### Q - Yusuke Yabumoto {BIO 16424475 <GO>}

Thank you, very much. My first question looking at your domestic P&C, marine net claims to be paid. It seems that number has been lifted up or increased by JPY5 billion. Do you have any sense or the position, is to something isn't going to happen until they come about in terms of the claim payout in the second half?

### A - Yukinori Kuroda {BIO 19776286 <GO>}

Yes. Let me answer. In short, this has to do with the big claim -- big loss payable.

### Q - Yusuke Yabumoto {BIO 16424475 <GO>}

I see. Let me follow up. Has it incurred already, or not? How would you classify?

### A - Yukinori Kuroda {BIO 19776286 <GO>}

Of the number, JPY3.5 is the incurred -- the loss related number, and the remainder, JPY1.5 billion, that is our expectation for the second half of the current fiscal year.

### Q - Yusuke Yabumoto {BIO 16424475 <GO>}

Thank you. That's clear.

## Operator

Next questions will come from Mr. Niwa of SMBC Nikko Securities.

### Q - Koichi Niwa {BIO 5032649 <GO>}

Thank you. My first question has to do with your overseas insurance operations, namely Canopus. In comparison with the progress in the first half we have, it seems that judging from the full year, that the forecast, and the second half is going to be more robust. Do you expect that they're going to catch up?

### A - Yukinori Kuroda {BIO 19776286 <GO>}

Yes. Let me answer. I talked about the big claims, which became payable in the overseas insurance operation, namely how that would be for Canopus, so that was it. But so long as there's no recurrence of some such losses, and unless the dire worsening of the investment environment, we should be able to realize that.

### Q - Koichi Niwa {BIO 5032649 <GO>}

Let me push this further. Is it your expectation that Canopus really is an entity, who should be able to generate the level of profits, which is bigger than JPY9.2 billion?

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**A - Yukinori Kuroda** {BIO 19776286 <GO>}

Well, when we were contemplating this acquisition, our judgment was that this is a business company, who should be able to yield JPY9 billion or JPY10 billion worth of profit on a stable basis, although no further dynamic organic growth. But anyway, JPY9 billion to JPY10 billion repeatable on a sustainable basis. And right now, as you know, I'm sure that there is a further softening of the reinsurance market and Canopus continues to operate with utmost caution, so our expectation of 9 billion to 10 billion, the current profit contribution on a sustainable basis should be realizable.

**Q - Koichi Niwa** {BIO 5032649 <GO>}

Thank you. My second question then. You have management plans and projections on a full-year basis; how certain do you think you can be that you will accomplish these numbers? What I'm trying to say is that, in the first half you had surprises coming from the occurrence of natural disasters and/or the stock market. But speaking the stock market, the market has been up since the end of September, so I wonder how sure you are at present about the clearance of these numbers, or let me ask it slightly differently, this ordinary profit, the number of JPY230 billion, is it by all means (inaudible)?

**A - Yukinori Kuroda** {BIO 19776286 <GO>}

Thank you for these questions. We tend to think that the likelihood of being able to accomplish these numbers is rather high. In the first half, for the fire line from the operation, they had to recognize natural disaster with debt [ph] losses. However, by the way, they're looking at the debt loan minus JPY65 billion, and the rest the underwriting kind of profit. However, of course, with the reversal from reserves and so on, that is how they fared.

In the second half, the JPY30 billion is what is now expectable, meaning that on net the magnitude of nearly JPY100 billion was of improvement. And as to the sales of stocks, in the first half, the net -- the progress (inaudible) as was anticipated. However, in the second half, that will be pushed through, and also the impairment losses and securities given today's market conditions, they are minus JPY17.4 billion, it was only for the first half; not likely to be repeated as general conditionality in the second half. So we should be able to catch up dually [ph].

**Q - Koichi Niwa** {BIO 5032649 <GO>}

Okay. I understand your thinking very clearly and appreciate your answer.

**Operator**

The next question will come from Mr. Sasaki of Merrill Lynch, Japan.

**Q - Futoshi Sasaki** {BIO 17564798 <GO>}

Thank you. I have two questions. The first question has to do with strategic holding stocks. The first half, JPY42.6 billion was the number that you've quoted, 26.1 billion of futures, 16.5 billion on the (inaudible) spot market. Do I understand correctly?

**A - Yukinori Kuroda** {BIO 19776286 <GO>}

Yes. Your understanding is correct.

**Q - Futoshi Sasaki** {BIO 17564798 <GO>}

And the four-year plans. In the beginning of the year, I think that you quoted something in the neighborhood of JPY90 billion on a four-year basis. That asset is still on hold?

**A - Yukinori Kuroda** {BIO 19776286 <GO>}

To answer, yes. The Company plan. First of all, on the strategic holding stocks, taking the four-year period between fiscal 2012 and 2015, we had originally plan, which now is being front loaded. Our internal plan was that we would slow down by about the same amount in FY'14 and FY'15, and that means that for the current fiscal year of 2015, the annual target of JPY90 billion or thereabout.

**Q - Futoshi Sasaki** {BIO 17564798 <GO>}

Thank you. Looking at page 39, which is the page titled numerical management target, adjusted profit. For the domestic P&C, I am trying to read the number. In any case by about JPY5 billion, or so, it is down from the original number. And you talked about the core profit, the natural disasters, the investment and the gains and losses.

Given the magnitude of those fluctuations, this particular magnitude of downward adjustment seems more conservative or limited. Is it your thinking that the (inaudible) of the other operational aspects, which should affect the overall underwriting balance is you should be able to do the offset?

**A - Yukinori Kuroda** {BIO 19776286 <GO>}

Thank you, Mr. Sasaki. What you said is all very valid, and so long as we refer to the adjusted return[ph] of profit, please take note of the fact that as we reviewed back in September, the so-called life plan support system ensured there's a form of voluntary retirement package, and there are charges, which we anticipate to become payable. But that's a special and, therefore, it is not included as we come up with adjusted profit forecast.

**Q - Futoshi Sasaki** {BIO 17564798 <GO>}

I see. So if not for the natural disaster, then you'd say that you will be able to progress through and that you make improvements perhaps even more robustly than you had anticipated in the beginning of the year?

**A - Yukinori Kuroda** {BIO 19776286 <GO>}

Correct.

**Q - Futoshi Sasaki** {BIO 17564798 <GO>}

Thank you then.

## Operator

Next questions will come from Mr. Watanabe of Daiwa Securities.

### Q - Kazuki Watanabe {BIO 15948747 <GO>}

My first question has to do with fire insurance operation. For the month of October, it seems that they continue to grow rather robustly, but your peer group, for instance the Tokyo Marine on the same month's basis, they seems to be -- they seem to be down on the same line performance in the month of October. Would you elaborate on your situations?

### A - Yukinori Kuroda {BIO 19776286 <GO>}

Thank you for the question. You're talking about the month of October, fire insurance, 15.8%, which is robust and strong growth. How this has come about, the commercial accounts they have been largely renewals which had made good contributions to the monthly result in October.

### Q - Kazuki Watanabe {BIO 15948747 <GO>}

The second question has to do with automobile insurance, October, the number of accidents or the claims received down by about 10%. Do you think that this declining trend will continue? And also for October, if there's anything that you can say in particular?

### A - Yukinori Kuroda {BIO 19776286 <GO>}

Thank you. On the preliminary, (inaudible) basis, the reporting basis that trend is continuing as you say. We have been able to have the declining trend of this as benefiting, therefore the reduction from the petty [ph] claims and payable through the revision of driver rating system.

And other than that, the macroeconomic factors, or the environmental changes, unless there's something which quite -- is substantial and anticipated and they should come about the current trend should persist. However, looking at the actual conditions in this country, the gasoline prices are down, and yet the drivers do not seem to be driving a whole lot more.

And also, this part of the very important part of the national policy in Japan to encourage safe driving in Japan. And looking at some of the recent model vehicles, the car models -- on all new cars, but it is set in the 40% of new model vehicles are equipped with safety devices and features which may have been preventing otherwise the bigger number of traffic accidents, be it collisions or the (inaudible).

### Q - Kazuki Watanabe {BIO 15948747 <GO>}

Thank you.

### A - Yukinori Kuroda {BIO 19776286 <GO>}

May I say before we officially close, that as regards Mr. Otsuka's question from Nomura Securities about the core underwriting profit, we really should like to check to make sure that we have the correct information to give you. So please wait until we upload the Q&A portion of this conference later on and please check the numbers there.

FINAL

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