# Y 2016 Earnings Call

## Company Participants

- Yukinori Kuroda, Head of Investor Relations

## Other Participants

- Futoshi Sasaki, Analyst
- Tatsuo Majima, Analyst
- Unidentified Participant

## Presentation

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

I am Kuroda, Sompo Japan Nipponkoa Holdings. Thank you very much for joining us for this telephone conference. And I would like to explain about the FY15 results and also FY16 forecast, which was disclosed just recently. You will find the presentation material and Excel file on our website just for your reference.

Now, within this fiscal year, we will be formulating the new mid-term plan and we will start the implementation of the plan as well, but as for the details of this plan, we want to ask the executives to explain this at next week's IR meeting.

Please look at page two. These are the highlights of today's presentation. For FY15, business was sound. Overall, because of the absence of one-time merger costs, which only appeared in FY14, the bottom line increased triple-fold, which is the highest, recorded so far, as indicated by the guideline.

Adjusted ROE was 7.8%, which was higher than our target of 7%.

We have been trying to improve the profitability for domestic P&C, and we have seen some solid results. Combined ratio was 94.5% on a private insurance basis, which is lower than 95% target. And strategically holding stock sales was recognized as important management challenge and implemented in peril, and we recognize that we are continuously improving corporate value.

Profitability increased both for life insurance and overseas insurance. There was no special surprises.

In this year, there were major changes in terms of financial market, especially the interest rate in Japan. But our internal solvency ratio is 155%, which makes us very sound financially, and this does not impact our management strategy or shareholder return.

And the dividend was increased by JPY10 to JPY80, and today we have just announced that we will be conducting share buyback program with the upper limit of a JPY33.5 billion, which is also the highest in record. And total payout ratio, the mid-term target for this was 50%, and this means that we have made the decision to keep to this 50%. And the dividend yield 2.5%; total shareholder yield is now 5.1%.

For FY15, we will be implementing many measures to further improve the corporate value. In terms of bottom line, consolidated ordinary profit will be JPY206 billion, up by JPY10.8 billion, and the net profit JPY140 billion. The lower profitability is because we will try to maintain the level of profitability that we have just achieved for this fiscal year, but we will also be implementing, on a full-scale, some upfront investments for further growth in the future and efficiency improvement.

Please look at the next page. This is the overview of the consolidated statement. Net premiums written increased by 1.8%, mainly driven by Sompo Japan, and the life insurance premium increased by 7.4%. Business grew steadily. And consolidated net income showed significant growth. And adjusted profit, which is the source of shareholder return, is also increasing.

Please look at further details on the next page. This is the breakdown of underwriting profit. There were some domestic natural disasters increase, mainly driven by typhoon, compared to the fiscal year, but other than that, core underwriting profit was at JPY70 billion up, which increased our profitability basis and underwriting profit was up by JPY33 billion and JPY78.2 billion.

On page six, you can see the consolidated ordinary profit, which -- it was JPY216.8 billion, up by JPY8.5 billion, mainly driven by the increase of underwriting profit. The investment profit is declining, but this is due to the recognition of impairment losses of the Group companies, which does not impact our consolidated statement directly.

Please look at page seven. This is the bridging for consolidated net income. Major factor was absence of one-time merger cost of 2014 of JPY19.5 billion, and corporate tax reduction impact for FY15 was minus JPY7 billion for the whole Group.

Page eight shows the full-year forecast for FY16. We assume the top line to grow in the P&C and the life insurance entities. We will start a total of approximately JPY17 billion upfront investments, which means that consolidated ordinary profit will be JPY206 billion, down by JPY10.8 billion. And consolidated net income will be JPY140 billion, down by JPY19.5 billion.

Please look at page nine. These are the highlights of the forecast of the full-year. For domestic P&C, approximately JPY12 billion upfront investment will start for the investment of system, additional strategy and efficiency increase. But we expect the combined ratio to continuously improve, mainly driven by loss ratio. And we plan to accelerate the reduction of our strategic-holding stocks, which will increase that profit.

For domestic life, we expect the business to grow steadily, mainly around the protection products. We also included JPY5 billion of upfront investment for life insurance for future growth, which means that there is a reduction in the profit. We have conservative estimate for overseas insurance because of softening of the market. And also, we have included the absence of gain on sales of equity, which was posted for the American subsidy for the term that was just finished, and also the impact of exchange rate.

On the consolidated adjustment -- adjusted items, it seems that there is a reduction in the profit, but this is the absence of the impairment losses that was posted for the Group company, so effectively, the impact is very small.

Page 10, just for reference, this is a breakdown of consolidated ordinary profit for the FY16 forecast. Please check the details on this page.

Page 11, this is just for your reference, but over the last several years, that progress of results was quite slow, so we have -- are showing you the past progress of quarterly result. Timing of impairment losses and the natural disasters matter, and also the merger of one-time cost impact was also a factor, and also the timing of sales of strategic-holding stocks and the concentration of policy contract in April. These are some of the factors that are unique to our Company and we do not expect them to change dramatically for this fiscal year.

Page 12 shows the numerical management targets just for your reference. Our understanding is that we have more or less achieved the planned targets.

Page 14, some additional explanation about each business. Sompo Japan Nipponkoa result overview can be confirmed on this page, and I will use the following pages to explain about each item. This is page 15, net premiums written. For automobile insurance, which is our main business, there was an increase in revenue because of premium rate increase. And in October, there was a rate increase for fire and allied, and discontinuation of the 10-year long-term contract and therefore, there was a frontloaded demand, which pushed up the revenue.

And for the full-year, the number of vehicles for automobile insurance has decreased in non-fleet contract, but things have improved over time and in the fourth quarter, it turned positive by 0.2%. And for FY16, we included the absence of our frontloaded demand for fire and allied, and the numbers can be seen on this page.

Moving on to page 16, written paid based loss ratio down by 2.1% at 61.1%. This is mainly due to the reduction in claims payment related to natural disasters and also profitability improvement in automobile insurance. And in 2016, we expect 59.3%, which is additional 1.8% improvement due to a natural disaster-related claims payment reduction.

On page 17, the loss ratio on an earned and current basis is shown. Likewise, it improved by 2.2 points, reaching 61.6%. In fiscal 2016, we are expecting a further improvement, but excluding natural disasters, we are expecting it to be broadly flat.

On page 18, we show the net expense ratio. We have been continuing a declining trend, and in 2015 fiscal year, it was 33.4%, declining by 0.2 points. On the other end, the net expense ratio for fiscal 2016 is expected to increase, but the major reason is due to upfront investments related to future growth, as well as streamlining operations by JPY12 billion approximately. So, excluding upfront investments, we are expecting net expenses to be broadly flat. And we're going to be making the upfront investments in order to simplify the system structure, as well as to invest into digital strategic investments.

Page 19 shows the combined ratio. Overall, we are continuing to see a declining trend. In fiscal '15, it improved by 2.3 points. In fiscal 2016, we believe that we will reach 93.4%, which is a 1.1 point improvement. For fiscal 2016, excluding natural disasters, we are expecting a slight increase.

On page 20, we show investment profits. Fiscal 2015 was lower in earnings. The impact of negative interest rates, however, were limited. The major reason is due to increases in impairment losses on securities, but a part of it was canceled on a consolidated basis, which was a Group-wide evaluation loss of JPY17.3 billion.

The stock market declined, and thus, we have been seeing a decline of a gain of sale of securities, but stock future hedging capturing market end movements accurately was able to cover realized gains. Interest and dividend income, gain on sales of securities, and impairment losses, details are shown on the next page for your reference. In fiscal 2016, the negative impact of evaluation losses are expected to weaken, and we will accelerate the reduction of strategic-holding stocks and with that, we expect an increase of JPY13 billion in profits.

So, the details of Sompo Japan Nipponkoa business forecast is shown on page 22. Assumptions for this business forecast is shown on page 23. And premiums performance evaluation is shown on page 24. And on page 25, automobile insurance related indicators are shown. And on page 26, the summary of merger and synergies of one-time costs are shown for your reference.

I would like to make a follow-up comment on domestic natural disasters. In fiscal '15, due to typhoon number 15, there were incurred losses that were recognized worth JPY84.2 billion, our guidance was JPY66 billion, so the actuals were a little bit higher.

With regards to business forecast for fiscal 2016, we are expecting the domestic natural disaster losses to be about JPY43 billion.

As for the Kumamoto earthquake, which happened in April, and its impact, at this moment, with respect to the direct P&L impact, we believe it is going to be limited. Therefore, the assumption for incurred losses related to domestic natural disasters that we project at the beginning of year of JPY43 billion, does not need to be changed.

Next, please refer to page 29. Here is the overview of results for Himawari Life. Two years in a row, a new product was launched for medical insurance where sales is brisk, and annualized new premiums are steadily increasing. Business in force continues to increase, centered around protection type products.

The negative interest rate impact on investments were limited, so in fiscal 2015, net income increased by JPY1.8 billion, reaching JPY11.6 billion. On the other end, for net income in fiscal 2016, we are expecting lower earnings. Protection type products, we will ensure that we increase top line, as well as grow corporate value on an ongoing basis. However, the reason for the lower earnings is going to be, in order to realize firm growth in the future, we will need to make upfront investments in our systems and also spend promotion costs, and we are planning to spend about JPY5 billion, which has been accounted for in the plan.

Next is page 30. For our mainstay product medical insurance, in fiscal 2015, we were able to exceed the target with respect to the number of sales. It was a record high, reaching 302,000 policies. Please look at the details on this page.

Next is page 31. In fiscal 2015, basic profit was flat and net income increased. In fiscal 2014, due to the implementation of a medical insurance new product, gains on the reversal of the policy reserves increased, due to higher surrenders in accordance with the launch.

Therefore, this led to flat basic profits. As for the net income increase, the absence of the extraordinary losses that were recognized last fiscal year pertaining to the Company name change, and also the corporate tax break impact was smaller compared to last fiscal year. For fiscal 2016, it is as explained earlier. Therefore, excluding the impact from upfront investments, the bottom line is expected to be broadly flat year-over-year.

MCEV is shown on page 32. With regards to increase of adjusted EV, which is a management target, the target was plus JPY90 billion, due to lower interest rates, but the result was plus JPY83.4 billion, so we were below the plan by JPY6 billion. And for year-end MCEV, the interest rate impact on policies in force has been accounted for. And as usual, based on our calculation method, we will -- we have achieved about JPY700 billion in level.

With regards to adjusted EV increase in 2016 fiscal year, we are accounting for the upfront investments that we've explained, and we are expecting an increase of JPY60 billion. But over the medium- to long-term, we will ensure that we continue to grow corporate value.

Next is page 34. Here we show the overview of overseas insurance business. In fiscal '15, Canopius suffered from a major loss, but a one-time realized gain on stock sales was incurred in the US. So, overall, the business was firm. The reason for lower earnings in fiscal 2016, in a broad sense, is due to cautious underwriting due to the softening of the market. And also, the one-time factors, which are gains on sales of equities are expected to decrease. And also, foreign currency fluctuation impact is expected to be minus JPY800 million.

Business results by region are shown on page 35. And by company, the breakdown is on page 36. Please refer to the information later.

Next I will move on to page 38. The internal solvency ratio as of end of March was 155%. We have constantly indicated that the target range is 120% to 170%, so we believe this is not a concern. For changes in fiscal '15, retained earnings and sales of stock increased the financial soundness, but due to recent market changes, and due to interest rate decreases, the impact was minus 23 points.

For adjusted capital and risk, the details are on page 39 and market sensitivity is on page 40. Please refer to this later.

Next please move on to page 41. Here is our Group-wide asset portfolio. We have been steadily reducing the weight of domestic equities, but the overall asset composition has not changed substantially. The negative interest rate impact on investments is not -- was negligible in fiscal '15. On a rough calculation basis for fiscal 2016, we believe that, on a Group-wide basis, that investment and profits are going to come down by approximately JPY2 billion, which is limited. But we would like to expand our investments into foreign fixed income, as well as utilize project finance as a way of growth investments, so that we can mitigate this impact.

On page 42, we show Sompo Nipponkoa's portfolio, as well as Himawari Life's portfolio on page 43.

Finally, I would like to talk about strategic-holding stocks. In fiscal 2015, we steadily reduced our stock holding. On an actual amount basis, we cut it by JPY75.7 billion. In the past four years, it totaled JPY565.7 billion. Due to the drop off in the equities market in 2015, on a mark-to-market basis, the sales value went below our internal targets, but we used future hedging during the period in a flexible way. The forecast for fiscal 2016 is to accelerate the sales pace of strategic-holding stocks, so that we could reduce it by approximately JPY100 billion. And that is accounted for in the plan.



That concludes my explanation.

# Questions And Answers

## Q - Unidentified Participant

My first question is your estimate on loss ratio, page 25. Automobile insurance and the loss ratio is shown on the bottom left. How does this look in terms of E&I loss ratio?

And on page 19, there is loss ratio, including automobile and others -- excuse me, correction, page 17. Page 17 shows E&I loss ratio, including both automobile and others. And it seems, excluding natural disasters, the number is deteriorating. Is that because of the increase in claims? Is that trend different in E/I between automobile and others?

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

Thank you very much for your question. Automobile E&I loss ratio, as indicated, 60.0%, which is an improvement of 0.4%, according to our forecast. Premium rate increase impact will disappear, so we have conservative estimate, but the claims payment will continuously decline. And that is included in our forecast.

Overall, E&I, 59.3%, which is down by 2.3%. Automobile is improving, but just as you said, with a new type of insurance. Although we have not seen it yet, there may be large losses, which is reflected in the conservative estimate.

## Q - Unidentified Participant

Thank you.

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

Moving on to net expense ratio question, page 18. And the gap is explained by the impact of upfront investment. That's correct.

## Q - Unidentified Participant

Maybe you can give us more details in the IR meeting next time. But will the upfront investment be happening on a continual basis averaged out through the mid-term plan period? And what about the amount of upfront investment in the first year of the mid-term plan? Does it deviate from the average?

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

Well, at Sompo Japan, system investment, system renewal, and business process renewal, are the costs that we are estimating, which are all long-term projects. So this is going to be split approximately over six years, but the burden will increase from the middle toward the end of this period. So, from 2018 to 2020, or maybe in 2019 and 2020, there is an increase in upfront investment and about half of that will happen in 2016. For Himawari Life, I spoke about JPY50 billion -- excuse me, JPY5 billion and we expect the similar amount to be posted for the mid-term plan as well. As you have mentioned, more details will be given to you at next week's IR meeting, but the impact will be seen starting from '19 -- excuse me, '18 and '19, and the full benefit can be enjoyed in 2021 and 2022.

So, once the full benefit can be enjoyed, as our executive members indicated in the meeting in November last year, we want to go below 30% for expense ratio. And that target should be very much within achievable range.

## Q - Unidentified Participant

Thank you.

I have a question about this fiscal year's plan, as well as your outlook for the medium-term. I'm looking at page 10, related to my first question. It seems that this fiscal year, cat loss reserves are going to increase. So, can you give me a breakdown of that? That's my first question.

The second question is related to the medium-term outlook. You told us that you're going to provide the details next week at the IR meeting. But with regards to a lower profit guidance, and considering what you're going to be doing around overseas subsidiaries, as well as upfront investment, it seems that it is going to be hard to grow earnings. So, can you give me some flavor on your thoughts over the medium-term?

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

Thank you very much. With regards to the first question around the cat loss reserves accounted for in fiscal 2016, for last fiscal year, there were quite a lot of natural disaster related claims payments, and we had a reversal. And it was a net reversal of JPY2.5 billion. As for this fiscal year, we are not expecting natural disasters to increase substantially, based on our beginning of the year outlook, so cat loss reserves are expected to increase by JPY34.5 billion. The main line where we are going to be increasing the cat loss reserves is going to be the fire insurance line, which is going to be a little bit higher compared to last fiscal year.

With respect to your second question around the medium-term, we are going to expect lower earnings in fiscal '16, but with respect to the trend over the medium-term, I talked about the effects of various projects that is likely to materialize gradually beyond fiscal '18. So, for fiscal '16 and '17, compared to fiscal '15, the numbers may be slightly weaker. However, with regards to what we realized in fiscal '15 around underwriting profit, as well as investment gains, we have no intention of compromising our capabilities to generate this kind of profit level. So, as we maintain these profit levels, we will also make investments during the course of fiscal '16 and '17. For fiscal 2018 and beyond, we would like to give details at next week's IR meeting.

## Q - Unidentified Participant

Thank you very much. I understood that very well.

I have a question about adjusted profit and how to interpret it. Maybe new policies on dividends and the return will be explained at the next IR meeting, but based on the traditional concept, adjusted profit excluding life insurance for FY16, according to the current plan, how much is this going to be?

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

Yes. Thank you very much for your question. For FY15, the numbers will be explained at the next week's IR meeting. This is because of the following. As we indicated before, shareholder return policy will have to be revisited under the new mid-term plan. Of course, based on the market expectations, we want to make it even more appealing. And that is why we will be revisiting a policy, which means that the definition may change from the conventional tradition. The numbers will be explained next week, but we don't intend to decrease the source of shareholder return.

## Q - Unidentified Participant

I see. And information is scattered in different parts of the material, but adjusted profit excluding life insurance would be about JPY142 billion, according to my calculation. And it is actually higher than JPY132.1 billion for the term just finished. And dividend per share is flat at JPY80. So, it is quite difficult for me to understand the stance of the Company, what you are trying to do with this?

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

I do apologize for the confusion, but your calculation is quite right. Excluding life insurance will be changed to not excluding life insurance according to the management announcement. So, yes, this is going to increase.

About the flat dividend, stable dividend is our basic policy. And for FY16, the bottom line will be lower, but we want to maintain the dividend flat. But as far as the return ratio or the source is concerned, if they both increase, we will conduct our return policy based on the focus on the total shareholder return ratio. So, we have buyback of JPY33.5 billion. And recently the stock prices are reducing, so it's difficult to say whether the stock is at discount, but we have decided to do the buyback based on the understanding that it is at a discount.

## Q - Unidentified Participant

Well, I understand that you have a plan to sell JPY100 billion worth of strategic-holding stocks, and it's very rare for you to underachieve the objective, but you didn't achieve the JPY100 billion for FY15. The market was bad. And because of the negative interest rate, the stock prices deteriorated in some sectors. And because of your relationship with your customers, maybe it was difficult for you to sell these stocks. I understand that situation, but would you say that you have hit a brick wall? In other words, you are in a very difficult situation to continue to sell your strategically holding stocks?

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

This is a very difficult question for us to answer, but as far as our strategic-holding stocks are concerned, after the merger, we have done a very solid job of selling them. And, yes, we have already sold the ones that are relatively easier to sell.

And the question about hitting the brick wall, this is a very difficult question for me to answer, but we believe that we can further reduce the strategically holding stocks. And in terms of risk volume, we still have a challenge in terms of asset management or investment risk. And according to our governance report, you will find that if we find low ROR items, we will try to reduce them so that we can shift to higher ROR, so we can improve the overall ROR. So, our mid-term plan will be based on this philosophy.

JPY100 billion for FY16, that's our plan. And we don't intend to decelerate this momentum. So this is a plan.

## Q - Unidentified Participant

Thank you.

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

Hello, I am Sasaki from Merrill Lynch. I have two questions. The first one is with regards to the impact of the Kumamoto earthquake. You mentioned that the impact was limited, but for household earthquake insurance, as well as for corporate earthquake extension of coverage endorsements, what kind of impact are you expecting on the P&L? If you have any numbers, please share that with me?

With regards to the reduction of strategic-holding stocks, you mentioned that you were going to accelerate your efforts this fiscal year. But are you going to lock in the gains with futures and plan it at the beginning of the year, like you always do? Or because the markets are moving these days, are you going to resort to a different method?

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

First of all, thank you for your question. As for the impact of the Kumamoto earthquake, the P&L, I mentioned that it was going to be limited, especially the losses that we are going to incur directly is the corporate extended coverage endorsement earthquake insurance. For this, as of now, according to our estimates, we believe that the impact is going to be JPY2 billion on our P&L. For household insurance, we believe there is going to be a certain degree of claim payments, but we manage this business on a no loss, no profit basis.

As for your second question, the reduction of strategic-holding stocks, up until now, for the past several years, we have been utilizing futures on a quarterly basis in order to reduce our stocks. We avoid trying to time the market, which may deviate our sales plans. So, for this fiscal year, our perspective doesn't change. Of course, when we use futures, sometimes it turns out to be good, and at times, it would have been better if we didn't use futures. But we would like to stick to our plan where we have a beginning of year plan and steadily sell down our shares by using futures.

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

Thank you very much.

## Q - Unidentified Participant

Thank you very much. I have a question about page 27, domestic natural disasters. This is JPY84 billion for FY15, which is double the initial plan. And for the next fiscal year, it is JPY40 billion. Kumamoto earthquake doesn't have a big impact, which means that out of the past six years, in four years where you are exceeding the initial plan. So would you say that there is some kind of structural difference between this Company and the peers, the other companies? And do you have any countermeasures against this?

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

As far as the numbers that you have mentioned, you are correct. And for natural disasters, there is an impact of global warming, so maybe there is an increase or the timing is shifting. But for the single year for FY14, it was JPY33.2 billion. And also (inaudible) had a JPY10 billion for FY10. So, we took the average number, which is at JPY43 billion, and this is the assumption or estimate that we're going to use. There is no major change.

Is there any structural difference between us and other companies? Basically this is based on law of large numbers, so I do not think there is a huge difference. But in Kyushu and Shikoku areas, we have higher market share. We are stronger in those regions. And it is possible that more natural disasters may happen in those areas, in which case that may be a factor.

In terms of countermeasures for fire and allied in general, we have risk management, which is ERM. And currently, maybe the return against the risk is still insufficient according to analysis. And last year in October, we increased the premium rates. And going forward, we will try to build an appropriate structure for premium rate as well as products. This is going to be important for us.

## Q - Unidentified Participant

Thank you. Second question, page 11 about the progress rate. So, maybe this is a hedging against the reduction of strategically held shares, but the share selling is concentrated toward the later part of the period. Is this going to happen again this year? Or does it not really matter? Are there going to be sales of strategically holding shares in the first and second quarters as well?

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

We are trying to be as even as possible, but realistically speaking, in the first quarter, there are many shareholders meetings by many corporations and because of these factors, it is actually difficult to implement the sales. And this has been the trend over the last several years, and we expect the same trend to happen again. So, that means that the reduction may concentrate during the latter half of the fiscal year. It's not that we are trying to plan for it, but the trend may turn out that way.

## Q - Unidentified Participant

Thank you very much.

I have only one question. It is about auto insurance number of reported claims on page 25. From the past, the number of claims have been steadily declining by about 5%, but what's currently happening? How are trends in the month of April?

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

With regards to the number of reported claims, on a flash [ph] report basis, for the month of April, it went down by about 1%. The degree of the decrease is smaller than before, but it continues to decline. Originally, the declining trend started due to the revision of the grade rating system effective October 2012. This led to less reported claims around petty claims or small collision accidents.

More recently, there has been a number of innovation around automobile technology, such as automatic braking. So the safety of cars is increasing, which this also leading to less number of reported claims. This is another reason.

## Q - Tatsuo Majima {BIO 15338044 <GO>}

Thank you very much for this opportunity. I am Majima. Mr. Kuroda, you talked about the overseas outlook, and you said that it was very cautious or conservative, and I was wondering why? I understand the market is softening, but reading the Hoken Mainichi newspaper, it seems that it is not as bad as we had anticipated. And one of your major revenue sources, which is the UK, there is potential Brexit. So, in the worst-case scenario, maybe you are expecting UK exiting the EU. Is that why you are conservative?

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

Thank you very much for your question, Mr. Majima. The meaning of cautious is that there is no major expansion, so I just want to make this correction. And as far as the premium rates are concerned, in FY15, 294.3 billion was the overseas number, and this is going to be increased by JPY45.7 billion to JPY340 billion. Now some of the reinsurance premium will be shifted to a company under Canopius. This is about 15 billion. So, this is not the total number, but still, we expect a certain level of growth in the overseas business. But profitability may be lower due to softening of the market, for example, for certain perils and certain policies. This is a fact. And that is why we plan to strengthen the underwriting for those particular types of perils and policies.

## Q - Tatsuo Majima {BIO 15338044 <GO>}

What assumption do you use for a pound/sterling exchange rate?

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

We don't have any assumption, but we just use the rate as of the end of last fiscal year.

## Q - Tatsuo Majima {BIO 15338044 <GO>}

I see. Thank you very much.

## Q - Unidentified Participant

I have one question. In fiscal '15, the natural disaster incurred losses ultimately was JPY84.3 billion, but the way it increased from the end of the first-half was higher when comparing with other companies. And when you look at the previous fiscal year, on a full-year basis, natural disaster incurred losses was higher by 12 billion. So, this was another increase compared to what we have been hearing as of the interim period. So, it seems that you have this tendency to end the full year higher than the initial estimate. Can you give me the reason why? And are you trying to make efforts to make your outlook more accurate?

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

Thank you very much, Tsujino-san [ph]. With respect to extraordinary factors, we don't have an entire grasp on this. But with respect to last fiscal year, as you have pointed out, the reason why natural disaster incurred losses was higher than expectations is due to typhoon number 15. In the Kyushu region where we have strength, most of the damages related to this typhoon was concentrated there, and that's probably the reason why the impact was fairly larger.

## Q - Unidentified Participant

So, we had a lot of volume and claims, and that is the reason why the numbers were higher than expected?

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

I wouldn't pinpoint and say that that is the sole reason, because we haven't done a factor analysis, but the feel is that, yes, that is one of the reasons why.