

## Y 2012 Earnings Call

### Company Participants

- Corporate Participant
- Shinichi Hara, Head of Investor Relations

### Other Participants

- Futoshi Sasaki
- Hideyasu Ban
- Jun Shiota
- Koichi Niwa
- Masao Muraki
- Mitsumasa Okamoto
- Natsumu Tsujino
- Takanori Miyoshi
- Wataru Otsuka

### Presentation

#### Shinichi Hara {BIO 17738151 <GO>}

Good evening. This is Shinichi Hara of NKSJ Holdings. Thank you for taking time out of your busy schedule to attend this conference call. Without further ado I would like to start my presentation on Fiscal 2011 Results and Forecast for Fiscal 2012.

Please turn to page one. There you can see the overview of fiscal 2011 consolidated results. Both domestic P&C insurance and domestic life insurance posted a top line growth. However, we recorded an ordinary loss and a net loss.

P&C net premium written thanks to the rate hike effect saw increase in voluntary automobile insurance and compulsory automobile liability insurance resulting in increase at two domestic P&C companies. Life insurance premiums centering on medical insurance saw an increase of ¥12 billion. As for ordinary profit and net income I would like to ask you to look at page two and three, for the factors.

First page two. There you can see the ordinary profit by business segment. Ordinary loss decreased year-on-year to post a loss of 51.8 billion. In a nutshell this is due to the negative impact of natural disasters worldwide including the flooding in Thailand.

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Starting from the left, domestic P&C insurance business underwriting profit, mainly due to impact of flooding in Thailand, posted a loss of 66.1 billion. Domestic P&C insurance business investment profit, mainly from interest and dividend income and realized gain on securities, posted a profit of 61.7 billion yen. Domestic life insurance business posted a profit of 1.1 billion. Overseas insurance business, mainly due to impact of flooding in Thailand posted a loss of 16.5 billion. The flooding in Thailand amounted to over 20 billion. When we exclude that factor actually the profit was about 60 billion yen.

Other consolidation adjustment, goodwill, amortization and purchase adjustments totaled minus 32.6 billion. In total a loss of 51.8 billion recorded as ordinary loss.

Page three. There you can see net income by business segment. On page two, we saw the ordinary profit and net income totaled a loss of 92.2 billion. The biggest difference is the impact of the reduction of the corporate income tax rate. Another is the merger expenses in the area of life insurance business, which is recorded as extraordinary loss. The reduction of the corporate income tax rate had an impact of 37.2 billion all together, which in this graph is distributed over three sections, domestic P&C insurance, domestic life insurance and consolidation adjustment.

As of October 1, 2011 Sampo Japan Himawari Life and Nipponkoa Life merged and merger expenses totaled 11.7 billion resulting in the loss of domestic life insurance business of 11.1 billion.

Next, I'd like to look at the underwriting profit of domestic P&C life insurance business, page four. In page two, we said that underwriting profit was 66.1 billion, and on page four you can see the breakdown of the underwriting profit of domestic P&C insurance business. The biggest impact actually were twofold, as shown at the center, Great East Japan Earthquake and flooding in Thailand.

As for the Great East Japan earthquake the gain of 51.3 billion was recorded, mainly due to the reversal of the catastrophic loss reserve. As for flooding in Thailand, the 61.9 billion yen loss due to provision for outstanding losses reserves for the two domestic P&C insurance companies. I will talk about the total later. When we exclude these two factors you will see on the left hand side that underwriting profit excluding special factors, a loss of 55.5 billion. This is mainly due to high loss ratio in automobile insurance and impact of natural disasters including typhoon.

As for automobile insurance, we saw high loss ratio being maintained, making it difficult to recover profitability.

Let me direct your attention to page five. Let me briefly explain the impact of the Great East Japan earthquake. We have been paying out the claims in 2011 and we have recognized the gain from the reversal of outstanding claims reserve which was almost equivalent to the actual paid out amount. Therefore the incurred losses were small in amount. On the other hand there was 53.5 billion yen gain from reversal of underwriting reserve of earthquake insurance. Therefore total underwriting profit was ¥51.3 billion.

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Would you please take a look at page six. Domestic natural disaster loss was 71.3 billion yen which was more than the initial projected amount of 38 billion yen in 2011. The breakdown of the loss is as follows: the total loss from typhoon No.12 and No.15 was 41.3 billion yen and the total of other natural disasters, such as hail disasters was 29.9 billion yen. For your information we have shown the past natural loss amounts in Japan, excluding 2004 when we had a significant impact from the typhoons. 2011 was a special year when we had higher impact from natural disasters.

Would you please take a look at page seven. Let me explain about the impact from the flooding in Thailand. Net incurred loss was 109.8 billion yen, which was up versus the initial projection as of January 27, which 101.3 billion yen, an increase of 8.5 billion yen. Of 8.5 billion yen increase the majority portion, which was 6.9 billion yen was due to the strong Thai baht.

Please take a look at the lower graph on the right hand side. The actual claims paid in 2011 are as shown here. Projection in January was 33.7 billion yen but actual payment was 18 billion yen. And if you look at two circles and take the difference between the two which is the net incurred loss and claims paid was the negative impact on the ordinary profit which was 91.8 billion yen. At the bottom please take a look at the break down of 91.8 billion yen negative impact on the ordinary profit.

Domestic P&C for the two companies, 61.9 billion yen and overseas subsidiaries 22.7 billion yen. Overseas non-consolidated subsidiaries 7 billion yen. Earlier we talked about 61.9 billion yen impact from the flooding in Thailand on page four. And this is related to the portion of domestic P&C impact.

Let me direct your attention to page eight. Let me explain about the domestic life insurance business. We use EV growth as the business performance measurement. We use MCEV as a measurement of the growth of EV. In 2011 growth of adjusted EV outperformed our plan which was 100 billion yen growth of EV per year. There are two reasons for the out performance of EV growth in 2011. First reason, there was a shift progress towards protection products such as medical insurance, which drove the new business value up. And the second reason is because of the improvement of insurance related assumptions such as surrender rate, mortality rate, morbidity rate and expense ratio.

On the left hand side, please take a look at the breakdown or factors of increase of EV. The end of the year balance of EV increased from 467.1 billion yen as of the end of the fiscal year 2010 to 615.3 billion yen as of the end of FY 2011. On the right hand side we are showing EV sensitivity to interest rates. Sensitivity of interest rate on EV is quite limited, because duration gap between assets and liabilities is quite short.

Page nine onwards show business forecast for fiscal 2012. First page nine, summary of business forecast for fiscal 2012. We are expecting both ordinary profit and net income to turn to profitability, representing a major year-on-year improvement. Ordinary profit is projected at 64 billion, up 115.8 billion and net income 24 billion yen.

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We are also expecting increase in ordinary income, P&C net premiums written, up 1.9% and life insurance premium, up 1.5% respectively. Although it's not shown here as for dividends per share we are projecting the same amount as in fiscal 2011 at 80 yen per share.

The details of ordinary profit will be explained using pages 10 and 11. Page 10, ordinary profits is projected at 64 billion and you can see the main factors on that page. As for domestic P&C insurance business, excluding special factors are projected to make a loss of 61.9 billion, including the system integrated cost of 24.3 billion. This includes a loss projected for automobile insurance as well. As for the accrued loss we are making a rather conservative projection assuming the same level as in the previous year.

As for flooding in Thailand with progress in loss payment, the reversal of the catastrophic loss reserve is to have a positive contribution of 52.5 billion yen. All-in-all we are projecting a slight loss in underwriting profit. As for investment profit we are expecting a profit of 136.5 billion centering on gain on sale of securities. Added with domestic life, others and consolidation adjustment we are projecting ordinary profit to be 64 billion.

On page 11, you can see the year-on-year variance analysis. During fiscal 2011 we recorded reversal on the catastrophic loss reserve. There, there is technical factors. But the highlight here is that for fiscal 2012 we are projecting 24.3 billion as a system integration cost. In addition as for automotive insurance we're expecting accrued loss of about the same level as in the previous year and therefore is not represented in this variance analysis, 51.8 billion negative in fiscal 2011, plus 64 billion in this fiscal year, an improvement of over 110 billion.

I would like to focus on domestic P&C insurance. This is a summary of domestic P&C insurance business. Net premiums written is to be flat. We expect the increase of net premiums written thanks to the pricing division of CALI and we are going to receive more assumption of fire insurances. But net premiums written is expected to decrease due to the increase of the premium that we have to pay for the risks that we cede out to reinsurance companies.

The written base loss, excluding the extraordinary factors such as financial guarantee business, CALI business, March 11 impact and the flooding in Thailand, excluding all of those special factors written base loss is negative 0.8 points.

Automobile loss ratio is projected to be flat but the expected natural disaster loss is to be decreased by ¥20 billion year-on-year. That's why we are assuming written base loss to go down by 0.8 points. Net expense ratio is to be increased by 1.4 points due to the recognition of certain integration system costs. As a result the combined ratio, excluding the special factors is projected to be 103.6%, which is worse by 0.6 points. Let me direct your attention to page 13.

Domestic P&C insurance business assumptions. The domestic natural disaster loss is expected to be ¥50 billion, which is more by ¥12 billion than ¥38 billion for normal years. That's due to the natural disasters already happened such as low pressure system

cyclone on April 3rd or tornado in May from what we expect certain losses to be incurred. Therefore we are projecting ¥50 billion natural loss, natural disaster loss.

Earlier, we talked about the decline of net loss ratio year-on-year. The actual natural disaster loss in 2011 was ¥71.3 billion and versus this amount ¥50 billion is lower by ¥21.3 billion, that's what I meant. And in terms of the catastrophic reserve in total there is net reversal of catastrophic reserve of ¥46 billion, which includes ¥52.5 billion reversal of catastrophe reserve relating to flooding in Thailand.

In terms of the fire insurance at Nipponkoa, we decided to increase the provisioning ratio a little bit. For the fire line we increased the provisioning ratio from 7% to 10%. And it is 7.7% on the space, this is the provisional ratio for the group five year insurance products, where we increased the provisioning ratio from 5.8% to 7.7%. So the total provisioning will be increased by ¥23 billion. Market indicators are as of end of March.

Let me go to page 14, adjusted consolidated profit. In terms of domestic P&C business, reporting profits are made up by reversal gains of catastrophe reserves or gains on sale of marketable securities which do not contribute to adjusted profits. Therefore adjusted consolidated profit in 2012 is still in red. Please look at the bar graph on the right hand side, minus 33.2 billion yen loss. In terms of the domestic life business we expect the adjusted EV to be 85 billion yen. So we expect the continuous contribution to the consolidated profitability in overseas business.

We are not going to have the impact from the flooding in Thailand. So we are projecting 6.3 billion yen adjusted income. As a result group total adjusted profit will be significantly improved in 2012 which is 53.7 billion yen versus 2011 which was only 1.2 billion yen when we had a negative impact from flooding in Thailand.

As we announced in March, the integration of two P&C companies in Japan, we are scrutinizing the synergy on the cost side through the integration of two P&C companies. We need to take some more time for this process. So around autumn we are going to show you the result of the review.

This concludes my explanation for today. We now move on to Q&A Session.

## Questions And Answers

### Q - Takanori Miyoshi {BIO 16985826 <GO>}

This is Miyoshi from Goldman Sachs. My first question is on business forecasts for fiscal 2012. You are projecting a rather large increase in investment profit based on sale of securities. What is the scope of the sale of strategic holding stocks that you have in mind?

### A - Shinichi Hara {BIO 17738151 <GO>}

Regarding the sale of risk assets including the strategic holding stocks let me summarize the current situation. For a three year period between fiscal year's 2010 and 2012 we

were to sale to the tune of 300 billion. In fiscal 2010 we sold 45.3 billion worth and in fiscal 2011, 127.6 billion. Meaning that the balance is 127.1 billion to be sold during fiscal 2012. We would at least want to achieve that figure and if possible we would like to sell more.

**Q - Takanori Miyoshi** {BIO 16985826 <GO>}

I see. Thank you. My second question, compared to fiscal 2011 I wondered if there are any changes in the assumptions relative to the catastrophic loss reserve, do you have any plans of increasing that reserve?

**A - Shinichi Hara** {BIO 17738151 <GO>}

Well, as was mentioned in my presentation during or before the fire and allied lines we will be slightly increasing the catastrophic loss reserve to the tune of about 2.3 billion yen or by about 2.3 billion yen. For other lines we don't have any plans of increase.

**Q - Takanori Miyoshi** {BIO 16985826 <GO>}

I see. Thank you.

**Operator**

Next question is from Mr. Okamoto of Merrill Lynch.

**Q - Mitsumasa Okamoto** {BIO 1513316 <GO>}

Thank you. My question is in relation to flooding in Thailand. This is a rather detailed question. I understand that there is a delay in loss payments compared to the earlier assumption. Can you tell us what the reason is? And my second question is on catastrophic loss reserve. Is that you're going to change the provision ratio on fire and allied lines of Nipponkoa? When you look at the outstanding ratio, actually the rate is higher with Nipponkoa than Sampo Japan. So, I am wondering why you're going to change that ratio at Nipponkoa and not at Sampo Japan?

**A - Shinichi Hara** {BIO 17738151 <GO>}

Thank you for your question. Regarding the flooding in Thailand. We are making payments based on negotiations with our customers. In a nutshell there hasn't been a strong requirement on the part of customers for early payment, that is the reason.

**A - Corporate Participant**

Let me take that question with regard to the ratio of catastrophic loss reserve on fire and allied lines as you can in the final summary as of the end of March 2012. Sampo Japan 91.7% and Nipponkoa 106.3%. So true Nipponkoa has a higher ratio. But in fiscal 2012 with regards to the reversal related to the flooding in Thailand actually NK has an operation based on overseas branches and therefore the impact of the reversal would be larger at Nipponkoa than Sampo Japan. And that is the reason why we decided to increase the rates slightly for Nipponkoa, whereas for Sampo Japan we are of the view that the reserve is sufficient and therefore there is no need to change the rate.

**Q - Mitsumasa Okamoto** {BIO 1513316 <GO>}

I see. Thank you. Regarding this flooding in Thailand, do I understand correctly that all of the losses will be paid during this fiscal year?

**A - Shinichi Hara** {BIO 17738151 <GO>}

Yes more or less. There still would be 9 billion yen remaining at the end of fiscal 2012. That is our current assumption. And also although you did not ask that question, we don't believe there is a possibility of increase in amount of payment to be made because we have already made a thorough evaluation.

**Operator**

Thank you so much. We would like to take our next question from Mr. Otsuka from Nomura Securities.

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

My name is Otsuka from Nomura Securities. My first question is about the surplus. Would you please give us the rough surplus amount as of the end of March, equity minus risks?

**A - Shinichi Hara** {BIO 17738151 <GO>}

First of all at the end of 2011 we started to change the calculation method from pretax to after tax basis. We are going to show you the materials showing the calculation of the surplus on Friday next week. But roughly speaking after tax, surplus is roughly 400 billion yen.

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

Understood, thank you. My second question relates to the voluntary auto line. I'm on page 31 and page 32 where you are showing the assumptions for the projection of each business. You are not really assuming the increase of premiums, both at NK and SJ. You're projecting flat premiums. Are you not incorporating the positive impact from the pricing division? Furthermore that loss ratio projection referring to the rating system division, are you not incorporating this rating system division in the loss ratio projection?

**A - Shinichi Hara** {BIO 17738151 <GO>}

Answer is no. We have incorporated the positive impact from the pricing increase that we have done so far. For example, we have increased the pricing in April 2011 at Sampo Japan and in January 2012 at Nipponkoa. We've incorporated all of those positive impacts in those figures.

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

Thank you so much.

**Operator**

Thank you so much for your question. We would like to take our next question from Mr. Niwa from SMBC Nikko Securities.

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

My question relates to capital gain and loss. The amount of sales of equities is similar to the last fiscal year, but still the amount is quite large I feel. Is it due to the specific names of equities or are you expecting a lower loss from the sale of equities. Would you please give us some color?

**A - Shinichi Hara** {BIO 17738151 <GO>}

In the investment gains we are including 99 billion yen expected gains from sales of strategic holding stocks. And we have net dividend and interest income which is little bit over 50 billion yen. And we have impairment losses and others and in total 136.5 billion yen. If you could take a look at these figures and compare those figures with the expected sales of marketable securities, you can imagine that our plan is to sell 300 billion yen over three years and we would like to make sure that we achieve that and we would like to search for opportunities to sell more as an additional sale of marketable securities. Thank you.

**Operator**

Thank you so much for your question. We would like to take our next question from Mr. Muraki from Deutsche Securities.

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

I have two questions. My first question relates to the timing of the system related expenses. In which quarter are you expecting the system expense to be incurred? And when are you expecting the reversal gains from catastrophe reserve relating to the flooding in Thailand, in which quarter? In the first quarter, there are some natural disasters which happened already and there is a devaluation loss from marketable securities to be incurred in Q1 at this market level. But what is the expected amount of reversal gains in the first quarter. That's my first question.

**A - Shinichi Hara** {BIO 17738151 <GO>}

The point of your question is whether we should expect some expenses or reversal gains in Q1. We have system development expense and flooding in Thailand. We are not anticipating any of those to be incurred in Q1. In principle we recognize a system expense based upon on the service and timing. So when the services started we recognized expense, related expense so it's difficult at that this point for us to show you the exact timing but we are not going to recognize the system related expense in Q1. Relating the flooding in Thailand there is a low probability that we recognize the reversal gain in Q1.

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

My second question is related to the division of rating systems. So in the third year you are expecting a positive impact of 2.5% without the case when there is no revision of the



rating system and there is a offsetting factor from the deterioration of the profitability of this division of the rate tables. What is expected benefit from the profitability improvement due to the rating division of the total 2.5%?

**A - Shinichi Hara** {BIO 17738151 <GO>}

Mr. Muraki would you please repeat your question?

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

Sure. On page 42, it says there is a positive impact of around 2.5% projected in the third year. Under the normal system there is a deterioration of profitability as the rating levels are promoted. But of 2.5% when the new system is introduced how much profitability is to be improved in reality?

**A - Shinichi Hara** {BIO 17738151 <GO>}

In our business plan we're assuming the improvement of combined ratio. And are you asking how much positive impact are we assuming from the rating table division in the improvement of combined ratio?

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

Yes. There is some scale of offsetting the promotion of rating levels. But excluding that how much positive impact are you assuming on your profitability from the division of the rating table?

**A - Shinichi Hara** {BIO 17738151 <GO>}

Would you please wait for a second? Mr. Muraki we are very sorry, can we get back to you on that question later?

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

Sure.

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

This is Tsujino of JPMorgan Securities. Thank you. On Sampo Japan side, in fiscal 2011, on catastrophic loss reserve, what was the gross reversal amount? And for my information I would appreciate it if you can talk about Nipponkoa as well?

**A - Shinichi Hara** {BIO 17738151 <GO>}

If you can turn to page 27 you can see the amount, Sampo Japan fire and allied lines amount of reversal 57 billion yen and for Nipponkoa, 38.7 billion yen.

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

I see. And I understand this includes earthquake related as well. Okay. I see. Yes, that makes sense. So my next question is on system integration cost of 24.3 billion yen. Can

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you give me the breakdown for Sampo Japan and Nipponkoa, respectively? And if I remember correctly, the amount was to be largest for this fiscal year and so I had assumed that the amount would be larger than what you have indicated. So can you give us some indication as to what the amount would be in fiscal years 2013 and '14 as well?

**A - Shinichi Hara** {BIO 17738151 <GO>}

Yes. System cost for Sampo Japan, 16.9 billion and Nipponkoa, 7.4 billion respectively. Now this system integration cost estimate we are actually making a thorough evaluation for the total amount based on the announcement of the merger. So we're not talking about 24.3 billion out of the total picture that we have in mind. Rather we are making the estimate based on what would be necessary for this fiscal year. So when it comes to the overall size as well as schedule going forward, please give us until the early part of fall.

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

I see. My next question is related to my earlier question. So for fiscal 2012 reversal of catastrophic loss reserve would be based on the payments to be made. In relation to the flooding in Thailand, those affecting the Sampo Japan and Nipponkoa. So if the scale of natural disaster is limited to that amount, I guess that should account for all of the reversal that you have in mind. But if system integration cost is to increase you have been saying that you are not expecting much improvement in accrued loss. But for fiscal 2012 I think on the underwriting level there must be some kind of improvements that you are expecting in relation to automobile or anything?

**A - Shinichi Hara** {BIO 17738151 <GO>}

Well in the underwriting step I wish we can point to some factors, positive factors but I'm afraid we can't see any.

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

I see. Thank you.

**Q - Jun Shiota** {BIO 4127431 <GO>}

This is Shiota from Daiwa Securities. My first question is on ordinary profit of 64 billion and net income of 24 billion. Could you give us what's in between? I think this will include the price fluctuation and others?

**A - Shinichi Hara** {BIO 17738151 <GO>}

Thank you for your question. Amongst extraordinary losses provision of price fluctuation reserve at Sampo Japan is estimated at 5.2 billion and Nipponkoa, 2.7 billion. And other extraordinary losses would be in relation to the joint headquarter, head office, the relocation cost of 5 billion at Sampo Japan and 2.5 billion at Nipponkoa. And then, there are some other extraordinary loss items as well.

**Q - Jun Shiota** {BIO 4127431 <GO>}

I see. Thank you. My next question is in relation to what you have been saying repeatedly. For fiscal 2012 automobile premium written you've said is expected to be flat. But in September, there will be changes made to this system. Are you not incorporating any rate hikes in relation to that system change?

**A - Shinichi Hara** {BIO 17738151 <GO>}

We're not incorporating that.

**Q - Jun Shiota** {BIO 4127431 <GO>}

Does it mean that you are not planning any rate hikes?

**A - Shinichi Hara** {BIO 17738151 <GO>}

No. We're saying there is nothing definite yet.

**Q - Jun Shiota** {BIO 4127431 <GO>}

I see. Thank you.

## Operator

Next question is from Mr. Sasaki of Mitsubishi UFJ Morgan Stanley.

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

I just have one question in relation to fire insurance. When I look at the documents that you distributed today, I am interested in the rates of ceded insurance that is the sum of indirect premium written and inward reinsurance and the premiums written of ceded insurance. I see that the rate of ceded insurance is growing, may I ask what the reason is, as well as what your projections going forward. And I think the rate of premium, the premium rates of reinsurance themselves are increasing, so at what time frame do you plan to transfer that?

**A - Shinichi Hara** {BIO 17738151 <GO>}

True, regarding the reinsurance premium rates, we do see movements of the premiums going higher. But what that scope of hike or the rate of hike will be depends on the reinsurance schemes as well as insurance lines. So you have to look at each contract based on the terms and conditions or based on results. We may have to revisit the current rate, in any event for the premium rates going up on individual basis I think it is important that we pass that on to our policies.

And with regard to the first question that you asked, what is the background to increase in the rate of ceded insurance. For fiscal 2011 it is difficult to point to any specific factor. It could be the impact of the earthquake that is reflected in the figure, maybe that's what you are looking at.

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

Well in the previous years I think the average has been 26% to 27% whereas in fiscal 2011 it was 30% and when we look at the seeded insurance alone it's 20%. Are you sure there is no special factor? I think for this fiscal year you are expecting decrease in ordinary income in fire and allied lines in Nipponkoa. Isn't this based on what was happening in the past, isn't that the case?

**A - Shinichi Hara** {BIO 17738151 <GO>}

Let me double check. Are you talking about the figures for fiscal 2012?

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

No, I was talking about fiscal 2011. We saw the number change dramatically and I am assuming that that is the basis for your projections for fiscal 2012.

**A - Shinichi Hara** {BIO 17738151 <GO>}

Oh I see. For fiscal 2011 I think the figures that you are looking at include figures related to household earthquake. In May of 2011 government reinsurance scheme changed resulting in lower burden on the part of the private insurers. We were to cede everything into the poll, and then again get the inward insurance based on the proportion of holding and therefore I think the net ratio might go down.

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

Are you expecting any impacts as an assumption in this fiscal year.

**A - Shinichi Hara** {BIO 17738151 <GO>}

In this fiscal year at Nipponkoa, for the fire and allied insurance lines we are predicting a decrease of net premiums written. As you mentioned correctly that's due to the increase of the premium for the reinsurance that drove down, that is driving down the net premiums written.

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

Can you pass on to the price, can we pass that on to your price? Will you continue to lose in a sense or can you catch up?

**A - Shinichi Hara** {BIO 17738151 <GO>}

Well this is not the matter of winning or losing. As I mentioned earlier we are going to ask policyholders to bear the appropriate amount of share of the premium risks. And we are going to consider various environmental conditions such as competition or competitive landscape or long-term relationship with client companies. And we are going to take the best solution in the long-term.

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

Thank you so much for your answer.

## Operator

Thank you so much for your question. We would like to take the next question Mr. Ban from Morgan Stanley MUFG Securities.

### Q - Hideyasu Ban {BIO 15250840 <GO>}

Thank you so much for taking my question. You have answered almost all the questions that I had so far in the Q&A session. But my additional question relates to the additional potential cost relating to the consolidation of the group. Are you anticipating any additional extra cost? You've talked about the system integration cost and the joint head office cost, which have been already reflected in your guidance. Are you anticipating any other further costs? That's my first question.

### A - Shinichi Hara {BIO 17738151 <GO>}

There are some additional costs, such as temporary cost relating to the name change of the company. And we are also studying the possibility to introduce a new strategic system in the process of system integration. So around autumn, we are going to announce the result of the process of this review.

### Q - Hideyasu Ban {BIO 15250840 <GO>}

Understood. Thank you so much.

### A - Shinichi Hara {BIO 17738151 <GO>}

Let us answer Mr. Muraki's previous question. In the current business plan we are assuming the profitability improvement in the voluntary automobile insurance line. As rating levels are promoted, premiums revenue is decreased if we don't do anything. But we are going to take counter measures such as pricing, upward pricing division, therefore we are assuming about 7% profitability improvement.

Earlier we talked about 2.5% benefit from the rating table division. Out of the 7% profitability improvement assumption in the current business plan, we are assuming a 2% positive impact. So the remaining improvement will come from the pricing increase, and the lower claims payment through the loss prevention efforts. Do we answer your question?

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

Yes you did. Thank you so much.

### A - Shinichi Hara {BIO 17738151 <GO>}

This concludes the Q&A session. We would like to conclude the telephone conference. Thank you so much for your participation. Thank you so much.

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