FINAL

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S1 2022 Earnings Call

Company Participants

- Osamu Nose, Head of Investor Relations

Other Participants

- Unidentified Participant, Analyst

Presentation

Osamu Nose {BIO 4205216 <GO>}

(through translator) Ladies and gentlemen. thank you very much for joining us to the conference call of Sompo Holdings. I am the speaker today the Head of IR, Nose. Based on the material I will go through the presentation for about 20 minutes and then proceed to the Q&A session.

For you information with regards to the progress of the medium term management plan CEO and the management team will talk about in the IR meeting to be held on November 25th, next week.

Now lets get right into page two. This page shows the highlights. In the first half of FY 2021 consolidated (inaudible) profit increased by ¥113 billion to ¥119.5 billion driven by higher profit of Sompo Japan and Sompo International as well as gains from partial sales of stocks held at the holdings.

We have revised our full year forecast for FY 2021 upward to consolidation (inaudible) profit of ¥267 billion and a consolidated net income of ¥178 billion. Main reasons for the upward revision include the impact from the partial sales of stocks in addition reflecting the progress of each business area.

With regards to the shareholders return we have disclosed today. As you can see in the public release we decided to conduct the buyback of ¥20 billion. This is the additional return inline with our shareholders return policy because the latest capital surplus is expected to steeply exceed the estimated level being assumed in the medium term management plan.

Please turn to page four. This page shows the review of the first half of FY 2021. I am going to go through the major points on the next page onward.

Please turn to page five. This page shows the underwriting profit Sompo Japan. Underwriting profit increased by ¥11.9 billion year-on-year driven by a decrease in the domestic natural disasters in spite of some rebound from the lost ratio decline due to the impact from COVID-19.

Please turn to page six. This page is on the investment profit. Investment profit has increased by ¥13.8 billion year-on-year mainly due to an increase in net interest and dividend [ph] income on the back of higher distributions from the funds.

Please turn to page seven. Consolidated ordinary profit. Other than underwriting profit of Sompo Japan and investment profit I explained on the previous pages we had the impact from the topline growth from Sompo International and higher profit from the offset [ph] of the COVID-19 impact we had last year. In addition to the positive impact on partial sale of stocks held at the holdings.

As a result consolidate ordinary profit increased by ¥113 billion year-on-year to ¥119.5 billion. Let me add that the numbers of our overseas subsidiaries include some noise associated with accounting for the changes of unrealized gains and losses of assets and that the local accounting principles of Sompo International. We showed a consolidated net income on page eight. So please take a look later on.

Please turn to page nine. Let me next talk about our full year forecast for FY 2021. As I mentioned at the beginning, we have revised our guidance upward reflecting the impact on the partial sale of stocks held at the holdings and the progress of each business area.

Let me explain in more details the main point of the revision on the following page. Please turn to page 10. We have revised our guidance for Sompo Japan reflecting the decline of large losses in the first half and steady net interest and dividend income.

We have also incorporated the impact from partial sale of stocks held at the holdings in consolidate adjustments and others.

On page 11, we show the breakdown of consolidated ordinary profit. On page 12, we show the historical progress rates of quarterly results. On page 13, we show a numerical management target on the adjusted profit bases. Please confirm them later on.

This completes the explanation of the consolidated results and the forecast. Next let me move on to the explanation of our domestic P&C business. Please turn to page 15. First off the overview of the results of Sompo Japan. Let me explain each item on the next page onwards.

Page 16, please. This page shows the net premiums written. Net premium written excluding the household earthquake Ida [ph] increased by ¥20.8 billion year-on-year. In addition to the increase in net premiums written in fire driven by optimization of pricing we are keeping the momentum in other lines.

Net premiums written in auto, our main product segment, trended steadily with the benefits from pricing optimization.

Please turn to page 17. Net loss ratio on the earned income [ph] basis. While accident rate rose due to the partial decline in the COVID-19 impact earned income [ph] ratio improved by 0.9 point to 56.8% due to a decrease in the domestic natural disasters.

The earned income loss ratio forecast of the full year is roughly around the same level as the assumption we had at the beginning of the year. We have the loss ratio on the written basis on the next page. So please take a look at later on.

Please turn to page 19. Here is net expense ratio. Net expense ratio of the first half increased by 0.1 point to 34.0% mainly due to depreciation costs of new systems. But the ratio particularly Company expense ratio is in good shape against the plan. Full year forecast is 34.9% or up .1 point against initial forecast.

Please check the page 20 later for combined ratio. Please turn to page 21. Investment profits and losses. I explained about the first half results on page six. As to strategic holding stock ¥5.9 billion worth stock were sold [ph]. Combined with stock future hedge strategic holding stock was reduced by ¥19.9 billion.

The full year forecast factoring in a good level net interest and dividend income is ¥141.1 billion or up ¥20.4 billion against initial forecast. Please refer to the next page for the details of interest and dividend income and gains and losses on sales of securities.

Please turn to page 23. Business focus of Sompo Japan. Please refer to the next page, page 24 as well which illustrates automobile insurance related data. Please turn to page 25. Let me give supplementary information about domestic natural disasters.

Gross incurred loss in the first half was ¥28 billion and net incurred loss was ¥26.5 billion. While there was some impact from torrential rain in August, damage by typhoons decreased.

As to full year forecast of domestic natural disaster its set at ¥73 billion factoring in potential impact from snow. Next page is reference data of funds and refunds [ph]. Please check is later. So much for domestic P&C business.

Moving onto overseas insurance business. Please look at page 28. Overseas insurance, Sompo International saw its profit increase with increasing revenue due to rate increase less impact from the pandemic compared to last year and improving investment results. Mainly driven by these factors adjusted profit of overseas insurance was ¥35.1 billion or up ¥27.7 billion year-on-year.

Given natural disaster impact including Hurricane Ida [ph] and performance progress of overseas group companies full year adjusted profit is expected to be ¥56.5 billion. Please look at page 29 later for business results by region.

Please turn to page 30. Some additional comment for business results of Sompo International. The figures on this page are in the US dollar. In the first half topline grew steadily with rate increase, increasing share of profitable products on consolidation of diverse US crop insurance company.

And as I mentioned earlier, adjusted profit progressed steadily supported by increasing revenue, easing pandemic impact and improving investment results. Full year adjusted profit is expected to be in line with initial forecast with impact such as US Hurricane Ida reflected.

Next page shows numerical data of Sompo International for your later reference. So much for overseas insurance business.

Please move on to page 33 for domestic life insurance business. Himawari Life, with (inaudible) of protection type product increasing adjusted profit of the first half increased by ¥.4 billion to ¥18.5 billion. New business in particular insure health product grew steadily with revenue increasing by 16% year-on-year.

Net income in the first half decreased by ¥1.8 billion partly due to business expense increase along with new business increase. As a result of review each item based on performance progress full year of forecast of net income and adjusted profit remains unchanged from the initial forecast.

Next page shows increase and decrease factors of net income of Himawari Life. And page 35 gives additional information on adjusted profit. Please check those pages later.

So much for domestic life insurance business. Please move on to page 37 for nursing care and seniors business. Nursing and seniors business, last fiscal year we paid out extraordinary allowance to the facilities staff due to the COVID.

With no such impact in the first half of this year adjusted profit of nursing care and seniors increased by ¥0.2 billion to ¥2.5 billion with a steady improving occupancy ratio full year forecast of adjusted profit for nursing care and seniors is expected to be in line with initial forecast. Please check page 38 for the trends such as occupancy rate.

So much for nursing care and seniors business. Lastly, please move onto page 40 for ESR and asset management. Skipping some pages please go to page 40.

The status of ESR, as of the end of September 2021 ESR stood at 252% accumulated profit and reduced strategically shareholding and interest rate risks paid off. Our financial soundness remains intact. Please check page 41 later for the breakdown of adjusted capital and risk.

Please turn to page 42. Lastly, group consolidated base asset portfolio. The following pages show asset portfolios of Sompo Japan, Sompo International and Himawari Life. Please read them later. The portfolio of each company remains focused on safe investment. That concludes my presentation. Now we move onto Q&A session.

Questions And Answers

Operator

The first question is from Mr. Maraki at (inaudible) Securities.

Q - Unidentified Participant

(through translator) Hi, this is Maraki [ph] from S&B (inaudible). My first question is on the capital policy. On page 40 you are explaining that partial sale apparently of stocks. How much percentage points have you included from that in ESR? And thank you so much for this additional buyback and the return to shareholders but is the condition and the circumstance where we can expect additional more return?

I think in the new medium term management plan you have shown four triggers. For example, ESR above 275%, no large M&As and necessity to improve capital efficiency. But what was the trigger that was infringed that trigger you to make a decision on the additional return? So thats my first question on the capital policy.

A - Osamu Nose {BIO 4205216 <GO>}

(through translator) Mr. Maraki [ph], thank you for so much for your question. In the material we simply say partial sale of stocks held at our holdings. But due to the partial sale of plenty of [ph] stocks the impact on the ESR that was your question and also the trigger triggering the additional return.

So those are the two questions we received from you, Mr. Maraki [ph]. So to your first question relating to the partial sale of stocks (inaudible) what has been the impact of that on the ESR. On page 40 if you look at other factor plus 13 points. On the left-hand side of that about half which is about 6 points. Were the impacts from partial sale of stocks in (inaudible).

ESR has increased driven by the partial of (inaudible) stocks. So thats the answer to your first question.

And what has been the trigger or criteria for the additional buyback of ¥20 billion. In the IR meeting in May we explained that in addition to the base return if certain condition is met we are doing additional return. We explained that policy in the IR meeting back in May. But this time of the four [ph] triggers, what was a trigger which became the reason for the additional buyback.

The detail will be explained in the IR [ph] meeting next week on November 25. The management is going to explain specifically other factors requiring capital efficiency improvement. Was the trigger specifically for the additional buyback this time?

As I mentioned at the beginning we assume the stable capital surplus which is (inaudible) above [ph] our assumption in the medium term management plan. So we decided to use that to additional return to shareholders. I hope I answered your questions.

Q - Unidentified Participant

(through translator) Thank you, so much. Moving on to the question on SI, page 31. Combined ratio was revised down by 2.3 points. So is it only due to the natural catastrophes or last year I think you revised it down too.

But natural catastrophes assumptions at the beginning year (inaudible) how do set the budget at the beginning of the year? Do you think how you compile the budget at the beginning of the year is appropriate? So you are revising it down. So how do you evaluate your ability to appropriately assess the natural catastrophes at the beginning of the year?

A - Osamu Nose {BIO 4205216 <GO>}

(through translator) Mr. Maraki [ph], thank you so much. Your question was about the revision of the combined ratio for Sompo International so how do we assess the budgeting at the beginning of the year.

Well unfortunately we decided to revise our combined ratio assumption downward but as we pointed out correctly the large components are natural catastrophes. So those are the major reasons. And (inaudible) part underwriting profit this time compared to the initial forecast to the current forecast about 100 million downward the division was made [ph]. And this is almost by in large not just catastrophe [ph].

In particular Ida in Q3 and the flood in the Europe. So most of the $100 million of revision was due to those natural catastrophes. But looking back in 2020, last year, from the underwriting profit to underwriting profit at this time we have factor such as impacts from COVID-19 but other than that due to the topline increase steadily profit has been increasing.

Underwriting profit has been increasing and on the base excluding COVID base such as (inaudible) insurance, natural catastrophes excluding COVID related impact. The base fundamental insurance product are better and loss [ph] ratio can be improved in 2021 versus 2020.

So we are controlling the loss ratio continuously very well. So compared to the track record from the past that (inaudible) you saw [ph] in the past I think its getting better. Its getting improved. So thats my answer to your second question.

Q - Unidentified Participant

(through translator) I fully understood. Thank you, so much.

A - Osamu Nose {BIO 4205216 <GO>}

(through translator) Thank you.

Operator

(through translator) Next question is from Mitsubishi USA [ph], (inaudible). Mr. Fuguno [ph], please.

A - Osamu Nose {BIO 4205216 <GO>}

(through translator) Mr. Fuguno [ph], please.

Q - Unidentified Participant

(through translator) Domestic natural disasters focus has been declined but is still on the high level for the winter. Is it because that there are some uncertainties? And also in Japan; Sompo Japan the loss ratio excluding natural disasters is raised? What is he background? Is it just a one off or because of the avalanche losses or the middle sized losses was the driver for that?

A - Osamu Nose {BIO 4205216 <GO>}

(through translator) Mr. Fuguno [ph], thank you for the question. For you first, the budget of the domestic natural disaster. Please look at page 25. As you pointed out for the first half, ¥26.5 billion. Against that the release [ph] of ¥33 billion as revised forecast.

As I mentioned at the beginning in the second half theres potential snow damage. So at the end of last year there was some snow damage after which was quite a big fire [ph] for the first time in a long time. So this is to prepare ourselves before the same level of snow damage. That is the answer to the first part of your question.

The second part of your question excluding natural disasters and the EI loss ratio in the first half was on the rise. First about automobile insurance, the impact from COVID compares to the last year. This year the impact still remains but not as big as the last years.

For the sake of time Im asking about the forecast for the year forecast, okay? For the second half the automobile loss ratio in the March theres some reaction of the rise that is factored in, and for fire insurance theres a part which is not really covered as disasters. I mean there are small natural disasters which could increase in the number, so as a result excluding the natural disaster EI loss ratio is expected to go rise.

Q - Unidentified Participant

(through translator) Thank you.

Operator

(through translator) Thank you. Next questions are from Mr. Batanavi [ph] from Diamond Securities [ph].

Q - Unidentified Participant

(through translator) Hi, this is Batanavi [ph] from Diamond Securities [ph]. I have two questions. My first question is to confirm your capital policy. ¥20 billion buyback. Am I right in understanding that this is the additional buyback? So if you apply 50% total return ratio then additional buyback can be expected when you're announcing your results in May. Am I right?

A - Osamu Nose {BIO 4205216 <GO>}

(through translator) Mr. Batanavi [ph], thank you so much for your question about the capital policy or shareholders return policy. This ¥20 billion additional buyback that we have just announced as I explained at the beginning of the year this is the additional return.

So base return, which is 60%, we usually return based upon the flow of earnings at the end of the year, but this ¥20 billion is in addition to that.

And at the end of the year 50% of that asset profits will be returned as a base return, and if necessary we are going to study the possibility of the additional return if necessary, and as Mr. Manaki [ph] mentioned according to the full criterias, as Mr. Manaki [ph] mentioned, we are going to study the potential additional buybacks.

Q - Unidentified Participant

(through translator) Understood. My second question is on the natural catastophies overseas. In Q2 what was the actual number, and what is the budget for the full year? Then Hurricane Ida, European flood? Would you please give me the breakdown of each natural disaster, of the total budget of natural disasters for the overseas business?

A - Osamu Nose {BIO 4205216 <GO>}

(through translator) Thank you, so much, Mr. Batanvai [ph]. Natural catastrophes numbers overseas, in the Third Quarter Ida happened, and also floods in Europe. In total of the two the total was mid ¥20 billions. Ida mid ¥10 billion and European floods less than ¥10 billion but high single-digit billions of yen.

And the overseas budget for natural catastrophes for the full year we are budgeting ¥60 billion, and the breakdown is as follows. SI and other overseas ¥55 billion, some for Japan ¥5 billion. So thats a breakdown of the total ¥60 billion.

Q - Unidentified Participant

(through translator) Understood. Thank you, so much.

A - Osamu Nose {BIO 4205216 <GO>}

(through translator) Thank you.

Operator

(through translator) Next, Middle Securities [ph], Mr. Sado [ph], please.

Q - Unidentified Participant

(through translator) Hi, its Sado [ph] of Middle Securites [ph]. I have two questions. First question is about your fundamental earning capability. Thats what I would like to know.

So in May you publicized the Group adjusted profit, and that included some COVID impact incoirporated, and how much of it is included in the revised forecast at this time?

And also other than COVID, factors such as the release of the deferred tax asset in Brazil and other so called the one-off factors, how much or how many of them exist?

A - Osamu Nose {BIO 4205216 <GO>}

(through translator) Thank you, Sado San [ph]. So your question is about our fundamental earning power and also the COVID and other one-off factors. Starting with the impact from the pandemic, so in this revised forecast the impact around the COVID in terms of adjusted profit is about +¥19 billion.

And compared to the initial forecast of the year it is a little bit below ¥10 billion which is pushed up by our automobile net profit increase and so on.

And next as to one-off factors, what kind of one-off factors? So as you mentioned in your question this Brazil-related factor and many of them are one-off factors that which will not give any negative impact next year and onward. It will not leave any; a big impact on the next years and onwards.

And as to COVID how much impact will come next year? Thats certain; thats uncertain. Compared to the pre-COVID, theres some leveled impact of COVID. If we assume it, the COVID impact that could lead to the positive impact because of the absence of that impact.

And as to localized events such as the thunderstorms that which are quite small in size and if such the small incidents did not occur, then that would be the contribute to the final results.

So; and that also applies to overseas. The Brail factor if its not realized, that will be positive. And for the other investment, i.e. [ph] the profit which is good this year, and if that is not recurred next year that will be negative. So the earnings structure reform is paying off, and the revenue is increasing overseas, and these positive; the factors will remain next year and onwards.

Q - Unidentified Participant

(through translator) Thank you. Second question. As so SIs, the revised plan, the gross premium is raised greatly compared to the midterm, the plan target. It is coming very close to it.

So is it sustainable or not? And also when you look at early net [ph] the premium, retention rate is actually declining while the plan is to improving it and this; the background for that as do some for international. Thats availability [ph] of topline growth and also the net premium certification [ph] rate or the difference between gross and net and the thinking about that. Thats the second question.

So think the environment that is remaining very well compared to fiscal year 20, the fiscal year 21 the rate increase pace itself is slowing down, but the environment is good for the hike of the rates, so its not that the next year topline is going to decline. That is not assumption.

As to the plan for that next year, in May we are going to ensue that plan. Its not that we are seeing some factors at the (inaudible) of the shade on the other topline increase next year. As to retention rate as you know from December the interest company that diversified, that has been consolidated.

And right after; well this is still immediately after the consolidation, so much of the businesses exited [ph]. So it looks like retention rate is different from the actual retention rate, but we vogue proper insurance retention rate increase; to increase retention rate. That effort on it still continues.

Operator

(through translator) Thank you. Next questions are from Sataki San [ph] from Bank of America Securities Japan.

Q - Unidentified Participant

(through translator) Hi. This is Sataki [ph] from Bank of America Securities. I have two questions. My first question is on the rate increase of SI. In January next round at the moment what is your view on the next round of price negotiations in January or renewal January?

Probably market expects that price increase magnitude is going to be smaller, but there are some people in the market who thinks that a rate increase is going to be as large as the one that is being acrhieved by SI. So what is your view on the magnitude of price increase?

And secondly, you talked about pressure sale [ph] of stocks in (inaudible), but you don't have to give me a detailed numbers, but would you please give me the reasons why you have sold; you have gone out of the lookout period?

Is that the reason? This regard you [ph] together with Parantea [ph]? My impression is that you are working well with them like investing together with them, but what is the background of why you have sold partially stocks in Parantea [ph]?

A - Osamu Nose {BIO 4205216 <GO>}

(through translator) Mr. Sataki [ph], thank you so much. To your first question what is our view to the rate of renewal increase in January? As you mentioned there are two kinds of people in the market, two different opinions. Yes. As of now we don't have the firm view, but generally first renewal is going to be quite solid continuously. Thats what we feel at the moment.

Of course the extend without extend and the frequency period, the pricing will be different, and compared to the rate increase that has been achieved by SI up to the end of last year its possible that pace of increase may slowdown, but we are not assuming sudden rate decline from January 1.

To your second question about the reason in the background why we decided to sell partially our stocks in Parantea [ph], as you mentioned, Mr. Sataki [ph], collaboration with Parantea [ph] has been making very good progress. We are working together in the project relating to RDP and we have projects where we are jointly investing as we mentioned.

So at the working level and at the CEO level we have a very close, good relationship with them. So when we formed the capital alliance at the beginning, actually the strength of the relationship has become much stronger.

So in this environment, so we started to invest in Parantea [ph] to strengthen the relationship with them, but we don't need to depend so much on the capital relationship. We have a good established relationship now without depending too much on the capital relationship and also exporter [ph] to one name has become quite large.

So from the risk management perspective we decided to partially sell, and also in the; in our meeting in May our CEO mentioned that if we need new investments in the digital area we have a policy to sell partially stocks in Parantea [ph] to use proceeds from the sale to invest in new digital areas, and that was another reason why we decided to sell partially.

Q - Unidentified Participant

(through translator) Understood. So is it the only sale or are you planning to sell more?

A - Osamu Nose {BIO 4205216 <GO>}

(through translator) Well about the potential sale in the future or not, in the IR meeting next week would you please ask that question to the management team, but basically if necessary wed like to sell our shares in Parantea [ph] and use proceeds from the sale to invest in digital areas. So theres no change to that strategy, but we don't have any concrete strategy or new strategy that we can share with you as of now.

Q - Unidentified Participant

(through translator) Understood. Thank you.

Operator

(through translator) Next question, Mr. Otsuko [ph] from JP Morgan Securities.

Q - Unidentified Participant

(through translator) Otsuko, JP Morgan Securities. I have two questions. First question is about dividend. So it remains in tact and why vital [ph] changed as adjusted profit is revised up?

A - Osamu Nose {BIO 4205216 <GO>}

(through translator) Thank you for the question. So for the other dividend payout that remains unchanged. As to dividend, so the ¥40 increase per share was shown at the beginning of the midterm plan, so rather than increasing the payout even more the; we agreed [ph] on ¥20 billion additional buyback.

And for fiscal year 21 if we continue to accumulate the adjusted profit, then I think that will be; that will contribute to; that could contribute to the basic; the return to the shareholders or additional buyback that we are going to make a decision as that time comes. So if you'd like, though, you can ask the question to the management next week at a meeting.

Operator

(through translator) Thank you.

Q - Unidentified Participant

(through translator) And as to the second question, its a separate question. The ¥148.7 billion and the ¥280 - ¥210 billion the full year; the full year, the consolidated invested profit, and the (inaudible) that is seems to be rather high, could you please talk about the background of these numbers?

A - Osamu Nose {BIO 4205216 <GO>}

(through translator) So for this time, the revised forecast, for example, natural disasters. It is rather difficult to have the right assumption, but the last year the snow damage was more than we had expected. So for the second half that we are on the conservative side for the snow damage, but our; if we turned out to be wrong then we would be very happy.

Then we can accumulate more adjusted profit, so it would be 50% of the basic; the return, and for that as well as we can increase the source for the return to shareholders.

Q - Unidentified Participant

(through translator) So the risk factors for the second half, natural disasters, and what about market risks?

A - Osamu Nose {BIO 4205216 <GO>}

(through translator) In the first half the other dividend from the fund is contributing, but you do not expect it as a big positive factor for the second half.

For the first half it is realized to some extent, so; and it is incorporated as part of the factors for the division for the full year, but if the market gets better we do not assume that the market will improve further in the second half, but you do not expect the market will go down either. At this moment such news is not factored in.

Q - Unidentified Participant

(through translator) Thats clear. Thank you.

A - Osamu Nose {BIO 4205216 <GO>}

(through translator) Now its near the ending time for this conference call. If you have additional questions or follow up questions, please contact our IR team. So this completes the conference call. Thank you, so much for your participation.

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