

## S1 2014 Earnings Call

### Company Participants

- Shinichi Hara, Investor Relations

### Other Participants

- Futoshi Sasaki, Analyst
- Jun Shiota, Analyst
- Masao Muraki, Analyst
- Natsumu Tsujino, Analyst
- Unidentified Participant
- Wataru Otsuka, Analyst

### Presentation

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

I'm Hara from NK Share Holdings. Thank you very much for participating in the conference call for the first half results. Today, I'll cover first half results, as well as full-year forecast. Next Tuesday, we are planning to have an IR meeting at Shinjuku, our head office at 3:00 pm on October 26. Management strategies and capital strategy will be explained by President Sakurada and have to have lot of participation in this meeting.

So, let me get on the first topic on page one. This shows the first half, the fiscal 2013 results on consolidated basis, P&C net premium written went up by 7.7% year-on-year and life insurance premium went up by 8% year-on-year. Both P&C, life insurance has increased the revenues and ordinary profit was JPY53.7 billion, it was up by JPY108.7 billion. Net income was JPY29.1 billion up by JPY66.4 billion.

The biggest factors for such a substantial increase were due to a large decline in valuation losses and securities year-on-year as well as the increased gains on sales of strategic stocks. I would give you more detailed numbers in that following pages and this is the breakdown of the underwriting profit for the two P&C companies.

So this bar chart showing at a breakdown of the underwriting profit of the first half and bottom half shows the previous year's figure. So the gap between the top chart and the bottom table is the changes, year-on-year changes.

So, on the far left due to the increased premium and the decline of claims paid, our core underwriting profit improved by JPY55.1 billion year-on-year to be JPY8.8 billion. On the

other hand due to decline in claims paid, we saw a decline again on reversal of catastrophic losses to see underwriting profit to be negative JPY6.7 billion.

Please go to page three. And here is the detail breakdown of ordinary profit. On the far right, underwriting profit was already indicated on the previous page, this is to be a negative JPY6.7 billion. Investment profit became JPY55.6 billion comparing to a negative JPY10.7 billion on the previous year. It increased by JPY67.4 billion supported by a strong stock market and showed a decline in valuation losses security as well as increased gain on sales of strategic stocks.

In addition Himawari Life as well as overseas subsidiaries has contributed to the profit more than the previous first half and we have a less consolidations adjustment which was a major negative impact in the previous first half, to see the ordinary profit to be JPY53.7 billion.

Next page, this is the details of net income. The trend is basically same as ordinary profit, I'll skip details and about all the divisions domestic P&C, domestic life business and overseas businesses have all contributed to profits. Next page, please. This is overview of business forecast on consolidated basis, based on the half-year results we are seeing a stronger improvement in automobile insurance business and also there's been a strong performance in investment mainly supported by Japanese stocks, so we have revised up the ordinary income and net income since the original forecast. The ordinary income increased by JPY57 billion compared to the original forecast to be JPY138 billion and net income increased by JPY38 billion to be JPY72 billion.

Please turn to page six, this shows ordinary profit forecast on a consolidated basis. First of all, at the far right, the core underwriting profit is expected to be JPY11.5 billion, please refer to the bottom table for the last year's actual figures, as well as previous forecast. So, we have revised up from JPY4.6 billion to JPY7 billion. And please refer to the fourth bar from the left. Investment profit is expected to be JPY164 billion and we have added JPY17.3 billion from the previous forecast.

Himawari life is expected to contribute to the profit of JPY10.3 billion which remains flat from the original forecast. Number seven consolidation adjustment is expected to be minus JPY21.8 billion expected to see a big decrease in amount of negative figures. As a result ordinary income forecast is expected to be JPY138 billion which is a substantial increase from the original forecast.

Please turn to page seven, so let me explain situations by different business segments, starting with Domestic P&C Insurance business. This shows the trend on premiums, top line continues to increase basically automobile insurance -- basically increased revenues due to a rise in the premium rate conducted by Sampo Japan and Nipponkoa in April of 2013. In all categories we increased the revenues in fire and allied as well as marine insurance.

Please turn to page eight and this is the status of loss ratio. The following three pages are showing the results excluding CALI, financial guarantee and household earthquake

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insurances. The claims paid at the first half declined by JPY43.3 billion for two companies together because of auto insurance premium declined as well as, natural disaster decline. As a result, as you see on the right chart. The loss rate at the first half decline by 7.7 percentage points to be 60.4%. For the full year as you see on the left chart this year we expect to improve by 4.5 percentage point year-on-year to be 64.4%.

Please turn to page nine, this is the status of expense ratio. Expense ratio has been declining on a steady basis both for the first half and full year we've seen a slight decline year-on-year. Page ten please. This is the status of combined ratio, due to decline of loss ratio and expense ratio combined ratio has also improved. Full-year forecast has shown on the left chart, it is expected to go down by 5.1 percentage point to be 99%. It is expected to go below 100%.

Please turn to slide 11. This shows voluntary automobile insurance business results. The first half written paid basis loss ratio as you see on the right chart will be 64.4%. It will be down by 5.2 percentage point year-on-year due to premium increase that took place this April as well as a number of -- reduced number of claims paid were the reasons for such a decline. The combined ratio at the first half went down as low as 96.2%, the full year number is on the left charts which were -- improvement is expected. Combined ratio is expected to be 98.8% to be below 100%.

Please turn to page 12, this gives you the trend of the number of reported claims. Since last four quarter, it has been reducing and in this year the second quarter it has been reinforce in terms of reduction. Next page please, page 13. The combined business performance assumption forecast is given for the domestic businesses. Now, this gives you various figures with different basis but in one word, the loss ratio has been improved by 4% and in terms of the expense ratio one point improvement and with the combined ratio we are forecasting a five point improvement.

Turning to page 14. This gives you the assumption for the domestic insurance business. In the middle column it gives you the assumptions for the asset management but we have changed the assumption for the financial guarantee insurance. Page 15 please, this gives you the trends of the domestic natural disaster, now the natural disaster incurred for this mid-term period was 15.5 billion in terms of the loss incurred. Now the largest was 6.5 billion done by Typhoon 18 in September. Now for the annual forecast we have considered the Typhoon 26 effect in October as well as the damage done by the snow in winter. So, we have revised the initial forecast from 38 billion to 46.5 billion added 8.5 billion.

Now next page, this is the situation in the Thai Flood, now we have accrued profit of 12.5 billion for the entire group, the reason is that the paid claims was exceeded by the breakdown of the provisioning of outstanding and also the provisioning of catastrophic loss reserve was broken down. And in terms of the paid out we have completed about 80% of the -- our claim and the outstanding of the (inaudible) 19.5 billion.

Page 17 please, this gives the breakdown of the asset management investment profit, now in the upper graphic gives you the breakdown of the investment project, according

to the business plan for this fiscal year and also in the lower graphic it gives you the current situation at the assessment of the midterm. Now for this fiscal year by continuing the strategic holdings stock reduction we are forecasting a similar level of capital gains as last year approximately JPY800 billion [ph].

Now for the amount it will be close to 197.8 billion which is the last year's amount and for the midterm we have sold cash stocks and incurred 43.7 billion, the capital gain therefore is 23.3 billion. The goal for reducing the strategic holding stock is to reduce the risk as well as reinforce equity capital, but it is also important to see the impact on the P&L, so we would like to see the trend in the stock market and try to sell at the most favorable timing.

Next page please. Now this is regarding the business indices for the insurance companies. Now, because of the interest rate hike in the first category and also the new business being reduced in terms of the saving type products, but the amount as well as ANP had reduced.

On the other hand, premium income increased in terms of the policies in forcing -- increase basically because of the protection type production and therefore we are on plan both in terms of the recurring profit, as well as, the net profit. Page 19, please. This gives you the trend of the premium income by the payment methods. The upper graph shows you the product for lump-sum payment and then the lower shows you the ones excluding the lump-sum payments.

Now because of the recent interest rates environment, we have slow down on the pace of selling the low profits lump-sum payment product and also we have reduced the interest rate for the one lump sum payment product and therefore the premium had decreased. However this excluding that, it has increased of 2.7%. Now on page 20, this gives you the accounting profit.

Now both the basic profit, as well as the net income, the policy in forces had increased because of that it is increasing and it is along with the plan. Now, on page 21, this is the EV situation. Now, for this fiscal year the adjusted EV is expected to increase by 95 billion and that has not changed from the initial assumption. Now the MCEV increased amount will be influenced by the sales of new business, but at this time there is no major impact to be expected.

Next page please. This gives you the overview of the business overseas. Now the top line as well as bottom line, they are both going smoothly according to the plan. Now we are forecasting an annual net profit of 6.5 billion, but it is going to be a decrease in comparison to last year which was an increase for some special factors, however, it has been revised upwards from the initial forecast for this fiscal year, which was 4.3 billion.

Next page, please. Now this gives you the situation by region for the mid-term. The reason why the premium income had increased significantly in South America is that since this fiscal year, we have increased the equity holding of their company and made the Brazilian Maritima as a consolidated company of our group and other than that there is nothing special to mention. That concludes my presentation.

## Questions And Answers

### Operator

Okay, then our first question is from Mr. Muraki from Deutsche Securities.

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

My first question, let me first confirm other key factor [ph] on your upward revision? My second question is about automobile insurance business earnings result. First of all, on your page five, you have revised figures by companies, where your ordinary profit was revised up by JPY57 billion on a consolidated basis. And you have also revised up for two subsidiaries by JPY34.5 billion so as a breakdown of such figures, first you have investment related which is net interest dividend was revised up by JPY7.8 billion and also another JPY8.7 billion driven by capital gain on securities in total of JPY16.5 billion upward revision is factored in here.

In addition, you also explained about Thai flood impact on the estimated result which was revised down by JPY12.5 billion. This is I believe is also included in this figure, the rest comes from the cost reductions, more than expected decline in operating expenses and improved earnings for automotive business. Is that correct?

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

Yes. When it comes to investment, you're right roughly. When it comes to Thai flooding, the impact on underwriting income was originally JPY16.3 billion, positive impact for two companies. And it was revised up to JPY19.4 billion and so Thai flood positive impact was JPY3.1 billion.

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

So your investment related is JPY16.5 billion and JPY3.1 billion for Thai related in total JPY19.6 billion and in addition, you have auto earnings improvement and cost reduction as well?

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

Yeah, exactly.

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

And under other adjustments you have revised up by JPY22 billion. This is because you modified out your Nikkei average assumption by about JPY2000 which resulted the improvement in purchase method adjustment? Is that correct?

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

Yes, that's correct.

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

And when it comes to automobile business earnings results in the latter pages on your presentation, page number 38. You have the E/I loss ratio forecast figures for Sampo Japan and Nipponkoa. Are you seemed to be expecting a substantial improvement and can you elaborate on the background of such an improvement?

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

Yes. So we have basically calculated based on the results through the end of first half. When it comes to E/I loss ratio the first half results for two companies combined was 68.9% last year and this year first half result was 66.1%, which was an improvement of 2.8 percentage points. Based on this result we have also revised the full-year figure from last year's result of 70.0% to 67.3% which is an improvement of 2.7 percentage point. So, basically what we did was -- the situation in the first half to be also factored in into the second half.

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

So if you could fully include the impact of recent improvement in the number of reported claims, can we expect more improvement? Upon the decision of consumption tax increase is the impact on loss reserves at the yearend also included or not, maybe recent first half improvement is not fully factored in?

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

Exactly. Recent decline in claims paid, as well as, the decline in the number of reported claims was more than we expected. If we factored them in as says claims paid for the second half could be further reduced. But we forecast the second half conservatively today speaking honestly.

As I mentioned, we may need to oppose provision of loss reserves to address consumption tax increase next year. So, we forecast to be able to accommodate such a situation.

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

That clarifies my question. Thank you.

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

Thank you very much.

**Operator**

Next question is from Ms. Tsujino from JPMorgan Securities.

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

First of all in your revision automobile catastrophic loss reserve seems to be provisioned on a net basis. Can you clarify expected provisions for Sampo Japan and Nipponkoa

respectively? And maybe possibly the previous provisions as well, because your loss ratio has improved about -- such a provision increase it could offset your profit.

So can you clarify net provision amount for automobile catastrophic loss reserve for the full year. That is my first question.

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

Separately for both companies?

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

Yeah. That will be better separately.

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

And so for Sampo Japan net provision of catastrophic loss ratio for Sampo Japan is JPY1.5 billion and for Nipponkoa it is JPY0.1 billion. Well, they are all exhausted and provision is posted again. So which I guess it's increased only for the amount of sales increase.

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

I see. Okay. I understand that. So it hasn't changed much from the previous forecast. Right?

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

Well, no. When it comes to catastrophic loss reserves so it's exhausted -- yes that's right. That's how it works.

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

At overseas subsidiaries you expected about roughly JPY6 billion for ordinary income in your initial forecast but how do your forecast it now?

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

Yes. Well there is a slight up side to the figure. This must be the one, it is JPY9.4 billion.

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

Okay. And also are you not disclosing the increased amount of the existing loss reserve for the payment of April and beyond [ph] due to consumption tax increase in April?

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

No. We don't. As there are various factors to be calculated, the figure is still uncertain but if I give you a hint on its magnitude it won't be a few tens of billions of yen, but will be in low billions.

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

I see. And lastly have you factored in the impact of expedited and doing a special corporate tax for reconstruction?

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

No. We haven't. No, if we do it could be middle of a few billions.

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

I see. Thank you very much.

**Operator**

Thank you very much. Now, I'd like to introduce Mr. Otsuka from Nomura Securities. Please go ahead.

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

My name is Otsuka from Nomura Securities. The first question is regarding the premium collection and also the consumption ratio against the business plan, now in the midterm you -- the recurring profit was 53.7 billion in terms of the consumption, it's going to be like 40% but towards the latter half of the year are you anticipating a catch-up in various factors. So could you tell me what kind of factors or elements that could be?

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

No. As you say, in terms of the consumption of the plan the new forecast can be 40%. Now the element for the catching up will be -- the largest element will be the capital gain from the sales of securities, but in terms of the strategic stockholding the -- it's going to be similar to something of last year that's 197.8 billion that we are planning to sell and in the first half of the year the actual amount was 43.7 billion.

So the majority of the capital gain will be incurred at the latter half of the year, but the actual in terms of the mid-term was 23.3 billion and in annual we are forecasting 106.5 billion. And this is the aggregation of the two businesses. But in terms of consolidated adjustment in terms of midterm it's going to be 19.7 billion and the annual forecast is 80.5 billion, so you can say that these elements will be pushing up the results or forecast for the latter half.

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

Now 43.7, did you sell the actual stocks?

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

Yes, that is core. Correct.

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

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And then in terms of forward position at the end of June, it was 63.8 billion and how much is it now?

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

Now at the end of September it is also 63.8 billion, which doesn't change at all from the initial level. So adding both the spot or -- as well as the forward the exposure will be 107.5 billion.

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

I understand. And you are still continuing on with the forward position which was lost in the periods of April to June. Is that correct?

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

Yes.

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

Now I'd like a question regarding the natural disaster. Now in the first half of the year it was JPY15.5 billion. But in the latter half it was supposed to be 46.5% but to 9.26 [ph]. I'd like to know the loss that you are foreseeing for this.

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

Now, I can't say this is to be very near term forecast, but I'd like to give an initial forecast. We were foreseeing 16.3 billion.

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

I understand. Then if that is the case towards the latter half of the year, I think, I assume that you are forecasting 31 billion but other than that you are also forecasting additional 15 billion. Is that correct?

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

Yes.

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

Now at this very moment what about Philippine, of course, this may not be a domestic natural disaster but something similar of a scale in terms of catastrophe. Are you foreseeing any kind of losses as such?

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

For Philippine, I think the impact will be very limited. And at this very moment we are not forecasting any particular large amount of the losses.

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

So you are considering the winter damages by snow, I suppose.

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

Yes, that is correct. And that is 15.5 billion.

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

Thank you very much.

**Operator**

Now I would like to introduce Mr. Shiota from Daiwa Securities. Could you please ask your question?

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

Thank you. My first question is regarding the overseas premium income. For this the original plan was 164.3 billion, but this time it was reduced to 152.9 billion, I don't think there is a background for that?

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

Yes, Brazil and Turkey. This was an impact by the yen appreciation, in the developed countries, of course the yen is depreciating but in the emerging market which we are very good at. Brazil and Turkey, the yen is appreciating and the impact there was 13.7 billion. So compared to the initial forecast, the sales or the revenue was short but it was very much covered more than 100% by this.

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

Now the second question is regarding the claim acceptance. According to your disclosed information in the second quarter, I see it's significantly decreasing but after that, what about October and November?

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

Now the preliminary figure for October was minus 5.5%. That means that's the phase as of today is continuing.

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

Oh, no rather than that.

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

It's deteriorating from the initial minus 10%. No, not necessarily so because in a monthly basis, the figure is very volatile in terms of every month like for instance like April it was minus 14.3%, May 0.8% minus, June minus 4.7%. So depending on the month it is very volatile. It really depends on the day of the week. So I would like you to look at -- it's in the

scale of three months or maybe a quarterly level. So I just mentioned the October figure just for your reference.

## Operator

Now, I'd like you to introduce the next person from Mitsubishi UFJ Morgan Stanley, Mr. Sasaki, please?

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

I'd like to ask only one question. Now this is on page 55, it gives you the target for the mid-term business plan. Now compared to 2013, I think it has been revised upwards but the plan for 2015 I think you are still using the initial figures but I'd like to know the current plan for 2015?

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

Yes. The plan for 2015, we have just repeated what was disclosed before. But if I should mention about the recent situation mainly in the automobile insurance business, the domestic non-insurance businesses. They are exceeding the planned phase. On the other hand, however, we are forecasting an increase of the consumption tax as well as we have to accomplish the reduction in the business expense because of the merger of the two companies and there are various other multiple factors that we may have to consider in the future. And therefore, the important thing is to accomplish whatever task is in front of us. But in one word to explain the current situation is that we are progressing with the pace much higher than the initial plan.

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

So you have no plans to change the initial business plan?

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

No, if the plan were to be changed, it would have been today to disclose any kind of information, but we have no plans to do that.

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

Thank you very much.

## Operator

Now, I would like to introduce Mr. Magima [ph] from Tokyo Tokai Research Centre.

### Q - Unidentified Participant

This is Magima. There is one thing I'd like to ask. Now, you have changed the division of the driver rating. As far as I see that you have a resistivity acceptance of claims and that seems to be the most significant reason for the upward revision in terms of the business

forecast, but on the other hand that will mean that the premium per accounts will not increase.

In other words those people do not claim, we'll have no change in their premium payments. So, will that mean that the premium per account increase will be flattening.

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

Yes as you say now the benefit that the policyholder will receive at the same time thinking about the burdening of the premium. They will consider the balance there. And so in terms of the decrease of the claims to be paid out I think that will be directly linked to the decrease in terms of the cash income.

**Q - Unidentified Participant**

So will that not impact anything of this fiscal year business plan because it's only half year?

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

Yes. The change to the division of the driving rating has just started October. So we cannot foresee the actual impact as yet and even for the influence or the impact it will only last for six months.

**Q - Unidentified Participant**

Thank you very much. I understand.

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