

## FY 2017 Earnings Call

### Company Participants

- Yukinori Kuroda, IR

### Other Participants

- Kazuki Watanabe, Research Analyst
- Koki Sato, Senior Analyst, Research Division
- Masao Muraki, Director & Senior Analyst, Research Division
- Natsumu Tsujino, Research Analyst
- Tatsuo Majima, Senior Analyst
- Unidentified Participant, Analyst

### Presentation

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

My name is Yukinori Kuroda, in charge of IR at Sampo Holdings. Thank you very much for joining our conference call. I'd like to walk you through our financial results for fiscal '16 and the full year guidance for fiscal '17. The presentation material and the data book are updated on our company website.

Please turn to Page 2. This is the highlight of fiscal '16 results. The results were in line with the guidance revised up on [ph] May 8. The consolidated ordinary profit was up by JPY 24.8 billion to JPY 241.7 billion; and the consolidated net income was up by JPY 6.8 billion to JPY 166.4 billion; and we achieved record high profit. For Sampo Japan Nipponkoa, both underwriting profit and investment profit went up. Himawari Life beat the initial net income projection. Overseas business also exceeded the plan, mainly driven by Turkey and U.S. And so overall, we enjoyed strong results.

Let me also add some comments on shareholder return. We have raised the FY '16 year-end dividend by JPY 10 per share and projected another JPY 20 increase for FY '17, which will mean 4 consecutive years of dividend hike. We've also set up share buyback program of JPY 56.2 billion, which will be the largest in the company's history. And as a result, the total payout ratio will be 50%.

Page 4, please. Please refer to the slide for the overview of the consolidated results for FY '16. Thanks to improved profitability for Sampo Japan Nipponkoa, consolidated ordinary profit and net income both went up. I will give the details from the following pages.

Please turn to Page 5. This is the underwriting profit. Thanks to the reduced level of net catastrophe in Japan, underwriting profit for fire policies improved, which was the main force propelling the underwriting profit by and JPY 34.1 billion to JPY 112.4 billion.

Page 6, please. This is our ordinary profit. In addition to better underwriting profit, we were able to sell more strategically held shares than recently planned. And interest and dividend income grew as the asset management operated in a brisk financial market. All things combined, consolidated ordinary profit went up by JPY 24.8 billion to JPY 241.7 billion. The trend on our net income is on Page 7.

Please turn to Page 8. This is the full year guidance for FY '17, with which we are projecting top line and profit growth. Main driver is the profit increase with the overseas group company. But with contributions stemming [ph] from Endurance. Group-based consolidated ordinary profit will go up by JPY 17.2 billion to JPY 259 billion and consolidated net income will grow by JPY 16.5 billion to JPY 183 billion. Nursing care subsidiaries would also become profitable, the profit improving by JPY 4.9 billion to a net income of JPY 2 billion.

Please turn to Page 9. Let us share with you the highlights of the guidance for fiscal period '17. The numbers are seen on the slide. However, we expect the combined ratio to continue to improve with the positive contribution coming from expense ratio decline. The guidance reflects around JPY 100 billion of strategic holding stocks reduction. Himawari Life's business is trending well. However, as you may know, we decided to postpone revision of pricing for main products, including medical insurance despite the revision of standard rate. Thus, we foresee an impact resulting in JPY 3 billion, also of an increase in propositional policy reserve.

In the nursing care, while we are continuing to exert our efforts to strengthen and sustain internal management, the major KPI, the occupancy rate is improving, which allowed us to expect the business to turn profitable. As for the overseas business, Endurance start to contribute to profit generation on a full year basis with JPY 39.3 billion of contribution to the adjusted profit and JPY 20.9 billion of contribution to J-GAAP profit or consolidated net profit, taking goodwill amortization into account.

For your reference, please refer to Page 10. Here is the breakdown for consolidated ordinary profit for fiscal period '17. For Sampo Japan Nipponkoa, we are forecasting both underwriting profit and investment profit to trend almost flat. Overseas subsidiaries of nursing care segment profit increased, contributing to the overall profit expansion. As for Endurance-related depreciation charges, the amortization period for the goodwill is set at 10 years, while the period for other intangible assets are set accordingly and appropriately, resulting in the projected annual amortization cost to be at JPY 18.4 billion.

Please proceed to Page 11. As shown from the last year, this shows the past progress of quarterly results. In the last year, just as the prior trend, the progress was somewhat slower until the interim. We hope that this would serve as your reference.

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Please proceed to Page 12. The table shows the adjusted consolidated profit as well as the adjusted consolidated ROE as the source of shareholder's return. We understand both to have grown steadily over time. Now as to the progress of mid-term management plan as well as our management strategy, we will have our CEO and CFO presenting on the subject at the IR meeting scheduled next week.

We would now like to share with you the further details of each businesses. So please proceed to the next page. For Sampo Japan Nipponkoa result, please refer to the slide shown here. Detailed explanation will be provided from the next page onwards.

Please proceed to Page 15. Net premium written was affected negatively by the last-minute demand surge before the rate revision and declined in fiscal period of '16. However, for fiscal period of '17, we expect the amount to increase with the contribution coming from the auto insurance and new products. Recently in the auto insurance, the numbers of cars was on the decline for the fleet contract. But due to the product revision in January of this year that includes discount provided to new cars or to the owners of multiple numbers of cars, we managed to turn around the trend to allow the numbers to increase. As seen in the disclosed monthly sales result bulletin, the positive trend was sustained in April.

Please proceed to Page 16. This is illustration on a written paid basis. It improved by 1.3percentage points in fiscal '16. In fiscal '16, we expect it to go up by 0.1% with some conservatism. But it will still trend at a level below 60%.

Page 17, please. This is also show on an un [ph] incurred basis, in fiscal '16, thanks to the reduced level of net cat loss in Japan, it improved by 2.1percentage points. For fiscal '17, we have baked in a certain level of increase in loss incurred for auto policies with road assistance rider. And as this product assumes slightly higher loss ratio, we are projecting the overall loss ratio to go up by 0.5%. Yet it will still be sound, trending below 60%.

Page 18, please. This is the expense ratio. To improve the overall expense ratio by roughly 2% going forward, we executed upfront investment focused on IT as planned. Spending in fiscal '16 was JPY 14.7 billion and plan for fiscal '17 is roughly JPY 10 billion. Personnel and nonpersonnel expenses have been under appropriate control. So expense ratio, net of the operating investment improved by 0.3% in fiscal '16. And we expect another 0.3% improvement in fiscal '17

Page 19, please. The aggregate of loss ratio and expense ratio is combined ratio. For fiscal '16 and '17, we saw improvement. And we are projecting roughly 93%.

Page 20, please. This is the investment profit. In fiscal '16, we capitalized on the financial market environment and with redemption mainly for the offshore fund. We enjoyed some upside in interest and dividend income. We divested JPY 104.2 billion of strategically held stocks, which exceeded the target and was a big acceleration of JPY 75.7 billion sales in the previous year. (inaudible) net, the investment profit increased by JPY 23.8 billion to JPY 132.3 billion. Details of interest dividend income and gain on sales and implement loss and [ph] securities are on the next page.

For fiscal '17, we plan to continue to sell down the stock holdings by roughly JPY 100 billion. We are not reflecting previous years' gains on fund redemption in the guidance. So investment profit projection will be flat year-over-year, around JPY 128.6 billion. We have baked in the guidance of JPY 16.1 billion dividend payment from Endurance, which will start contributing to profit from this fiscal year. As you're aware, it will be eliminated through consolidation adjustment.

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Page 22, please. Please refer to this slide for the business forecast of our fiscal 2017 Sompo Japan Nipponkoa. And on Page 23, we have assumptions for these figures. And on Page 24, we show related indicators for auto insurance.

Page 25, please. This is the trend of natural disaster in Japan. In fiscal '16, loss incurred was JPY 55.8 billion. Compared against the normal level of net cat loss expectation of JPY 43 billion, incremental losses were incurred namely JPY 7.9 billion from the Kumamoto earthquake and losses stemming from more than normal amount of snowfall in calendar year '17 in the Sun-end [ph] region, which is the Western region on the Sea of Japan side. And for fiscal '17, we are projecting a net cat loss of JPY 43 billion.

Please turn to Page 27. The slide shows the outline of the business performance of Himawari Life. The number of policies written continue to expand steadily with premium income growing further. The net income for fiscal period '16 exceeded its initial plan of JPY 6.5 billion to JPY 8.3 billion. Although this is declining profit from the prior year, please note that it incorporates JPY 4.7 billion of upfront investment for future growth, just as planned. As explained, fiscal period of '17 guidance reflects increase in provision of policy reserve due to revision in standard rate. Since this is an item related to reserve, no impact will be given to the adjusted profit. We will explain the factors that affected the net income on 28 Page and the revised profit on Page 29.

Please proceed to Page 30. Just for the year end, after the confirmation of actuarial firm, we disclosed the trend of MCEV (sic) MECV [ph] at Himawari Life for your reference. Fiscal period '16 with business increasing steadily, MCEV (sic) MECV grew by JPY 75.6 billion to JPY 843.4 billion, resulting in a steady enhancement of corporate value on economic value basis.

Please proceed to Page 32. The slide shows the outline of nursing care and health care business performance. In the nursing care, we have been proceeding with the planned investment to strengthen on our internal management, coupled with more time spent on sales activities and, supported by improvement in occupancy, the profitability is improving. In fiscal period '16, the sector that includes asset management and other strategic business generated JPY 700 million of a loss. However, in fiscal period '17 reflecting the growth trend in the occupancy in the nursing care segment, the profit for the sector is expected to grow by JPY 4.1 billion, which should result in JPY 3.4 billion of profit generation. The trend for occupancy numbers and rates are carried on Page 33.

Please go to Page 35. Now the outline of overseas business, premium written in fiscal period of '16 steadily expanded by JPY 57.4 billion. Net income increased by JPY 600 million to JPY 19.9 billion. Initial forecast for net income was JPY 15 billion. However, yen

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weakness and overshoots of profit in U.S. and Turkey contributed to the result, exceeding the plan by about JPY 5 billion. In fiscal period '17 as announced, contribution from insurance should result in major increase in both revenue and profit. At Endurance, premium written of about JPY 309.8 billion and the profit contribution of JPY 39.3 billion is expected. As for adjusted profit metric of Endurance, we have taken out one-off factor of securities valuation profit or loss and adapted operating income to indicate a profit level on a stabilized basis.

Please proceed to Page 36. Now this slide shows performance by region. SJ Sigorta is performing extremely well. (inaudible) auto insurance bond, it is growing rapidly while investment profit is increasing due to AUM growth contributing to the overall profit expansion. In fiscal period of '17, consolidation of Endurance will result in remarkable growth of North American business.

Page 37 shows the performance of each subsidiaries, while additional information for Endurance appear on Page 38. So please refer to them later.

Please proceed to Page 40. In order to increase international comparability, we started to disclose ESR in accordance with Solvency II in earnest from this time. Risk is measured at 99.5% value at risk. Although with this level, the target range will be around 180% to 250%. Our most recent ESR is at 215%, indicating financial soundness. We also shared the sensitivity metrics that shows that everything is kept under control.

Now on Page 41, we've indicated ESR calculated at the previous value at risk of 99.95%. Also on Page 42, you can refer to our adjusted capital as well as the breakdown of risk amount.

Please proceed to Page 43. Last slide for me is the group-wide asset portfolio. The additional major changes to note: The investment principal remains unchanged as we continue to slow down the business-related holdings and in the low yield environment in Japan. And therefore to secure return with foreign bond giving due consideration to the higher risks involved.

On Page 44, you will find the portfolio for Sompo Japan Nipponkoa. And for Himawari Life, you will find its portfolio on Page 45.

With this, I would like to conclude my presentation. And thank you very much for your attention.

## Questions And Answers

### Operator

The first question is from not Miss Tsujino from JPMorgan.

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

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For fiscal 2017, the underwriting profit for Sampo Japan Nipponkoa is projected at JPY 115.8 billion. And when you exclude the impact from the net cat loss and the reserves that fluctuate from currency movement as well as the cat loss reserve, it seems that the underwriting profit for Nipponkoa Sampo Japan is expected to go up. And I'm aware of various information, such as the average payment for auto policy going up. And also for you, you are investing into your IT as investment in cost is increasing. But in view of these moving parts, please explain why the underwriting profit will go up slightly.

And my second question is about Page 38. You're showing that the combined ratio for Endurance in fiscal '17 is going to go up again. What is the reason behind that? And do you have things under tight control? Those are my 2 questions.

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

Thank you, Ms. Tsujino. So on your first question about underwriting profit for Sampo Japan Nipponkoa improving, if we exclude items like net cat loss, we are projecting the underwriting profit to go up as you indicated. And for this fiscal year, fiscal '17, we are expecting a steady growth for net premiums earned in the top line. And this will be mainly driven by the average premium per policy going up for auto insurance policies and also for the new type of insurance policies. Our products for SME market has been very strong. And we have been able to gain market share. And for the large lot commercial line, we have slightly bullish projection. And also, for the fire policies in fiscal '15, there was a last minute spike in demand. But in fiscal '16, there was a huge reactionary [ph] drop. But for fiscal '17, we are expecting some recovery. So overall, we will see steady growth of our business. And as for the claims payment, we are more conservative than bullish. And on the expenses, the upfront investment will improve as it will come down from last year's JPY 14.7 billion to JPY 10 billion. So in that sense, we have a good control over our expenses. So all in all, the underwriting profit will be going up slightly for those reasons.

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

Also, the incremental upfront investment is going to come down this fiscal year. So you're saying that the expenses are coming down, is that right?

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

Yes. That is correct.

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

By how much?

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

It will come down by JPY 4.7 billion. And on your second question about the combined ratio for Endurance, a few years back, given the impact of the natural catastrophe, the business was actually better than normal. And when we were acquiring the company and under that business plan, we were calculating a low 90% combined ratio. And that is going to be baked into our guidance for this fiscal year. On the top line, we'll continue to grow steadily. And this is mainly for the U.S. specialty business and also some unique products

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like the agro insurance policies. And on the claims payment side, we never know how much payment will be incurred. But particularly for the reinsurance business, at the outset of the year, we project conservatively for things like the large lot contract.

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

I have a follow-up question. On the international accounting of your [ph] overseas business, you have some long-dated policies. So every year, you get the reversal from the reserves. But generally speaking, in the U.S., the improvement on the combined ratio stemming from the reversal of reserves are expected to become more moderate. Is that also the case for you?

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

In our guidance for the outset of the year, that is partially reflected. But as a unique business [ph] practice of Endurance, at the time of underwriting and also at the initial policy reserve as set in a very conservative way and over time, it'll be reversed. So there is a certain level of impact on the point that you have indicated. But it will not be a huge swing factor in our plan.

### **Operator**

Let us proceed to the next person, Mr. Muraki from Deutsche Securities.

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

And the first question is with regard to Endurance business. On Page 35. So I think you have indicated the profit that are generated from overseas business. So to the consolidated net profit, as a result of the acquisition of Endurance, how much of a contribution comes from this acquisition? JPY 39.3 billion, depreciation charge of JPY 18.4 billion is to be subtracted. And also, one-off merger costs of JPY 7 billion is to be subtracted as well. And that allows us to calculate the contribution to the consolidated net profit?

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

So as to the calculation of the contribution that comes from Endurance, what we have reflected on the consolidated result is JPY 20.9 billion. Although it may sound a little technical. But JPY 39.3 billion, in fact, is the adjusted profit as you know. And what we have done is to subtract JPY 18.4 billion of depreciation charges. And JPY 20.9 billion, in fact, is the difference between the 2. So as has been mentioned by Muraki-san, JPY 7 billion of our one-off merger costs, how we had treated this, at the end of March, Endurance balance sheet was consolidated in prior to consolidation of the P&L. So this one-off cost of acquisition was included at that time. So therefore, for this fiscal period, we would have to eliminate this factor. So taking that into account, we have arrived at the depreciation charge that I have aforementioned. So although it sounds a little technical, this was the operation that we have conducted. So in any case, JPY 39.3 billion is this adjusted profit, depreciation of JPY 80.4 billion and JPY 20.9 billion of contribution to the net profit on a consolidated basis.

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

So the second question is with regard to Sompo Japan Nipponkoa investment. And I believe that there was an overshoot and that there are several factors to this overshoot. The first is the fund redemption. How much was this fund redemption? And in the Fourth Quarter, there was about JPY 10 billion of security sales loss. What kind of securities was sold at this point in time?

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

Thank you very much for the question. For the fiscal period of '16, the overshoot for investment profit, the factors -- after November, the market had rebounded. So against such a market condition, we tried to increase the portfolio yield. And therefore, relatively speaking, we had turned a little more aggressive in terms of the fund redemption. And as a result of this, well, approximately this is billions of profit is generated in an ordinary year. But this time it was tens of billions of yen. So it has pushed up tens of billions of yen in terms of the profit as well as the dividend that was generated. And as for the Fourth Quarter sales loss, the contents of this was mostly foreign bonds as a result of rebalancing of our portfolio and in light of market condition, as we have said, in order to enhance the yield that is generated from the portfolio.

**Operator**

The next question is from Mr. Sato for Mizuho Securities.

**Q - Koki Sato** {BIO 19983862 <GO>}

I have two questions. My first question is about shareholder return. You kept the total payout ratio at 50% as well as keeping the dividend payout ratio at 20% for both fiscal '16 and fiscal '17. This means that the remaining 30% would have to be returned to the shareholders by share buyback. So as a result of that, you have announced a large-scale share buyback program. And I'm assuming that you'll be deciding on the split between cash dividend and share buyback, subject to the market environment. And if you do not use up all the potential capacity under the share buyback program, maybe because of a strong market, would you alter the paying of the dividend or increase the total dividend amount? So that's my first question.

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

Thank you very much for that question. You have pretty much summarized our thinking behind the shareholder return. And at this time, we have made an announcement of JPY 56.2 billion share buyback, which is a large-scale program. But we have a secured loan period to purchase this back up to November. And given the liquidity, we believe that this is feasible. And so at this point, we do not have a Plan B, assuming that we will not use up all the capacity. But if that turns out to be the case, then we will give it (inaudible) thought to timely announce the measures that we will take.

**Q - Koki Sato** {BIO 19983862 <GO>}

And the second question is about the outlook for Sompo Japan Nipponkoa for fiscal '17. This is on Page 22. On an adjusted profit basis, you are projecting a decline of JPY 19.3



[ph] billion. This does not include capital gains or losses or dividend from the subsidiaries. And in your previous presentation, you mentioned that there was an incremental profit of JPY 10 billion last fiscal year from the redemption of the fund. And I guess the after-tax implication would be roughly minus JPY 7 billion included in this figure. But other than that, what are the factors behind the decline of JPY 19.2 billion in the adjusted profit?

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

Thank you for the question. The decline is mostly coming from the investment profit side. So as I said, the gain from the fund redemption, that had an impact of pushing up the gain by JPY 10 billion for fiscal '16 versus fiscal '15. And within the period of investment operation, we did see a certain level of redemption. But at the outset of the year, we do not bake that in. So that implies minus JPY 10 billion from last fiscal year. We have been steadily selling the business-related stocks. So in that context, we are not expecting any increase in the dividend income. So that's taken off from the figures. Also, that would push down the dividend income by JPY 5 billion. And others are aggregate of small items.

**Q - Koki Sato** {BIO 19983862 <GO>}

JPY 5 billion and JPY 10 billion that you mentioned, are they after-tax basis?

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

No. They are actually pretax.

**Q - Koki Sato** {BIO 19983862 <GO>}

Okay, I see. Then adjusting for the tax, that will be like JPY 15 billion multiplied by 70%. You still have a few billion yen that has to be explained by other factors. But I guess that will be the aggregate of many other items, is that right?

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

Yes. That's correct. So if you look at the table, the profit decline for net income is bigger compared to the decline for the ordinary profit. So that is due to the aggregation of many other items in between these 2 lines.

**Operator**

Let us proceed to the next person, Watanabe-san from Daiwa Securities.

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

My name is Watanabe from Daiwa Securities, I have two questions. The first question is a follow-up question on shareholders' return. In the year whereby you'll be carrying out the sizable acquisition, you may bring down the total shareholders' return to 30%. However, you have also said that you would try to bring it up to as close to 50% as possible. But this time, you had achieved a bull's eye of hitting 50% precisely. So what was the background to this?

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

Thank you for the question, Mr. Watanabe. Well as to the shareholders' return, of course we are trying to reflect the market expectations and we have set the target to be 50%. I think we have initially explained to you that, on a mid-term basis, we target at achieving at this figure and also reflecting the expectations of the market at 50%. But of course, dependent on the market conditions, there will be some fluctuations over time. If there was to be an excess capital and if there was to be no chance for us to be making a sizable investment, we could be pushing up this percentage to higher than 50%. But if we happen to encounter a deal, sizable M&A and unprecedented disaster, for example, we may have to bring it down to below 50%. But the 30% is minimum. That's what we have said. Now as for last year, we have carried out a sizable acquisition, which was of course, Endurance. However, the PBR was only 1.3x. And so therefore, the burden, in terms of the goodwill amortization was not that great. And therefore, we did manage to mitigate a greater impact that will be given to our capital. And from the perspective of health of financial conditions, I think we did manage to keep the health condition and the robust condition. And as to the credit rating, I'm sure from analytical perspective, there may be some impact. But I did -- we did manage to maintain the credit rating. And also, fiscal period of '16, we did manage to overshoot the initial guidance and the market condition is good. And the finance decision was strong as a result of taking into account all these factors. And at the time of Interim Information Meeting, CFO, Mr. Tsuji had said that we don't want to disappoint the investors. And I think he has said that we are mindful of the previous year's shareholders' return. And so based on this, 40% to 45%, I think was the level that he was mindful of. And if we were to take into account all the factors, we have decided to set the shareholders' return of 50%. Thank you. So much.

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

So on Page 12 is going to be the second question, that is to do with the adjusted profit for the domestic life insurance business. As a result of standard rate revision, impact of policy reserve will be about JPY 3 billion, I think it was said. So do you think or can we take that it is completely adjusted to that end?

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

Thank you very much for your question. With regard to Himawari Life Insurance, be it saving types of insurance products, I shouldn't say that we are not dedicating our effort. But for nonmajor products, we have reduced standard rate. And as for the major -- the mainstay of our business, the medical insurance, for example, we would be revising that rate as we go by in light of the conditions of the market. But the impact of JPY 30 billion, if that has been reduced [ph]. So therefore, I would say that the adjusted profit has already been fully adjusted.

### **Operator**

Next question is from Mr. Majima from Tokai Tokyo Research Center.

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

For the current year, you are expecting a bigger earnings contribution from Endurance. And if we were to point out any risk of Endurance not meeting the target, would that be the cat risk associated with the reinsurance business?

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

Thank you very much for that question. Originally, Endurance was established in 2001 as a Bermuda-domiciled company. And back then, most of the business was exposed to cat risk. However, they recognized that the risks were high and they have been reducing that exposure. And particularly, after the current CEO, John Charman, joined the company in 2013, they have been reducing this exposure from their portfolio. So in that sense, the risk amount has also come down accordingly. But one risk that can be a (inaudible) factor would be that cat risk.

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

And is that risk concentrated in the U.S., such as the hurricane risk?

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

As a group, we monitor that exposure very closely. But the answer is yes.

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

I have another question. For the auto insurance premium rate in Japan, previously, I think, the company has mentioned that you would like to raise the rate in two phases. Is that still the case?

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

We know that there are many headlines regarding the advisory rate. So I think you are asking that question in that context. And at this point, we have not decided if we're going to raise the rate by 2x or 3x. The only thing that we have decided is that, effective 2018, we will introduce the ASV discount, the advance safety vehicle discount. And at that point, if the advisory rate is set by then, then we would consider our actions. But having said that other things need to be considered, such as the next round of consumption tax hike and impact from some amendment in the law of obligations. So we will have to take a comprehensive view. And if the rating organization makes an announcement on advisory rate, we will deliberate based on that and make our announcement at an appropriate timing.

**Operator**

So the next person is Mr. Nawa [ph] From Citigroup Securities.

**Q - Unidentified Participant**

I'd like to ask a question about life insurance as well as nursing care business. And first of all, I was referring to Page 29. In the previous year, the claims paid to the -- was slightly small. And in the fiscal period of '17, I think you are forecasting this to pick up. So if we

were to think about the backdrop, JPY 32 billion of fiscal period of '18 seems to be high. So would you mind explaining to me the mathematics behind this? And also on Page 32 with regard to nursing care business, the adjusted profit in fiscal period of '18, I think you're expecting to be generating JPY 8 billion. So how can I interpret fiscal period of '17's speed [ph] to be?

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

Thank you for the question. Now as for the life insurance business, the adjusted profit for the life insurance business, there are various different factors to this. But I think the major factor is that from -- for the fiscal period of '16, the -- as compared to the average year, it may be attributable to our portfolio's characteristics, the mortality rate was somewhat lower. I think that was one of the major factor. And one other thing is that there was no sizable payments for the claim. And I think these were the major factors. But our understanding for the fiscal period of '16, I think it was slightly extraordinary, I would say. So with that being said, for the fiscal period of '17, the level of the payment to the claim, we are not of course expecting the same as the previous year. We are, in fact, assuming the mortality rate to go back to the average level and also the sizable payment is also incorporated. So although the trend is expected to be around flat. But we are not expecting the adjusted profit to grow.

However, in 2018, we're expecting the JPY 32 billion to be generated; 2017, JPY 28 billion. But with the assumption being very conservative towards 2018, we should be able to generate the profit that comes from policies buildup. We would kind of assume a trend that would be slightly an overshoot from our expectation as of now.

As to the nursing care business, just as you have mentioned. So it is JPY 3.4 billion for 2017. And for the entire sector, we expect JPY 8 billion in 2018. To be very honest with you, vis-à-vis this target of JPY 8 billion, we are, I think, slightly behind this schedule. Although we are doing everything that we can do and the occupancy rate, for sure, is improving. But -- however, as compared to the initial expectation, the occupancy rate has not caught up to the initial expectation. The speed hasn't. So therefore, it is only at the pace of about 0.5% or JPY 1 billion. But there is a slight delay.

Thank you very much.

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