

S1 2015 Earnings Call

Company Participants

- Yukinori Kuroda, Investor Relations Officer

Other Participants

- Futoshi Sasaki, Analyst
- Jun Shiota, Analyst
- Koichi Niwa, Analyst
- Masao Muraki, Analyst
- Natsumu Tsujino, Analyst
- Taichi Noda, Analyst
- Unidentified Participant
- Wataru Otsuka, Analyst

Presentation

Yukinori Kuroda {BIO 19776286 <GO>}

Hello, everyone. I'm a Kuroda of Investor Relations of Sampo Japan Nipponkoa Holdings. Thank you very much for joining us today in this conference call. Today I'm going to explain about that first our business performance of FY 2014, which we have announced today and also the revision of annual forecast. This document and information is up in our page in excel format, would you please check them out later. And when it comes to the business strategy where we have set up the meeting on November 27th of Thursday is our meeting and Mr. Sakurada, CEO is going to explain that.

Would you please look at page two. This is a summary and then first half of this fiscal year, now we have recognized the double of the consolidated profits of JPY103.9 billion and we have recognized JPY71.8 billion of extraordinary loss due to that one-time -- that major cost and the net income was JPY15.4 billion, but we have secured the profits. There are several factors. One thing that's the investment environment was remarkably favorable, but at the same time and the continued improvements of the profitability of domestic P&C and the life insurance overseas operations also have contributed.

And then based on this, the business performance and the market environment, we have upwardly revisions, revised the forecast and including of all this the investment gains, now, we have improved ordinary profit by JPY20 billion to JPY172 billion and also you we have upward revised in net income by JPY12 billion. This is the actual business performance numbers. Net premium income, they have increased by 11.2%, including the Sampo Japan Nipponkoa and Maritima in Brazil and also that Canopus and with the P&L has been consolidated since first half.

When it comes to ordinary profit and the net income, we already have presented that our domestic P&C business have contributed a lot on the ordinary profits. Let me explain in details.

Would you please, page four. First of all, this is the breakdown of underwriting profit and excluding the (inaudible) core underwriting of profits improved by the JPY28.5 billion year-on-year basis to JPY25.6 billion as underwriting profits in first and a half.

Catastrophic loss reserve has mixed impact on underwriting profits, an additional provision for the automobile insurance is due to the progress of the claim as a payment was negative and impact of reversal of the reserve had a positive impact for that to snow damages.

On page five, this is the breakdown of ordinary profits. Major factors for this have been the double of the ordinary profits and for number one, an improvement of that underwriting profits. Number two, now we have the gains on the investment due to that favorable investment environment. And the number three is that incremental profits from Himawari Life Insurance.

Then page six represents the net income. Just like this, 11.6 billion, Sompo Japan Nipponkoa and 7.9 billion for Himawari Life Insurance and overseas subsidiaries JPY6.5 billion and they're all contributed to the JPY15.4 billion of the income.

Now on page, page seven and now we have the heavy financial cost on that as a one-time merger cost and as an extraordinarily loss, so let me explain about it. That one-time merger cost we are watching in a couple of plan amounted to JPY71.8 billion where that system costs, that's the primary the cost factors. And we have recognized about JPY80 billion of this, the one-time merger cost, so that the balance of JPY80 billion of the cost would be recognized after the Q3 by the end of this fiscal year.

Next page eight, this is about the revision of the forecast of business and would you please look at the numbers ahead. And this is the revision based on the favorable investment environment and another business environment.

Let explain in details. And this is the breakdown of ordinary profit for the annual business forecast. The core underwriting profits have expanded further from the first half to JPY51.6 billion. On the other hand, due to the improved profitability of automobile insurance, we need to provide that additional -- this catastrophic reserves. So this means that we have a decrease in the reversal from this reserve.

When it comes to the gains from the investments, we have incorporated the situation in the end of September and increased by JPY26.7 billion. Forecast for the Himawari Life Insurance and obviously, the operations also revised upwardly. Consequently, and our forecast was the JPY172 billion and it was increased by JPY20 billion from the previous forecast and JPY59.60 billion year-over-year basis.

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Next, would you please go to page 11. This is the trend of premiums on the performance evaluation basis. Would you please check out that the trend is upward. Now, the incremental ratio is 2.1%, with 12 indicated that net premium written and end of the first half, it was plus 5.9%. And the rest of the increase in the fire insurance is high, but this is due to that -- now that we have been favorable and in household to corporate and also underwriting the reinsurance and also in the automobile insurance we have favorable effect from that changing that ratio and then other new types of insurance, including liability insurance. We have a large contracts and it had been very steady.

Page 13 represents the loss ratio and written loss ratio have risen from 60.5% to 63.3% in the first half due to the payment for the snow damage, but excluding the natural disaster and this reference ratio had been kept improving.

Page 14 represents that loss ratio on an earned and incurred basis has been flat in the first half with 63% annually. Now, we expected improvements from the 68.1% from the half to the 64.5%. As for the second half of FY 2014, we've been conservative in estimating about our expansion of business of undertaking reinsurance business in overseas market or the incremental outstanding will also result, but due to the depreciation of the Yen. And then also our estimates are that the loss on those large worth contracts of the new types of insurance. Taking all these included that we have been whether conservative.

Page 15 that represents the net expense ratio. Expense ratios have steadily declined where the primary factor of the labor cost declined and now and in the first half, we have improved by 0.5% to 33.9%, and annually, we planned to decline up to 33.2%.

Page 16, this shows the combined ratio. This is the combining that the written loss ratio and expense ratios and would you please check out to the figures and annually, it will be 97%. Page 17 indicated the combined ratio for the automobile insurance and this is due to the revision of the premium rates or the revision on the driver rating and those have a revision, have contributed to the improvements steadily and combined ratio in the first half is 94.6%, this is 1.6 point improvement, but annually, now we have the forecast with annually for the 94.5% flat from the first half and we expected 1.8 points as improvements.

On page 18, we can find out the trend of the number of reported claims historically. The number of reported claims has been steady and we assumed the part of that reason for this might include reducing number of low value declines due to the revision of the driver race and in Q2, it was minus 5.9%.

Next please look at page 19 for the investment profit. The investment profit is trending relatively high reflecting the high stock prices and also the weak Yen. The total investment profit recorded for the first half was JPY72.4 billion. As for the gain on securities sales, we've reduced the exposure of JPY42.9 billion for strategic holding stocks. Among this, the actual stock sales was JPY30.5 billion and we are proceeding with this very steadily. As for the forecast of the full year, we have added net interest and dividend income as well as gain on securities sales. And now we are forecasting JPY132.2 billion as a result.

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Please turn to page 20, this is regarding the forecast for the P&C business. Please confirm the details later. This time, we're looking at the insurance underwriting profit, it is minus JPY5.5 billion compared to the previous forecast. We are very steady here, but when it comes to the loss reserves and also reversal of the provisions, which has gone down, we believe that we should be conservative for the second half. This is reflected into the numbers here.

Therefore, in terms of the investment profit, this is the part where we have revised upwards. We have calculated the numbers according to this thinking. At this point, if there is any uncertainties, it will be the reduction of the corporate tax. If this happens, that impact has not been reflected into these numbers.

Now please turn to page 22, I would like to add some information regarding natural disasters. For the first half, we had impact from typhoon number 11 and torrential rain from Hiroshima Prefecture, but the incurred losses totaled JPY13.4 billion.

Even if we take into account the typhoon number 18 and number 19 which occurred in October, we do not expect to achieve 43 billion. Our initial forecast for this fiscal year. So our revised forecast is now JPY35 billion.

Please turn to page 23, this is the snow damage from February. In the first half, we have a positive effect of JPY28.4 billion due to the reversal of outstanding reserves.

And the remaining outstanding loss reserve is JPY11.7 billion as of September end, mainly related to corporate properties, but we plan to complete payments by the end of this fiscal year. Now, I would like to talk about the life insurance business, which starts from page 25. So, for both premium in-force and MCEV, these are both trending well, please confirm those points.

Moving on to page 26, we have the premiums and various other figures. And because we're doing well with the sales of medical insurance products, the annualized new premium is going to go up dramatically. For FY'14, we expect the annualized net premium to reach JPY43.6 billion, up 43.4% year-on-year. As for the ordinary profit and net income, we looked at the first half results and decided to upward revise our numbers. The amount of business in force continues to increase mainly due to the protection type products.

Next, please turn to page 27, this is regarding the payment method at Himawari Life. As for the payment method, this excludes the lump-sum payment, so basically it is the installment payment, which is growing in the base.

Page 28, this is the sales from the P&C insurance channel, it's growing steadily and the protection type products now comprise about 70% of the total products and this level has been maintained.

Please turn to Page 29, this is regarding the J-GAAP profits. As for the first half, basic profit and net income both trended very well. In the first half, basic profit was JPY13.9

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billion, which is JPY6.5 billion up and the net income was JPY7.9 billion, which is JPY4.6 billion up. The business side is also good, but also related to the medical insurance related new products, there is some movements in the switchover to new products. And so therefore, we have some technical issues that helped push the profit up.

Technically, the reversal of insurance provision due to surrenders from existing products is the cause. Looking at the first half numbers for the full-year estimate, we have a basic profit of JPY20.4 billion, which is JPY4.4 billion up and net income JPY11 billion, which is JPY3 billion up.

Please turn to page 30, this is MCEV for your reference. As for the full year growth and adjusted EV, this is JPY80 billion, which is still a very high level of continued growth. Initially, we actually showed you the guideline of JPY84 billion, but this reflects the switchover to new medical insurance products, as I mentioned earlier. As for the EV as of the end of this fiscal year, it is expected to reach JPY830.3 billion.

From page 31 and on, we talk about our overseas business. The overseas business is good in the first half. The net premiums written was JPY129.3 billion with the impact of Canopus included into our consolidated P&L numbers and also the Brazil Maritima impact, we have a very good increase in the income. For the full-year, we expect an incremental growth, close to JPY130 billion to achieve JPY285 billion. As for the net income, it has increased to JPY6.3 billion from JPY4.9 billion last year due to good business in Canopus and also Turkey, Singapore and also for the full-year performance, we have revised the net income to JPY14.2 billion, up JPY1.2 billion from the beginning of this fiscal year.

Please turn to Page 33, this is by geography. The top line grew in Europe and South America and for the net income, Europe and Asia has made a good contribution. So, please confirm these points.

Page 34, we have some numbers by company, companies in our Group. Please turn to 36, this is showing the asset management portfolio as of September end. Please look at page 36 for non-life and page 37 for life businesses.

For both life and non-life, there has been no change in our management policy. The asset portfolio as of September end had some changes due to higher stock prices and the weak yen, but when you look at it in comparison to the end of March, there has been no big changes. As for the duration, it tends to be slightly long for liability for both non-life and life. We will continue to manage our investments with a focus on profitability and also stability and liquidity.

At the very end, I'd like to talk to Page 39. This adjusted performance has been shown here reflected in our business management numerical targets. When you look at the number, second line from the bottom, you can see that we had accounted for 1.460 in the beginning, but now it's up to 1.569. And also the ROE is up from 5.9% to 6.2%. This concludes my presentation.

Questions And Answers

Operator

We'd like to move onto the Q&A. And first of all, from Deutsche Securities, Mr. Muraki, please.

Q - Masao Muraki {BIO 3318668 <GO>}

Okay, thank you very much. And first of all, I'd like to make my first question is that on page 13 and page 14, and indicated above this, the loss ratio and this grey line indicated this is about the loss ratio, excluding natural disasters and the written premium base loss ratio have improved and then also it's about this -- it will be declined to the 57.5%, but earned and the loss ratio and earned and income ratio is about 61.1%.

So when I look at this for comparing to that written premium base ratio is rather higher and also on a -- in a basis it seems like with (inaudible) from the last year. What do you explain about this difference between the two? This is my first question.

A - Yukinori Kuroda {BIO 19776286 <GO>}

Okay, thank you very much for your question. And your question is about the difference between the written premium loss ratio and earned and incurred loss ratio. First of all, when it comes to written premium loss ratio, this is due to that improvement of the profitability of the automobile insurance. And all in all, we have an improvement of the profitability all in all and they have reflected to this improvement. On the other hand, when it comes to the earned and incurred basis, it was in the show, it's about, excluding natural disaster, it's a 61.1%, a little bit slightly detail on it year-on-year.

And the factor of this is that basically an estimate of that outstanding loss of reserves as major factors for example adn fire insurance or the marine insurance, when you expand it that business undertake an reinsurance, and also that depreciation to the Yen, we have provided additionally for this outstanding loss reserves.

And also outstanding from last year, we have some candlelight lot of contracts and including the liability insurance who have gained that kind of new contracts. So, we try to be conservative and some of those expected the loss of this contract.

So that we have to revise this, the amount of the outstanding loss reserve. And when it comes to automobile insurance, the actual, they claim payments and it will decrease substantially. But on the other hand, when it comes to the actual, the claimed, when it comes to the outstanding loss reserve and it would be almost flat. So for all this difference will be reflected on the difference between that written premium base of loss ratio and base of loss ratio.

Q - Masao Muraki {BIO 3318668 <GO>}

Okay. Thank you very much. And when it comes to automobile insurance, if this trend will continue, if it is the case, and also you have just a partial release, the reversal part of the results, but when it comes to IVAR [ph] by the end of the time, if this trend will continue, also we will expect it to reverse at that reverse, but is not incorporated in the forecast. Is that correct?

A - Yukinori Kuroda {BIO 19776286 <GO>}

Yes. And at this moment of time and we think that we are a bit specific the proper level of that reserves we have. But if this trend will continue by end of this fiscal year, we need to review the amounts of the outstanding loss reserve that might be possible.

So, at this moment of time, at this stage now and including that, now focused on the second half, we try to be as conservative as possible.

Q - Masao Muraki {BIO 3318668 <GO>}

Okay, thank you very much. My next question is about page 21, this is a about the catastrophic loss reserve. Now in an initial plan, you have the forecast of the gains from the reversal of the reserves of JPY16.5 billion. But actually, it declined to the JPY1.3 billion. You have downward the result that reversal, but could you please just explain in detail about an automobile insurance?

A - Yukinori Kuroda {BIO 19776286 <GO>}

Yes as for the catastrophic loss reserves and initially we had a forecast of JPY16.5 billion, again, due to the reversal of the reserve, but now, downwardly revised it to JPY1.3 billion. So the balance is JPY15 billion. So, the most of these values comes out from that automobile insurance. As far as the automobile insurance is concerned and initially, we expect that JPY1.5 billion of additional reserve is there, but now in -- because due to that improved profitability, we now have a JPY21 billion of the additional provision to the reserves, that's why that the balance would be about JPY20 billion of minus impact on the forecast.

Q - Masao Muraki {BIO 3318668 <GO>}

Okay, thank you very much. Let me comes to the catastrophic loss reserves is about, this automobile insurance and then you have the premium income of JPY1 billion to JPY2 billion [ph]. So if the 1.5% would be provided for the reserves and you will -- that provide JPY55 billion annually. So far, you reverse all these amounts each year. So that's why they did not have an impact on the P&L, but now, due to that improved profitability, out of this 55 billion, you cannot, all of these reserves, that's why for example, in this year, that's you can reverse only that JPY30 billion this year, right?

A - Yukinori Kuroda {BIO 19776286 <GO>}

Yeah. Yes, that's right and this is -- whether to think of it as a good example so we have to provided that due to then higher loss ratio, we have reversed it in older months. But now with the improvements of the loss ratio and then part of that was (inaudible). So that's why, that is about the JPY20 billion. So this is the impact.

So, but eventually, and this is that reserved money, so there will be an additional value for the corporate value better when it comes to the business performance and you're right that's the impact on our focus.

Q - Masao Muraki {BIO 3318668 <GO>}

Okay. Thank you very much. Thank you.

Operator

Thank you very much. Next from Merrill Lynch Securities Japan, Mr. Sasaki, please.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

I'm the Sasaki from Merrill Lynch. Okay. Thank you very much. And I have two questions and the first question is about the loss ratio of that earned and incurred basis of this ratio and annual forecast of it. And the initial plan 66.3%, what's the initial forecast, but on this forecast, what happens and did anything change? And this is my first question. And my second question is about now, about you mentioned about expansion of the underwriting the reinsurance business. But you have changed your business scheme of this in about reinsurance or the one half was better, so could you be more specific about it, please?

A - Yukinori Kuroda {BIO 19776286 <GO>}

Okay, thank you very much. And first of all, responding to the first question, as this is about earned and incurred basis loss ratio, the automobile insurance. As we just have mentioned and initially, 66.3% was the initial forecast for them. We revised that to 62.1%, so that we had improvements of about 3.2%. And responding to two questions second question is too about the expansion of business vandalizing reinsurance. And this is, have nothing to do with the change, any change of that are the scheme of reinsurance. But the factor here that, our risk is focused more on (inaudible) of the domestic. We would like device for the risks, so that we can take in a more risk as in overseas market. So this is the reason why we've tried to expand the reinsurance business and this is the first half. And just expanding gradually.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

Okay. If this is the case, so you mean, that's this reinsurance business mean that you simply try to expand the business also device find the type of risk. Right?

A - Yukinori Kuroda {BIO 19776286 <GO>}

Yes, you're right.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

And again, back to my first question. When you look at the forecast of income base of loss ratio, you do change so much, but basically now for the ratio for an automobile insurance have declined, but for the other insurance have improved. Right?

A - Yukinori Kuroda {BIO 19776286 <GO>}

Yes. That's why there is a decline in automobile insurance but when it comes to fire and the liability insurances and marine and other types have improved. So that's why this has been offset with each other.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

Okay, thank you very much.

Operator

Thank you very much. Next from Daiwa Securities, Mrs. Shiota, please.

Q - Jun Shiota {BIO 4127431 <GO>}

Okay. I'm Shiota from Daiwa Securities. My first question is about on the page 15. This is the expense ratio on page 15 and the focus of this year is that the expense ratio was originally 33.3% better now. It will be almost flat with a 32.1%, better than incomes to this the corporate expense. The orders of 17.7% was initial forecast but of now, just a decline to this 13.2%. What is the background of this? What is the reason? This is my first question.

A - Yukinori Kuroda {BIO 19776286 <GO>}

Okay. As far as this expense ratio is concerned for one thing and for the corporate the reason why decline in the corporate expenses is that basically, due to reduction of labor cost. And based on the plan and also and we've synergy effects of that merger and we are going to have or really have the merger effect even before the actual form of mergers.

So that now we could reduce that a labor cost. And that contributes to lots of these improvements of the corporate expenses. And then when it comes that the decline in the expense ratio overall, we think that this is the commission of rate had contributed and with the expansion of business, life insurance and also expansion as assumed reinsurance business. We can expect that higher commission that's why we can expect that's the higher premium ratio, so that can offset this impact.

Q - Jun Shiota {BIO 4127431 <GO>}

Okay, thank you very much. And the next question is about on the page 34, is about the overseas business and this time, we have consolidated Canopus and about the contribution to net income was recognized as JYP3.3 billion and I think that this were included in nine months of the performance and FY 2014 it would be JPY7.9 billion. It is a little higher, so what is the background of the contributions of the profits and also I suppose that you excluded the goodwill, but then actually and what would be the net contribution to the net income excluding goodwill? Okay?

A - Yukinori Kuroda {BIO 19776286 <GO>}

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Okay. So first of all, this is JPY2.3 billion and now about the combined ratio is about 92%. So, it is little bit better than we had expected and when it comes to the forecast, now, we are trying to be conservative and where this is JPY7.9 billion, so I think that this is the achievable forecast, we suppose.

And when it comes to about the actual contribution after the adjustments or the consolidations and then first of all, our estimates of this goodwill this year will be about JPY1.1 billion on a full-year basis. So, if you subtract this 1.1 billion from the 7.9 billion, this 6.8 billion will be about that contribution after excluding goodwill.

And the other thing I'd like to talk about is that about this in the first half, we recognized JPY3.3 billion, but when it comes to the actual consolidations of the Canopus, actually, we incorporated the P&L of the Canopus starting from April and the nine months of that was incorporated when actually we completed that merger process on May 1st.

But before that in April, we had heavy gains on the asset selling and additionally gains was recognized as shopless [ph] plus as the part of the balance sheets already so that ended the first half as a performance announcement. We cancelled for this JPY3 billion. So then actually, subtracted this JPY3 billion and this (inaudible), other end row of the single digits amount is affected in the bottom line.

And after next year, we expect about four times of JPY3.3 billion or about JPY6.8 billion by four times. That will be too much of the profits you could expect. When I look at the past trend of the business and although there were some kind of impacts of the currency, but we expect about JPY9 billion to JPY10 billion of contribution of profits can be expected. So, unless there was not any major dramatic change of the business model, we expect this JPY9 billion to JPY10 billion of profit level can be expected constantly.

Q - Jun Shiota {BIO 4127431 <GO>}

Okay, thank you very much.

Operator

Okay. Thank you very much. Next from Mr. Otsuka from Nomura Securities, please.

Q - Wataru Otsuka {BIO 16340098 <GO>}

Okay. I'm Otsuka from Nomura Securities. My first question is about on the page 39. This is about the management target and I'm afraid, is it too early to make those questions, but I'd like to make the questions on your point on FY 2015. And the forecast of this revised profit this year is JPY156.9 billion and the target for 2015 is about between 180 billion to 210 billion. But how this forecast -- the forecast in FY 2015 is accurate and achievable? What's your idea on this?

A - Yukinori Kuroda {BIO 19776286 <GO>}

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Okay. And as far as the forecast of FY 2015 is concerned that next year, we have the strategy, briefing meetings, including our CEOs, so would you please check them out again the next week. But now, when we look at our current progress and everything is going very well.

So now about JPY70 billion of JPY80 billion was about this in the first half of the profit, and we have already exceeded JPY60 billion and also for the overseas business operations. And now that the achievement of this target is already invisible and given in our size, so I think that's 180 billion to 210 billion, we can achieve that at rather higher portion of the target. That is variable.

Q - Wataru Otsuka {BIO 16340098 <GO>}

Okay, thank you very much. Next my second question is about also, even we also explained next week, but about your dividend payments of the share buybacks for the return to the investors. Now, you make the upward revision and like your business has been going very well. And now, you had a very good performance in the first half.

So based on these facts and account situations and then also I expect that this year is improved and you have that more kind of latitude to make more returns to investments, but you did not. You do not change the amount to the dividends, so we will be and the way to think about the return to investors in the future. Why don't you change the amount this time?

A - Yukinori Kuroda {BIO 19776286 <GO>}

Okay, first of all, when it comes to return investors and shareholders and our current mid-term business plan, we will continue by the end FY 2015. So, while this kind disappointment continue and now JPY60 per share, this is that the stable payment over this amount will be that the basic ideas in the policies and also if we can do and we would like to have some share buybacks.

So this is our basic policy. And when it comes to FY 2014 and we need to pay that about one-time merger cost or also when you look back in that -- in the past couple of years and we have some kind of a struggling situations, it's really time with the flooding in time, but that still, we still kept the level of JPY60 billion of the major dividend.

So that we think that within this account, mid-term business is plan and over the period of mid-term business plan, we don't change, but we maintain this level. But when it comes to next year, after closing this year, we will like to consider again and then after FY16, and onward, we're going to have that. We are going to announce the new business plan so that we are going to qualify our new return to the shareholder policies and that new plan.

Q - Wataru Otsuka {BIO 16340098 <GO>}

Okay, thank you very much.

A - Yukinori Kuroda {BIO 19776286 <GO>}

Thank you.

Operator

Thank you. The next question is from JP Morgan Securities, Ms. Tsujino.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

First of all, I'd like to ask about the figures. Regarding the EI loss ratio, excluding all natural disasters, I'd like to ask, what is the forecast for the fiscal year 2014? We'd like to confirm that. Then I'd like to move on to my next question. You showed the revision in the forecast and you see an improvement in the automobile business, right?

A - Yukinori Kuroda {BIO 19776286 <GO>}

Yes, in the earned basis, yes.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

But when you look at the P&L base, it's basically neutral because the catastrophic loss reserve is up in its net reversal, but then the incurred losses from fire and allied lines figures went up. This is minus to the P&L. So therefore, is my understanding correct to say that when I take this part out, the underwriting profit, it has gone down from JPY42.2 billion to JPY32.6 billion. Is my understanding correct?

A - Yukinori Kuroda {BIO 19776286 <GO>}

Yes. You are correct. I'm still confirming your numbers, please allow us to come back to you later.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

Then I'd like to ask my third question. It's a really detailed question about the figures. First of all, on page 20, you have the previous forecast, which was revised and you see the change in the investment profit on the bottom here you show that, but then on the next page on page 21, you show the net, you show the interest and dividend income as well as the realized gains on securitized -- securities and you see the realized gains on security sales and impairment losses.

So I'd like to ask what is the rest? Among the investment profit, if you take out the interest and dividend income, as well as the realized gains on securities, we still have the remaining amount. What is this improvement of JPY9 billion or a bit less than JPY10 billion.

And my next question is about the asset management this time. You don't have the information regarding the hedge for sales of stock. Does that mean that you're not hedging?

A - Yukinori Kuroda {BIO 19776286 <GO>}

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First of all, regarding your first question, there is a big impact from the currency gains and loss. For this, we are seeing JPY7.5 billion more than the initial forecast. Among this number, a bit less than 3 billion is for gains of sale on a foreign denominated currency fund. This is the gain from currency. And the rest is on the asset side coming from the foreign agencies balances. This also is a positive number. These are some of the major pieces to answer your question. And the other point, well, we need about 2 billion more to reach 9 billion. This is valuation loss. So, we have reduced loss compared to the previous forecast. This is how the revisions have been made.

Next, moving on to talk about the strategic holding stocks. The exposure of this is JPY42.9 billion, the reduced exposure. And when you look at the breakdown of this, this time, we used hedged again. And so, JPY30.5 billion is actual stock sales. And regarding the hedge, it is remainder JPY12.4 billion.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

Thank you very much.

Operator

Thank you. And the next question is from SMBC Nikko Securities, Mr. Niwa.

Q - Koichi Niwa {BIO 5032649 <GO>}

Yes. I'd like to ask about the effect of the merger and also shareholder returns. I'm interested to know if you already have merger effect in the second half of this fiscal year. Focusing on the net expense ratio for this fiscal year, the actual amount comparing the first half and second half, it seems like there is a reduction of about close to JPY20 billion.

And so does this mean that you're already seeing some integration effect? And for the next fiscal year, what is the scale of the decline in the expenses here? I have another question. It's regarding the shareholder return. I think it's a repetition of what we've heard already, but I'd still like to ask about the profit relevant to shareholder returns.

I think it is up by approximately JPY15 billion, is this relevant to this fiscal year? Or am I not supposed to consider this so much in terms of the shareholder return, is it not relevant this fiscal year.

A - Yukinori Kuroda {BIO 19776286 <GO>}

Yes. I'd like to answer your first question regarding the merger effect. In the net expense ratio, yes, we're seeing some effect, it's already reflected into the expense numbers this fiscal year. As we have forecasted in the beginning of this fiscal year, we have the amount and the same amount is in the first half.

It's -- the reduction effect is approximately JPY30 billion for this fiscal year. This number JPY30 billion is in comparison to FY'11. Among this, the effect that we will see for this fiscal year is approximately JPY12 billion. This JPY12 billion is the number that has come up from

last fiscal year. So, among the merger effect that we see, JPY12 billion is the effect that we estimate for this fiscal year.

And your second question about shareholder return. The details will be explained in our conference next week, and we'd like to talk about that there, but it is a very important factor for this single year, this fiscal year. The adjusted profit is important, but this is also important in the mid-term plan as well. So, we'd like to make a judgment according to the balance of these two.

Q - Koichi Niwa {BIO 5032649 <GO>}

I have an additional question. If you have a figure on the internal solvency ratio, can you let me know, please?

A - Yukinori Kuroda {BIO 19776286 <GO>}

Yes. As of September end, the internal solvency ratio is approximately 163%.

Q - Koichi Niwa {BIO 5032649 <GO>}

Thank you.

Operator

Thank you. We'd like to take the next question from Goldman Sachs, Mr. Noda.

Q - Taichi Noda {BIO 16478436 <GO>}

Hello. Regarding the one-time merger cost, it has been changed from JPY78 billion to JPY80 billion. But I think your original plan was JPY75 billion. So, I'd like to ask about this gap of 5 billion or the 2 billion this time?

A - Yukinori Kuroda {BIO 19776286 <GO>}

Yes. To the numbers that you have mentioned, we had put this plan together in November 2012. That is the forecast of FY'14, 75 billion. But then, this time, we have this one-time merger cost and we have revised it up to 80 billion this time around.

Now in our forecast, at the beginning of this fiscal year, we have 78 billion. We've revised that up from 75 billion because we saw the impact from VAT and also we have some general system development expense and so the synergy was reduced a bit.

Now, on top of that, we've changed 2 billion more and we have been preparing very well for the merger that happened on September 1st. But to make that merger even more secure, we worked a little bit more on the call center functions and also printing costs as well as we have mentioned earlier. And so this is what increased the expense further more up by JPY2 billion. But basically, we're trending in line with the plan.

Q - Taichi Noda {BIO 16478436 <GO>}

I have a follow-up question. Is this unrelated to the adjusted profit?

A - Yukinori Kuroda {BIO 19776286 <GO>}

Yes. It is excluded from the adjusted profit. It's unrelated.

Q - Taichi Noda {BIO 16478436 <GO>}

Thank you. Here's my second question. If you have some numbers at hand, please let us know regarding the reduction of the corporate tax rate. I was wondering if there is an impact to the DTA. What is the impact to the profits here? Maybe you can tell me by 1%, if you can?

A - Yukinori Kuroda {BIO 19776286 <GO>}

Yes, for the whole Group, hypothetically, if the corporate tax rate is reduced by 1%, then, it has an impact of roughly JPY10 billion.

Q - Taichi Noda {BIO 16478436 <GO>}

Thank you.

A - Yukinori Kuroda {BIO 19776286 <GO>}

This is also irrelevant adjusted profit. Well, last time, and that was like two years ago, at that time, we did take it out of the adjusted profit, it's an extraordinary event.

Q - Taichi Noda {BIO 16478436 <GO>}

Thank you very much.

Operator

Next, I'd like to move on to Tokai Tokyo Research Center. Please ask your question.

Q - Unidentified Participant

Yes. I'd like to ask regarding the page 22, natural disasters. This time the full-year forecast has changed from JPY43 billion to JPY35 billion, so this is rare. I've not really seen this reduction of the natural disaster numbers at the interim of a company's fiscal year. What is the thinking behind this? Have you sort of reflected the lower numbers in the first half to the full-year numbers? Does that mean the second half snow damage related numbers are unchanged?

A - Yukinori Kuroda {BIO 19776286 <GO>}

Well, in that sense, to answer your question, yes, it includes the lower numbers in the first half. But also the October situation and also the November situation, up to yesterday, and

we have reflected the current situation as accurately as possible and decided that the remaining year, we can absorb any snow damage that happens, if it is the normal level.

Q - Unidentified Participant

Thank you very much.

A - Yukinori Kuroda {BIO 19776286 <GO>}

I'd like to go back to Mr. Tsujino, JP Morgan Securities question. I would like to answer the question from Ms. Tsujino, JP Morgan Securities. The earned incurred, excluding natural disaster forecast numbers. For this, this is 61.1%. The previous year, it was 60.8%, so it is 0.3 points up. With this, we would like to end the conference call. Thank you all very much for your participation.

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