

Y 2015 Earnings Call

Company Participants

- Yukinori Kuroda, Investor Relations

Other Participants

- Futoshi Sasaki, Analyst
- Koichi Niwa, Analyst
- Masao Muraki, Analyst
- Natsumu Tsujino, Analyst
- Taichi Noda, Analyst
- Tatsuo Majima, Analyst
- Wataru Otsuka, Analyst

Presentation

Yukinori Kuroda {BIO 19776286 <GO>}

I'm Kuroda, from IR office of Sampo Japan Nipponkoa Holdings. Thank you very much for attending our conference call today. I would like to take you through the financial results for fiscal year 2014 and the full-year forecast for fiscal year 2015, which was just announced. Please refer to the presentation material as well as the excel data book available on our HP, homepage. Our new management strategy will be announced by our CEO Mr. Sakurada in a separate IR meeting scheduled for Wednesday, May 27.

Please turn to page two, here is the summary, ordinary profit doubled JPY208.3 billion up JPY95.9 billion due to the improvement of domestic P&C profitability. Net income improved by 10.1 billion to JPY54.2 billion covering the one-time merger cost.

The results were higher than the forecast excluding the impact of corporate income tax reduction. Thanks to the improved underwriting profit of domestic P&C favorable asset management environment and profit contribution from life insurance and overseas. For fiscal year 2015, both revenue and profit are expected to grow with the underwriting profit growing further ordinary profit is forecast to be JPY230 billion, up 21.6 billion and the net income is forecast to be wise JPY160 billion up JPY105.7 billion. That is three times compared with the last year, mainly due to the absence one off merger related expenses.

Reduction in strategic holding stock was JPY86 billion showing a good progress. Our policy is to constantly reduce the strategic holding stock in fiscal year 2015. We have announced details of shareholder return policy today as well dividend for fiscal year '14 was increased by JPY10 and one off fiscal year 2015 will be increased by another JPY10 to

JPY80 per share. Also announced was a share buyback program of JPY17 billion as part of the return policy to shareholders.

Please turn to page three. Please refer to page three, overview of the financial results. Net premiums written was up 10.5% due to increased revenue Sompo Japan Nipponkoa as well as contributions from Maritima in Brazil and Canopus. I have also discussed ordinary profit and net income. I will show you the background on the next page.

This is the date breakdown of underwriting profit. Core underwriting profit is up JPY43.8 billion excluding noise thanks to the improved revenue from automotive insurance. In addition, item number four snow damage. The impact was significantly positive for fiscal year 2014. As a result total underwriting profit improved to JPY45.2 billion leading to a total improvement of almost JPY100 billion.

Next page shows the breakdown of consolidated net income. It has doubled mainly because of the improvement in underwriting profit of Sompo Japan Nipponkoa as well as the contribution from Life Insurance and overseas business, which covered the decline in proceed from sale of equity shares in our asset management.

Please refer to page six for net income due to the one-time merger cost Sompo Japan Nipponkoa holding is slightly down. Total income. However, grew to JPY54.2 billion with a contribution from Himawari Life Insurance and overseas subsidiaries.

Page seven shows you the details of extraordinary items. One time merger cost is a negative JPY79.5 billion, corporate income tax impact is a negative JPY18.1 billion driving down net income for the year. These are excluded. However, from the adjusted profit as a special item and should not affect the approval for shareholder return.

One time merger cost is in line with the expectation of JPY80 billion including system costs. Because it was JPY79.5 billion. I will discuss the impact of income tax reduction on next page. Tax reduction itself is positive for the financial results for a single year. However, there is a negative impact due to the reversal of deferred tax assets. The impact is negative JPY19.6 billion for Sompo Japan Nipponkoa and JPY1.7 billion for Himawari Life. There is a technical positive impact of JPY3.2 billion for the DTA. Therefore the total impact is negative JPY18.1 billion for the entire group. As you know, the impact from tax reduction was not included in the guidance. However, we managed to exceed the guidance after observing this.

Now FY 2015 full year forecast on page nine, net premiums return is expected to grow 3.9% mainly due to the increased revenues of Sompo Japan Nipponkoa and the Canopus. For ordinary profit and net income I have already discussed this at the beginning, adjusted consolidated profit is expected to rise to JPY228 billion even on an adjusted profit basis. This is an increase of JPY89.6 billion, from 180 billion to 210 billion was the guidance, so we exceeded the plan.

On page 10, you see the breakdown of ordinary income. In the new year, we expect further growth mainly from the increase in core insurance underwriting profit. On the other

hand, although we have the absence of the positive impact from snow damage, the conservative forecast of investment profits as well the total income is expected to grow JPY21.6 billion.

Let me discuss each business on page 12. Please check the numbers related to the fiscal year 2014 performance of Sompo Japan Nipponkoa on this page. I will give you the details on the next page onward.

On page 13 net premiums return was up 4.8% for 2014. For the fiscal year, fire and allied lines performed well for household corporate and reinsurance. Voluntary automobile benefited from revisions of products and premiums. Others also helped boosting the overall performance. We expect another good year in fiscal year 2015 by segment fire and allied lines is down because of the absence of reinsurance contract from Canopus, which was acquired last year. On the other hand voluntary automobile is expected to grow revenue from the revised pricing last year.

Page 14 is written basis loss ratio. It went up in fiscal year 2014 due to snow damage related payments. The mere absence of that item will allow an improvement of 3.5 points to 59.7%.

On the next page, we are showing the trends and the projection for the earned incurred base loss ratio. We've been seeing the improvement trend for the earned incurred loss ratio reasons are because of the improvement of the loss ratio in the voluntary automobile insurance line and also the less impact from the natural disasters in FY 2014. In FY 2015 we are assuming earned incurred loss ratio of 60.2%, which is a further 3.6% improvement. Excluding natural disasters losses, earned incurred loss has been showing improvement trend since 2011. So this indicates the steady improvement of the underlying profit generation capability.

Please go to page 16 for the business expense ratio. Net expense ratio has been improving steadily, driven by the improvement of the company expense ratio. If you look at net expense ratio, excluding compulsory lines net expense ratio has improved by 0.6 points in 2014% to 33.6% and in FY 2015, we are assuming further improvement of 0.5 point to 33.1%.

Please go to the next page for the combined ratio. This is written based loss ratio and net expense ratio some of it. As a result of an improvement of these two factors combined ratio is assumed to be 92% level. So we are planning on the improvement of the combined ratio. If you go to the next page, we are showing the combined ratio in the voluntary automobile insurance line we have been seeing the steady improvement of the combined ratio in this area, because of the product division and the pricing division and also the impact on the rates -- fleet rate system division. It has improved to 94.8% already and we are assuming the further improvements to 92.3% in this fiscal year.

Please go to the next page for the investment profit. In FY 2014 investment profit resulted at JPY151.5 billion, which is higher than the original expectation of JPY132.2 billion because of the continuation of the investment environment trending favorably continuously on the

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back of the value on the stock exchange and the depreciation of the yen the reason for the higher investment profit is because of the higher realized gains on sale of securities higher interest and dividend income and ForEx gains.

And for FY 2015, we are projecting investment profits to be JPY106 billion, which is lower year-on-year major reasons as follows. First ForEx gains losses which are assumed more conservatively and more conservative assumption gains from sale of securities and some foreign bonds that we hold for the pure investment purpose. On top of that we are assuming some impairment losses of group company securities which weigh on the investment profits at the parent level, but it's neutral to be consolidated investment profit because it's adjusted in the consolidated adjustment line.

Please go to page 20 this is a projection for FY 2015 for Sompo Japan Nipponkoa. Combined ratio is projected to be improved by 4.1 points which would be offset partially by the investments profit being lower year-on-year. But because of the lower extraordinary loss such as the one-time merger cost we assuming a significant improvement of the net income.

Please go to page 21 for assumptions behind FY 2015 guidance. In terms of natural disasters, we are assuming JPY43 million for FY 2015. Let me go through the changes from the previous year. First, we have change the provisional rates to the catastrophe reserve in the voluntary automobile insurance area. Conventionally, in the past, our provision rate to the catastrophe reserve in the automobile group was 5.5% but it was (inaudible) which gives the positive impact on the underwriting profit.

And also for the premium on the performance evaluation basis and the number of reported claims and the natural disaster situation, explained on page 22 to page 25. So please refer to them later on. Please move to page 27 for Himawari Life. We haven't seen any significant trend change since Q3 but amount of new business has declined slightly due to somewhat slowdown of sales of the first sector, such as income compensation insurance.

But annualized premium is on the increasing trend on the back of strong sales of medical insurance. For FY 2014 ordinary profit was JPY22.5 billion or JPY5.3 billion improvement year-on-year, net income was JPY9.7 billion or JPY1.6 improvement year-on-year. For 2015 we are assuming ordinary profit of JPY20.2 billion and net income of JPY10.2 billion and we are trying to expand sales of protection type products to improve amount of business in force.

Please turn to page 28 for J-GAAP based earnings for the life business. In 2014 both basic profit and net income trended strongly, there was a technical reason for the basic profit in 2014, which was related to the new product launch in the medical area, because we launched a new product in the medical area, there was a shift from the existing medical insurance product to the new product.

And because of that, there was a temporary surrender from the existing medical product which required us to diverse the reserve and in FY 2015 there is an absence from this one

time boosting factor from the reversal [ph] gains in the medical insurance area, we are assuming slightly lower basic profit.

Please go to page 29 for the trend of sales in P&C insurance channel and weight of protection type products. There has been no change in the trend. Sales in the P&C insurance channels are increasing steadily and weight of protection type products is stayed at high level, which is about 70%.

Please go to page 30 for MCEV as you can see MCEV is on the increasing trend in 2014 because of the launch of the new product in the medical area our sales are going very well. On the other hand, there is a negative impact on the lower interest rates. On top of that there was an impact from the shift from the older product to the new product in the medical area, meaning there was a temporary increase in the surrender ratio which put the weight on the growth of MCEV. MCEV increased from JPY750.3 billion in 2013 end to JPY784.4 billion at the end of 2014.

For 2015 we are assuming JPY90 billion EV increases which will total JPY877.4 billion MCEV at the end of 2015. In the original management plan, we were assuming MCEV increase in the range of JPY100 billion to JPY110 billion in 2015, but we have incorporated the interest rate environments difference between the time we made our plan and the current environment of interest rates.

Please go to page 32 for overseas businesses. Overseas businesses trended very steadily. Net premiums written increased due to the contribution from the start of the consolidation of Canopus and the strong performance from Yasuda Maritima.

Net income in 2014, increased to JPY18.6 billion. Thanks to the contribution from the Canopus and strong performance from Turkey, Malaysia and Singapore. So we have already achieved the assumption of the range from the overseas businesses of JPY14 billion to JPY20 billion in our management plan. For FY 2015, our net income projection is JPY19.2 billion which shows an increase year-on-year and the reason why we are projecting a smaller increase of the net income, there are mainly three reasons, first which is related to the ForEx. For 2014 results, results are reported at exchange rates prevailing at the end of December for the local subsidiaries, but for the guidance for 2015 we are applying exchange rates at the end of March.

So the gap between the two generates about JPY10 billion increase of the net income and also we are assuming more conservative assumption for the investment profits. And the third reason relates to the one-time gains on sales securities mainly at Canopus, which does not repeat in 2015.

Please go to page 33. This is a breakdown by region. Top line is growing in Europe and South America and net income improvement is contributed by Europe and Asia. So the trend has not been changed from Q3. Please go to page 34 for the breakdown by each group company. Please confirm later.

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Please move to page 36 for the investment portfolio, the total amount of investment assets amounts to JPY9.3 trillion [ph] both for P&C and the Life we are increasing investments and assets such as foreign bonds where we can assume higher returns because of the low interest environment, but the basic policy of the investment is not changing. For the asset portfolio and the duration please refer to page 37 for Sampo Japan Nipponkoa and please refer to page 38 for Himawari Life. Please refer to page 39 for the progress that we're making against the America management targets. This completes my explanation. Thank you so much.

Questions And Answers

Operator

First question is from Mr. Muraki from Deutsche Securities. Please go ahead with your question.

Q - Masao Muraki {BIO 3318668 <GO>}

Thank you so much for taking my questions. My question is on page 15, which is about EI based loss ratio. Last year it didn't improve so much, but this year for 2015 you are assuming an improvement of EI loss ratio of 2.2 points would you please give me reasons why you are assuming the improvement of 2.2 points for FY 2015?

A - Yukinori Kuroda {BIO 19776286 <GO>}

It's probably because of the improvement from the voluntary automobile insurance where you raised the prices and you get the benefits with some time lag.

Q - Masao Muraki {BIO 3318668 <GO>}

But would you please give me assumptions behind?

A - Yukinori Kuroda {BIO 19776286 <GO>}

We can see the stability for the automobile insurance.

Q - Masao Muraki {BIO 3318668 <GO>}

And also last year you put additional provisioning to the outstanding loss reserve in areas, other than Voluntary automobile insurance line. In 2014 you said you would -- with additional provisioning to the outstanding loss reserve, but in reality in 2014 how much additional provisioning did you put for the outstanding loss reserves and may I understand that does not repeat in 2015?

A - Yukinori Kuroda {BIO 19776286 <GO>}

Thank you so much for your question Mr. Muraki. For EI loss ratio yes, as you pointed out correctly in 2015, we are assuming more than 2 points improvements in EI loss ratio for 2015, there are mainly two reasons for the improvement.

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First, as you mentioned correctly. We are assuming a significant improvement from the Voluntary automobile insurance line. And the second reason relates to the snow damage development, which we had last year, which was around little bit more than JPY20 billion. And that doesn't repeat in 2015. So in the fire line EI loss ratio will improve in the fire line as well. In terms of the Voluntary automobile insurance first, as you [ph] mentioned correctly, we raised rates last year Sampo Japan raised its rates in July. Nipponkoa raises its rates in September and majority of the benefit will be reflected in 2015. Actually 60% to 70% of the benefit from the price increase will be defected in 2015.

That's why we are assuming slightly stronger growth of the top line in the Voluntary automobile insurance line. In terms of the frequency, for the guidance for the projection for 2015 we are not assuming so much improvement. We are assuming frequency to be almost flat, but in reality, when we look at the trend of the number of reported claims -- number of reported claims is still on the declining trend.

So we have the positive factor there. On the other hand repair cost is increasing by about 1% to 2%. There are still increasing trend of repair cost. So we incorporated a positive factor and a negative factor as explained and the claims payment for the Voluntary automobile insurance is assumed to be almost flat. Therefore, the premium is increasing claims payment is almost flat as an assumption. As a result EI loss ratio is improving in 2015.

And In other lines other than Voluntary automobile insurance, last year we had large policies acquired last year. So we put the additional provisioning to the outstanding loss reserve. In the other insurance lines we had JPY14.3 billion additional provisioning to the outstanding loss reserves, last year and for the guidance of 2015 we are assuming to JPY4.3 billion additional provisioning to the outstanding loss reserve. So, there is an improvement between 2014 and 2015 in this regard.

This is the a total image, this is the assumption always accounting department tries to put the appropriate assumptions, but sometimes assumptions are aggressive sometimes assumptions are conservative. But this time we think assumption for 2015 is a realistic level.

Q - Masao Muraki {BIO 3318668 <GO>}

I have a follow-up question. The line in grey on page 15 excludes snow development right?

A - Yukinori Kuroda {BIO 19776286 <GO>}

Exactly, grey line excludes the snow damage development. The red line indicates the improvement of 3.6 points and the grey line shows an improvement of the 2.2 points. So you're not far off if you assume the difference between the two is relating to the snow damage development.

Q - Masao Muraki {BIO 3318668 <GO>}

Thank you.

Operator

Thank you so much. Next question is from Ms. Tsujino JPMorgan. Please go ahead with your question.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

Thank you so much for taking my questions. My question may relate to the question previously asked, but let me ask the same question from a different perspective, when I look at underwriting profit projection for Sompo Japan Nipponkoa for FY 2015 your underwriting profit projection is JPY88 billion, which shows a significant improvement from FY 2014 when we generated JPY45.2 billion when you exclude all catastrophe loss-related items there is a provisioning of net catastrophe reserve you are assuming slightly over JPY22 billion net provision to the catastrophe reserve for 2015, in 2014 you had the reversal of the catastrophe reserve, which was JPY2.5 billion [ph] and natural disasters for 2014 were JPY33.2 billion and the snow no damage was JPY26 billion.

On the other hand, you are assuming JPY43 billion natural disaster loss for 2015. So excluding the natural disaster losses and catastrophic loss reserve that means you are assuming improvement of JPY60 billion before tax from 2014 to 2015. And I'm sure there's an improvement coming from the voluntary automobile insurance area but so far, you mentioned that you had cost reductions of JPY26 billion year on year and there is a positive impact from the price increases one in September and one in July they are still remaining benefits coming from the price increase of about JPY20 billion or more.

But considering these two factors you are still assuming larger improvement, which is JPY60 billion So that means in other areas you have JPY20 billion to JPY30 billion improvement, is that right understanding?

A - Yukinori Kuroda {BIO 19776286 <GO>}

Thank you so much for your question. Actually, the majority of the improvement of the underwriting profit or underwriting balance is projected to come from fire line and Voluntary automobile line. Underwriting profit is projected to be JPY88 billion for 2015, which is JPY42.7 billion improvement year-on-year.

For the calculation of combined ratio if you look at the underwriting balance excluding catastrophe loss reserve, we're assuming JPY139.1 billion for 2015, which is 79.5 improvement year-on-year. So probably I should use underwriting balance number to answer your question of the improvement of the underwriting balance of 79.5 billion year-on-year it's broken down into JPY39.5 billion improvement from the net premiums written in the automobile insurance area and a JPY45 billion lower loss paid.

So because of these two positive contributions we are assuming close to JPY80 billion improvement of the underwriting balance and the majority of the improvement of the net payments written is expected to come from automobile voluntary line that's because of the price increase impact and the volume increase and other factors. And the reason why we are assuming lower loss paid is because of the snow damage. As I said this loss which is JPY45 billion, majority of that is coming from the fire area. So in other areas, there

should be a positive contribution of JPY5 billion. Excluding the noises the underlying improvement is coming from automobile line and the fire line and base business improvements.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

Understood. How about cost savings?

A - Yukinori Kuroda {BIO 19776286 <GO>}

Yes net business expense is projected to be almost flat year-on-year. Although net business expense ratio is assumed to be improved year-on-year. So there are merger-related cost savings we show cost savings versus 2011 merger related cost savings versus 2011 level. In 2014 we have already realized JPY31.8 billion cost savings.

And for 2015 we are projecting JPY50 billion merger related cost savings. So the difference between the two years is JPY18 billion. So we are assuming cost savings benefit in 2015 of JPY18 billion year-on-year. Thanks to the higher net payment written offset by advanced system investment for IFRS [ph] and ERM. That's why we are assuming net business expense to be flat year-on-year.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

Understood. My last question is the difference between consolidated and non-consolidated. It's a different topic, but I'm on page three. When I look at ordinary profit for 2014 versus 2015, if you go to the consolidation adjustment/other line, it was minus 27 billion in 2014, but it will be reduced to plus JPY2.5 billion.

When I look at purchases method gap in 2014, it was JPY14.5 and the purchase method gap shouldn't be so large in 2015. So that means in other areas there should be items that contribute to the lower negative number of the consolidation assessment/other, what are those numbers?

A - Yukinori Kuroda {BIO 19776286 <GO>}

That's because of the impairment loss of the consolidated subsidiaries stocks, which is about JPY20 billion which is being assumed for 2015. But on the consolidated basis that's adjusted in the consolidation assessment line. So it's flat, it's neutral on the consolidation basis.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

Understood.

A - Yukinori Kuroda {BIO 19776286 <GO>}

Thank you so much.

Operator

Thank you so much. Next question is from Mr. Niwa from SMBC Nikko Securities. Please go ahead with your question

Q - Koichi Niwa {BIO 5032649 <GO>}

Thank you so much for taking my questions. My first question is about internal solvency ratio. If you have the data with you now would you please tell me the level of internal solvency ratio, which was 163% at the end of first half, what is the level now.

A - Yukinori Kuroda {BIO 19776286 <GO>}

Because of the rally in the stock market at the end of March, it became 170%.

Q - Koichi Niwa {BIO 5032649 <GO>}

Thank you so much. My second question relates to the shareholders' return policy. You decided to increase the dividend in 2014, originally, you've been saying that your policy was to pay stable dividend, but would you please give in the background, why you increased DPS to JPY70 per share. I'm sorry to ask this ahead of the time, but for March 2016 based upon the guidance that you showed us today, it means that you do share buyback or by about JPY35 billion. Is that the right calculation, is that the right thinking based upon the guidance for March 2016?

A - Yukinori Kuroda {BIO 19776286 <GO>}

Thank you for your questions for 2014 yes, we have decided to increase the DPS to JPY70 and for FY 2015, we decided to increase by JPY10 to make DPS JPY80 per share. So it's a package and conventionally we have been saying that we'd like to pay at the minimum JPY60 share (inaudible) the minimum level. So that's a basic policy, but I do not deny the increasing trend of the dividend.

Profit level of the company has been improving the underlying base profit earnings generation capability has been improving and because of the recent rally in the stock market our dividend yield is on the decline. Therefore listening to opinions and the feedback from various investors, we decided to increase the dividend for 2014 and projected for 2015 concerning comprehensively various factors.

And my answer to your next question, which is about the share buyback yes your calculation is rights if you calculate based upon the adjusted earnings projection for FY 2015 so yes, you're right up until 2015 our shareholder return policies stays the same. We'd like to maintain the capital policy and shareholder return policy in the current management plan up to 2015, meaning, we'd like to be pay stable dividend and they do flexible share buyback and our target in the medium term is to pay out 50% of divested earnings excluding the life business.

So under the current circumstance that's all I can say because the future returns is undecided, but based upon this level, we are going to continue level returns for the future. For 2015 onwards we are currently in the process of starting the next medium-term

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management plan. So in the next medium-term management plan, we are going to show the new return policy.

Q - Koichi Niwa {BIO 5032649 <GO>}

Understood. Very well.

A - Yukinori Kuroda {BIO 19776286 <GO>}

Thank you.

Operator

Thank you. The next question is from Mr. Otsuka from Nomura Securities Corporation Limited.

Q - Wataru Otsuka {BIO 16340098 <GO>}

Thank you. Sorry for asking this question again, but I would like to ask you about the shareholder return again. For the fiscal year that has just ended the dividend was JPY28.5 billion and the share buyback program JPY17 billion excluding some of the stock options. So the totals shareholders' return was JPY45.5 billion excluding the life Insurance the adjusted profit is 90 billion or a little bit more than that so 50% would be the shareholder return ratio is this correct. That's my question.

A - Yukinori Kuroda {BIO 19776286 <GO>}

Thank you, Mr. Osaka. I think the formula that you have just used is correct. And that's exactly how we are looking at the shareholder return and we are looking at those numbers and deciding the amount of shareholder, share buyback program. And that's how we have decided the amount.

Q - Wataru Otsuka {BIO 16340098 <GO>}

I have an additional question. My understanding was that 50% was the target for the medium-term. However, for the fiscal year, which has just ended you have already realized 50% shareholder return ratio although we don't know what is going to be for fiscal year 2015. However, have you changed the shareholder return policy. How can I understand the medium-term target of 50%?

A - Yukinori Kuroda {BIO 19776286 <GO>}

Well, basically the company has not changed the shareholder return policy. So the medium term total shareholder return the target is still 50%. However, in view of the expectations of shareholders, sensed the market as well as the ongoing increase in profit as well as the net asset, we have made a decision on the 2014 shareholder return ratio.

For the next year, fiscal year 2015 we still have to wait until we have a clear view about the financial results in order to decide the shareholder return for the 2015 we would like to pay due attention to shareholders' expectations as well.

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Q - Wataru Otsuka {BIO 16340098 <GO>}

Thank you. My second question is about the newspaper article which appeared at the beginning of May, which says Sampo Japan Nipponkoa is lowering premiums for its automotive insurance starting in October. Has the company made that decision already. The second question is if that is the case, I think, what is the impact on the underwriting balance, as well as the loss ratio, I suppose the impact will be positive since the company is expecting an improvement in combined ratio in automotive. That's my question.

A - Yukinori Kuroda {BIO 19776286 <GO>}

Thank you for your question. The company has not decided or made any announcement on this yet. However, we are considering a similar plan for the revision of the premium in October. The level that was mentioned in the article is not very different from what we have been considering. I think it said 0.2% minus. At that level suppose that would be the case, there is almost no impact, because each level depends on the terms and conditions of the contract. So what I can say here is that we do not intend to raise the premium. The revision is meant to keep it flat. That is the intention of October.

Q - Wataru Otsuka {BIO 16340098 <GO>}

If I could double check, can you confirm that the combined ratio, which is shown on page 18 reflects what you have just explained.

A - Yukinori Kuroda {BIO 19776286 <GO>}

Yes that is correct.

Q - Wataru Otsuka {BIO 16340098 <GO>}

Thank you.

A - Yukinori Kuroda {BIO 19776286 <GO>}

Thank you.

Operator

Next question is from Mr. Noda, Goldman Sachs Japan.

Q - Taichi Noda {BIO 16478436 <GO>}

Thank you. I would like to ask you about the number of claims reported as well as the strategic holdings shares, regarding the number of claims on page 23 the number is shown as reported claims which according to the company is expected to go down further for 2015 what level of decline is expected. What would be the percentage and also what is the driver for further decline in the number of claims if you could share with us that's my first question.

My second question is about the reduction in strategic holding shares. How much are you expecting this year I saw a JPY58.4 billion as gain from the sale of equity holdings for FY

15 does this represent the reduction amount?

A - Yukinori Kuroda {BIO 19776286 <GO>}

Thank you for your question. Regarding the first question the number of reported claims. In our forecast it is expected to be flat this year. However, if you look at the actual number of claims in terms of the trend up until the end of March every month it has been declining at 3% or 7% every month. And according to our latest report the number for April was down again by 2.2%. So in reality it is still on a downtrend, but in fact in reality the biggest factor or driver of the decline was the revision of drivers rating system in the past. However, this factor has been already reflected in the current number except for some long-term contracts. Therefore, the only factor that can explain the ongoing decline is a smaller number of accidents, as well as the lighter volume of traffic, which is working in favor for us.

As for your second question, regarding the strategic holding shares, the actual amount of reduction for this fiscal year has not been disclosed. However, we have an internal plan and we're implementing this four-year [ph] plan on an accelerated basis. For an instance in 2012 and 2013, we have reduced by JPY200 billion respectively and in 2014, we reduced by JPY86 billion. Internally our plan is to have the same amount of reduction for the last two years of the full-year plan. Therefore, for 2015 we are aiming at reducing by JPY100 billion or so. And the gain from those sales have been already announced.

Operator

Thank you. Next question is Mr. Sasaki from Merrill Lynch Japan Securities.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

Thank you. I would like to double check some numbers. The company plans to reduce the automobile groups reserve ratio from 5.5% to 3.2%. What is the impact in terms of the value if you could tell us please let us know and also, why is -- in this timing has the company decided to do that? My understanding was that the company was accumulating the retained earnings, but has there been enough retained earnings is that that reason could you give us some background?

A - Yukinori Kuroda {BIO 19776286 <GO>}

Regarding the reserve ratios for automotive insurance, in terms of the impact the impact amount is about JPY28 billion. That is a positive impact on the underwriting profit. If I could give you some background information first of all for the fire insurance we have not changed the reserve ratio we have been accumulating the reserve as we did before. However, for the automobile if you look at the past there has not been so many major payments for the past natural disasters that's we believe that the 3.2% reserve ratio is adequate for the purpose. That is the decision, we have made. And also regarding why this timing, in September last year we merged the two companies. Up until then we have had ratios for each company, but we simply combines the two ratios into one and we didn't changed the level of reserve ratio after having a chance to review the most optimized levels.

We had a decision to revise the reserve ratio and also in the earnings report there was a mentioning about a study that we're conducting about the adoption of IFRS and when we do that we may not have to -- have the catastrophic loss reserve as part of the underwriting reserve, we may be able to put it into the net asset and besides, we have appropriate capital management through ERM.

So we don't see any problem.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

Thank you. Regarding the appraisal loss of a subsidiary recorded a JPY20 billion, if possible, could you tell us which company, it was responsible for this amount and what kind of business was the company doing and what went wrong with this company?

A - Yukinori Kuroda {BIO 19776286 <GO>}

Sorry, I cannot give you the company name, but there was a consolidated subsidiary, which was posting losses strategically and intentionally and that's the company which is responsible.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

Is it life insurance company or P&C company is it the business companies or is it a special purpose financial company?

A - Yukinori Kuroda {BIO 19776286 <GO>}

The company actually is one of the main insurance business companies in the group.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

Understood. Thank you.

Operator

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

Q - Tatsuo Majima {BIO 15338044 <GO>}

Thank you. I want to ask you about the catastrophic loss reserve ratio again for automotive insurance. Even though the company may be adopting IFRS suppose that you're required to put aside the provision anyway under the insurance business act, I think the reserve was JPY60 billion and it is going down by JPY40 billion. So in the three or four years, the balance is appearing to become zero because there is no requirement under the business law. So is it okay for the company to make the balance zero. Although I did mention about IFRS It is not directly the course of the revision or the change. And there is no rule that says we can't make the balance zero. So are you saying that in there years or so the balance may become zero?

A - Yukinori Kuroda {BIO 19776286 <GO>}

It may not be necessarily the case because the lowest ratio is improving.

Q - Tatsuo Majima {BIO 15338044 <GO>}

I suppose that the revision should generate a cost reduction of JPY20 billion to JPY24 billion each year. Is it going to be posted at the end the year or is it going to be posted at the end of each quarter which means that JPY6 billion each.

A - Yukinori Kuroda {BIO 19776286 <GO>}

It will be posted at each quarter.

Q - Tatsuo Majima {BIO 15338044 <GO>}

Understood. Thank you.

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