Q1 2014 Earnings Call

Company Participants

- Shiro Sasaki, Corporate Communications and Investor Relations Group,
- Unidentified Speaker

Other Participants

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

Presentation

Shiro Sasaki {BIO 19269575 <GO>}

Thank you very much for the introduction. I am from Corporate Communications and Investor Relations Group in Corporate Planning Department of Tokio Marine Holdings. I would like to explain to you the overview of FY 2013 first quarter results of Tokio Marine Holdings that we announced today.

We have prepared four materials to explain our financial results. First, (inaudible) report; second, PowerPoint slides titled overview of first quarter FY 2013 results; third, supplemental material for first quarter FY 2013 conference call and data sheets. To download the materials, please access our website from the topics section on our home page, I believe you can find a page where we have uploaded all the materials for this call.

For this conference call, I will give you the overview of our FY'13, first quarter results for about 25 minutes by mainly referring to the PowerPoint slides and supplemental material for this conference call.

Let me start with the overview of our consolidated results on page one of the PowerPoint slide. The consolidated ordinary income of the first quarter was JPY1,009.4 billion, up by 10.1% or JPY92.3 billion year-on-year. The main reasons behind the growth are as follows: First, net premiums written from non-life business from both inside and outside of Japan were JPY704.7 billion, up by 12.3% or JPY77 billion year-on-year. Top line of domestic non-life business primarily in the auto line of business increased and overseas subsidiaries expanded their underwriting steadily, and weaker Japanese yen, a new contribution of Delphi in the U.S. helped us grow the top line.

Second, premium income from life business, both home and abroad, was JPY48.3 billion, down by 42.8% or JPY36.2 billion year-on-year. Tokio Marine & Nichido Life grew their policies in more steadily and sales of new products in Asia went well. Delphi's new consolidation also contributed to the top line positively. However, surrender benefits and other refunds of Tokio Marine & Nichido Financial Life increased significantly, associated with the recovery of the domestic stock market.

As a result, consolidated premium income declined versus a year ago. Investment income was JPY191.9 billion, up by 151.6% from JPY115.6 billion year-on-year. This is mainly because sales gains of securities increased at Tokio Marine & Nichido Fire and Financial Life recorded investment gains of separate accounts, thanks to the recovery of the domestic stock market. But please note that the impact of this investment gains on security accounts to our profit is neutral since the same amount was provided to the policy reserves.

Next, I will discuss the consolidated ordinary profit on page two. Ordinary profit was JPY84.5 billion, up by 65.3% or JPY33.3 billion year-on-year. Let me explain the major changes that we observed from a year ago by business domain.

Ordinary profit of domestic non-life business increased by JPY38.1 billion, mainly due to the increase of investment income in our core operation, Tokio Marine & Nichido Fire. Underwriting profit of Tokio Marine & Nichido Fire declined over the year, but they received dividends from overseas subsidiaries in first quarter. And as they sold business related equities, sales gains of securities increased. As a result, ordinary profit increased by JPY36.3 billion to JPY75.9 billion.

Please note that most of the dividend income that they received from overseas subsidiaries is to be eliminated on a consolidated basis. As for domestic life business, the profit of Tokio Marine & Nichido Life declined mainly because agency commissions increased, associated with the revenue growth, and provision for underwriting reserves increased due to the reduction of the standard discount rate, meanwhile at Financial Life, insurance fee income increased owning to the recovery of the domestic stock market, owing on the ordinary profit of domestic life business increased by JPY300 million year-on-year.

Ordinary profit from international insurance business increased by JPY34.7 billion year-on-year. Overseas subsidiaries expanded their underwriting or enhancing underwriting discipline, losses from natural catastrophes decreased from a year ago, and Delphi's consolidation also contributed to the increase in profit.

As for consolidation adjustment, negative adjustment increased by JPY40.5 billion year-on-year. This is because dividends that Tokio Marine & Nichido Fire received from overseas subsidiaries increased due to timing difference in quarterly recognition. And overseas subsidiaries also posted dividend income as we established the interim holding company in the U.S. As a result, dividends on a consolidated basis increased.

Next, please turn to page three to talk about the consolidated net income. In line with the growth in ordinary profit, net income of the first quarter also increased by 67.8% or JPY22.8 billion to JPY56.5 billion. In addition to the factors that contributed to the growth of the ordinary profit that I mentioned earlier, there was another positive factor here, that is, unlike last year, we don't have extraordinary losses related to extra retirement benefit.

Next, I would like to give you the highlight of the performance by business. Please refer to page four. First, here is the overview of FY'13 first quarter results of Tokio Marine and Nichido Fire. I believe you can see arrow marks on the slide, the upward arrow indicates positive factors to the profit and downward arrow marks negative factors. I will start with the underwriting profit.

From this point onward, I will primarily explain the performance of the private insurance on the left chart, please refer to the line which says private insurance. With that, I will walk you through the major points. Net premiums written of all the private insurance went up by 4.9% or JPY20.2 billion year-on-year. The topline grew across all different lines of business, but more importantly in the auto line. Earned premiums also increased by JPY14.2 billion after taking into account policy reverse and contributed positively to the topline growth.

As for more details by line of business, please refer to page six later. Net incurred losses of all private insurance increased by JPY8.4 billion. If I may amplify on this point a bit more. First, losses incurred by natural disasters which happened during the course of this fiscal year declined by JPY20.2 billion since we had severe storms as well as typhoon for last year.

On the other hand, losses incurred by events other than natural disasters increased by JPY14.3 billion due to large losses in the marine business, and increase in losses reflective of the top line growth, also 0due to the depreciation of the Japanese yen, provision to reserve for foreign currency denominated outstanding claims increased by JPY14.4 billion. Next, provision for catastrophe loss reserves increased by JPy18.1 billion. Since we had major metro cat events such severe storms last year. We had a major reversal last year. But during the first quarter claims paid decreased and provisions for cat loss reserves increased versus a year ago. As a result, underwriting profit in the first quarter decreased by JPY14.5 billion to JPY3.1 billion.

Next, investment income. Interest and dividends income increased due to the timing difference associated with the recipience of the dividends from overseas subsidiaries. And sales gains of securities increased as we sold our business related equities. As a result, investment income increased by JPY54.6 billion versus a year ago to JPY79.1 billion. During the first quarter, we sold business related equities by approximately JPY28 billion worth.

To summarize, investment income increased more than the decline in underwriting profit. As a result, net income of the first quarter increased by JPY30.3 billion to JPY58.4 billion.

Next, let me explain to you the combined ratio on page five. First, let me talk about the loss ratio under written and paid basis. Mainly driven by the product in rate revision for the auto policies, net premiums written for private insurance has grown by 4.9%. At the same time, claims paid relating to natural catastrophes decreased, resulting in lower total claims paid for the quarter by JPY4.9 billion compared to last year.

In sum, written and paid basis, loss ratio for the private insurance improved by 4.1% to 58.8%. Let me also discuss about the loss ratio on earned incurred basis, which for this quarter improved by 0.1% to 61.7%. This is mainly attributable to the weaker yen, more provisioning in the reserves where outstanding claims caused by large losses and the lower net incurred loss related to natural disasters. The earned incurred basis loss ratio for the auto insurance improved by 1.5% to 64.2%. To a certain extent, the number of claims filed is on a declining trend, particularly for the policies covering for vehicle damage liabilities. The frequency of accidents has come down, but the unit claims cost continues to rise mainly for the policies covering the equal and property damage liabilities.

Now, let me go back to the written and paid basis combined ratio and touch upon the expense ratio. The expense ratio improved by 0.4% to 32.1%. Thanks to the company-wide efforts to return the non-personnel expenses and the growth in net premiums written. As a result, the combined ratio improved by 4.5% year-on-year to 19.9%.

Page six illustrates the net premiums written and loss ratio by respective lines and page seven gives us the details of the asset management side of the business. Please take a look at your convenient time.

Next on page eight, let me talk about the outlook of Nisshin Fire. The underwriting profit Nisshin Fire improved by 1.20 billion.

The smaller net incurred loss mainly for natural catastrophies and lower expenses help to grow the profit but the provisioning cost for cat loss reserves increased. Net investment profit grew by 700 million to JPY600 million mainly due to the reversal effect of the impairment loss booked last fiscal year. Net income for the quarter increased by 1 billion to a 0 mainly due to the reversal effect of gains from the drawdown of price fluctuation reserves on the extraordinary lines.

Now let's move on to Tokio Marine & Nichido Life on page nine. Let me explain the annualized premium or ANP to show you the business trend for the life business. The graph shows the trend of the ANP. This quarter we continued to enjoy high growth for the new policies at the first sector insurance and individual annuities marks topline growth. The sales momentum is brisk for Medical Kit R, a new product launched in January 2013. Overall, the new policies ANP grew by 36.5% year-on-year, in-force policies ANP also grew by 2.6% year-on-year, thanks to the steady build of new policies.

Next, let me go through the financial accounting figures. The ordinary income was up by 23 billion to JPY167.7 billion driven by higher premium income, thanks to the steady increase of policies in-force. The insurance premiums and other income grew by 18 billion to JPY141.1 billion, thanks to the zero expansion of the policies in-forced as already explained.

Although the insurance premium and other income grew, the agency commissions also increased associated with the topline growth and so did the provision for underwriting reserves due to the revision on standard interest rate. As a result, the net income for the quarter was down by 1.7 billion year-on-year to JPY1.1 billion.

Lastly, let me talk about the overseas business. Please turn to page 10. The explanation of the overseas business will be comprehensive, including the figures for Tokio Marine & Nichido Fire services branches equity affiliated companies, non-consolidated overseas entities following our disclosure criteria with the IR presentation materials to date. Net premiums written for the quarter was up by 61% year-on-year to JPY258.3 billion, thanks to the organic growth as well as the contributions stemming from consolidating Delphi and weakening of the yen.

Now, let me go through the figures by each business domain. The net premiums written for Philadelphia was up by 29%, thanks to increasing new policies in raising the rate at the time of policy renewal. Delphi was consolidated from the third quarter of fiscal 2012. And for the quarter under review, the new revenue contribution from the Delphi consolidation was JPY48 billion.

Kiln enjoyed a 13% growth, thanks mainly to expanding the underwriting of Marine and specialty policies. In Latin America, the top line increased by 42%, mainly boosted by the robust sales of the core auto policies in Brazil. In Asia, revenue grew by 49% driven by the growth of personal auto business in major countries and the acquisition of additional shares of the subsidiary in Thailand.

Top line for the reinsurance business was up by 40% due to the increase in underwriting the non-natural catastrophe business.

Next, let me talk about the adjusted earnings on page 11. The adjusted earnings for the insurance business was up by JPY27.4 billion year-on-year to 39.4 billion, mainly due to the decrease in natural catastrophe losses, the progress of the various growth measures and the profit contribution of Delphi.

Let me break it down to each business domain. The adjusted earnings for Philadelphia grew by JPY3.3 billion due to the brisk top line growth and lower natural catastrophe losses. For Delphi, as was the case with the net premiums written and the contributions through new consolidation was JPY7.9 billion . In North America, the adjusted earnings was down by JPY2.7 billion due to the Tornado in January. Kiln's adjusted earnings grew by JPY4.6 billion due to the lower natural catastrophe losses and foreign exchange gains on the dollar denominated assets, thanks to the weaker sterling pound.

In Asia, the profit was up by JPY12.1 billion, thanks to the earnings growth for the property in auto business in Malaysia, Thailand and others as well as a change in reserves related to the Thai flood. Profit for the reinsurance business grew by JPY600 million due to the expansion of a non-natural catastrophe business and foreign exchange gains stemming from the weaker pound.

This will conclude my presentation. And now I'd be happy to take your questions.

Questions And Answers

Operator

Thank you very much, Mr. Sasaki. And we would now like to start the Q&A session. And for overseas participants, please bear with us for a while as operator is announcing to the participants from Japan as to how to place their questions. We thank you for your patience. The first question is from Ms. Tsujino from J. P. Morgan.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

Thank you. With regards to overseas subsidiaries dividend, part of which has been paid to the interim holdings company and what is the amount of that dividend? Last year it didn't -- there wasn't any holdings companies in the US. So how much was paid to the interim holding company in the US? That is my first question.

And also with regards to the reinsurance, I believe that you talked about increasing the underwriting business from May or so in the US. Cat loss rate has decreased by 10% to 15%. However, when it comes to commercial business in the US, I think that has been up 45%. So on a net basis, I would assume, I wonder whether there has been any negative impact to your company's business. I have a little concern about that. So what is the case and how do you intend to address this issue?

A - Unidentified Speaker

My name is Nivata [ph] from Corporate Accounting department. With regards to your first question on the amount of dividend that has been paid by our overseas subsidies to our internal holding in the first quarter of FY 2012 about JPY4 billion and in the first quarter -- in the first quarter of this fiscal year 2013 it's about JPY20 billion. And so it's an increase of about JPY16 billion.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

Okay. So JPY58.2 billion is the ordinary profit of the overseas subsidiaries in total. And in this -- according to the supplementary material for this conference call and you're saying that it is an increase of JPY30.7 billion. So JPY16.7 billion is essentially the increased contributed by the overseas subsidiaries?

A - Unidentified Speaker

That's correct. Yeah.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

Thank you.

Yes. Thank you.

A - Unidentified Speaker

My name is Moriyama [ph] from Overseas Business development. With regards to your second question around the reinsurance, let me answer the question. As you correctly pointed out, globally, reinsurance cat risk market is seeing an oversupply of capacity at the moment and so as you correctly pointed out in June, July period when the renewals were made, the renewal rates were clearly fastening.

And as far as our company is concerned, particularly its impact to our Overseas Reinsurance business where we are assuming risks, while we believe that there will be a certain negative impact to our company's business going forward at this point in time though, we are still securing certain level of profit and therefore, we will continue to monitor the situations around our competitors and then we will cautiously and carefully expand our underwriting business.

And in particular, the diversification of risk as well as the diversification of our portfolio have been a major focus for us so that we also expand our underwriting (inaudible) I hope that I answered your question.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

So, how much impact are you assuming to your business. I guess that it is difficult for you to quantify at this point in time and I'm sure that you're trying to minimize the impact to your business. So maybe in and after the second quarter of this fiscal year, do you think that you have clear visibility as to how big the impact will be?

A - Shiro Sasaki {BIO 19269575 <GO>}

Yes, exactly. For the time being, we have been working to assume more risks other than natural cat risks in order to diversify our portfolio furthermore. So we would continue to do so going forward. So as you completed June and July period, we understand that you have been able to acquire certain level of business we have been able to secure a certain profit. Yes, well we are checking the actual risks that are associated with the new business. We are not trying to stretch ourselves too much at the top line growth. Thank you.

Operator

The next question is from Wataru Otsuka from Nomura.

Q - Wataru Otsuka {BIO 16340098 <GO>}

Hello, my name is Nomura from -- my name is Otsuka first Nomura. My first question is about the Domestic P&C business for Tokio Marine & Nichido Fire on page four and five, for this part of the business, it's in Q1, so I guess there will be some deviations, but in the underwriting profit you have JPY3.1 billion and combined ratio underwritten paid basis is

90.9%, you're seeing some improvement. And for your full year target at this level, how do you assess the progress? That's my first question.

And the second question is on page seven. This is on Tokio Marine & Nichido Fire again, for the investment profit, you have a footnote about the, our exposure to the City Detroit and a further portion in Q1 result, what kind of impact overseas served [ph] from your exposure to Detroit?

A - Unidentified Speaker

I am the Corporate Accounting Department. My name is (inaudible) from Tokio Marine & Nichido Fire. Let me answer you first question. About the underwriting profit this quarter was JPY3.1 billion. And if you look at combined ratio it's 90.9%. And for the main auto business, the loss ratio has been improving and our topline compared to our expectations has been progressing very steadily.

And this is still in Q1 and we will be entering the peak season for typhoon and now we cannot have a good visibility of the losses related to natural catastrophies. And also the currency impact is something that we cannot forecast accurately. So if you take out the special factors, we believe that the business is progressing in par -- on par with our expectations.

Q - Wataru Otsuka {BIO 16340098 <GO>}

Thank you.

A - Unidentified Speaker

My name is (inaudible) from Financial Planning Department. Let me answer your question about Detroit exposure. Regarding Detroit, as far -- our exposure we have roughly JPY10 billion and 20% of that is general obligation bond. See, going forward if there is a default then our number should be impacted, but the impact will not be material to our P&L.

Q - Wataru Otsuka {BIO 16340098 <GO>}

And if that's the case, in Q1 you did not book anything from the Detroit exposure?

A - Unidentified Speaker

That is correct.

Q - Wataru Otsuka {BIO 16340098 <GO>}

Thank you very much for the answers.

Operator

Our next question is from Mr. Muraki from Deutsche Securities.

Q - Masao Muraki {BIO 3318668 <GO>}

On page 11 on international subsidiaries, let me ask a question. This time around the Asia, in Europe, there are some changes related to the Thai floods and also the foreign currency conversion impact to the Q. How much were they respectively? And also on a full year basis JPY30 billion to JPY35 billion natural cat losses relating to (inaudible) Japan before tax, about how much was it in the first quarter?

And my next question is related to Tokio Marine & Nichido Life. Compared to our peers, I believe that the profit in your life business actually look somewhat weaker at Tokio Marine & Nichido Life, I think the new policy acquisition has been better than others, and therefore, I think that business expense has increased by about JPY3 billion or so. However, when it comes to capital gains, I think that actually deteriorated quite significantly. So what is the background behind it? And when it comes to the policy reserve related to -- policy reserves denominated in foreign currencies that also seems to be deteriorating. So what's the factor behind it?

A - Unidentified Speaker

My name is (inaudible) from International Business Development Division. With regards to your first question on international business, I believe that your question with regard to the special factors related to specifically the reserve in conjunction with the Thai floods in Asia. During the first quarter the impact was JPY5 billion . And with regards to the conversion gains and losses occurred, in yen term, the impact to our profit was about JPY2.5 billion. And with regards to the losses incurred by natural cat events, as Mr. Sasaki mentioned earlier, in the US, in Georgia, there was tornado and in the first quarter there was JPY3.6 billion impact coming from natural cat events. I hope it answered your questions.

Q - Masao Muraki {BIO 3318668 <GO>}

With regards to 5 billion -- 2.5 billion and JPY3.6 billion are they all after tax?

A - Unidentified Speaker

They are all before tax, before tax.

Q - Masao Muraki {BIO 3318668 <GO>}

Okay, understood. Thank you.

A - Unidentified Speaker

My name is Yamada [ph] from Corporate Accounting Investment from Tokio Marine & Nichido Life. Let me address your second question with regards to the deterioration of capital gains and losses of derivatives. As the interest rates went up for ALM purpose, we have fixed rate derivatives and the valuation losses of those derivatives were posted, that's the reason behind the deterioration.

And with regards to policy reserve denominated in foreign currencies, because we are doing ALM, we have policy reserves denominated in foreign currencies, and of course, with the weaker Japanese yen, of course, that we do actually have to provide more to the account. And that essentially offsets the benefit that the weaker Japanese yen brings to us and therefore its impact to our profit is essentially neutral.

Q - Masao Muraki {BIO 3318668 <GO>}

So in a nutshell, in terms of the profit of Tokio Marine & Nichido Life, if the interest rate goes up, then that actually decreases your profit, is that right?

A - Unidentified Speaker

Right. However, we are implementing ALM appropriately while monitoring the interest rate move. And therefore, on a full year basis, there shouldn't be any major negative impact to our profit.

Q - Masao Muraki {BIO 3318668 <GO>}

So on a full year basis you will be -- you believe that you will be able to enjoy some gains, sales gains to bonds and do you think that would offset the negative impact?

A - Unidentified Speaker

Well, rather than that we would closely monitor the interest rate movement as we do ALM and I don't think that we will actually see much fluctuation on the profit because we have solid underlying performance in terms of underwriting business.

My name is (inaudible) once again from international business development. I earlier mentioned that -- the numbers that I mentioned earlier were all before tax. But let me make a re-statement, I said JPY5 billion is the impact of the Thai flood event, that is after tax. So that is the impact to our adjusted earnings.

Q - Masao Muraki {BIO 3318668 <GO>}

And when it comes to the numbers for Q1 in natural cat, are these numbers before tax?

A - Unidentified Speaker

That's correct.

Q - Masao Muraki {BIO 3318668 <GO>}

Okay, understood. Thank you very much.

Operator

Next question is from Mr. Shiota from Daiwa.

Q - Jun Shiota {BIO 4127431 <GO>}

I have two questions. The first one is for the domestic P&C business on the loss ratio. In the data book, you have the net earned incurred basis loss ratio, excluding natural catastrophes for the full year line. The loss ratio is increasing. This is because of the impact from the currency for the reserves, as well as foreign denominated outstanding balances, outstanding claims. Can you tell me the impact of that? And for the auto product sales, loss ratio is coming down, and I think in October last year, we revised the credit rating system. I think operationally, there is an impact from that change. So can you give me details on that as well?

Earlier you mentioned that the claims -- unit claims cost is increasing, still increasing. And can you tell me the impact of the annual credit rating system on the unit claims cost as well?

And the second question is on the equity holdings. The sales I think is progressing relatively faster than we are expecting, if you have a full year target of how much you like to sell this year. Please give us some numbers.

A - Unidentified Speaker

I am (inaudible) from the Accounting Department of Tokio Marine & Nichido Fire. The earned incurred basis loss ratio on the full year is deteriorating and the main factor is because of the reserves for foreign currency denominated outstanding claims as you mentioned. The impact of that is approximately JPY4 billion. And apart from that, for the losses from the factories, last year, it was relatively small. So the increase this year is about 1 billion to 2 billion. So those two factors are the main reason behind the deterioration on the loss ratio for fire on earned incurred basis.

My name is Yivayoma [ph] from our Personal business. The auto business improved by 1.5%. In October, we had the credit rating system revised and that had an impact on the growth of our top line. And as Mr. Sasaki mentioned earlier, with the credit rating system, the number of claims found is on a declining trend. The claims frequency is stabilizing and that new credit rating system is showing some positive impact. And the question about the inner claims cost, as you mentioned, the credit claims have been coming down. So that means in terms of the claims mix, the -- claims cost (inaudible) but we are incorporating such trend in our plan. So we can say that the situation is on par with our expectations.

Q - Jun Shiota {BIO 4127431 <GO>}

Thank you very much.

A - Unidentified Speaker

Next, regarding the business related equities. Let me -- my name is (inaudible) from financial planning department. In our medium-term plan, we're saying that we would like to sell about JPY100 billion per year and this is the second year on the other plan and we plan to sell about JPY100 billion from our equity holdings.

So if you divide it by the four quarters, that would be 25 billion per quarter, but we saw 28 billion, so it's a little bit higher than the quarterly numbers, but our full year target is roughly JPY100 billion, so that's the target that we are trying to achieve.

Q - Jun Shiota {BIO 4127431 <GO>}

So in that sense, in the capital gains and losses, for the first quarter it's in line with your plan, is that the correct understanding?

A - Unidentified Speaker

Well, the equity market is improving, so we're enjoying some incremental gains.

Q - Jun Shiota {BIO 4127431 <GO>}

Thank you.

Operator

There seems to be no question at this point. The next question is from Mr. Sasaki from Mitsubishi UFJ Morgan Stanley.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

My name is Sasaki. Thank you very much for this opportunity. On page 10 and also 11 in the handout material, I would like to ask you two questions. On page 10, you have your Asian contribution here and you talked about the impact of the increase in shares in Thai subsidiary, and how much did it impact your topline in Asian business? That is my first question.

And secondly, with regards to the insurance business, topline grew by JPY10.6 billion; however, the profit increased by only JPY600 million. So I'm getting the impression that maybe underwriting profitability is deteriorating against the topline growth? Why the profit growth is the small? Is there any particular reasons shall I should be mindful of? These are my two questions. Thank you.

A - Unidentified Speaker

My name is (inaudible) from International Business Development Division. With regards to your first question on the topline growth in Thailand, we, yes, increased our shares in Thai subsidiary and that provided about JPY3 billion positive impact to our topline.

And with regards to your question on reinsurance, on particularly adjusted earnings, in the UK, we have a subsidiary company and at that subsidiary, because of the weaker Sterling, the currency conversion losses were incurred and so the topline and also the combined ratios are actually performing differently from what we are actually seeing on the profit level. So number-wise, it looks somewhat distorted. But when you look at the underlying performance, please note that the underwriting results or loss ratios are actually deteriorating.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

Okay. So are you saying that the currencies are different between actually premiums and the reserves for the reinsurance?

A - Unidentified Speaker

Excuse me. Thank you for waiting. Yes, that's correct. In the adjusted earnings, the adjusted earnings has only been -- is impacted by this conversion losses.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

And if I may ask you just one follow-up question, particularly in Brazil, it seems that economic outlook is being changing according to what I hear. In the first quarter it seems that your business performed quite well. What about the second quarter onward? What is your expectation of your business in Latin American countries?

A - Unidentified Speaker

Yes, your analysis is correct, particularly -- as written on this material as well. Our core auto business, sales went very well and we believe that this trend is going to stay -- is here to stay going forward.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

Okay, thank you very much. Thank you.

Operator

Okay. The next question is from (inaudible).

Q - Unidentified Participant

In your supplementary order book, for the other income, you have consolidated elimination, it's a negative 36.8 billion. And you mentioned about the dividend paid to the interim company of 16 billion. Of the remaining JPY20 billion, is that the increase in dividend which is received by Tokio Marine Holdings or are there any other factors behind this elimination?

And my second question is that earlier you talked about the impact of the Thai flood. The claims payment I believe was about JPY4 billion. And I think you are reversing other reserves to offset that. And if the amount is around that level. You probably do not need to draw down on your cat loss reserve. If that is the case, it's the increase because of the provisioning measures have been adjusted?

A - Unidentified Speaker

My name is (inaudible) from the Corporate Accounting Department. Regarding your first question, the JPY36.8 billion minus JPY16 billion, roughly JPY20 billion, as you mentioned. This is the dividend reserved by Tokio Marine & Nichido Fire from the overseas subs. So that's benefited us this year.

And the second point about the cat loss reserve. As you indicated, on the claims payment, there is roughly JPY4 billion and the remaining outstanding balance of the reserve is about JPY18 billion. The claims payment will not change dramatically. But that's the answer to your question.

So the impact of JPY5 billion, because you have the first year reserve, it does not impact your profit and you're not joined on your cat loss reserve. And if it's offset and the impact is zero, then the Thai flood impact through the full year, but that's not amount zero.

I'm (inaudible) from International Business Development. This is a little bit technical. But on the adjusted earnings, it relates to when we recognize these losses, in the financial accounting, our fiscal year is from April to March. Also we look at the net incurred losses during this period, but for the adjusted earnings, the period is from January to December. What I'm trying to say is, for Tokio Marine & Nichido Fire, the change in the reserves from January to March quarter by Tokio Marine & Nichido Fire. It's recognized as the profit and losses for Q1. So that's the impact on the adjusted earnings.

Q - Unidentified Participant

That's right. So on the financial accounting base, the impact is zero. That is correct. Thank you very much.

A - Unidentified Speaker

There seems to be no question at this point in time. There seems to be no further questions. So thank you everyone for participating in this telephone conference announcing the first quarter results of the fiscal year 2013 by Tokio Marine Holdings. If you would like to ask additional questions, then please do not hesitate to enquire us. Thank you very much. With this, we would now like to conclude the Tokio Marine Holdings FY 2013 first quarter results teleconference. Thank you very much for your participation.