S1 2013 Earnings Call

Company Participants

- Corporate Participant
- Shinichi Hara, Investor Relations and Corporate Planning Department

Other Participants

- Futoshi Sasaki
- Jun Shiota
- Kazuharu Miura
- Masao Muraki
- Mitsumasa Okamoto
- Natsumu Tsujino
- Wataru Otsuka

Presentation

Shinichi Hara {BIO 17738151 <GO>}

I am Hara from NKSJ Holdings. Thank you very much for attending our meeting today. I am sure you're tired by now at this late hour but please bear with us for a little bit longer.

What I am going to explain today is only the first half results, the business forecast for the full fiscal year of 2012 and shareholder return for this fiscal year. As for the revision of NKSJ Group management plan announced today, President Sakurada will explain in detail at the IR Meeting to be held on our Head Office in Nishishinjuku from 3 o'clock in the afternoon on November 26. If you cannot attend this IR meeting, please refer to the presentation materials and a video posted onto our website after the meeting is over. Now let me start the presentation of our financial results.

Please take a look at page two, this shows the NKSJ Holdings consolidated results for the first half in P&C and life insurance business top line grew, with P&C business by 3% and life insurance by 1.2%. However, as disclosed on November 2nd we posted impairment loss on securities of 105.9 billion yen and therefore ordinary loss of 55 billion yen was posted, and net loss was 37.3 billion yen for the first half.

Please turn to page three, this shows the business forecast for fiscal year 2012 on the consolidated basis, we revised the forecast announced at the beginning of this fiscal year and expect ordinary loss of 4 billion yen and net loss of 28 billion yen.

The reason for this significant downward revision is because we assumed impairment losses on securities used as a prerequisite for the forecast to be at the same level of 105 billion yen as the first half. At the beginning of the year the assumption was 31 billion yen.

This revision is reflected in this slide under the column called change at the far right hand side in the row of Sompo Japan and Nipponkoa of 35 billion yen in the negative number and consolidated adjustment and others of 27 billion yen.

Please turn to page four. This shows adjusted consolidated profits in the past and the forecast for this fiscal year. The adjusted consolidated profit is expected to be 54.4 billion yen, representing a significant recovery.

Since adjusted profits do not reflect impairment losses on securities, they are different from profit and loss on financial accounting basis.

Domestic P&C insurance business still in the red with losses of 40.9 billion yen but the amount of losses will be reduced from the previous fiscal year where there was flooding in Thailand.

The domestic life insurance business will remain unchanged, while the overseas business is expected to be ahead of 3.6 billion yen from the forecast at the beginning of this fiscal year.

And on the right hand side of the slide, NKSJ Group management target for fiscal year 2015 announced today is shown and this will be explained at the IR meeting on November 26.

And this is the main points of consolidated results for the first half of fiscal year 2012 on page five, breakdown of 55 billion yen in consolidated ordinary losses is shown. Underwriting profits in P&C insurance businesses are shown on the left hand side 4.6 billion yen.

The factors behind this will be explained on the next page and the stagnant domestic stock market has led to impairment losses on securities which affected the profits heavily. The impact is incorporated in the negative 10.7 billion yen under investment profit column, second from the left, and negative 49.3 billion yen under other consolidation adjustment, second from the right.

Life insurance and overseas businesses contributed 2.5 billion yen and 4.1 billion yen to the profits respectively.

On page six, you can see the breakdown of our domestic P&C business underwriting profit. The total was 4.6 billion yen, but excluding the special factors of Great East Japan Earthquake and flooding in Thailand, the underwriting profit loss would have been 12.7 billion yen in losses.

Main factors include, domestic natural disasters such as severe storms in April and persistently high loss ratio in the mainstay automobile insurance business. On the other hand, flooding in Thailand contributed by 17 billion yen in surplus due to reversal of catastrophic loss reserve in September with the progress with payments of claims and decrease of net loss incurred due to the impact of the yen's appreciation. As a result, underwriting profit was 4.6 billion yen.

Page seven. This shows the breakdown of consolidated net loss of 37.3 billion yen for the first half. As in ordinary losses, the main factors was, increased impairment losses on securities reflecting a stagnant domestic stock market.

And next I will talk about the results by business, starting with domestic P&C insurance business.

Page nine. This shows domestic P&C insurance top-line status. Growth rates in premiums compared to the same month in the previous year on the performance evaluation basis is shown, growth rates have been settling down from temporary high levels, but still remain in the positive territory on the year-on-year basis mainly due to the positive effect from amended premium rates in auto insurance products.

Page 10 is earned and incurred loss ratio. In last fiscal year, there were two large typhoons in September which pushed up the loss ratio significantly, but this fiscal year, there was heavy impact from natural disasters including severe storms in April. So the loss ratio is almost the same level as the same period last year at 68.6%. The slight decrease in loss ratio was due to the increase in net premiums written.

The other line shows earned incurred loss ratio excluding the impact of natural disasters, it dropped by 0.5 percentage point year-on-year to 61.4%. Like the ratio including natural disasters, the loss incurred stayed at higher levels with slight increase but it was offset by increase in net premiums written and therefore the loss ratio declined.

The box on the right shows the business forecast for fiscal year 2012, the loss ratio including natural disasters is expected to be 68.6%, in the last fiscal year due to the flooding in Thailand it was high as 73% for the full year but we expect a substantial recovery this fiscal year, but when excluding domestic natural disasters and flooding in Thailand, mainly due to increase in losses incurred in auto insurance we expect a decline of 1.2 percentage points to 64.4%.

Page 11 here you can see changes in the net expense ratio as the lower line graph shows there was almost no change year-on-year and as you can see inside the right hand side box we expect full year ratio to remain almost the same as in the previous year with company expense ratio of 17%.

Please turn to page 12, here you can see the combined ratio excluding the effects of CALI, financial guarantee and household earthquake insurance. For the first half of this fiscal year due to natural disasters in Japan combined ratio worsened significantly to

103.5% year-on-year, the real line graph represents the combined ratio excluding natural disasters as you can see there was almost no change year-on-year just a slight increase.

Right hand box shows full year forecast combined ratio excluding all factors is expected to be 100% as shown at the bottom, incurred losses for automotive insurance are assumed to increase in the second half, so we expect a year-on-year deterioration of 1.2 percentage points.

Page 13. You can see the automotive insurance earned incurred loss ratio on the basis excluding the impact of natural disasters in Japan. Through rate revisions, premiums which are the denominator increased resulting in a year-on-year improvement of 2.5 percentage point. However as we expect losses incurred to increase in the second half, on a full year basis, we expect a worsening by a 0.5 percentage point to 71.7% as shown on the right hand side box.

Page 14. You can see year-on-year changes in the quarterly number of reported claims which we deem as a leading indicator for claims paid. They are moving steadily with almost no change year-on-year.

Page 15. Effect of natural disasters in Japan is shown. In addition to a severe storm in April and tornado and hail disasters in May, there were several major typhoons during this period. Incurred losses totaled 50.2 billion yen, already reaching the usual full year estimate of 50 billion yen. In light of this situation, full forecast has been revised upward from previously forecasted 50 billion yen to 58 billion yen.

Page 16, you can see the impact of flooding in Thailand. Decrease in outstanding loss reserve owing to the depreciation of the Thai baht and reversal of catastrophic loss reserve brought about a profit of 19.8 billion yen altogether. That is the impact on the ordinary income, that's because progress in paid claims between Sompo Japan and Nipponkoa together 11.6 billion yen for the first half fiscal 2012, on a cumulative basis from last fiscal year 29.7 billion yen is the amount.

Payment completion rate was 40% on a cumulative basis.

Next, domestic life insurance business on page 18.

Let me first talk about ANP annualized premiums which represent the outcome of sales activities as we are promoting shift to protection type products, ANP for saving type of products on the right hand side decreased by 3.7 billion year-on-year added with the impact of ending the sale of short term payment income compensation insurance that had been previously sold by former Nipponkoa Life.

Protection type product ANP decreased by 1.7 billion as shown on the left hand side, the total ANP declined by 5.4 billion yen, although overall ANP fell, sale of more profitable products such as medical insurance and the income compensation insurance was maintained at high level, we'll continue to stick to the sales policy emphasizing protection type products so as to further expand sales of protection type products in the second half and onward.

Page 19, next I would like to talk about income from insurance premiums on P&L, premium income growth was kept to a meager 0.3% for this first half year-on-year. However, income from insurance premiums excluding low margin lump-sum payment products increased by 4.4% securing a certain growth rate.

Page 20. Next I would like to explain about accounting basis profits. In NKSJ Group, domestic life insurance is positioned as a growth area and personnel is being shifted from P&C insurance to expand the life insurance business. After absorbing the expenses associated with this personnel transfer, basic profit improved to 5.1 billion yen in the first half by 6.7 billion from the loss of 1.6 billion a year before.

Net income improved by 5.9 billion yen to 1.3 billion yen in the first half from 4.5 billion yen in losses posted year before.

Next I would like to discuss overseas insurance business. Please take a look at page 22. The top-line growth on the left was mostly maintained on the local currency basis in each of the subsidiaries.

But on a yen basis, it dropped mainly because of the depreciation of real at our Brazilian subsidiaries. The profit increased significantly as you can see in the right hand graph but this is mainly due to change in outstanding loss reserve for flooding in Thailand and one-time investment profits at European subsidiaries. So if we exclude them, the profit was mostly inline with the plan at the beginning of the year.

Next I would like to talk about business forecast for the fiscal year 2012, page 24 please. The breakdown of 4 billion yen in consolidated ordinary profit projected for fiscal year 2012 is shown here.

Underwriting profit in domestic P&C insurance business will be, continued to be, see losses from auto insurance while reversal of catastrophic loss reserve related to flooding in Thailand will make positive contribution in the investments while realized gains on securities will push up the profits, impairment losses on securities will have heavy negative impact.

Page 25, this table shows -- focuses on domestic P&C insurance business, the right most column indicates change from the forecast at the beginning of the fiscal year. Net premiums written have been increased based on the most recent development. On the other hand, downward revision has been made from the forecast at the beginning of the year to the loss ratio assuming insurance claims and losses incurred in auto insurance will increase in the second half.

The expense ratio is expected improve by 1 percentage point from the forecast at the beginning of the year because as we revise the system integration method, post integration a majority of the system integration cost assumed to be incurred in this fiscal year has been moved down to the next fiscal year and onward, as a result, combined ratio excluding special factors is expected to be deteriorated by 0.8 point to 104.4%.

Page 26 shows the functions of business forecast for the domestic P&C insurance business, I like to skip the explanation.

Page 27 please, this shows the plan for adjusted EV increase in domestic life insurance, increase expected is 85 billion yen which is unchanged from the forecast at the beginning of the year.

At the middle of this table, you can see that we expect adjusted EV increase of 85 billion yen as compared to 100 billion yen posted in the fiscal year 2011.

On page 28 accounting basis profits, the basic profit is expected to be 10 billion yen for this fiscal year up 4.1 billion yen from the 5.8 billion yen in the previous fiscal year. And net income for fiscal year 2012 as shown in the table on the right is expected to be 3.6 billion yen in surplus, as we'll not post merger related cost which was incurred in 2011.

Since we are ahead of the plan in progressing -- reducing operating expenses, we have upwardly revised both basic profit and net income from the previous business forecast.

Next, page 29 or actually page 30, I will be talking about the balance sheet concerns starting from this page. On page 30, you can see the Japanese standard solvency margin ratio of three core companies, they all far exceed the regulatory margin of 200%.

Please turn to page 31, here you can see the state of capital and risk on internal standard economic value basis.

For risk measurement, we are using value at risk at the confidence level at 99.95% which is tantamount to AA rating. The results of the measurement indicate the buffer or the difference between the capital and risk totals of the 300 billion solvency ratio in which capital is divided by risk is 121%. We believe this level is appropriate from the perspective of maintaining a certain level of buffer to sustain soundness even in the face of a risk.

On the right hand side, you can see the respective sensitivity of solvency ratio to changes in various market indices.

Page 32, the asset portfolio starting with P&C insurance. The general account is managed with diversified investments, while saving type account utilizes portfolio management based on ALM. As for general account which accounts for 70% of the total, the composition of domestic sales -- stocks declined from the level at the beginning of the fiscal year due to such factors as falling stock prices, still they account for over 30%, we believe further reduction in exposure is a challenge we need to work on, duration gap between the asset and liabilities is relatively small or short at about one year. And therefore the interest rate, this is limited.

Page 33, the asset portfolio for domestic life insurance mostly invested in yen denominated assets, with limited asset liability duration gap, overall we are maintaining a very conservative portfolio.

Page 34, exposure to GIIPS countries, and that was limited to begin with, but over the six month period, we further reduced the exposure down to 21.8 billion yen for the entire Group as of the end of September, this means 1.2% of the adjusted consolidated assets, a level that is easily manageable we intend to further reduce exposure, paying close attention to the movement in the market.

Page 35, financial guarantee, posted a loss of 0.2 billion during the first half as for exposure, the primary insurance ABS-CDOs guarantees which had been the main loss factor in the past, were all settled in fiscal 2011.

In the graph you can see the total amount of ABS-CDO insured amount, summing up the primary insurance and assumed treaty insurance, but the primary is zero and the assumed treaty reinsurance is barely under, so the insured amount net of loss reserve is close to zero.

Page 36, you can see the progress in reducing the strategic holdings stocks, the planned amount for the fiscal year is 127.1 billion yen, 8 billion yen in stocks, 88 -- or 58.7 billion yen in stock futures, a total of 66.7 billion yen reduction in exposure has been implemented, we'll continue to sell strategic holdings stocks, closely watching the market new movement.

Finally shareholder return, on the slide you can see the paper we released today, the point is that while we lowered the estimated dividend for the full year from 80 yen to 60 yen, we'll implement share buyback with corresponding amount to maintain a total amount of the shareholder return, we expect to pay midyear dividend starting at fiscal 2013 and we'll explain this further next Monday and the rest are the data, this concludes my presentation, thank you very much.

Questions And Answers

Operator

The first question is from Mr. Okamoto of Merrill Lynch Japan Securities.

Q - Mitsumasa Okamoto {BIO 1513316 <GO>}

Thank you. In your presentation you have said, loss incurred in automobile insurance is expected to deteriorate in the second half, from the initial assumption, and that system development related cost will be moved down to the next fiscal year onward.

So if you look at the data section of the materials, the forecast has been changed and the non-personnel cost has been reduced, so one could imagine that the amount seems to be about 20 billion yen. Am I correct? And why did you decide to shift the posting of the system cost to next fiscal year? Is it somewhat related to the integration?

My second question, the sale of strategic holding stocks has been making steady progress as you can see from the tables, you changed assumption of Nikkei average and increased the expected impaired losses on securities but planned realized gains and losses has not been changed. Is there any particular reason for that? Are you planning to accelerate the sale? Is that the reason behind this?

A - Corporate Participant

Now system cost was forecast to be 23.4 billion yen at the beginning of the year for this fiscal year. In this revised forecast, it was reduced to about 7 billion yen, down 17 billion yen. The reason for this is because the integration method has been changed to merger method which has led to the change in the system integration method as well and that's why we moved down the timing of the recognition of the cost.

And with regard to the gain on sale of stocks, our assumption for the stock market at the end of the fiscal year 2012 has been reduced to the level as of the end of September which is certainly more than 8800 yen. Accordingly, the expected impairment losses on securities has been reduced significantly as we announced.

On the other hand, the amount of gain on sale of stocks has been basically unchanged. We do not plan at this moment to increase the amount of reduction substantially. The planned reduction of 300 billion yen for three years or the 127.1 billion yen for this fiscal year should be achieved. Therefore, if the stock market stays at around 8,000 yen or certainly more than that as it is presently, then what Mr. Okamoto forecasted will likely happen.

On the other hand, as you can see from the graph, we have taken short positions with stock futures, thereby reducing the exposure level substantially already.

With regard to the timing of taking short positions especially at Nipponkoa, at the beginning of this fiscal year short positions in the amount planned to be sold by the end of this fiscal year has been taken with Nikkei average at slightly more than 10,000 yen.

So while the gain on sale of stocks in cash market will be reduced, we can expect gain on sale of futures, therefore we expect the impact from the drop in stock market to be mitigated to some extent. Thank you.

Operator

Next question is from Mr. Muraki from Deutsche Securities.

Q - Masao Muraki {BIO 3318668 <GO>}

My first question has to do with share buyback. When do you expect to start receiving dividends from your subsidiaries, enabling you to buy back shares? That is my first question, and secondly, the loss ratio in automobile insurance was improved in the first half as you said in the presentation and yet you are expecting quite high level of loss ratio for the full year, will it be possible for the loss ratio to sore this much just because the unit amount of claims paid increased or you may be just on the conservative side in this forecast. Could you just share your assumptions with us?

A - Corporate Participant

As for the first question on share buyback, our basic philosophy is the following; with regard to shareholder return for the fiscal year 2012, dividends will be paid in June in 2013 and share buyback will be conducted in fiscal year 2013.

In other words, our understanding is that whatever we do our shareholder return in fiscal year 2013 is based on the performance of fiscal year 2012. So what we have announced in fiscal year 2012 will be carried out in fiscal year 2013. And let me explain the reason why we will buy back shares in 2013 and not immediately, I would assume you asked this question because your understanding is that we need dividends from subsidiaries to fund the share buyback but we can always borrow money from subsidiaries to finance the share buyback.

So the funding is not a crucial constraint. It is because we recognize that shareholder return for fiscal year 2012 should be implemented in fiscal year 2013.

Q - Masao Muraki {BIO 3318668 <GO>}

If that is the case, should we expect the timing of shareholder return to be after the annual shareholders meeting?

A - Corporate Participant

The shareholder meeting is when the dividend for fiscal year 2012 gets decided officially. So this is one of the milestones, but we don't believe the shareholder meeting is something we need to hold before implementing share buyback.

Q - Masao Muraki {BIO 3318668 <GO>}

Thank you.

A - Corporate Participant

As for, reasons for expected deterioration in auto insurance for the full year, the unit amount of claims paid is on the upward trend and this is common in the whole industry. In our Group, we cannot necessarily identify the specific reason for this upward trend. In other words, it's not the case that there is a specific factor and if we eliminate it, we can improve the situation.

So we believe that this assumption that upward trend to be continued will be conservative or appropriate view. Therefore in the second half, we expect much larger claims paid or losses incurred year-on-year. So it may look conservative but we think it is quite sincere assumption.

Q - Masao Muraki {BIO 3318668 <GO>}

Does that assumption include the forecast that there will be rush for claims request prior to the switch to the new driver rating system?

A - Corporate Participant

In September the number of claims requests did not show any particular jump on year-on-year basis.

There are customers with policy renewals coming in October or December, so we never know but it is not the case that we changed the forecast because there was a rush in claims request in September.

Q - Masao Muraki {BIO 3318668 <GO>}

Thank you, understood.

Operator

Next question is from Mitsubishi UFJ Morgan Stanley, Mr. Sasaki.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

I have two questions, first is on strategic holding stocks 127.1 billion, you said that that amount has not changed, I wonder if that amount 127.1 billion includes the stock futures or is it just the stocks, that's my first question. And also the gain on the short position of stock futures where does that appear in your income statement? That's the first part of my question.

My second question is on your dividend policy. You have the press release attached to one of the pages in your presentation, I am a little confused. You say that the shareholder return policy hasn't been changed, but actually you will be implementing share buyback for the very first time, dividend amount will be reduced. So to me it seems like the policy has been changed. So why are you doing this to begin with, could you have explain that as a background, and could you also explain the relationship between your capital position and changes in the divided, are they in anyway related? Thank you.

A - Corporate Participant

First regarding the reduction in strategic holding stocks, how futures are being positioned. The priority is to sell off all of the stocks by the end of the fiscal year. So we are using futures as a hedge to reduce the exposure in the interim. So when the stocks are sold off, the futures on which we had held the short position would be closed after being bought back.

So as of the end of the fiscal year, all the stocks would have been sold off and the short position on the futures would have been closed. So that will be how it looks at the end of the fiscal year. I wonder that, if that answers your question?

Q - Futoshi Sasaki {BIO 17564798 <GO>}

Yes, does. Thank you. And where on the P&L statement can we see that?

A - Corporate Participant

It's included in gains on derivatives.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

I see. I think you have answered my first question.

A - Corporate Participant

Your second question on shareholder return, as for the share buyback or basically our policy has been to maintain the stable dividend and depending on the capital position. Execute the share buyback, we have been saying that as our policy, so it's just that we actually acted on that policy and will be implementing the share buyback looking at the capital position.

Does that answer your question?

Q - Futoshi Sasaki {BIO 17564798 <GO>}

Yes. So the amount of dividend being reduced, how are we to make of it? I understand that your total return payout ratio is targeted at 50%.

A - Corporate Participant

For fiscal 2012 dividend has been reduced. Well, the share buyback is to be implemented taking into consideration the capital position and others is what the policy says and others part include our share price, we believe our current share price level is undervalued, so we thought this will be a good time to act on the share buyback.

So the amount equivalent to the 20 yen reduction in dividend will be compensated for a share buyback, going forward we'll maintain the 60 yen per share dividend at the new level for a stable dividend payment and as for the share buyback, we will be implementing that in a agile manner, that will be our basic policy.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

I see, thank you, I think I can ask more questions at the IR meeting.

A - Corporate Participant

Yes, I think it will be better if you raise those questions to our management.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

Yes, thank you for answering the tough question, thank you indeed.

Operator

The next question is from Mr. Shiota of Daiwa Securities.

Q - Jun Shiota {BIO 4127431 <GO>}

Thank you. My first question relates to one of the earlier questions, about the automotive insurance you're expecting the incurred losses to increase. I think that is true for Sompo Japan, whereas for Nipponkoa on the year-on-year basis, the loss ratio for automotive insurance has actually recovered albeit slightly. Could explain the difference between the two companies? That's my first question.

My second question again is on automotive. You said that the unit amount of claims paid is increasing, could you elaborate on that, for example for vehicle damage, property damage and personal injury, how the unit amount is actually increasing?

A - Corporate Participant

I think our personnel from accounting can take that question.

The rate of increase in losses incurred the difference between Sompo Japan and Nipponkoa I think is what you are referring to. With vehicle damage and property damage as the primary factors, we do see the unit amount increasing, which is reflected in the overall increase in unit amount.

But there is a difference between the two in recent months the Sompo Japan rate of increase in unit price is larger slightly, and during the first half, the number of vehicles insured increased for Sompo Japan, whereas for Nipponkoa, the number of vehicles insured has declined and that again is reflected in the difference between the two companies, but on a total basis between the two companies the unit amount is increasing.

Does that answer your question?

Q - Jun Shiota {BIO 4127431 <GO>}

Yes. So do I take it, that in any event you don't know the true reason, the causes for this rise in unit amount, is that correct?

A - Corporate Participant

For one thing it is often pointed out that with an increase in the percentage of eco-cars, since eco-cars have many complicated parts and components the unit price of those parts and components are higher and I think that's one factor.

Q - Jun Shiota {BIO 4127431 <GO>}

I see.

Operator

Next question is from Nomura Securities, Mr. Otsuka.

Q - Wataru Otsuka {BIO 16340098 <GO>}

I have two questions, one is on you overseas insurance business, I can't find the figures and that's why I'm asking this question. I wonder if you have changed your forecast on your oversees business from the original forecast to put it differently Sandy and some other natural disasters have taken place overseas, I wonder if you have already factored in, any of those natural disasters? That's my first question.

My second question is on automotive insurance, earlier you said that you expect the second half to deteriorate, if that is the case could it be that in fiscal 2013 and onward you might continue to raise premiums for automotive insurance? Those are my two questions.

A - Corporate Participant

Our overseas forecast, the adjusted profit forecast for fiscal 2012 is now 9.9 billion, the original forecast was 6.3 billion, so we have revised upward by 3.6 billion, this is on the net income basis.

And the impact of Sandy, we have yet to get all the details of the contingent business income, so there are some uncertainties still remaining, so we don't have the overall picture, identified, yes -- yet, but based on what we do know, most probably the damage would be in the lower single-digit billion yen and that amount is not reflected in our forecasted net income of 9.9 billion yen.

Q - Wataru Otsuka {BIO 16340098 <GO>}

I see, thank you.

A - Corporate Participant

And the overseas profit forecast. We have actually adjusted upwards somewhat from the original forecast, this is mainly in relation to our Thai subsidiary. The insured losses have declined due to the foreign exchange factor and with more accurate estimates being made, that's one factor.

Q - Wataru Otsuka {BIO 16340098 <GO>}

I see, thank you.

A - Corporate Participant

And regarding the loss ratio increase for automotive insurance, yes, we do expect that to continue into next fiscal year and onward, although I didn't cover that in my presentation today, in the new medium-term management plan that we announced today, we're assuming that the unit amount of claims paid will continue to rise at a certain rate.

So in that sense we do expect this to continue second half and onward, and we will be continuing with the premiums hikes and product revisions to counter the situation.

Operator

The next question is from Ms. Tsujino of J.P. Morgan Securities.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

Thank you. My first question is about futures. I'd like to you show the breakdown of positions currently held, with the kind of the slide that you showed for the first quarter.

The second question is about the review on Group management plan, one-time merger cost of 120 billion yen is expected? I would like to know the timing of the recognition and the breakdown between extraordinary losses and ordinary expenses?

A - Corporate Participant

The slide for the first quarter, I am not sure what you are referring to.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

Well in other words, how much in hedge positions, of which how much is for Nipponkoa and when the hedge was taken, that kind of table?

A - Corporate Participant

If you can take a look at page 36 of the today's material and take a look at the table on the left. I hope this is what you are looking for, isn't it? So this is the outstanding positions for the futures. So that means that there is not much change in positions from the first quarter.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

So the point is there is not much change, is that correct?

A - Corporate Participant

Yes, that's correct. We have taken hedges for the whole amount planned to be sold for the full year and we bought back the shares sold short, but at Sompo Japan we didn't do it at the beginning for the whole amount, so we increased the amount gradually during the year.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

But it was increased slightly from the end of the first quarter. So you are increasing the amount of purchase at that price, so at the current price level you are in the negative territory, is that correct?

A - Corporate Participant

Yes.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

Thank you.

A - Corporate Participant

And your next question is about the breakdown of one-time merger cost between different years. As for the cost amount announced today, it was indicated in obscure manner in the footnote of the table, we expect 24 billion yen for this fiscal year and 5 billion yen for the final year of fiscal year 2015. And part of the amount will be included in ordinary expenses, but basically the majority will be included in extraordinary losses.

So if you subtract 24 billion yen and 5 billion yen or 29 billion yen in total from the total 120 billion yen that will leave us about 100 billion yen, this will be reflected mainly in fiscal year 2013 and '14, especially heavily in 2014, the cost breakdown between different years will be shown with a table more accurately next week.

Does that answer your question?

Q - Natsumu Tsujino {BIO 2234779 <GO>}

So the amount for this year will be mostly in extraordinary losses, any breakdown between Nipponkoa and Sompo Japan?

A - Corporate Participant

If I give you the total sum of the two companies, of the 24 billion yen, 19 billion yen for extraordinary losses and 5 billion yen for ordinary expenses. And with regard to breakdown between Sompo Japan and Nipponkoa. As for Sompo Japan, extraordinary losses of 11 billion yen approximately and ordinary expenses 3 billion yen, and with regard to Nipponkoa, extraordinary losses of about 8 billion yen and ordinary expenses of about 2 billion yen. Thank you.

Operator

This will be the last question from SMBC Nikko Securities. Mr. Miura please.

Q - Kazuharu Miura {BIO 1513293 <GO>}

I have two questions on shareholder return. First is on dividend, 60 yen, if I could raise that question again. Would it be within the range of stable dividend or do you have any thorough calculation that you have made to justify the 60 yen? My second question is what will be the assumed profit that will be the basis for the return? Does it remain unchanged over a medium-term? I understand that your new management plan will be explained at the next IR meeting but you have revised upward, the combined ratio for the final year which means that you expect rather difficult situation going forward and at the same time you are maintaining the total return payout ratio. Could you explain that?

A - Corporate Participant

Thank you. Our thinking on 60 yen dividend payment and stable dividend, if I could, I'd like to repeat what I said earlier. For the share buyback, given the share price being undervalued we felt that this will be the right time to execute the share buyback to an amount that is an equivalent of 20 yen per share, meaning 8 yen billion in total.

Going forward we will maintain the stable dividend at this new level of 60 yen per share and carry out the share buyback in the agile manner. I am afraid that's the best I can say at my pay grade.

Q - Kazuharu Miura {BIO 1513293 <GO>}

Thank you that really helps.

A - Corporate Participant

And regarding the profit which will be the basis for return, we have not changed the assumption, the definition is as follows:we exclude the life insurance EV increase and 50% of the adjusted, combined or consolidated profit would be the target on a medium-term basis.

The new management plan is targeted to end at fiscal 2015 and we are expecting the loss ratio to deteriorate and so we'll be implementing such measures as raising the premiums, reduce cost as well as optimize the payment, but this can't be done, this can't be completed in three years meaning that in 2016 and 2017 onward we can expect improvement in the domestic P&C insurance.

So we believe that over medium-term we can achieve this 50% target but as you have pointed out, the recovery in domestic P&C has been pushed back somewhat. So if you can interpret the medium-term to mean a bit longer term, I think that you can accept this figure of 50%.

Q - Kazuharu Miura {BIO 1513293 <GO>}

I see thank you, that was very clear.

Operator

Thank you, this concludes the Q&A.