Q2 2013 Earnings Call

Company Participants

- Koji Iwai, Managing Director
- Shuzo Sumi, President and CEO
- Tadaharu Uehara, Managing Director
- Takaaki Tamai, EVP
- Toshifumi Kitazawa, President
- Tsuyoshi Nagano, EVP
- Unidentified Speaker, Unknown

Other Participants

- Futoshi Sasaki, Analyst
- Jun Shiota, Analyst
- Koichi Niwa, Analyst
- Masao Muraki, Analyst
- Takanori Miyoshi, Analyst
- Tatsuo Majima, Analyst
- Unidentified Participant, Analyst
- Wataru Otsuka, Analyst

Presentation

Shuzo Sumi {BIO 3861639 <GO>}

(interpreted) I would first of all like to give you the update on Tokio Marine Group's FY 2012 business plan for about 30 minutes before I open the floor for the Q&A session.

We already announced the full-year projections for FY 2012 on November 19 when we announced our interim results. Today I would like to focus on the progress our group made during the first six months vis-a-vis the business plan as well as future outlook.

Please turn to page 2. This page is a summary of what we are going to review today. We revised our initial projections for adjusted earnings to our regret to reflect catastrophic losses caused by Hurricane Sandy. However, we have been surely implementing various initiatives in the respective business fields based on strategies and targets that we have set under our midterm business plan and annual business plan to be more specific, in the domestic non-life, life, and international insurance business. We worked to accelerate topline growth in order to expand profit. Excluding the impact of foreign exchange, we are expecting to achieve higher growth than our original projections.

In the domestic nonlife business, as we set forth in the midterm business plan, we have been taking measures to improve profitability of auto insurance and further enhance business efficiency and these efforts have started to appear. Further, in the domestic life insurance and international insurance business, which we consider to be our growth drivers, we are executing strategies that we set at the beginning of the year aiming for sustainable profit growth.

While making these efforts in their respective business fields, we have been concurrently reducing risks by selling business-related equities, for instance, and we have successfully enhanced economic solvency ratio or ESR from the end of the last fiscal year despite the difficult market environment.

With respect to return to shareholders, as we said at the beginning of the year, we would like to increase the annual dividend per share by 10% compared to the last fiscal year. This is the highlight of my presentation today.

I would like to discuss these points in more detail, so please turn to page 3. Let me first explain to you the overview of the consolidated financial results of the Second Quarter of FY 2012. Both life and non-life business domestically and internationally showed strong topline growth. Within the non-life business segment, all of the three operations, i.e., Tokio Marine & Nichido Fire, Nisshin Fire & E. Design Insurance grew their top line primarily through auto business.

Our international insurance subsidiaries including Philadelphia and Kiln also grew their top line.

In the life insurance business, due to the steady growth of Tokio Marine & Nishido Life's in force policies as well as positive growth in Asian Life operations, we achieved double-digit growth. Our consolidated net interim income decreased by JPY16.5 billion year-on-year to JPY62.5 billion.

Net income in the international insurance business improved significantly primarily due to fewer natural catastrophe events against a year ago. However, at Tokio Marine Nishido Fire, underwriting profit decreased against a year ago because last year there was a major reversal of catastrophe loss reserves in conjunction with the claims that we paid for the great Asia-Pan earthquake. We also posted impairment losses of securities reflecting weaker domestic stock market.

In the meantime, our adjusted earnings increased by JPY30.7 billion year-on-year to JPY73.3 billion primarily due to the improvement of EV increase in our life insurance business as well as steady growth of profit in our international insurance business.

On page 4, we are indicating our full-year projections. From this point onward, I would like to discuss our business on the full-year basis. We revised downwards slightly the original projections for net premiums written primarily because the expected contribution from our international business is revised downwards due to the appreciation of Japanese yen.

However, we revised up the original projections for Tokio Marine & Nichido Fire, reflecting the strong business momentum during the first half.

Net income is now expected to become JPY90 billion, down by JPY15 billion from the original projections mainly because we newly took into account the impact of Hurricane Sandy. Adjusted earnings are now expected to become JPY138 billion, down by JPY27 billion from the original projections. Because same as we did for the net income, we factored in the impact of Hurricane Sandy, we also took into account newly the expected impact of consumption tax rate increase to EV to our domestic life insurance business.

With regards to the impact of Hurricane Sandy which hit the US East Coast in October this year, not many days have passed since the event and it is difficult to understand losses incurred in their respective contracts to come up with accurate estimates. But in our projections this time around, we expected that net incurred losses to be approximately JPY10 billion at Tokio Marine & Nichido Fire and about JPY20 billion in our overseas subsidiaries. So in total, approximately JPY30 billion as a group.

For the impact of Sandy to our net income and adjusted earnings, please refer to the bottom right table in the slide.

On the next page, for reference purpose, we have included the breakdown of adjusted earnings projections by company and by region in their respective business fields. Now I will discuss the business plan outlook and strategies of the respective business.

Let us start with the domestic non-life business on page 7. Here I would like to explain once again the projections for Tokio Marine & Nichido Fire, which is the core operation in our domestic nonlife business. Net income is expected to be JPY85 billion, almost in line with our original projections.

Losses incurred by natural disasters including Hurricane Sandy have been trending above our initial forecast. We also factored in impairment losses and securities assuming the level of the stock market as of the end of the first half. While these factors negatively affected our net income, topline is expected to grow stronger than our initial projections and we will reduce our business expenses further.

Next, please go to page eight to review how Tokio Marine & Nichido Fire have been improving their profitability. Improvement of profitability is an urgent issue in our domestic nonlife business. As we communicated before many times under the midterm business plan, we are aiming to build a business structure which allows us to keep the combined ratio at 95% level in a stable manner.

In the current fiscal year, which is the first year under the midterm business plan, we expect the combined ratio to be under 100% or 99.8%, down from the last fiscal year's 103.3%. More specifically speaking, losses from natural disasters have turned out to be bigger than initially expected. However, we have been working on a critical challenge which is to improve the profit in auto by revising products and rate tables and those efforts are expected to improve the combined ratio as scheduled.

Our business efficiencies have also been improving steadily so excluding the impact of natural disasters, we believe the combined ratio will improve in line with the midterm business plan. The component called Others is expected to push up the combined ratio but this is because in the lines of businesses where major accidents did not occur much in the fiscal year 2011, we are assuming the level of losses typical in a normal year. It is also because of the increase in claims paid in conjunction with snow damages which occurred last year. These are one-off factors and it does not mean the performance of this component is deteriorating in particular this fiscal year.

Let us carry on and review our initiatives to improve profit in auto on page 9. In the fiscal year 2012, on a written paid basis, we expect the loss ratio of auto to improve by 1.4 points year-on-year to 69.0%.

In this fiscal year, loss adjustment expenses are increasing because we posted expenses for a new claim service system; however, excluding this one off expense, our loss ratio would improve by 1.7 points year-on-year. This is primarily because the product and rate revisions that we implemented in July 2010 and generally this year are working out positively as expected. As demonstrated in the chart, unit premium of non-fleet auto policies has been on the rise recently.

I would also note that we implemented another product and rate revisions in October this year. We will continuously work for profit improvement in auto in a sustainable manner in the next fiscal year and beyond. In the meantime while claims frequency has been declining this fiscal year, because unit repair cost has been increasing versus a year ago, mainly due to a rise in repair parts cost, claims costs per policy has slightly increased. But this level of increase in cost is still within our assumptions, which were factored in our projections.

We will continue to carefully monitor the claim trend while continuously implementing measures to optimize repair costs and improve underwriting results. As we monitor claims and effects of product and rate revisions, we will take additional appropriate measures as necessary in order to make profit improvement in auto for sure.

Next please refer to page 10 to review the topline trend. In order to expand profit, we are aiming to achieve number one topline growth within the industry under the midterm business plan. In the second half of the last fiscal year, we started to see the tangible effects of the business renovation project that we took on earlier.

In actuality since the second half of the last fiscal year on a managerial accounting basis, the year-on-year growth rate of premiums written of Tokio Marine & Nichido Fire has been much higher than the market average as you can confirm in the line chart on the left. To be more specific, we have been acquiring more new policies by establishing new sales channels, leveraging alliance with Meiji Yasuda Life, and by offering unique and competitive products that you cannot find anywhere else such as super insurance and super business insurance.

Furthermore, by executing the business renovation project, efficiency of our administrative employees in particular improved dramatically. We are now able to offer stronger support to our agents and by establishing procedures to facilitate early renewal of policies, policy retention rate is improving, which is also contributing to our topline growth.

As indicated in the bottom right chart on the slide, even after the rate revision in January 2012, renewal ratio of auto policies has been improving. Typically, renewal ratio declines after a rate increase; however, renewal ratio rather increased due to our initiatives including the business renovation project. We will continue to implement these measures to achieve number one growth within the industry.

Next please turn to page 12 to discuss our domestic life insurance business. Tokio Marine & Nichido Life has been growing both new policies and in-force policies steadily; therefore, we made upward revisions to the original projections of annualized premiums of both new policies and in-force policies.

On the other hand, we revised downwards the year-end EV forecast slightly from the original projections. This is mainly because we need to newly take into account the expected impact of consumption tax rate increase to policies in-force given the nature of life insurance products which are long-term in duration. It is also because the sales of profitable third sector products have been weaker than the initial sales forecast. However, I will stress that there is no change in the underlying trend where Tokio Marine & Nichido Life is steadily growing by continuously expanding its in-force policies.

Next please turn to page 13 where I will explain strategies to support the growth of this business. Tokio Marine & Nichido Life aims to achieve sustainable growth of topline while maintaining high profitability with two pillars of strategies. One, channel strategy, and second, product strategy.

Under the channel strategy, we will promote further the integrated approach of life and non-life sales by leveraging strength of Tokio Marine & Nichido Life, which are at access to customer base and agent network of the non-life business. Under the product strategy we would like to launch new products for living benefits, the segment where demand is expected to increase going forward so that we can top the market with high potential.

Next to review our international insurance business, please proceed to page 15. In the international insurance business, each subsidiary is implementing their own growth strategies based on the conditions of the market that they respectively serve but we are aiming to further diversify business risks and enhance capital efficiency as a group by expanding our business globally.

In the developed markets, business environment continues to be uncertain since the Eurozone sovereign debt crisis and fiscal cliff in the US are yet to be solved.

In the reinsurance market, there continues to be surplus capital so at policy renewals in June, the market did not harden significantly and it has been said that a similar trend would likely continue into the policy renewals in January 2013. However. due to the impact of Hurricane Sandy which hit the US in October, there are some market perspectives on an increase in rate. We will monitor the market trend attentively.

In the second half of the year, we will continue to look at these changes in the business environment carefully and run our business to enhance profitability of each subsidiary.

Next I would like to briefly comment on the full-year projections. In our international insurance business overall, projections of net premiums written is revised downwards from the original projections. However, excluding the impact of the stronger Japanese yen, topline is growing positively and is expected to be JPY13 billion better than the original projections.

As indicated on page 16, projections for adjusted earnings are revised downwards due to the impact of Hurricane Sandy in addition to the stronger Japanese yen.

As I mentioned in the beginning, we are unable to give you the breakdown of the impact of Hurricane Sandy by company yet. We just factored in the expected impact to our international insurance overall in our revised projections. Going forward, as we receive more accident reports, amount of losses might change. We will continue to monitor development of losses carefully.

From the next page, I will discuss how our major subsidiaries have been implementing their strategies respectively. Please turn to page 17.

From this point onward, I would like to explain the situations of each subsidiary excluding the impact of Hurricane Sandy. Combined ratio of Philadelphia is expected to be 92.0% on a full-year basis this fiscal year, which is even below our original projections. Philadelphia is originally a highly bottom-line oriented company and they have traditionally maintained better profitability than the market average. They are currently executing DPO or Dynamic Portfolio Optimization, which is an initiative to review and optimize underwriting portfolio against risk volume in order to further enhance their profitability.

As indicated on the slide, owing to DPO, the combined ratio is better than the industry average. As we have recovered from the impact of natural catastrophes this fiscal year, as of the end of the Second Quarter, the combined ratio is at a very low level, almost 9 points lower than the market average.

Next, please turn to page 18 to discuss Kiln. Combined ratio of Kiln is expected to be 79.6% on the full-year basis this fiscal year. This is slightly higher than the original projections but still a major improvement from the last fiscal year when we were hit significantly by natural catastrophes. Similar to Philadelphia, Kiln is also a company which practices disciplined underwriting so when the market is hardening, they underwrite more prime policies with high profitability, but when the market is softening, they focus on maintaining their profitability instead of pursuing topline growth. As a result, as at the end of the Second Quarter their combined ratio was 80.4%. They successfully maintained stable and high profitability.

Please turn to page 19 to review our reinsurance business. We expect the combined ratio of reinsurance business to be 89.0% on the full-year basis. This is higher than the original projections but still below 90%, which allows us to secure stable profitability in this business.

The core operation in our reinsurance business, Tokio Millennium Re, plans to underwrite risks other than natural catastrophes while maintaining strict underwriting discipline. They are also aiming to underwrite more policies in the branches that they opened in Australia and Switzerland last year and diversify their portfolio further in terms of types of risks and geography in order to achieve stable earnings. Based on these plans, they underwrote more casualty risks independent from natural disasters. As a result as of the end of the Second Quarter, Tokio Millennium Re increased the revenue from other lines of businesses than natural catastrophes by 57% against a year ago.

Going forward, in view of the introduction of Solvency II in Europe, European insurers might reduce the volume of risks that they retain by ceding more risks to reinsurers. Keeping an eye on such movements in the market, we would like to further expand our reinsurance business.

Next let us review Delphi, whose acquisition was completed in May this year. Please refer to page 20. Delphi's earnings will be consolidated to our book from July through December for six months. Their contribution to our earnings will begin from the Third Quarter. Their adjusted earnings in FY 2012 are expected to be JPY9 billion, which is up by JPY1 billion from the original projections, mainly due to an increase in investment income.

One of the major challenges is how to achieve synergies between Delphi and existing businesses in North America such as Philadelphia and Tokio Marine Management. We established a joint strategic committee in order to create synergies through cross-selling reinsurance as well as cost reduction programs. Relevant parties are now engaged in further studies where we have started to see some benefits in some individual cases.

Lastly, let us look at the situations in emerging markets on page 21. In emerging countries, it is our strategy to achieve stable profit growth sooner than later by expanding not only Japanese business but also local retail business in both life and non-life by successfully capturing growth opportunities in our respective markets. Based on this, we developed business strategies for different markets by considering where in the developmental stage business in the market is at respectively. And we intend to grow our business in emerging countries from mid; to long-term perspectives.

At the beginning of this month I took part in the opening ceremony of Alinma Tokio Marine, which started the business in Saudi Arabia as a provider of both life and non-life coverage.

If you are interested in the breakdown of performance by company, please refer to the next page.

Next please go to page 24 for the asset management side of our business. There is no change to our Group's asset management concept. As a Global Insurance Group, we will continue to secure liquidity and implement ALM in principle across our Group. In the meantime, each company aims for higher profit within the tolerable risk levels based on the liability profiles of their respective companies. It is our plan to reduce business-related equities that Tokio Marine & Nichido Fire has by JPY300 billion worth over the course of three years under the mid-term business plan.

Size of the sales will be different from one year to another but in this fiscal year, which is the first year under the midterm business plan, we are aiming to sell these equities by JPY50 billion worth or more.

Next on page 26, I would like to discuss enterprise risk management. At the bottom of the slide, we have included how our economic solvency ratio moved from the end of March 2012 to the end of September 2012. These numbers include the expected impact of Hurricane Sandy.

As of the end of September this year, economic solvency ratio or ESR was 117%, which is a slight increase from the end of the last fiscal year. Gap between the net asset value and risk capital or capital buffer was approximately JPY400 billion which is almost flat since the end of last fiscal year. Due to decline in stock prices and impact of Hurricane Sandy, net asset value decreased.

However, by building up adjusted earnings, we recovered the decline to some extent and by reducing investment risks to strike a better balance between risks and net asset value, we successfully maintained ESR almost flat since the end of the last fiscal year. We will continue to control risks and capital based on our risk appetite and aim to enhance our financial soundness as well as profitability.

Last but not least, please allow me to touch upon returns to shareholders on page 27. There is no change to our policy for shareholder return that we set forth under the midterm business plan. In other words, we will essentially give returns to shareholders through a dividend which we aim to increase along with our growth of profit.

With regards to share repurchase, it is our policy to consider comprehensively market environment, capital level as well as business investment opportunities and implement share repurchase in a flexible manner. Based on these policies, we have indicated since the beginning of this fiscal year that we would increase the dividend per share by 10% to JPY55, assuming a recovery in growth of adjusted earnings this fiscal year. As I mentioned, we decided to increase the interim dividend by 10% to JPY27.5.

Our guidance on full-year dividend remains the same at JPY55, in line with the original projections.

From the next page onward, we have included some reference information. This concludes my presentation. I would like to ask for your continued support to our Group. Thank you.

Questions And Answers

A - Unidentified Speaker

We would now like to entertain your questions. If you could raise your hand, Mr. Sumi will call upon you and our staff members will bring you a microphone.

Since we would like to receive questions from as many people as possible, we would like to ask you to limit your questions to up to two questions. Thank you for your understanding in advance. Now if you have any questions, please raise your hand.

Q - Masao Muraki {BIO 3318668 <GO>}

I am Muraki from Deutsche Securities. I would like to ask you two questions. First on auto losses and second concerning international reinsurance business.

Your loss ratio in automobile business has been consistently lower than the industry average in recent years. Just focusing on the performance of the first half of this year, the gap between you and your peers looks to have become a bit smaller even if we exclude one of expenses for a claims service system. What was your competitive advantage to begin with? I believe your premium is higher than your peers or your portfolio is different from others but what was your advantage and do you see any changes to your advantage here?

My second question is concerning your overseas reinsurance business. Page 19 shows that you have increased underwriting for casualty risks quite strongly aside from natural disasters but under the situation where the market is yet to harden significantly, what kind of risks are you underwriting more?

I believe you are running this business on the assumption that the market is going to harden over the mid; to long-term, but we're yet to see any sign that the issue of overcapacity is going to be resolved. What do you think would be a catalyst for a turnaround in the pricing trend?

A - Shuzo Sumi {BIO 3861639 <GO>}

Thank you. We have received two questions. Your first point is that our advantage in the loss ratio of the auto business may be under some change. What is our advantage in the first place and how do we see the situation?

The other question was why we are taking more casualty risks in the reinsurance business, the market is yet to show signs for hardening so what has been the trigger behind this increase in business?

Mr. Iwai, Managing Director of Tokio Marine & Nichido Fire, will answer your first question. Thank you.

A - Koji Iwai {BIO 16291834 <GO>}

It is somewhat difficult for me to make a comment by comparing ourselves with peers. What I can say is that we have been placing a strong focus on bottom line while enhancing efficiency.

If I may review the numbers on the written paid basis, the combined ratio in 2011 was 102.6% on the written paid basis. As you are aware while there was a temporary increase in loss adjustment expenses for IT system renovation for claims service system, the ratio still declined to 98.6% in the first half and it is expected to improve to approximately 100% on the full-year basis.

As Mr. Sumi mentioned earlier, we will take various measures in underwriting loss processing and many other areas and consider rate revisions. We will take appropriate actions to aim for 98%. These efforts and thinking have resulted in the improvement I believe. Did that answer your question?

A - Shuzo Sumi {BIO 3861639 <GO>}

Would you like to explain our advantage a bit more?

A - Koji Iwai {BIO 16291834 <GO>}

Regarding our advantage, as we aim to improve the combined ratio to about 100%, we are expecting to improve the business expense ratio by about 0.8%. I believe our efforts in the enhancing efficiency and as mentioned earlier underwriting practice have led to the advantage over the peer players in the automobile line of business as well.

In addition, although I'm not sure if I can call this as our advantage, looking at our entire portfolio, quite a big proportion consists of other lines of businesses than auto. I am a little hesitant to use the word advantage but when we look at the total combined ratio I believe this is our strength. It is difficult to make a comparison just based on the first-half numbers and we would like to make assessment of the full-year basis.

If your question is rather on the earned incurred basis, the ratio increased by 0.1 points in the first half. In addition to the cost for claims service system, on a very technical note, we made IB [ph] in our provision for the great East Japan Earthquake in FY 2010 and took it down last fiscal year. This is a negative factor for loss ratio relative to last fiscal year but excluding both factors, the ratio improved by about 1.4 points on earned to incurred basis as well. So we appreciate that the ratio is improving on year-on-year basis.

I assume that each company has taken into account different elements in calculating combined ratios. We intend to continuously analyze the situation.

A - Shuzo Sumi {BIO 3861639 <GO>}

Mr. Nagano, Executive Vice President of Tokio Marine Holdings, will take your second question.

A - Tsuyoshi Nagano {BIO 16141096 <GO>}

Thank you. I would like to respond to two points concerning overseas business. As indicated on page 19, TMR based in Bermuda, currently serves as the headquarters of our reinsurance business. Traditionally they primarily assume cat risks of natural disasters. Certainly the business has generated stable earnings. However, if our business is concentrated on cat risks, our business will suffer from volatility because we are hit by big natural disasters every five or six years as it was the case last year.

So in order to reduce the volatility as much as we could, we are currently considering a strategy to gradually increase mainly American casualty risks. As you pointed out, the casualty market would not change immediately to a hard market but we are starting to see some signs of leveling off. In the reinsurance market, we are now able to acquire highly profitable business by selectively underwriting policies one by one. We are currently hiring from the market specialized underwriters by line of business that we want to be engaged in after reviewing the portfolio thoroughly one by one together with direct underwriters and gradually increase types of risks that we want.

Based on this approach, we're aiming to increase casualty risks other than natural disasters to increase the proportion of body risks. The idea is to reduce volatility as much as possible, so when you say casualty, are you referring to workers' compensation and D&O or what kind of casualty business?

It includes so-called ordinary general liabilities as well as some high excess workers' compensation we have diversified portfolio within the respective categories.

A - Unidentified Speaker

I assume you are concerned to hear this response because when we say casualty risks in the US, people would think of product liabilities in the US or Workman's Compensation, the products which have caused much pain to insurers over a long term.

We are not planning at all to keep underwriting more and more typical general liability risks in the US. Within the respective lines of business, we see various niche markets that we are targeting in the Western developed countries and in these markets there are various niche products. We are focusing on those highly profitable products and expanding our portfolio.

So we are not really trying to capitalize on the hardening or softening of the general market. We are focusing on a slightly different area.

We are also interested in opportunities which are more like fee business. We are bringing such fee business in our portfolio gradually.

Your second question is what triggers the market to turn around? I assume all of you see so many data points. Hurricane Sandy caused damages. Looking at a range of estimates, I believe the highest estimate calls out the market loss of about $15 billion to $25 billion. But this is an earning event and not a capital event.

I am sure you know this but it is said that when a $50 billion plus event takes place, market will harden significantly.

However, looking at some local developments in the property markets for North America and Thailand for instance, rates are rising. And it is said that both casualty and property markets are hitting the bottom and will be gradually turned around, although the pace of the turnaround seems to be different from one market to another.

Q - Masao Muraki {BIO 3318668 <GO>}

Thank you.

Q - Takanori Miyoshi {BIO 16985826 <GO>}

I am Miyoshi from Goldman Sachs Securities. My first question is concerning your business in North America. After reviewing the financial results of reinsurance subsidiary and direct insurance subsidiary, I understood Hurricane Sandy affected direct insurers more. What kind of impact do you think Sandy will bring to the profit and loss of your direct insurance business in North America going forward? Do you think it will become easier to raise rates down the road or do you foresee the rate of growth will slow down because you will see it more risks outside? I would appreciate it if you could share with us your current thought.

My second question is concerning sales of business-related equities. I appreciate that your business performed very much in line with the plan but it reduced equities by around JPY30 billion worth during the first half, a big part of which was attributable to the redemption of preferred securities.

I know that your budget is not consistent across the three years, but you are trying to reduce these equities by JPY300 billion in total to reduce assets whose risks are too high from the perspective of enterprise risk management. How do you intend to reduce business-related equities? I would like to once again hear your thoughts on this.

A - Shuzo Sumi {BIO 3861639 <GO>}

Thank you. For your first question concerning the impact of Sandy to the profit and loss of our direct insurer and responses and changes that we are contemplating, I will ask Mr. Nagano to make a response.

A - Tsuyoshi Nagano {BIO 16141096 <GO>}

Concerning the impact of Sandy, the answer will be the same as my response to Mr. Muraki's questions. We believe that rates will probably go up gradually in the direct property market in the US.

As far as our business is concerned, Philadelphia has the biggest exposure to property business and they are increasing their rates by about 6% now. I assume the average market growth ratio is about 2% to 3% increase. Overall, net premiums of Philadelphia grew by 8%. Then we would expect Philadelphia to grow by about 10% down the road.

In our business, we can achieve about 10% increase. Market is going to be turned around gradually and reinsurance market is going to become tighter over time. We're are tempted to develop such optimistic view but we would like to wait and see a bit more how the markets will move.

Q - Takanori Miyoshi {BIO 16985826 <GO>}

Concerning outward reinsurance of Philadelphia, I believe there is a trend in the US where direct insurers are retaining more risks but after this event, I hear that some insurers are trying to cede more risks to reinsurers. Does Philadelphia have to cede to reinsurers going forward or do you think it is not necessary for the time being?

A - Unidentified Speaker

If I may also respond to that question. As Mr. Sumi mentioned before, Philadelphia is executing dynamic portfolio optimization or DPO in order to reduce a portfolio of natural disaster risks every year gradually by 20% to 30% or to raise rates or change trends and conditions.

You had mentioned that insurers have been trying to reduce retained risks. We are trying to reduce the level of natural disaster risks that it we retain while at the same time reducing the reinsurance capacity.

I do not mention any specific number but DPO helped us a lot in preventing a big amount of net losses from occurring related to Sandy. So as far as Philadelphia is concerned, DPO has generated positive effects and their situation is slightly different from the general picture.

This is a mechanism to optimize portfolio so we are reducing exposure to some lines of businesses and we are increasing retained risks in other lines of businesses by considering the overall balance.

With regards to your second question on business-related equities, I presume your point is that we are quite slow against the annual budget of JPY50 billion for this fiscal year. As we have communicated, we are targeting to reduce business-related equities by approximately JPY300 billion over the three years under the midterm plan and at the outset of this fiscal year, we said that we would achieve the reduction of JPY50 billion or more during this fiscal year, which is the first year under the plan. As you correctly pointed out, we are at the JPY30 billion mark at the moment but we intend to sell more to achieve more than JPY50 billion reduction.

Having said that as you are well aware, we need to make a lot of coordination with corporate clients before we sell their equities. During the previous midterm plan over the three years against your initial target JPY100 plus billion worth, we ultimately sold around JPY490 billion worth of equities.

Under the current plan, we are targeting JPY300 billion but it does not mean we can sell these equities whenever we want to solely at our discretion. We will be engaged in various dialogues with corporate clients and explore appropriate timing.

And Nikkei average goes up and down, we certainly monitor the market situations as well to sell more equities. I hope you will wait for the results that we deliver over the course of three years. Thank you.

Q - Unidentified Participant

Thank you. I have three questions. My first question is on page 26. Risk capital decreased by JPY200 billion. Market value of stocks that you hold on a consolidated basis declined by roughly JPY300 billion, which will be a reduction of risk capital by a little less than JPY150 billion. The remainder is coming from the reduction of investment risk but what have you been doing more specifically? Should we expect the investment risks to be reduced further continuously going forward?

Compared to the past, your buffer has become a bit thinner so are you taking any specific measures to reduce risks further? This is my first question.

Secondly, I am guessing that Tokio Marine & Nichido Life sold saving-oriented products based on their performance in terms of E&P in-force amount of new business. What kind of products did you sell for what purpose and what is your plan down the road?

My third question is concerning EV in your life business. It seems that MCEV is becoming the mainstream approach in Japan so what are you going to do?

A - Shuzo Sumi {BIO 3861639 <GO>}

Your first question is where the reduction of risk capital is coming from. Is it due to equities as well as reduction of investment risks? And whether we would continue to reduce these risks? Mr. Tamai, Executive Vice President, will address this question.

A - Takaaki Tamai {BIO 15093748 <GO>}

Thank you. Let me respond to your question. I believe your question is coming from the bubble attached to the gray colored bar on the right hand side of page 26. It says reduction of asset management risks, so your question is what did we do specifically and what are we going to do down the road?

First, this risk reduction comes from the sales of equities more than a decline in stock prices. There was a question earlier concerning the fact that we have only reduced the equities by JPY30 billion but we are selling down equities.

Also within the asset management portfolio, we have been reducing risk assets slightly and replaced them with long day bonds. This is how we have also reduced risks.

As we look ahead the future, we have to note that last fiscal year our bond portfolio became smaller in some areas because of a series of large-scale natural disasters. For a non-life insurance group which values liquidity, we would like to further enhance bond portfolio. That means in turn that the size of risk assets will become smaller. So generally speaking as we rebuild bond portfolio, we would like to reduce risks.

A - Shuzo Sumi {BIO 3861639 <GO>}

Your second and third questions were what kind of products we sell at our life insurance company for what purpose and our view on MCEV? Mr. Kitazawa of Toki Marine & Nichido Life will take these questions.

A - Toshifumi Kitazawa {BIO 16818079 <GO>}

Thank you for your questions. On your first point, since our business grew quite strongly in terms of A&P during the first half of FY 2012, you have assumed that we have grown the sales of saving-oriented products.

About three years ago, our Company shifted the orientation of business significantly because we thought that if we grew saving-oriented business too much that would bring little benefits to the Company's management over the long term. So we have been mainly selling protection-oriented products while containing the sales of saving-oriented products within a controllable level.

For the past couple of years, we have been placing a great emphasis on so-called business life insurance, which is a product to help management of SME prepare retirement benefits. In particular, the business insurance that we developed last year is highly competitive and agents sold this product quite actively across the nation.

Because of that during the first half of the year, the first sector showed a very strong growth driven by term policies or business life insurance. As a result, unfortunately the sales of the third sector products fell short of our plan. So please feel assured that this is not a result of us strongly focusing on saving-oriented products distorting our overall portfolio.

Concerning your second question on the sophistication of EV, our Company is using an approach called TEV. As you all know, MCEV and EEV are the popular approaches used to measure EV of companies globally. We are of course studying and preparing to make market-consistent assessment of our Company based on MCEV approach.

However, as you are well aware, there is no transparent or objective methodology established yet to be used across the industry to assess future risks of products one by one. This is an area which requires further study and we are studying how to advance EV to make it a yardstick which allows you to assess the true corporate value with higher transparency.

I hope you understand. Thank you.

Q - Unidentified Participant

With regards to insurance for SME owners, there is a traditional life insurer with a very high market share. As you compete with such players, what is your competitive advantage over them in terms of products and channel?

A - Unidentified Speaker

Yes, there certainly are many life insurers who have traditionally focused on corporate insurance including retirement benefit plans for SME owners. Of course, we studied their business and since economy is very unstable at the moment for the past two or three years, we have actively developed products whose cash value will accumulate quickly after taking out policies such as in three years or five years after the purchase.

We are offering various products such as A type, B type, and C type but with the C type that we launched last year in particular, policyholders will enjoy high cash value in about three years after the purchase. This product is selling very well and customers are now increasingly interested in this offering.

We feel a strong momentum to push this business model where we make propositions to the SME customers of Tokio Marine & Nichido Fire on the PMC side. This model is working out well. Any other questions?

Q - Wataru Otsuka {BIO 16340098 <GO>}

I am Otsuka from Nomura Securities. I would like to ask two questions. First on Delphi and second on Tokio Marine & Nichido Life. On page 20, it looks that the combined ratio is expected to deteriorate on the full-year basis. Is this just a temporary increase or is there any reason behind this?

Also related to the bottom half of the slide, Mr. Sumi mentioned that you have started to see some synergies and benefits in some individual deals. It has been almost six months since you closed the acquisition deal. As the company actually joined the group, have you noticed anything better than you initially expected or worse than your expectation? If there are any new findings about Delphi, please share that with us. This is my first question.

Second question is about Tokio Marine & Nichido Life. On page 37 comparing the FY 2012 full-year forecast of A&P of new policies to that of FY 2013, it appears that your business is growing so well that it might exceed the FY 2013 target this year. Some of your peer P&C companies also seem to have aggressive plans for life insurance business but based on the latest performance, is there a possibility that you revised your midterm target for the life insurance business?

A - Shuzo Sumi {BIO 3861639 <GO>}

Your first question is whether Delphi's combined ratio is deteriorating or not and if anything has turned better than initially expected in terms of synergies. Mr. Nagano will respond to your question.

A - Tsuyoshi Nagano {BIO 16141096 <GO>}

Yes. Thank you. It is certainly true that Delphi's combined ratio is deteriorating temporarily. The bottom line is that this is due to a one-off factor which is an increase in the reserve for one major loss. We believe the combined ratio is going to come down over time. Because this is not a structural issue, this should not be a source of concern going forward.

Your second question is concerning synergies for the past six months. In the joint strategic committee, we are currently discussing what five companies in North America could do to achieve both revenue and cost synergies.

When we acquired a company, we estimated the synergies effect to be $10 million or about JPY800 million but almost half of that amount was realized during the past six months.

We are enjoying various synergistic effects at the top line. For instance, companies are cross selling their products respectively or introducing brokers each other to introduce customers mutually. Further beyond our expectations, our US branch TMM is now selling products of RSL, which is a life insurer, and some clients are saying that they would purchase loss portfolio transfer from Delphi or transfer self-insured portfolio to Delphi because it is part of Tokio Marine Group. We have identified many opportunities which I believe will bear fruits going forward.

We have also identified many opportunities for cost synergies at various levels such as reducing reinsurance costs by slightly increasing the amount of self-retention or joint procurement of goods. We are making steady progress.

Q - Wataru Otsuka {BIO 16340098 <GO>}

So does your gut feeling tell you that it's better than you initially expected?

A - Shuzo Sumi {BIO 3861639 <GO>}

We thought we shouldn't be that optimistic from the very beginning. The actual progress so far has been in line with our plan. Now that we have identified many opportunities, it will be important for us to deliver results. I hope this answered your question.

Then your second point is that A&P of life insurance business is growing steadily. Other life insurers also have quite aggressive plans but your question is whether Tokio Marine & Nichido Life will redraw and revise upwardly the midterm plan. Mr. Kitazawa will respond to this question.

A - Toshifumi Kitazawa {BIO 16818079 <GO>}

Thank you. If you are a life insurance business, you have to acquire new business year after year particularly at a time like this when the interest rate is so low. There is a very strong demand for saving-oriented products. If you try, you can easily grow premium income or top line. However, you also need to carefully analyze whether that will contribute to the bottom line or profit. Or else you might grow sales but not profit.

As you pointed out in the first half, our top line grew very strongly particularly on the A&P basis. However internally, I am assessing our performance from a different perspective to give high score to the business whose contribution to the Company's profit is big and low score to the business whose profit contribution is small.

Given this criteria although A&P is growing, internal managerial based numbers are not satisfactory to me. In that sense, we are very conservative. We will aggressively take up a challenge but we look at bottom line very conservatively.

At any rate, it is a very challenging target to grow our EV by JPY180 billion over the course of three years. Numbers grew in the first half but from the second half of this fiscal year, for the next two or three years, we will make efforts to deliver JPY180 billion target so we are not planning to change this number at the moment. Did that answer your question?

Q - Wataru Otsuka {BIO 16340098 <GO>}

So you are profit-focused but do you see profit in terms of EV growth or core profit?

A - Unidentified Speaker

We look at EV growth. In terms of contribution to EV growth, saving-oriented products do not contribute much to EV. This is why we would like to mainly sell protection-oriented products. I hope this answers your question.

Q - Wataru Otsuka {BIO 16340098 <GO>}

Yes. Thank you.

Q - Jun Shiota {BIO 4127431 <GO>}

I am Shiota from Dawai Securities. Please allow me to ask two questions. First, I often see advertisement of E. Design Insurance recently. What is your view on this direct channel business and how do you see the future profitability?

Second, on page 27, you have indicated your ideas on shareholder return, which are not different from your previous explanation. Would you be more specific as to what you mean by flexible share repurchase, what makes you start buying back your shares? I would appreciate it if you could explain your thoughts on this once again, thank you.

A - Shuzo Sumi {BIO 3861639 <GO>}

On the first question on E. Design, our thoughts on direct business and their profitability, Mr. Tamai, please.

A - Takaaki Tamai {BIO 15093748 <GO>}

Thank you. As you pointed out, we established a company called E. Design Insurance in our Group four years ago. We are placing advertisements on TV as well claiming that this company is part of Tokio Marine Group. Recently awareness level is increasing amongst consumers and this company has earned the place of number one in various rankings such as (inaudible) by Oricon and J.D. Power. That has led to create very good reputation among consumers through word-of-mouth.

We are targeting net premiums written of JPY9.3 billion this fiscal year, which is a growth of more than 200% year on year. In the First Quarter among the direct line companies, E. Design came in second place in terms of actual growth of sales in yen terms. So top line is growing extremely well and from the qualitative perspective also, we believe we are offering high-quality products.

Part of your question was how we view these direct channels. In Tokio Marine Group, business model of Tokio Marine & Nichido Fire and Nisshin Fire is based on Asian channel. We do not intend to change this basic model. In the meantime, the direct channel market has grown to the size of JPY200 billion plus now and there are some consumers who prefer direct line as a matter of fact.

If that is the case, we would like to offer our products to this segment of the consumers. This is our basic thinking.

As a result while some customers went to the direct line market, we acquired some policies, switched from other direct line companies, and E. Design has won some business from other agent-based companies.

If you sum up the outcome as a group in total, the number of cars that we ensure has grown significantly. In that sense, there seems to be some synergistic effects as a group in total.

The other part of your question was profitability. This Company is still very small and loss ratio on earned incurred basis tends to fluctuate during the start-up period. Loss ratio of renewed policies is better than the new business but given the nature of this company, most of the policies are still new, therefore the loss ratio on the earned incurred basis is still quite high at the moment.

But this is in line with our initial expectation. As long as we maintain the current rate of topline growth and carefully control expenses, they will generate profit in several years time for sure. So it is fair to say that the bottom line has been trending in line with the schedule and the growth has been exceeding the plan.

I hope that answers your question.

A - Shuzo Sumi {BIO 3861639 <GO>}

Your second question is concerning our policy of flexible share repurchase. What kind of criteria or trigger will make us repurchase our shares? I will ask Mr. Tamai to also address this question.

A - Takaaki Tamai {BIO 15093748 <GO>}

Yes. Thank you. Our basic message is shown on page 27. The primary means of our shareholder return is dividend, which we intend to grow along with profit growth. The target payout ratio as shown on the slide and as you see on the next bullet point as it has been the case, we intend to conduct share repurchase in a flexible manner based on comprehensive assessment of market conditions or capital levels as well as business investment opportunities among others.

We believe that Tokio Marine Holdings has been and will continue to be a company which has placed a very strong emphasis on shareholder return. There is no change to our basic recognition that share repurchase is another important means for shareholder return along with dividend.

Now then, under what kind of circumstances could we purchase our own shares? When the financial market is relatively stable, unlike the current market, which is in turbulence, so to speak, or when our ESR is at a relatively good level or if we have spent several years simply keeping our money without any business investment opportunity, then we should act to buy our shares back.

It is difficult for us to say how much shares we repurchased under which circumstances. Rather than communicating the annual budget at the beginning of the year like we did in the past, we would like to keep a certain buffer and secure financial soundness while exploring future business opportunities and implement share repurchase in a flexible manner since the environment is so volatile.

I know this answer isn't straightforward but let me repeat that our Group does recognize the importance of shareholder return without a doubt and this basic principle recognition will remain unchanged. Thank you. Any other question?

Q - Futoshi Sasaki {BIO 17564798 <GO>}

I am Sasaki from MUFJ Morgan Stanley. Please enlighten me on two things. Following up on the previous question, what do you think is the adequate level of the ESR? I remember you gave us an example of Allianz before. May I understand that you are looking to achieve approximately 140%? Also in terms of investment opportunities, some Asian countries are relaxing regulations on foreign capital. Mr. Sumi, how do you see investment opportunities in Asia now? This is my first question.

On the topic of loss ratio of auto business, you did not explain this today but I heard that proportion of hybrid cars is growing and more components are integrated into units. It means that volume of parts to be exchanged or repaired per accident is now increasing and pushing up the unit repair costs. Are you seeing such situation in your Company? And if you do, that probably is a new trend and you have to review claim assumptions.

Would you think of changing your rates to reflect such a shift in trend where automobile is changing from a machine to a household appliance? Mr. Sumi, I would like to ask your view on this as well. These are my two questions.

A - Shuzo Sumi {BIO 3861639 <GO>}

Your first question was the level of ESR that we are looking to achieve and how I view Asia with some changes in foreign capital regulations.

We introduced the recognition mechanism called ESR last time and we said that Allianz has the ESE of 143% or 144% as a reference. Similar to the previous question on share repurchase, we have actually not decided on the target levels of ESR and capital buffer yet.

Whether 117% is good enough or do we want to keep it around 130%. We haven't gone that far to decide on specific numerical targets. I presume the ratio would fluctuate under different circumstances and it would vary depending on the absolute size of the capital buffer itself. Since it is a gap between net asset value and risk capital, if we decrease risk capital and our asset goes up, the ratio will go up, which will be best for us. It really boils down to the question of how we want to manage this capital buffer.

Since the stock market is so volatile, sensitivity is very big. We also have to think about buffer to prepare for large natural disasters such as developments in Kanto, Tokai, East Nankai [ph] and Nankai Trust in the wake of the great East Japan Earthquake.

We would like to consider this in a total picture by considering various factors. In particular when we look at international investment or M&A opportunities, which was another part of your question, sizes of opportunities vary from small ones to big ones. In order to explore these various opportunities, the ESR should be above 100% at least but we have not gone that far in our study to decide on a very specific target level.

To your question on how I view investment opportunities in Asia, as you correctly pointed out, there are some countries that are moving to change regulations on foreign capital. In particular in India, a bill to relax 26% cap on foreign insurers went on to the Parliament. However as it was the case at the time of retail deregulation, there are very strong oppositions to this bill and some people suspect if this bill will successfully pass the Parliament. Like we see in this example, it is not that regulations on foreign capital are completely lifted and there are no two countries where regulations are all the same. Tokio Marine Group has established our locations in almost all the countries during the course of our long history.

In order to expand our business, if we could find a partner that satisfies our principles and is capable of running a solid business in the market, we will consider acquisition or establishing a joint venture with them.

Not only Japanese non-life and life companies but financial institutions in general are rushing in emerging markets particularly in Asia. Everyone is so interested in Asia that

Japanese companies are in a way perceived as easy prey from the local perspective, if I may dare to say so. There seem to be some companies that are willing to pay very high price for acquisitions, which inflate market price very much in actuality.

We are not interested in going abroad just for the sake of establishing a presence in a market. If there is an opportunity where we can surely enjoy high profitability, we will capture that opportunity, but if not, we do not intend to join the other Japanese companies to dance in their rhythm.

The other question was about loss ratio of auto business. Your point is that as hybrid cars become more popular, component costs seem to be a big issue. So the question is whether we should review the latest development and revise assumptions for a cost of claims for auto business.

A - Unidentified Speaker

Certainly with the introduction of hybrid cars, which are mounted with batteries, we have seen many claims that are different from the past. And as EV or electric vehicle or HV becomes the mainstream of the automobile going forward, the types of accidents will be different.

We are monitoring the latest development quite closely but at the moment although more people are driving hybrid cars, that is not resulting in an obvious increase in the unit repair costs yet. Having said that, we believe that unit repair costs will increase sooner or later. We do not know when but we intend to monitor the situation and take appropriate actions in a timely manner.

Does this answer your questions?

Q - Futoshi Sasaki {BIO 17564798 <GO>}

Yes. Thank you.

Q - Tatsuo Majima {BIO 15338044 <GO>}

I am Majima from Tokai Tokyo Research Center. There were some riots in China the other day. Riots and strikes are not covered under the policy but they will be covered under the SRCC rider. So my first question is what was the extent of losses incurred in China?

And going forward, many strikes and riots are likely to happen in Asia or in China and there will be a high risk for factories being destroyed. So the other question is how much exposure do you have to strikes and riots in Asia and China? These are my two questions.

A - Shuzo Sumi {BIO 3861639 <GO>}

Your question is concerning damages caused by riots in China and their impact to our business. The other question is our exposure to strikes and civil commotion risks, which seem to be increasing. I will ask Mr. Uehara, Managing Director, to address these two questions.

A - Tadaharu Uehara

I am Uehara, in charge of emerging markets. Let them respond to your questions. With regards to SRCC, the riots are not unique to this time. Once every five years or so, we have seen some kind of riots in China. Also other countries for instance the United Kingdom, experienced riots last year.

When we go into a new market or in our underwriting process, we limit the amount of country risks and political risks that we retain along with property risks in particular by making various arrangements. We use reinsurance. We also set sub limit to the primary insurance policies themselves to control the risks.

With regards to the SRCC in China, as you are aware, we are suspending a new provision of this rider for the time being. We will monitor and respond to the situation in a flexible manner. But as you pointed out, we need to control the exposure so we are looking to arrange reinsurance policies slightly lower sub limit and limit the underwriting of new business in the first place to ensure that our exposure is within the solvency of our subsidiary in China and we are taking these actions already.

With regards to the extent of the damages caused by riots in China, we have underwritten many policies to various companies that appeared in newspaper articles. However, we are assuming that our net losses will be in the order of several hundred million yen. Any additional comment?

A - Unidentified Speaker

Right. Since we have reinsurance covers, our net exposure to the damages caused by riots this time is estimated to be a little under JPY500 million as of now. I hope it answered your questions.

Time is running short so may we take the final question?

Q - Koichi Niwa {BIO 5032649 <GO>}

I am Niwa, from SMBC Nikko Securities. I would like to ask you about dividend and auto business. I am sorry to ask such a detailed question but regarding dividend on page 27, you are talking about average adjusted earnings excluding EV as a fund for dividend payout. If you have any specific number, please share that with us. Since more attention is being paid to dividend compared to the, past, I would like to understand this better.

My second question is concerning the revision of grade ratings system of auto business. It has been two months since the revision. Have you started to see some bonus effect or better self-control on the part of policyholders? It may not have appeared on statistics yet but if you could even share some qualitative observation, I would appreciate it.

A - Shuzo Sumi {BIO 3861639 <GO>}

Mr. Tamai will address your first question on dividend.

A - Takaaki Tamai {BIO 15093748 <GO>}

Thank you. Please refer to page 31 under the reference section. Due to time constraints, I did not explain this in detail, but on the far right of the top chart on page 31, we are indicating the projections for FY 2012.

If you look at the third line, it says the average adjusted earnings are projected to be JPY90 billion excluding EV. Since we are planning to pay JPY55, as you can see in the second line from the bottom, payout ratio is estimated to be 47%.

A - Shuzo Sumi {BIO 3861639 <GO>}

Mr. Iwai will respond to the second question concerning if policyholders are refraining from filing claims based on the new grade rating system.

A - Koji Iwai {BIO 16291834 <GO>}

Yes, let me take the question. As you mentioned, the introduction of new grade rating system has just begun so there isn't any input from the ground that I can share with you at the moment. We will continue to monitor carefully the effect of the new system and trend of claim cost and review rate tables and take other actions as necessary in order to achieve midterm plan.

A - Shuzo Sumi {BIO 3861639 <GO>}

I hope it answered your questions. Since time has come, we would now like to close Tokio Marine Holdings RR meeting for the second half of FY 2012. Top management will be around for awhile, so please feel free to talk to them.

Thank you for staying with us until the very end once again.