Q2 2015 Earnings Call

Company Participants

- Shiro Sasaki

Other Participants

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

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, thank you very much for participating in Tokio Marine Holdings FY 2015 Q2 Results Conference Call. Please be advised that during the presentation, all the lines other than the speakers' lines are set on mute. And this conference call is being recorded.

Before we start, let me remind you that the presentation may contain forward-looking statements based on the current projections and they entail risks, as well as uncertainties. Actual results may differ from the current projections.

With that, let us start the conference call. Mr. Sasaki, please.

Shiro Sasaki {BIO 19269575 <GO>}

From Tokio Marine Holdings, from Corporate Planning, PR/IR Team, my name is Sasaki. Let me explain the overview of the fiscal year 2015 Q2 results and fiscal year 2015 projections of Tokio Marine Holdings, which was announced today. We are providing the following five documents for this meeting: financial report; information about the major subsidiaries business results for the six month ended September 30, 2015; PowerPoint document entitled Overview of the Q2 Fiscal Year 2015 Results and Full-Year Projections; supplemental material for the conference call; and financial settlement data.

I would like to ask you to access our website then from the homepage under Topics, access the webpage where we disclose these materials and get your own copy via download. In this conference call, we will be using mainly the PowerPoint document for the overview and the projections to give you a presentation for about the first 30 minutes.

Please turn to page three of the overview and projections PowerPoint document. First, I will explain about the consolidated results overview. Net premiums written was ¥1,735.1 trillion year-on-year, plus 14.3%, increased by ¥217.4 billion. This is mainly because of increase in premium income and domestic P&C centering around fire and auto insurances and expansion of underwriting at international subsidiaries as well as the positive impact brought by the progression of yen depreciation.

Next, life premiums of domestic and international life business was ¥116.9 billion year-on-year, minus 41.8% or decreased by ¥84.1 billion year-on-year. Life premium decreased because of increase in surrender of variable annuities formally sold by Financial Life associated with the recovery of the market environment. On the other hand, we are seeing growth both with the new policies and policies enforced by the TMNL. Excluding the factors of surrender with variable annuities, life premium achieved a growth by ¥30.6 billion.

Consolidated ordinary profits declined year-on-year by 37.3%, decreased by ¥69 billion to ¥116.1 billion. Net income attributable to owners of parent was year-on-year minus 40.1%, decreased by ¥57.3 billion at ¥85.6 billion. We saw expansion of profit in both domestic life business and international insurance businesses. However, in domestic P&C business, we saw increase in net incurred losses related to natural catastrophes and an increase in net provision for catastrophe loss reserve, which are the causes for the decline in ordinary profit. I will refer to you more details on consolidated ordinary profit later.

Adjusted net income, a group KPI for profit, was minus 12% year-on-year or declined by ¥19.2 billion to ¥140.3 billion. The reason for the more moderate decline in adjusted net income compared to net income is because adjusted net income excludes impact of increase in net provision for cat loss reserves, et cetera. I will explain the details on this topic later.

Next, I will explain the factors related to consolidated ordinary profit. Please turn to page four. In domestic P&C business, although there was an increase of net investment income, underwriting profit decreased, which led to ordinary profit decrease by ¥84.5 billion. After underwriting profit, although net premiums earned increase, underwriting profit decreased because of increase in net incurred losses relating to natural catastrophes, higher large losses and increase in net provision for catastrophe loss reserves. Net investment income grew because of improvement in gains and losses and derivatives, et cetera, despite the decrease in dividend from overseas subsidiaries.

At Nisshin Fire, despite an increase in net premiums earned, ordinary profits decreased due to increase in net incurred losses relating to natural catastrophes in Japan. Its ordinary profit declined by ¥10.9 billion year-on-year. Due to the abovementioned reason, domestic P&C business overall had decreased in ordinary profit by ¥95.5 billion. I will explain the details later.

In domestic life business, due to the reversal effect of contingency reserve associated with surrender of variable annuities, et cetera, and increase in interest income from foreign bond, ordinary profit increased by ¥5.7 billion year-on-year. In overseas subsidiary, there was increase in large losses. On the other hand, there was decrease in natural catastrophe losses and depreciation of yen allowed ordinary profit to increase by ¥10.3 billion year-on-year.

For consolidation adjustment, amount of negative adjustment shrunk by ¥10.5 billion year-on-year. This is because of decrease in dividend payment from consolidated subsidiaries at TMNF, which led to a decrease in consolidation elimination. This is all for the consolidated the results overview.

Now, let me explain about the adjusted net income. Please turn to page five. Let me now explain about adjusted net income, which is a KPI for the group total. Adjusted net income is a profit KPI based on consolidated statutory net income then excluding factors such as impact of reserves which are quite unique to P&C insurance business as well as gains and losses on sales and valuation of fixed asset in order to understand the underlying profit coming from the business.

Adjusted net income expounded with overseas subsidiaries and domestic life business. However, there was increase in net incurred losses relating to natural catastrophes in domestic life business, which led to a decline of adjusted net income by ¥19.2 billion to be ¥140.3 billion.

Next I will explain the year-on-year changes along the process of reconciliation from statutory accounting net income to adjusted net income. Provision for catastrophe loss reserve increased by ¥31.4 billion, but since adjusted net income exclude factors related to catastrophe loss reserve, increase in net provision leads to increase in adjusted net income.

In other extraordinary gains, losses, valuation allowance, et cetera, there was decrease in negative adjustment in fiscal year 2014 associated with the impact of inclusion in expenses of taxable impairment losses on equity at TMNF, which led to an increase in adjusted net income by ¥12.8 billion year-on-year.

Now, I will turn to domestic P&C business. Please turn to page six. First, I will explain about the overview of fiscal 2015 second quarter earnings for Tokio Marine & Nichido Fire Insurance Company. Upward arrow indicates increase in profit. Downward arrow indicates decrease in profit.

First, I will explain about different factors for underwriting profit and loss. For net premiums written, all lines of insurance increased their top line centering around auto and fire lines of insurances. Net premiums written for private insurance increased 8% or up by ¥69.2 billion year-on-year. Earned premiums increased by ¥47.3 billion, pushing up the earnings.

Line-by-line situation is explained on page 8. Please refer to this page later. Net incurred losses of private insurance increased by ¥74 billion year-on-year. And I will explain about each major factor. Net incurred loss relating to natural catastrophes deferred during the term increased by ¥46.6 billion year-on-year, mainly due to typhoon number 15 or Typhoon Goni and typhoon number 18, Typhoon Etau.

Decrease in provision to reserves of foreign currency denominated outstanding claims was a difference by ¥5.7 billion as the rebound from the additional reversal that had to be – additional provision that had to be made last fiscal year. Net incurred losses other than those mentioned above increased by ¥33.1 billion, mainly due to growth in policies and higher large losses in marine and other line, and increase in net incurred losses in also relating accidents occurred in the past fiscal year. Business expenses for private life insurance increased by ¥23 billion due to increase in agency commissions due to revenue growth.

Now, I will explain about the catastrophe loss reserve. In auto insurance, there was increase in net provision by ¥22.1 billion due to revenue growth as well as improvement of written-to-paid basis loss ratio.

In fire insurance, rebound from the reversal of reserves of last fiscal year associated with claims payments relating to snow storm in February of 2014 led to increase in provision by ¥16.1 billion as a result of net provision to the catastrophe loss reserve increased by ¥39.3 billion year-on-year.

As a result, underwriting profit of the quarter decreased by ¥93.2 billion year-on-year to underwriting loss of ¥43 billion. Underwriting profit excluding the impact of catastrophe loss reserve is ¥20.2 billion, which is a decline by ¥53.8 billion year-on-year.

Next, I'd like to talk about the net investment income and others. Although dividend payment from overseas subsidiaries decreased, gain and loses and derivatives improved and net investment income increased by ¥7.3 billion to be ¥112.8 billion. The business-related equities sold in the first half of the year was approximately ¥51 billion. Most of the dividend income from overseas subsidiaries are eliminated on consolidated basis. Due to the above-mentioned reasons, the net income decreased by ¥64.5 billion year-on-year to be ¥65.7 billion at TMNF.

Next, I will explain about the combined ratio. Please turn to page seven. In this term, the private insurance lines earned-to-incurred basis loss ratio increased 63.3%, increased by 5.3 points due to increase in natural catastrophes-related claims payment. The impact of natural catastrophes is 7.1% as opposed to 1.9% for the same term last year. Excluding the natural catastrophes factor, loss ratio is almost equal to same term last year.

As for the expense ratio, there was improvement by increasing net premiums written. However, there was increase in agency commission related to increase in policies with higher commission rates. Expense ratio went up by 0.1 point to 32.2%. As a result, the earned combined ratio compared to last year went up by 5.3% and it was 95.5%.

On page eight, we are showing the line by line premium and loss ratio situation. On page nine, we are showing the details of the asset management results. Please refer to those pages later.

Now, I will explain about the Nisshin Fire Insurance Company. Please turn to page 10. Nisshin Fire's net premiums written increased mainly in fire and auto. But net incurred losses increased as well due to natural catastrophes. There was also a rebound from the reversal of reserves associated with claims payment for the snowstorm in February 2014. As a result, underwriting profit decreased by ¥10.9 billion year-on-year to be ¥0.2 billion. As for net investment income and others, they were almost flat from last year. As for net income, mainly due to decline in underwriting profit, net income declined by ¥10.5 billion year-on-year to be ¥0.9 billion.

Next, I will explain about Tokio Marine & Nichido Life Insurance Company. Please turn to page 11. First, I will explain about annualized premium. As for new policies ANP, while we limited the balance of long-term savings-type products such as variable annuities and whole life with long-term discount policy, we saw favorable sales in the third-sector owing to new accounts or insurance product launched in July. New policy ANP increased by 5.2%.

For in-force policies ANP, due to better market conditions, we saw increase in surrender and lump sum payout upon reaching target in variable annuities, leading to a subdued growth of 0.4% year-on-year. Excluding this factor, we saw a brisk 13.3% growth year-on-year.

Now, I will explain about the financial accounting. Net income increased by ¥4 billion year-on-year to ¥10.8 billion due to reversal of contingency reserves associated with surrender in variable annuities in addition to increase in interest income from foreign bonds. As for core operating profit, it increased by ¥0.2 billion year-on-year to be ¥13.2 billion.

Now, I will explain about international insurance business. Please turn to page 12. Following the tradition of disclosure format of our IR materials, I will explain the performance of international insurance business based on gross figures inclusive of overseas franchise (16:33) of TMNF, equity-method companies, as well as non-consolidated companies.

Net premiums written increased by 24% or ¥143.6 billion year-on-year to ¥741.8 billion due to the progress of growth measures in each business segment and depreciation of Japanese yen. To break this down by region, first in North America, top line grew by 27% mainly due to rate increases on renewal book as well as increase in new business at Philadelphia and Delphi. Europe recorded 17% increase due to the business expansion of Tokio Marine Kiln.

South and Central America stayed almost flat year-on-year due to currency impact, although on a local currency basis, top line grew due to strong sales of auto insurance in Brazil. Asia grew its top line by 20% year-on-year. While we were affected by the weak sales of automobiles in Thailand, sales of auto insurance increased in India and China.

Reinsurance grew by 71% while we were affected by the softening of the market. We were able to extend our non-cat business as well as multi-year contracts. Life insurance declined by 19% mainly due to the suspension of some products in Singapore.

Next, I will explain business unit profits of our international insurance business. Please turn to page 13. Business unit profit of our international insurance business increased by ¥2.5 billion over the year to ¥63.7 billion due to the decrease in natural cat losses and depreciation of Japanese yen.

To break it down by region, North America grew the profit by ¥16 billion due to business expansions and decrease in natural cat loss in Philadelphia as well as increased investment income in Delphi. In Europe, the profits declined by ¥9.4 billion, mainly because of several large losses and foreign exchange losses due to the depreciation of U.S. dollar and appreciation of UK pound. South and Central America stayed almost flat year-on-year due to currency impact.

On a local currency basis, the profit increased mainly due to increased investment income backed by rising interest rates. Profit in Asia declined by ¥2.1 billion as there was an extraordinary factor boosting profit in Singapore in the last fiscal year. Reinsurance grew its profit by ¥900 million due to the lack of reserve provisioning this year and currency impact.

In life business, profit declined by ¥2.6 billion, mainly because of fewer new business acquired as well as decreased unrealized gains associated with equity market declines in Singapore. For a more detailed performance of Philadelphia and Delphi, please refer to page 14 later.

Next, let me go over the business unit profit of our entire group as of the end of the first half on page 15. Business unit profit is one of our KPIs designed to understand enterprise value of each business properly after excluding impacts of reserves such as cat loss reserves that are unique to insurance business. And different from adjusted net income, sales gains and losses of business-related equities are excluded from business unit profits. And profit of life insurance business is measured based on increase in EV during the term under review.

Please also note that we changed the EV calculation method from traditional EV to MCEV this fiscal year to show economic value of the business properly. At TMNF, net income under JGAAP declined by ¥64.5 billion year-on-year, but business unit profit declined only by ¥23.5 billion. There is a gap between these two figures, because business unit profit does not take into account increased provisioning to the cat loss reserves nor a decrease in negative adjustment from FY 2014 associated with the impact of inclusion and expenses of taxable impairment losses on equities.

Next, domestic life insurance recorded business unit profit or grew their EV by ¥59.7 billion. TMNL grew their EV by ¥60.3 billion, out of which ¥30.8 billion is of areas between economic assumptions and actual results such as interest rates and ¥27 billion came from the increase in value of new business acquired this fiscal year. As for international insurance, I covered the reasons behind the business unit profit increase earlier. And this is the highlight of FY 2015 Q2 actual results.

I will now discuss FY 2015 full-year projections on page 17. Net premiums written of FY 2015 is now projected to be ¥3.230 trillion, which is an upward revision of ¥60 billion from our original forecast. At TMNF, based on the top line growth in the first half of the year, we made an upward revision by ¥15 billion. Outside Japan, we revised the guidance upwardly by ¥43.4 billion, while softening of the market as well as currency depreciation in emerging countries are likely to affect our top line. Reinsurance business is expected to expand non-cat business.

In the life insurance business, combining home and abroad, we project the total premiums to the ¥330 billion, down by ¥40 billion from the initial projection, reflecting the actual performance of domestic life business during the first half. This revision is also due to the shift from single premium payment to recurring payment in Asia. Consolidated ordinary profit is projected to be ¥320 billion, down by ¥30 billion from the recent projection and consolidated net income attributable to owners of the parent is expected to be ¥220 billion, down by ¥20 billion from the recent projection.

I will explain the consolidated ordinary profit in more detail later. A group-wide profit KPI adjusted net income is projected to be ¥296 billion, down by ¥31 billion from the original forecast. I will also cover more details later.

Let me first review the factors expected behind the consolidated ordinary profit projection on page 18. Consolidated ordinary profit is expected to be ¥320 billion, down by ¥30 billion from the original projection due to increase in natural cat losses in the domestic P&C business, as well as large losses both home and abroad. Within the domestic P&C business, ordinary profit of TMNF is projected to be ¥326 billion, up by ¥720 billion (sic) [¥72.0 billion] (24:23) from the original projection.

We made a downward revision to underwriting profit by ¥31 billion, reflecting the impact of natural cat and other large losses in Japan. Meanwhile, we made an upward revision by ¥101.6 billion to investment income and others due to increase in dividend from subsidiaries to be used for financing HCC acquisition.

In the domestic life business, ordinary profit is revised upwardly by ¥2.7 billion to ¥21 billion due to the expected increase in interest income from foreign bonds and sales gains of securities at TMNL. And projection for international business remains almost the same at ¥151.5 billion after factoring in decrease in net cat losses and increase and large losses.

Negative consolidation adjustment is now expected to increase by ¥105.8 billion from the original projection, mainly due to increased dividend from subsidiaries to finance HCC acquisition.

Next, please go to page 19 to review adjusted net income. It shows adjusted net income. Adjusted net income is revised down by ¥31 billion to ¥296 billion, while adjusted ROE is projected to be 7.8%, almost unchanged from the original forecast. We made downward revision to adjusted net income mainly due to increase in net losses incurred related to nat cats in domestic P&C business and increase in large losses in P&C business, both inside and outside of Japan. As for the changes in reconsolidation from our initial projection, please refer to the table later on this slide.

Next, I will discuss TMNF on page 20. At TMNF, underwriting profit is revised down by ¥31 billion to ¥27 billion. While net losses incurred by natural cat and other large losses are expected to increase, we also took into account increase in reversal from cat loss reserves. Investment income and others is projected to be ¥298.5 billion, up by ¥101.6 billion from the original forecast due to increase in dividend from subsidiaries to finance HCC acquisition, as I mentioned earlier.

All in all, net income is projected to be ¥279 billion, up by ¥82 billion from the original projection. However, increase in dividend from subsidiaries will be cancelled on a consolidated basis as part of the consolidation adjustment.

Next, please go to page 23 to review the guidance for Nisshin Fire. Net income of Nisshin Fire is revised up by ¥400 million from the original projection to ¥4.4 billion due to increase in reversal of cat loss reserves, as well as business expense savings.

Next, please turn to page 24 for TMNL. At TMNL, projection of ANP has remained almost unchanged from the original forecast. Net income is projected to be ¥14.4 billion, up by ¥1.9 billion from the original guidance due to increase in interest income from foreign bonds as well as increase in sales gains of securities.

Next, please go to page 25 to review premiums written in the international insurance business. Net premiums written is projected to be ¥1.280 trillion, up by ¥11 billion from the original forecast, while depreciation of currencies in emerging countries and softening of the market are likely to affect our business, reinsurance business is expected to increase its top line.

Next please go to page 26 to review business unit profit of our international insurance business. Business unit profit of our international business is now projected to be ¥123 billion, which is a downward revision by ¥4 billion. In North America, business is expected to expand and nat cat losses are expected to decrease in Philadelphia, and investment income of Delphi is likely to increase. We also took into account large losses in Europe as well as currency impact in Europe and Asia. As for projected performance of Philadelphia and Delphi in more detail, please refer to page 27 later.

Next, let us review the projected business unit profit on page 28. I would in particular like to focus on business unit profit of TMNL. Business unit profit of TMNL is now projected to be ¥101 billion, up by ¥31 billion from the original forecast, reflecting the impact of changes in the economic environment such as rising interest rate as of the end of September 2015.

This concludes my presentation. I'm now happy to receive any questions that you may have for the remainder of our time. Thank you.

Q&A

Operator

Mr. Sasaki, thank you for your presentation. Now, we'd like to start the Q&A. The operator is now explaining how to ask a question to the Japanese audience. We apologize for the inconvenience, but we ask you to wait online until the Q&A begins. The first question will be from Mr. Muraki of Deutsche Securities.

Q - Masao Muraki {BIO 3318668 <GO>}

Thank you for the opportunity. My first question is about the overseas business. If you go to page 26, I will be asking my question based on this slide. This time in the P&C business of the international insurance; due to Europe, you are making a downward adjustment to your forecast and the natural catastrophe occurrence in the overseas market, as a budget, I believe, it was ¥46 billion on pre-tax basis. But with the new plan, what is your nat cat budget according to the revised plan? And also, as of the end of September for the natural catastrophe that has already occurred in the international market, how much of the budget have you used up so far?

My second question is that on page 20. As you have explained, with the HCC acquisition you are sourcing your payment for the HCC acquisition by dividend income from the overseas subsidiaries and you are increasing the dividend payment by ¥9 billion but – ¥90 billion, but in order to recoup the ESR, are you going to, for example, accelerate your sell-down of equities, or do other measures to source the funding. And if I can receive some numbers, in the first half, you sold business related equities by ¥51 billion, but for the full-year, how much of an equity sell-down do you plan to do for the full-year?

A - Operator

My name is Iwata (33:34) from International Business Development department. To your first question, the overall natural catastrophe occurrence outside of Japan, originally, it was ¥46 billion, but now, we are budgeting ¥27 billion on post-tax basis. It's ¥27 billion before tax and ¥20 billion after tax. And the nat cat occurrence so far up to the second quarter is ¥11 billion. And as of the third quarter, (34:17-34:35) I apologize, for the most recent number up to the end of September, I will not be able to disclose that in this meeting today.

Q - Masao Muraki {BIO 3318668 <GO>}

[Foreign Language] (34:57). So about your international insurance business, so for – because you have reduced your nat cat loss assumption, the increase in profit impact should be about ¥14 billion after-tax basis. Despite this positive factor in the international insurance market, you are making a downward adjustment to your outlook for the international insurance business. Is that because of Tianjin and other large losses, which you have experienced in the overseas markets?

A - Operator

So low occurrence of natural catastrophes, I have already mentioned. That is a very positive factor for the profit. On the other hand, the Tianjin explosive accident and also, there are other large losses, which have occurred in the European region. And also, the FX volatility and FX losses, which Europe has experienced are the other reasons for the downward revision.

Q - Masao Muraki {BIO 3318668 <GO>}

Thank you. That's concludes my first question.

A - Operator

To your second question. And so what is the plan for the equity sell-down for the business-related equities for the full year, for this year, we have said that we will be selling over ¥100 billion on market value business in the second half of the year. We do have that same assumption even with the downward revision with the bank. (36:32)

And so what do we do about this going forward, as we have been explaining, adequate capital or appropriate capital level and also maintaining the good level of ESR will be the point of focus. So continuously, we will continue to reduce the equity holdings. And again, every year including this year, we will be selling down over ¥100 billion of business-related equity. And that is still in line with what we have explained to you in May this year. Thank you very much.

The next question is from Ms. Tsujino from JPMorgan.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

Well, first off, this time around, typhoon damages, typhoon 2015, in particular, initially, ¥32 billion was your guidance. However, by more than ¥10 billion, it seems that the magnitude of damage developed furthermore. And your assumption of the repair costs that have been – seems to be quite off (37:51) initially.

And furthermore, when it comes to pricing, while your projections were not too accurate, do you think that the pricing was done properly? Or do you think that you now have to increase the pricing for those (38:13) as well given what you have done in fire and also other lines of insurance policies as well?

A - Operator

My name is Nakai (38:24) from Corporate Accounting Department of TMNF. With regards to typhoon 2015, compared to what we announced as far as the news release, the actual damage increased furthermore by a little bit more than ¥10 billion. That is primarily due to the increase of the unit cost.

And in terms of how we come up with an estimation of the unit cost, we look at multiple typhoon experiences from the past and that how we came up with an estimate. And as we see the actual progression of the claims payment, we realize that the actual claims that we are now paying in terms of unit costs turned out to be more than we initially expected.

So what are the factors behind this increase? This is something that we're still analyzing in more detail. However, in actuality, depending on a magnitude as well as the direction of the actual typhoons, one by one, I'm sure that there are certain variances.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

I see. And I have two more questions. With regards to international business, perhaps, related to a previous question on page 20 as compared to your regional forecast to what you have announced this time around, I think that there are various assumptions or I believe that you assumed a lot of natural cat losses in North America particularly in reinsurance. However, that has remained pretty much unchanged. So is there any other negative factor that is really happening away from natural cat losses? So can you elaborate as to what's really happening outside natural cat losses? And also how do you project the future from the next term onward?

A - Operator

My name is Iwata (40:06) from International Business Development department. As you have correctly pointed out, natural cat, we are exposed to the risk in North America through reinsurance. We are also exposed to risk in Europe as well. And other than natural cat, we made downward revisions this time around, as we discussed earlier, including Tianjin and large losses and also FX losses. And also, due to the decline in the market – on real equity market, our realized gains in the life insurance business declined and that led to the downward revision.

With regards to forecasts in fiscal year 2016, in recent years, we are continuously seeing excessive capacity of capital in the reinsurance market, which seems to be providing some negative impact to the primary market as well. In developed markets, there is now a downward increased – expectation of increased downward pressure of rates in primary market as well in Asia and also in other emerging markets on the other hand, the economies are now slowing down. And in conjunction with that, the growth rate is expected to slow down. So given all of these factors, we will be developing the budget for 2016.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

I see. My last and third question, going back to Japan, underwriting profit minus natural cat losses and also net-net provision into cat loss reserves, I actually did some calculation, and compared to the original company forecast, I believe that ¥8 billion to ¥9 billion decline is the current projection according to what I have heard. So given that downward revision, I believe that the IBNR increase for the automotive insurance must be the biggest factor behind this downward revision. And in the first half of the year, of course, there was a negative impact of the – for example, last minute purchase of the five-year policies, for example. And I'm sure that there were several negative factors, but on the full-year basis, in terms of the comparison from the original projection, I believe that the increased provision into IBNR is the biggest factor. Is that understanding correct?

A - Operator

My name Nakai (42:37) from TMNF Corporate Accounting department. In terms of the variance from our recent projection with regards to auto, as you have correctly pointed out, of course, more than we initially expected, we are seeing an increase in the outstanding claims. So that's from the past historical year after this, that's one factor, unexpected. And also, in the first half of the year, for marine, cargos and also in other lines of business, we experienced large losses. And given all of these, we made some revisions to the original forecast. So that's another reason behind the downward revision from the original forecast.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

So there are positive factors you are saying as part of the underwriting profit. Is my understanding correct?

A - Operator

With regards to auto, on the gross basis, as mentioned earlier, the claims incurred from past historical year accidents has been increasing. However, there are other positive factors that are somewhat offsetting the negative factor.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

Okay. Thank you.

Operator

Next question is from Goldman Sachs, Mr. Noda. Please ask you question.

Q - Taichi Noda {BIO 16478436 <GO>}

Hello. I have three questions. So ¥31 billion of adjusted net income, why has that been lowered? So is it just very simply put, is it because of the natural catastrophe loss assumption by – increased by ¥30 billion or so? So is this the overall understanding of the reason? So that was just a confirmation.

The second question is about the business-related equity. Looking at your peers or looking at the banks, they have announced to accelerate their pace of sell-down of equity at Tokio Marine, they're in the course of the mid-term plan, which has started from this year. Will your plan for the equity sales remain unchanged because if you plan to change it due to the business environment including the peers, let me know.

The third point is about the HCC. Assuming of the M&A, the mid-term planned figures, are you going to be reviewing your numbers and changing your numbers or in the settlement announcement meeting to be held soon, would you be making any major announcements about revising your numbers for the mid-term plan?

A - Operator

My name is (45:32) from Tokio Marine Holdings. About adjusted net income, the difference in the forecasted number, as you see on page 19, so increase in the losses incurred from natural catastrophes is one reason. And also, there is additional provisioning to the catastrophe loss reserve, which has reduced compared to the year beginning. And also, at TMNF, there is an impact coming from the decrease in negative adjustment related to the expenses of taxable impairment losses of equity holdings by TMNF.

Mr. Noda, on page 19, we are showing the reasons that declined (46:16) this year's forecast. And as we have just said explained, so the factor related to natural catastrophes. And also there are other factors that lead to increase in the incurred loss. So these are the reasons. And so as you – right on page 18, the reasons written for the ordinary profits, and also there are additional factors written on page 19. So the difference – there is some difference coming from the catastrophe loss reserves to the adjusted net income.

And to your second question about our plan to sell down business-related equities compared to the year beginning, we are not pursuing any different directions than what we have already announced and have pursued in the first half of the year.

As we have been saying in a continuous manner, we will be reducing the risk associated with business-related equities. That is the biggest chunk of risk we have. So since 2002 when Tokio Marine Holdings was established, we have been reducing equities by about ¥100 billion per year. And this is something that we will continue to do going forward.

Other companies or banks, of course, we are watching what they do as well. So based on what we observe in the environment, we confirm ourselves. And your third question about HCC, your question was whether we plan to revisit the numbers of the mid-term plan. At the end of this month, there's going to be an IR management meeting to be held. So in that meeting, we will talk about some ideas related to the topic, which you raised in your third question.

Q - Taichi Noda {BIO 16478436 <GO>}

So your mid-term plans and also HCC acquisition, the linkage between the two topics will become more visible in that management meeting at the end of this month?

A - Operator

Yes, that is correct.

The next question is from Mr. Otsuka from Nomura Securities.

Q - Wataru Otsuka {BIO 16340098 <GO>}

Yes. Thank you for this opportunity. I have two questions. Number one, this is a very simple question, but in Tianjin JGAAP-based profit as of the end of the first half, ¥85.6 billion versus ¥220 billion on the full-year basis. Now looking at these two numbers, I guess, that the focus rate is a little less than 40%, relatively so. And yet in terms of the adjusted net income, you have pretty much achieved the half of what you were projecting on the full-year basis. And so how do you appreciate the progress rate as of the end of first half vis-à-vis the full-year target? Do you think that you are well on track?

And secondly, this might be a difficult question to be answered. However, both inside and outside of Japan, natural cat losses and also large losses have occurred, and excluding the impacts of those losses, for example, looking at the combined ratio improvement of the auto, how is that progressing?

And also looking at the top line of international insurance business on the other hand, how do you appreciate or assess the actual progress of the business? For example, top line growth, are they pretty much in line with your original projection or are you expecting slightly better than you initially expected? How is your take – what is your take on the first half progress?

A - Operator

So your point is that under JGAAP, the profit is expected to be skewed more toward the second half than in the first half and yet on the adjusted net income, we are rather expecting a normalized performance throughout the year. And basically, it's better to look at the profit based on adjusted net income, but, for example, when it comes to losses incurred by natural cat, there was a major number recorded in the first half and that is the same with adjusted net income as well. So that's the same between JGAAP and adjusted net income.

And on the other hand, when it comes to cat loss reserve, the development around those reserve are expected to improve in the second half. And also for the automotive insurance loss ratio is expected to rather deteriorate in the second half as it is always the case. And so, that might actually cancel off some of the other positive factors. So, there is positive as well as negative factors cancelling with each other, affecting each other in between the first and second half.

Next question will be from Mr. Sasaki of Merrill Lynch.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

I have two brief questions. So, the large losses and the payment related to the large losses you mentioned several times. So, just roughly, in the first half, the large losses-related payment, what was the total amount that you have paid in the first half? And also, from next year-end after as for the premium, I believe you will be making more collections related to this and how much collection shall we expect from next year?

On page 32, the adjusted net asset is explained on page 32. So, the goodwill amount has increased significantly. And I believe this is related to HCC. Is that the correct understanding? And also, you recently gave us ¥560 billion of goodwill that what's expected. But using this number, just like the actual goodwill happened to be less than that number, but is that the correct understanding?

A - Operator

So, as for the large losses, this is Nakai (52:48) speaking again from the corporate accounting. At Tokio Marine & Nichido, in the first half, it was a little less than ¥10 billion of claims paid related to large losses. In the overseas market, what was the situation?

My name is Iwata (53:11) from international business development. The definition of the large loss, the size of the business in each location is different. It's very difficult to define. For Europe, in the first half, after-tax basis, it was a little over ¥3 billion of loss that has incurred.

Sasaki-san, are you okay with the first question? Yes? So, the second question, on page 32, we are showing the revision of the adjusted net income. And we are showing the adjusted net asset, which you can see on the right. So, this is the average of the term. So, we take the number from the beginning of the term and end of the term and it's the average between the two. And so, in adjusted net asset, we do exclude the factors related to goodwill.

And when we made the announcement of the completion of the acquisition of HCC in the third quarter, we are going to consolidate them on balance sheet from the third quarter. Therefore, with the acquisition of HCC, the amount of the goodwill is the average of the term and it does get reflected to the end of the term. But the actual amount, et cetera, is still going to be considered after the end of the third quarter. And there are some market factors involved in this as well. Therefore, so that is another reason why we saw some decline in the adjusted net asset number. Thank you very much.

Our next question is from Mr. Otsuka from Nomura Securities.

Q - Wataru Otsuka {BIO 16340098 <GO>}

I'm sorry it's me again. I asked two questions and I got your answers on my first question, but I don't think my second question was answered. Well, my point was that excluding natural cat, how has your underlying business been trending? Has it been in line with the initial plan or has it been doing better than you planned?

A - Operator

This is Nakai (55:47) from corporate accounting department of TMNF. To start with the TMNF, excluding natural cat as well as large loss events compared to our original projection, there was no other factor that were different from what we initially expected at the very beginning of the year. To put it differently, the underlying business went as we initially planned.

And as for the international business, excluding natural cat impact as well as the currency impact and the impact of the large losses, excluding all of those, pretty much in – on a Japanese yen term, the business performed in line with the fund. And yet, of course, we need to continue to monitor the business trend going forward given that we're currently faced with tough market environment.

Q - Wataru Otsuka {BIO 16340098 <GO>}

Okay. Thank you very much.

Operator

The next question is from Mr. Niwa from SMBC Nikko Securities.

Q - Koichi Niwa {BIO 5032649 <GO>}

I have a question, just one clarification question with regards to shareholder return. So, you made a revision to adjusted net income. And in conjunction with that, because you're utilizing average adjusted net income in calculating dividend, maybe this downward revision works negatively to the dividend. And your guidance is ¥105 per share. And is there any risk or have you calculated ¥105 per share based on the current up-to-date situation?

A - Operator

Yes. As you have correctly pointed out, we made a downward revision by ¥31 billion for the adjusted net income because of two factors. One, we are now looking at the five-year loan average adjusted net income, and therefore although we made a downward revision, I don't think that there is going to be a significant impact because of this downward revision to your shareholder return calculation. And again, we are looking at the average adjusted net income in calculating the dividend payout which was valued at 37% at the very beginning of the year. And based on the revised plan, the payout ratio is expected to be about 38%. I hope it answers your question.

Q - Koichi Niwa {BIO 5032649 <GO>}

Okay. Understood. Thank you very much.

Operator

Next question will be from Mr. Majima of Tokai Tokyo Securities and Research Center.

Q - Tatsuo Majima {BIO 15338044 <GO>}

I'd like to be very brief. So, acquisition of HCC and how to fund for the payment, looking at the balance sheet, you are increasing your short-term funding and also you are tallying your equities and so are you going to be funding the entire amount of the HCC acquisition amount internally or would you ask – would you try to do any external funding to pay for HCC?

A - Operator

To answer your question, in June, while we made the announcement about HCC acquisition, this is based on what we announced back then and we are still in line with that. So, we will not be doing any equity financing. Also, we did announce our full year forecast as we have explained as part of the Tokio Marine & Nichido Fire's plan, we will be funding for this internally but we are also considering of doing some external funding, but the majority will be paid by cash on hand.

Q - Tatsuo Majima {BIO 15338044 <GO>}

Thank you.

Operator

There seems to be no question. So, Mr. Sasaki, please.

A - Shiro Sasaki {BIO 19269575 <GO>}

Once again, ladies and gentlemen, thank you very much for participating in Tokio Marine FY 2015 Q2 financial results announcement conference call. If you have further questions or if you need further clarification, please do not hesitate, but contact us at IR Group of our company. Once again, thank you very much for your participation.

Operator

This concludes today's conference call for Tokio Marine announcing the Q2 results for FY 2015. Thank you very much for staying till the very end of the program. Please hang up the phone. Thank you.