S1 2015 Earnings Call

Company Participants

- Shiro Sasaki, Corporate Communications and Investor Relations

Presentation

Shiro Sasaki {BIO 19269575 <GO>}

(Starts Abruptly) from Corporate Planning of Tokio Marine Holdings. My name is Sasaki. And as we have announced today, I would like to explain the overview of Second Quarter Fiscal 2014 results as well as the full year projections of 2014 of Tokio Marine Holdings.

We are providing the following five documents to be used in this meeting. Tanshin report; number two, information about major subsidiaries business results for six months ended September 30, 2014; PowerPoint document entitled overview of second quarter 2014 results and 2014 projections; supplemental material for conference call and financial settlements data.

I would like to ask you to access our website, then from the home page under topics, access the page where we disclose these materials and get your own copy via download.

In this conference call, we will be using the PowerPoint document and the supplemental material for the conference call to give you a presentation of the overview of the second quarter results and full-year projections for about 30 minutes first. Please turn to page three of the PowerPoint document.

First, I will explain about the consolidated ordinary income. Ordinary income was JPY2,172.8 billion year-on-year plus 5.2% increased by JPY108.2 billion. I will explain the reasons behind the increase factor-by-factor. Net premiums written for domestic and international loan life insurance business was JPY1,517.6 billion year-on-year plus 7.2%, up by JPY102.5 billion. This is mainly because of increase in our domestic P&C business centering around auto insurance, expansion of underwriting at international insurance businesses as well as positive impact brought by the progression of the yen depreciation.

Next, life premiums -- domestic and international life business was JPY201 billion year-on-year plus 19.5% or increase by JPY32.7 billion year-on-year. Life premium and financial life decreased because of increase in surrender associated with the recovery of the markets environment; however, Tokio Marine and Nichido Life Insurance Company increased its in-force policies steadily and new product sales in Asia being favorable.

Investment income was JPY316.4 billion year-on-year minus 11% or decline by JPY39.1 billion. This is because our financial life investment gains on separate accounts decreased year-on-year. Due to the booking of investment gains, the same amount of transfer to the reserve is made, and this makes the gain neutral on P&L basis.

Next, I will explain the consolidated ordinary profit. Please turn to page four. Ordinary profit was JPY185.2 billion year-on-year plus 24.6% or up by JPY36.5 billion. I will now explain the reasons for increase and decrease factor-by-factor for each domain shown on the slide.

At TMNF, ordinary profit increased by JPY47.3 billion because of the increase in net premiums earned associated with revenue growth, and decrease in net incurred loss mainly in auto.

At Nisshin Fire, ordinary profit increased by JPY8.4 billion due to decrease in net incurred losses mainly in fire and auto. An increase in amount taken down from catastrophe loss reserves due to the progress of claims payment related to the snowstorms in February of 2014. As a result, domestic non-life business overall had increased in ordinary profit by JPY55.8 billion. I will explain the details later.

In Domestic Life business, ordinary profit increased by JPY1.9 billion year-on-year, because at TMNL, there was increase in in-force policies and net investment income, and decrease in premiums ceded from Financial Life.

In Overseas Subsidiaries, ordinary profits decreased by JPY8.1 billion due to increase in natural catastrophe losses and

the reversal effect of reduction in Thai flood related to payments last fiscal year, despite positive effect of the depreciation of yen.

On Consolidated Adjustment, negative adjustment increased by JPY13 billion year-on-year. This is because of increase in dividends payment from consolidated subsidiaries of TMNF, which led to increase in consolidation, elimination.

Now let me explain about the net income. Please turn to page five. Net profit for the term was JPY142.9 billion year-on-year, plus 56.3% or up by JPY51.5 billion. Main reasons for increase and decrease is same as what I have explained earlier for ordinary profit. To add as an additional factor, at TMNF there was a decrease in valuation allowance associated with the decision to liquidate a security subsidiary which serves as a reason as to why net income grew more than ordinary profit. That was the overview of consolidated financial results.

I will continue on to explain about the overview of each company. Please turn to page six. First, I will explain about the overview of second quarter of fiscal 2014 earnings for Tokio Marine and Nichido Fire Insurance company. On this page, you will see upward arrows and downward arrows. Upward arrow means positive factor for P&L, downward arrow means negative factor for P&L.

First I will explain about different factors for underwriting profit and loss. My explanation will be mainly about private lines of insurance. Therefore, please look at the private insurance line on the left-hand side chart. For net premiums written, all lines of insurance increase your top-line centering around auto and personal accident lines of insurance.

Net premiums written for private insurance increased 3.5% or up by JPY29.7 billion. Excluding the impact of reorganization of the US branch as an overseas subsidiary, the increase was 5.3%. Earned premiums increased by JPY24.5 billion pushing up the earnings.

Line by line situation is explained on page eight. Please look at page eight later. Net incurred losses of private insurance overall declined by JPY18.8 billion, and I will explain each factor. For net incurred losses from natural catastrophes for this term, although we had Typhoon Halong in August, as well as torrential rain, there was a rebounce in incurred loss from Typhoon Man-yi last year and loss declined by JPY3.3 billion. As for net incurred losses excluding natural catastrophes, there was decrease in net incurred loss by JPY13.6 billion mainly from auto insurance line. Business expenses increased by JPY5.4 billion due to increase in agency commissions associated with revenue growth and consumption tax hike.

Next I'll explain about the Catastrophe loss reserve. This year, owing to decrease in reversal amount due to the improvement of the auto loss ratio, there was progression of claims payments related to the snowstorm in February of 2014 and the amounts taken down increased mainly in fire line. As a result, net provision to reserve decreased by JPY0.3 billion year-on-year. As a result, underwriting profit for the term increased by JPY41.8 billion to JPY50.1 billion.

Next, I will talk about investment income and others. Due to the increase in interest and dividend income, due to increase in dividend payment from overseas subsidiaries, net investment income increased by JPY6.5 billion to be JPY105.4 billion. The business related equities sold in the second quarter of 2014 was approximately JPY54 billion. Now most of the dividend income from overseas subsidiaries are eliminated on consolidated basis. Due to the factors I explained for increase and decrease in underwriting profits and investment income, net income increased by JPY60.5, to be JPY130.2 billion.

Next I will explain about the combined ratio. Please turn to page seven. First, let me explain about the written to paid basis ratio. This term although net premiums written increased, claims payments including loss adjustment expenses increased by JPY19 billion mainly due to snowstorm in February of 2014. As a result, private insurance line written-to-paid basis loss ratio improved by 0.2 points to be 58.5%.

Now I will explain about the expense ratio on written-to-paid basis. Despite the impact of consumption tax, due to increase in net premiums written, expense ratio improved by 0.5% to be 32.1%. As a result, written-to-paid basis combined ratio improved by 0.3 points year-on-year to 90.7%.

Here, I would like to also touch upon the earned-to-incurred-basis loss ratio. E-to-I loss ratio for the second quarter of 2014 improved by 4.1% to 58%. This is because net incurred loss in all lines but mainly in auto decreased. As a result, earned-to-incurred basis combined ratio improved by 4.6% year-on-year to 90.1%. On page eight, we are showing the line-by-line premium and loss ratio situations. On page nine, we are showing the details of assets management results; please refer to those pages later.

Now, I'll explain about Nisshin Fire Insurance Company, please turn to page 10. Nisshin Fires underwriting profit increased by JPY8.6 billion year-on-year to JPY11.2 billion due to decrease in net incurred losses mainly in fire and auto lines, an increase in amount taking down from the catastrophe loss reserve associated with claims payment relating to the snowstorm in February of 2014.

As for net investment income and other, mainly due to the reduction in gain on sales of securities, net investment income decreased by JPY0.3 billion year-on-year to JPY1.2 billion. Net income improved by JPY8.9 billion year-on-year to be JPY11.4 billion due to the factors explained earlier.

Now, I will explain about Tokio Marine and Nichido Life Insurance Company, please turn to page 11. First, annualized premium or ANP. The graph here shows the historical trend of ANP of new policies continues to grow strongly, and thanks to favorable sales growth in the first sector policies as well as individual annuities. The ANP of new policies grew by 26.9% year-on-year. ANP of in-force policies increased by 7.0% year-on-year due to the steady increase in in-force policy amount.

In terms of key figures based on the accounting standard, insurance premiums and others grew by JPY50.5 billion from a year ago to JPY344.7 billion due to the favorable growth of new policies, as well as in-force policies as I mentioned earlier. Net income increased by JPY800 million year-on-year to JPY5.9 billion due to the increase of interest income in others as well as growth in investment income.

Next, I will explain the actual performance of our International Insurance Business on page 12. Following the traditional disclosure standards used for IR materials, I will explain the performance of international insurance business inclusive of overseas branches of TMNF, equity method companies as well as non-consolidated companies.

Net premiums written increased by 15% from a year ago to JPY598.1 billion due to the progress of growth measures that we took in each business segment, as well as depreciation of Japanese yen. To break this down by region; first in North America, mainly driven by rate increases on the renewal book and strong sales of new business at Philadelphia and Delphi, net premiums written increased by 10% year-on-year.

In Europe, mainly due to the softening of the market, net premiums written declined on the local currency basis. However, it did increase slightly in yen due to the weaker Japanese yen. In South and Central America top line increased by 28% year-on-year mainly driven by growth of automobile insurance in Brazil.

In the Reinsurance business, despite the softening of the market, top line grew by 21% over the year due mainly to the growth of non-catastrophe business. Top line of life insurance business grew by 62%, thanks to the growth of sales in Singapore and Malaysia.

Next, let us review adjusted earnings of our international insurance business on page 13. Adjusted earnings of international insurance business declined by JPY9.9 billion year-on-year to JPY61.1 billion due to the smaller natural catastrophe losses, as well as a decrease in reserve related to Thai floods compared to last year. The earnings declined on a year-on-year basis, but we did still performed well vis-a-vis our initial projection of JPY105 billion.

To give you the breakdown by region. In North America, adjusted earnings decreased by JPY4.2 billion due to increase in natural catastrophe losses in Philadelphia as well as decrease in realized investment gains at Delphi. In Europe, adjusted earnings declined by JPY2.5 billion because unlike last year, we did not take down the reserves this year as much. And also due to a decrease in foreign exchange gains associated with the depreciation of US dollar against UK sterling.

South and Central America grew their adjusted earnings by JPY2 billion mainly because they expanded up the underwriting of auto insurance in Brazil and improved their combined ratio. In Asia the adjusted earnings declined by JPY5.7 billion, primarily due to the rebound effect of a decrease in reserves related to Thai flood in FY '13.

In life insurance business, the adjusted earnings grew by JPY3.2 billion year-on-year, thanks to growth of new business in Singapore. For more details about Philadelphia, Delphi and Kiln, please refer to page 13 later.

Next, I will discuss the group-wide total adjusted earnings during the second quarter. Please go to page 15. On the group-wide basis, the total adjusted earnings increased by JPY84.7 billion to JPY192.9 billion supported by the increased profit contributions from domestic non-life and life business. Let me highlight the important drivers behind this change.

To calculate adjusted earnings for the non-life business, we adjust the net income and net income of TMNF on the JGAAP basis increased by JPY60.5 billion year-on-year. But the adjusted earnings grew only by JPY37.7 billion, the differential between the two numbers is explained by the dividend income from overseas subsidiaries, as well as valuation allowance, both of which are positive factors to assist net income, but deducted in the calculation of adjusted earnings.

In the life insurance business adjusted earnings are defined as increase of EV during the term under review. At TMNL, adjusted earnings increased by JPY52.2 billion yen year-on-year, thanks to the increase of EV associated with the steady business expansion, as well as markets negative impact of our change in risk discount rate to EV that was recorded last year. And earnings of international insurance business declined as discussed earlier. This is the highlight of the actual financial performance of the second quarter in FY '14.

I would now discuss the full-year projection of FY '14 [ph]. Please go to page 17. We made an upward revision to the full-year projection of the consolidated ordinary profit by JPY15 billion from the original forecast to JPY350 billion. To start with the domestic non-life business, at TMNF we made a downward revision of underwriting profit by JPY17 billion due to an increasing provision for reserves for outstanding claims and foreign currencies associated with the fall of Japanese yen, a revision of net losses incurred in the past years in the Fire and so-call others line of business. Meanwhile, we made an upward revision to the forecast of net investment income and others by JPY32.9 billion taken into account the expected increase in dividend from overseas subsidiaries and our equity holdings. So the projection of ordinary profit is now revised upwardly by JPY15 billion to JPY285 billion.

In the domestic life business, we merged TMNL and financial life or TNFL into one company as of the 1st October 2013 by simply combining the two businesses, their total ordinary profit is now projected to be JPY10.5 billion, which is a downward revision of JPY6.3 billion from the original forecast mainly due to the expected increase in provision for underwriting reserve.

For overseas subsidiaries, we made an upward revision to the guidance by JPY14 billion based on the recent strong performance as well as depreciation of Japanese yen. As for the consolidation adjustment, negative adjustment is expected to increase in amount due to the growth of dividend from subsidiaries to TMNF.

Next, let us review the full-year guidance of consolidated net income on page 18. We expect the consolidated net income to become JPY270 billion higher from the original projection by JPY40 billion. We made this upward revision, because in addition to the factors that I mentioned earlier for ordinary profit, valuation allowance has decreased associated with our decision to liquidate our security subsidiary. Also because of the merger between TMNL and TMFL, deferred tax assets is now expected to be newly posted for TMFL. More details on our major subsidiaries are provided on page 20 onward for your reference.

Lastly, I will explain the full-year projection of adjusted earnings in FY '14 on page 19. The group total adjusted earnings are now projected to be JPY322 billion, up by JPY31 billion from the original projection and adjusted ROE is now expected to be 7.9% up by 0.5 point. Let me explain the major factors behind this revision.

In the domestic non-life business net incurred losses in auto is expected to decrease in TMNF. On the other hand, provision for reserves through outstanding claims in foreign currencies is expected to increase due to weaker Japanese yen, and losses in FX derivatives are projected to increase. So we made a downward revision by JPY4 billion to JPY103 billion at TMNF. For Nisshin Fire, the adjusted earnings are projected to be JPY8 billion up by JPY5 billion from the initial forecast due to the expected decrease in net incurred losses in auto and fire business.

In the domestic life business change in risk discount rate to calculate TMNL's embedded value from 7.53% to 7.43% will be accretive to the earnings. Taking also into account, increase in value of new business due to a steady increase in new policies as well as benefit of the merger with Financial Life, adjusted earnings are projected to be JPY90 billion, up by JPY15 billion. Main factors for international insurance business are as stated before. As for international insurance business from page 26 onward, please refer to those pages for more details.

In addition to the FX conversions, we also took into account the organic growth of the business and therefore we are expecting the adjusted earnings to be JPY120 billion outside Japan. So this is the highlight of the full year projection that we have for the year.

And I would also like to report to you that revision to dividend, as well as execution of share repurchase were approved at the Board meeting which we held today. In order to increase shareholder returns, the company decided to pay JPY40 per share as an interim dividend, and also to pay JPY40 per share at the end of the fiscal year. That means our full-year dividend will be JPY80 per share, which is an increase by JPY5 from the initial forecast or JPY10 on a year-on-year basis. Also the company decided on the share repurchase program with a budget of up to JPY60 billion or 20 million shares in order to enhance our shareholder return and also to enhance our capital efficiency. This concludes my presentation.