Q4 2016 Earnings Call

Company Participants

- Kiyoshi Wada, Group Leader, Corporate Communications and Investor Relations Group
- Tsuyoshi Hattori, Senior Managing Executive Officer

Other Participants

- Futoshi Sasaki, Analyst
- Kazuki Watanabe, Analyst
- Koichi Niwa, Analyst
- Masao Muraki, Analyst
- Natsumu Tsujino, Analyst
- Tatsuo Majima, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, thank you very much for participating in Tokio Marine Holdings' FY 2016 Full Year Financial Results Conference Call. Please be advised that during the presentation, all the lines other than the speakers' lines are put on mute, and this conference call is being recorded.

Before we begin, 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, therefore, may differ from the current projections.

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

Kiyoshi Wada {BIO 19963983 <GO>}

My name is Wada from IR Group of Tokio Marine Holdings. Let me explain the overview of fiscal 2016 results and 2017 projections of Tokio Marine Holdings which was announced today.

In this conference call, I would like to use the PowerPoint material available on our website under New Release and Topics to give you a presentation for the first 25 minutes or so. Then we will be taking questions afterwards.

Now, I will start with the overview of fiscal 2016 consolidated results. Please turn to page 3 of the PowerPoint material. First is the consolidated results overview. Net premiums written and life premiums are as shown on the slide. Consolidated ordinary profit increased year-on-year by 0.5% or by ¥1.8 billion to ¥387.6 billion. Net income attributable to owners of the parent increased by 7.6% or by ¥19.3 billion to ¥273.8 billion. Adjusted net income, which is a group profit KPI, was ¥406.7 billion, which is a major increase year-on-year.

Next, I will explain the factors related to consolidated ordinary profit. Please turn to page 4. In the Domestic Non-Life business, underwriting profit increased at Tokio Marine & Nichido Fire. Net investment income decreased due to reaction from last year's increase in dividend income from overseas subsidiaries related to acquisition of HCC. As a result, ordinary profit declined by ¥65.5 billion year-on-year. Domestic Life business saw a decline in ordinary profit due to increase in their business expenses and rebound from reversal of contingency reserve for variable annuities last year.

Overseas subsidiaries saw increase in profit due to profit contribution from newly consolidated TMHCC.

For consolidated adjustments, negative adjustment decreased due to decrease in dividend payment from consolidated subsidiaries of TMNF, which led to decrease in consolidation adjustment by ¥54.1 billion year-on-year.

Now, let me explain about adjusted net income. Please turn to page 5. Adjusted net income is a group profit KPI based on consolidated net income, then excluding factors unique to Non-Life business, such as impact of reserve provisioning, as well as gains and losses on sales and valuation of fixed assets in order to understand the underlying profit of the term coming from business activities. Adjusted net income increased by ¥54.8 billion to ¥406.7 billion and adjusted ROE rose by 1.8 points to 11%.

Year-on-year changes along the process of reconciliation from statutory accounting net income to adjusted net income are explained on the slide.

Now, I will turn to Domestic Non-Life business. Please turn to page 6. For net premiums written for private lines of insurance, auto insurance increased their top line. But there was an impact coming from fire line of insurance due to shortening of insurance period, which led to net premiums written of minus 0.7% year-on-year or a decline by ¥12.1 billion.

Line-by-line situation is explained on page 8. Net incurred losses of private insurance decreased by ¥21 billion due to factors such as decrease in net incurred losses relating to natural catastrophes occurring during the term and reaction from large losses which happened in previous year.

Business expenses for private lines of insurance decreased by ¥1.3 billion year-on-year due to decrease in agency commission payment coming from net premiums written decline. As for catastrophe loss reserve, mainly due to lowering of the provision rate of auto group, there was decrease in net provision by ¥50.6 billion year-on-year. As a result, underwriting profit increased by ¥102.2 billion to be ¥116.1 billion.

Next, I'd like to explain about the investment income. Details of this will be on page 9. Net investment income decreased by ¥164.4 billion to be ¥197.4 billion due to decrease in dividend income from subsidiaries, decreasing gains and losses on derivatives, and gains and losses on sales of securities.

Dividend payment from subsidiaries will be almost eliminated by consolidation adjustment. Therefore, there isn't any impact of this to group's consolidated earnings. Business-related equity sold in fiscal 2016 was approximately ¥117 billion and gain from the sales was ¥85 billion. Due to those above mentioned reasons, net income decreased by ¥52.9 billion to be ¥248.6 billion.

Next, I will explain about the combined ratio, please turn to page 7. In this term, the private insurance lines E/I loss ratio decreased to 57.7%, decreased by 2.4 points year-on-year due to decrease in natural catastrophe-related net incurred losses. As for expense ratio, business expenses decreased, however, due to decline in net premiums written, expense ratio went up by 0.1 point to 32.7%. As a result, E/I basis combined ratio lowered by 2.2 points year-on-year to be 90.4%.

Now, I will explain about Nisshin Fire Insurance Company. Please turn to page 10. As for the underwriting profit of Nisshin Fire, although there is an impact of reaction to catastrophe loss reserve, which was reversed last year, net premiums written increased and net incurred losses related to natural catastrophes decreased.

As a result, underwriting profit increased by ¥0.2 billion year-on-year to ¥8.1 billion. As for net investment income and other, mainly due to decline in interest and dividend income, it declined by ¥0.7 billion year-on-year to be ¥1.2 billion. As for net income, after reflecting corporate tax payment, net income increased by ¥0.4 billion year-on-year to be ¥6.5 billion.

Next, I would like to talk about Tokio Marine & Nichido Life Insurance Company. Please turn to page 11. New policies ANP was flat year-on-year, while excluding long-term saving products, we saw favorable sales with household income term product and increase in policies due to last minute demand before the revision of the standard interest rate, new policies ANP increased by 13%. For in-force policies ANP, due to steady increase in new policy sales, grew by 4.4% year-on-year.

Now, I will explain about financial accounting. Net income decreased by ¥5.9 billion year-on-year to ¥8.7 billion. This is due to increase in business expenses for systems investment expense and reaction to reversal of contingency reserve associated with surrender in variable annuities last year in addition to a decrease in gains on sales of securities.

As for core operating profit, which excludes reaction from reversal of contingency reserve and a decrease in gains on sales of securities, it decreased by ¥2.7 billion year-on-year to ¥22.3 billion.

Now, I'd like to explain about International Insurance business. Please turn to page 12. In the International Insurance business, net premiums written increased by 27% year-on-year due to the contribution of TMHCC and steady progress of various growth initiatives.

On a local currency terms, excluding the impact of the appreciation of Japanese yen, the business grew by 32% year-on-year. To break this down by region, North America achieved positive growth, thanks to the contribution of TMHCC. Philadelphia and Delphi also grew their top line due to rate increases in renewal book, as well as growth of new business.

Europe also grew on a local currency basis due to the expansion of business in Tokio Marine Kiln. However, due to the appreciation of Japanese yen, net premiums written decreased in yen term. South and Central America, as well as Asia grew, driven by the growth of auto business. Reinsurance declined primarily because of the rebound effect of increased sales of multi-year policies booked in FY 2015. Life Insurance business grew, thanks to sales growth particularly in Singapore and Thailand.

Next, let me discuss business unit profit of International Insurance business. Please turn to page 13. Business unit profit grew by 29% or ¥37.6 billion over the year, also due to the contribution of TMHCC and steady progress of growth initiatives.

On a local currency basis, excluding the impact of the appreciation of Japanese yen, the profit grew by 34% year-on-year. By region, the business profit of North America increased, thanks to the contribution of TMHCC. Europe and reinsurance also grew positively, mainly due to the absence of impact of large losses and foreign exchange gains recorded in FY 2015.

Meanwhile, in South and Central America and in Asia, the business unit profit declined due to large losses. For more details about three group companies in North America, please refer to page 14 at your convenience.

Next, I will explain business unit profit for the entire group on page 15. Business unit profit is a KPI that we use in order to understand corporate value of the respective businesses. Different from adjusted net income, business unit profit does not include dividend from group companies and self-gains of business-related equity. Also, to reflect the contribution of Life Insurance business, we take into account the growth of EV in the calculation.

Business unit profit of Domestic Non-Life business increased by ¥41.6 billion year-on-year to ¥167.6 billion due to the factors listed on the slide. Domestic Life grew by ¥561.6 billion from a year ago to ¥373.5 billion primarily due to the changes of definitions in the measurement method of MCEV in addition to the impact of rise in interest rate. And International Insurance business grew by ¥37.6 billion to ¥169.5 billion as I just discussed. This includes the overview of FY 2016 financial results.

Let me now discuss projections for FY 2017. Please turn to page 18. This is the overview of our consolidated projections for FY 2017. Based on the net premiums written and life insurance premium described on the slide, we project our consolidated ordinary profit to increase by ¥17.3 billion over the year to ¥405 billion.

And net income attributable to owners of the parent is expected to grow by ¥6.1 billion year-on-year to ¥280 billion. Adjusted net income is projected to decline by ¥24.7 billion to ¥382 billion due to the expected decrease in sales gains of business-related equities and dividend income in the Domestic Non-Life business as well as currency impact in the International Insurance business.

Next to review, how the consolidated ordinary profit is expected to move, please refer to page 19. Profit in the Domestic Non-Life business is expected to grow by ¥24 billion over the year to ¥345.5 billion due to the expected increase in underwriting profit and net investment income and other at TMNF.

Domestic Life business is projected to grow its profit by ¥21.2 billion over the year to ¥34.5 billion and International Insurance business is also expected to grow by ¥4.1 billion - is expected to decline by ¥4.1 billion to ¥170 billion.

In the consolidated adjustments, negative adjustment is expected to increase by ¥23.2 billion due to the projected increase in TMNF dividend income received from consolidated subsidiaries, while goodwill amortization is expected to decline due to appreciation of Japanese yen.

Next, to review our guidance on adjusted net profit, please turn to page 20. Adjusted net income is projected to decline by ¥24.7 billion from a year ago to ¥382 billion with the adjusted ROE of 9.8%, down by 1.2 point year-on-year. For more details about reconciliation from net income under JGAAP to adjusted net income and major differences from the previous year, please refer to the table on the slide.

Next, to review, Domestic Non-Life business, please refer to page 21. Net premiums written of private lines of business are projected to increase, mainly driven by auto insurance business. Net incurred losses are expected to go up by ¥14.1 billion due to the expected increase in top line, as well as the rebound effect of few large losses recorded in FY 2016.

Provision for a cat loss reserve is expected to decrease by ¥9.3 billion year-on-year, mainly due to the expected increase in takedown from the reserve in the auto business associated with the rise of loss ratio on the written paid basis. All-in-all, underwriting profit is expected to increase by ¥13.8 billion year-on-year to ¥130 billion.

Net investment income and other is projected to increase by ¥10.7 billion to ¥208.2 billion due to the expected increase in dividend income from subsidiaries. Based on these factors, as well as expected decrease in extraordinary gains and losses, net income is projected to grow by ¥21.3 billion to ¥270 billion.

Next, for Nisshin Fire, please refer to page 24. At Nisshin Fire, net income is projected to decline by ¥2 billion to ¥4.5 billion due to the expected increase in net incurred losses associated with the rise of unit repair cost in the auto business, as well as an average level of net cat losses that we are assuming for a normal year.

Next, for TMNL, please go to page 25. ANP of new policies is projected to decline by 24.2% year-on-year due to the suspended sales of long-term saving-type products as well as product revisions in conjunction with the revision of the standard interest rate despite our efforts to promote the sales of living benefit products.

In the meantime, on the JGAAP basis, net income is expected to increase by ¥15.1 billion year-on-year to ¥23.9 billion, and core operating profit is projected to grow by ¥12.1 billion to ¥34.5 billion due to the product revisions associated with the revised standard discount rate as well as expected decrease in provision for quality reserve based on suspended sales of long-term saving-type products.

Next, to review International Insurance business, please turn to page 26. In the International Insurance business, net premiums written is projected to decline by ¥12.4 billion to ¥1.642 trillion because of the expected impact of stronger Japanese yen, while we are expecting growth on the local currency basis based on the advancement of various growth initiatives that we are promoting.

Next, for the business unit profit of International Insurance business, please go to page 27. Business unit profit is expected to decline by ¥16.5 billion year-on-year because of stronger Japanese yen, average level of nat cats in a normal year that we are assuming as well as the rebound impact of foreign currency gains recorded in FY 2016. However, after normalizing these factors, the profit is expected to grow by 4% possibly against the actual FY 2016 as the underlying profit trend is favorable primarily in Asia, Europe and reinsurance.

Detailed projections for three group companies in North America, and business unit profit for the entire group are described on page 28 and 29, respectively, for your reference.

Last but not least, let us share with you our ESR. Please go to page 31. In calculating ESR, Tokio Marine measures risks based on 99.95% VaR for AA calibration and exclude restricted capital while we refer to the method of Solvency II in Europe.

To review where our ESR stands at the moment, please refer to page 32. This slide shows how our ESR changed from the end of September 2016 to the end of March 2017. As of the end of March 2017, our ESR increased to 139% due to the increase in net asset value and decrease in risk capital. Net asset value became ¥3.5 trillion due to the increase in unrealized gains of business-related equities in addition to the contribution of adjusted net income in the second half.

Meanwhile, risk capital decreased to ¥2.5 trillion, mainly due to the decrease in interest rate risk associated with the rise in interest rate as well as sales of business-related equities. Please also note that we are newly disclosing the impact of market changes on our ESR at this particular timing of the year.

This concludes my presentation. And we would now like to open the floor to entertain your questions.

Q&A

A - Operator

Thank you, Mr. Wada. Now, we would like to begin the Q&A. The operator is explaining how to ask a question to the Japanese audience. For the overseas participants, please wait until she finishes explaining that to the Japanese audience. Thank you.

The first question is from Mr. Muraki of Deutsche Securities.

Q - Masao Muraki {BIO 3318668 <GO>}

My first question has to do with the international business, U.S. business on page 14. You are showing us, for the three companies, performance excluding the FX impact, the Philadelphia is 7%, Delphi is 6%. For HCC, well, last fiscal year, it was not consolidated, but I wanted to know how much of benefit they got from the foreign exchange factor?

And also, if you look at page 28, for this fiscal year, excluding FX, the increase in top line is down to be 3%. And why are you expecting some slowdown in these U.S. businesses?

And my second question is on 25 about the Life Insurance business. Their net income was ¥8.7 billion. In the first half, the profit was ¥10.6 billion. And when you did the first half earnings announcement, you made an upward revision up to 16.9%. But why are you undershooting now? And I believe you had new policies in the second half. And I wonder if there was last-minute rush in demand in the second year, why is this undershooting your plan? And is that expected to recover in the new fiscal year?

A - Tsuyoshi Hattori {BIO 2408931 <GO>}

My name is Hattori from the International Business Department. On your question about the top-line growth for the year specifically and Delphi as written, the rate increase and also there will be more renewed policies and we expect the top line growth. And for the TMHCC factor, last year's numbers were not disclosed, but compared to last year, we expect a steady expansion of their top line throughout the year this year. And specifically, we cannot disclose your numbers for the previous fiscal year.

A - Operator

On the Corporate Planning of Tokio Marine & Nichido Life Insurance Company, my name is (26:56). Your question about for 2016 versus the performance for the first half versus the declining profit for the full year. For the term insurance, in the fourth quarter, before the rate revision, there was an increase in new policy pickup, and that is why in the second half, the result was undershooting the plan. And any increase in the profit increase for this fiscal year due to the revision of the standard interest rate, products are being revised. And due to that - due to this product revisions, there will be less burden for policy reserving and that will be the main factor with which we plan to see increasing profit.

Q - Masao Muraki {BIO 3318668 <GO>}

Thank you. And on the first part, on page 28, for the new fiscal year's increase in top line, it is going to be 3% or it's only going to be 3%. Why is it only 3% for the year with subsidiaries?

A - Tsuyoshi Hattori {BIO 2408931 <GO>}

My name is Hattori from the International business division. The 3% increase in net premiums written for the U.S. subsidiaries due to the tougher market environment, we have factored that into the forecast and we are seeing some slowdown in business. However, we are making steady progress and good growth of the business versus the market average. Thank you.

Operator

The next question is from Ms. Tsujino of JPMorgan.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

Thank you. On page 21. TMNF, looking at projections for this year, cat loss reserve on a written paid basis, because our loss ratio is increasing, you're expecting a more takedown, which is somewhat surprising assumption. And certainly, looking at the actual, I think net-net, I think the provision for auto was ¥10.5 billion compared to what you expected at the initial stage. I believe that it (29:30) is now declining. However, in actuality, how much takedown are you expecting to increase? How much incremental takedown are you expecting for this new year and how much deterioration are you expecting in actuality?

And if you can share with me furthermore, from the underwriting profit, excluding the net provision to cat loss reserve, so taking off (29:58) if you will on the year-on-year basis, how much change are you expecting this new fiscal year? That is my first question.

And my second question is on page 16 related to TMNL MCEV. You talked about changes in definitions for MCEV. What do you specifically mean by that?

A - Operator

My name is Watanabe (30:22). On your first question on the expected cat loss reserve, I did have clearly pointed out, this is relevant to auto business. More specifically speaking, in FY 2016, the loss ratio on written paid basis was low and therefore, we are expecting further reversal and that is expected to increase in the provision. And as you have currently pointed out, we have assumed that there would not be further takedown in new fiscal year.

And let me also share with you how we look at the underlying – the underwriting profit. In terms of the underwriting balance, we think that it is going to increase. On earned/incurred basis, looking at the earned premium and in current losses and the actual business expenses, if I look at the trend across these factors, first of all, there are two points to be mentioned, as written on the PowerPoint slide as well, in terms of net incurred losses, first, our views on nat cat losses, for FY 2016, for TMNF, ¥53.5 billion was actual against the budget of ¥42 billion. So that is the reversal effect from FY 2016.

And looking at large losses and also other factors that we assumed, in FY 2016, we actually had a big number that we recognized for other losses. So, including large losses for marine and also fire lines of business, we expect losses for the new fiscal year to be rather normalize. And these two factors will essentially (31:55) each other. And therefore, net-net, we think that the underwriting balance is going to be pretty much flat or is going to increase just marginally.

And if we are to take out the cat loss reserve from the underwriting loss, if you look at the currency losses, it was about negative ¥3 billion in FY 2016. However, in FY 2017, we're expecting the currency assumption to essentially stay flat. And therefore, this portion is going to cancel it up and, therefore, pushing the (32:21) adjusted profit in FY 2017.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

So that means that for the automotive line of business, essentially, you are expecting no major impact even excluding the cat loss reserve provision. So, in your explanation, on earned/incurred basis, underwriting balance would be pretty much flat, and the loss ratio for the auto is expected to increase. However, it is not expected to cause a material impact, is that correct?

A - Operator

For the automotive line of business, we don't think that the loss ratio is going to aggravate enough to impact the underwriting balance. And overall, comparing FY 2016 to FY 2017, we expect the business to essentially trend flat. So, meaning that some of the payment of claims are somewhat delayed for the automotive line of business. Looking at the number from the written paid basis, no, I think the other way around. I think that the claims is expected to increase.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

No, I think it's strange. On the written paid basis, the takedown is going to increase, and therefore, the payment is going to increase. However, on earned/incurred basis, auto is pretty much flat, meaning that timing of the claim payment is somewhat delayed. Is that the right way to put it?

A - Operator

In terms of difference between written paid basis and earned/incurred basis, yes. There is some time lag in terms of the claim payment timing. And in FY 2016, the written paid basis number is low, because we had relatively small outstanding claim balance at the end of the year. However, the loss ratio on earned/incurred basis is more reflective of what's really happening in the actual market.

My name is (34:24) Corporate Accounting and Financial Planning Department. To answer your second question on the measurement of the MCEV, as we explained back in November last year, through our IR materials as well, we revised the surrender risk as well as counter-payment risks in our definitions used in the calculation of MCEV. As a result of that, there was a positive impact by (34:52) ¥223 billion to our MCEV. So, there's officially no further change from what we explained in November last year.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

Understood. Thank you.

Operator

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

Q - Kazuki Watanabe {BIO 15948747 <GO>}

My name is Watanabe. I have two questions. So, the first have to do with the natural catastrophes overseas the actual last year versus the assumption this year. And the second is the adjusted net income for your forecast for this fiscal year, which is ¥382 billion and your target for the mid-term plan is ¥400 billion which is below the mid-term plan.

And looking at your FX impact at the end of 2016, it's ¥112 billion. So, FX hasn't changed much. So, what are the reasons why you're undershooting the target for the adjusted net income for the mid-term plan?

A - Tsuyoshi Hattori {BIO 2408931 <GO>}

My name is Hattori from the Corporate Planning. For the natural catastrophes for the international business, for fiscal 2016, for the actual nat cat loss, pre-tax business, it was ¥35.4 billion. This was below the assumption. And for fiscal 2017, according to our plan for the international business overall, we are expecting ¥47 billion of natural catastrophe budget.

A - Kiyoshi Wada {BIO 19963983 <GO>}

From the Holdings IR group, my name is Wada. The ¥382 billion versus ¥400 billion, and why is this short of ¥400 billion for this year. The major factors, I believe, there are two factors. The first is that the exchange rate hasn't changed too much. However, there is a difference by about ¥4. And last year, a dollar versus British pound, the FX rate played as one factor. And for the business-related equities, the actual sell-down of the business-related equities for this term was ¥120 billion. But for the new fiscal full year, we are still targeting ¥100 billion. So, these are the differences that played as factors to the difference in the two numbers.

Q - Kazuki Watanabe {BIO 15948747 <GO>}

Thank you. Thank you very much.

Operator

The next question is from Mr. Sasaki of Merrill Lynch Japan.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

Yes. Thank you very much for this opportunity. I am Sasaki from Merrill Lynch Japan. I have one question pertaining to U.S. business. On page 14 of the PowerPoint slides, excluding the currency impact, the expected – the year-on-year growth – compared to top line, the profit is trending essentially flat or declining, and I believe that is because the investment income last year weren't that well.

However, on the underwriting side, is there anything that was deteriorating? In terms of nat cat, I believe that the actual was actually lower, smaller than what you initially budgeted. However, in Philadelphia and also in Delphi in North America, what was actually deteriorating in their underwriting business, and also what's the background behind it?

A - Tsuyoshi Hattori {BIO 2408931 <GO>}

My name is Hattori from International Business Development Department of the Holdings. First, on Philadelphia, the business unit profit of Philadelphia was somewhat lower compared to top-line growth. And the reason behind this is that compared to FY 2015 and FY 2016, the nat cat losses incurred – sorry, please hold on for a second. Sorry about that. So compared to FY 2015 and FY 2016, nat cat losses increased. So, that's the major reason behind it.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

What about Delphi though?

A - Tsuyoshi Hattori {BIO 2408931 <GO>}

For Delphi, investment income and realized losses of the investment was recorded in the first quarter. And so, there was a negative factor related to their investment. And on top of that, loss ratio really increased. Because of these factors, on year-on-year basis, the profit is declining.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

On page 13, it says that if you increase investment income, the profit increased. So, maybe you enjoy some incurring (40:18) gains, however was there some capital losses that you (40:20)? And to begin with, why is the loss ratio increasing now?

A - Operator

With regards to realized losses of investment, in order to reduce risk in the first quarter, Delphi sold some risk assets. And with regards to rising loss ratio, for the Life Insurance business, for medical-stop loss and also disability insurance due to the intensified market – the intensifying competitive situation in the market, the performance did deteriorate. And currently, the company is working to improve the profitability, by improving the underwriting discipline.

Next question is from Tokai Tokyo Research Center, Mr. Majima.

Q - Tatsuo Majima {BIO 15338044 <GO>}

My name is Majima. The first question is on page 19, about this year's project as it was asked (41:29). So, the Non-Life Insurance business is expected to increase by ¥21.2 billion, and this is going to be the growth driver. And all the factors involved are due to the increase in the interest rate and also additional provisioning that was done last year. So, increase due to the product revision and also the increase in provision for underwriting reserves. So, how much of this out of ¥21.2 billion? And also, lowering of the range (42:03) decline for auto insurance, is that the factor that was calculated into this year's projections?

A - Operator

I'm (42:13) of Tokio Marine & Nichido Life. I'd like to answer your first question. And so, for 2017, the expected increase in the net income for 2017 and different factors playing into it. Top line, for 2017, we are expecting decline by 20% to top line, and this is due to the revision of the standard interest rate and due to the revision of the products accordingly. Due to those factors, the top-line is going to decline. However, that plays as an increase to profit on statutory accounting basis. And I cannot tell you exactly by how much, but I would say 20% to 30% of that impact is playing here.

And also, as we accumulate more import policies after one year, those in-force policies contribute to the profit. And so, that's another positive factor. And also, for the protection-oriented products, we want to increase sales of the protection product which we have at the business plan, and that is also part of the forecast.

Q - Tatsuo Majima {BIO 15338044 <GO>}

And so, the negative factors last year, how much of – the negative factor last year, how much was that, and that is playing as the positive factor this year? And so, there is additional provisioning that was done due to last-minute rush and demand for the life policies, right?

A - Operator

I'd like to answer your question. So, last year, in the fourth quarter, the term insurance sales increased and impact of this, plus in 2017, the expected top-line forecast. Those are the two factors that play into the overall projections for 2017.

My name is Tanaka (44:10) from the Personal Insurance Department. About the 2017 profitability of auto insurance, right now, in January of 2018, we are expecting ASV discount to be introduced, and those are the factors and that is on the assumptions for this forecast. However, for the execution to all of those business plans, nothing has been decided finally. So, I'd like to not disclose any details beyond this.

Next question is from Citigroup, Mr. Niwa.

Q - Koichi Niwa {BIO 5032649 <GO>}

Yes. I have a question related to shareholder return, as well as your capital position. More specifically speaking, where does this ¥25 billion capital coming from? And also, you are at 139% in terms of ESR which is above your target level. So, how should I make sense over your ESR current sense (45:22) vis-à-vis the target range?

A - Operator

My name is Hojo (45:17) from Corporate Planning Department of the Holdings. With regards to the decision of the size of the share repurchase, we decided to repurchase our shares up to ¥25 billion this time around. And on this particular program, as we have communicated before as well, we look at the market environment, capital position, as well as the availability of business investment opportunities comprehensively and then decide on the share repurchase on a flexible manner.

And so, 139% is the ESR that we are currently at, which is above the 130% ceiling level that we have set as the target level. So, based on this ESR position, as well as our considerations on market environment as well as business investment opportunities, we decided on ¥25 billion as the size of the share repurchase this time round.

So, 100% to 130% as the reference target range that we have set. And when our ESR exceeds 130%, even if the ESR does exceed 130%, we do not automatically use the surplus capital to repurchase our own shares. We would like to optimize our share repurchase program in terms of size as well as the timing. So, given our comprehensive considerations, we decided on ¥25 billion this time around. Thank you.

A - Kiyoshi Wada {BIO 19963983 <GO>}

I am Wada from the IR Group of the Holdings. With regards to an earlier question raised by Mrs. Sasaki, let us provide some additional comments.

A - Tsuyoshi Hattori {BIO 2408931 <GO>}

My name is Hattori from International Business Development Department of Holdings. There was a question with regards to the Delphi's profit decline vis-à-vis the top-line growth. Due to the income gains which is increasing, investment income is actually increasing even including capital gains and losses. And so, the underwriting performance is the main contributor to the fact that the profit did decline.

A - Operator

Any more questions from the floor? The operator is asking for the next question through the Japanese audience. Please wait on the line for the non-Japanese participants until the next question comes into the line. There is no more questions from the audience. So, Mr. Wada, I will return the microphone to you.

A - Kiyoshi Wada {BIO 19963983 <GO>}

Ladies and gentleman, thank you very much for attending the telephone conference for the overview of the 2016 results and 2017 projections. If you have any further questions or needs more clarification on any of the points, please do not hesitate to contact us. And once again, thank you for your participation. This is the end of the conference call.

Operator

This concludes the conference call for the earnings of the 2016 and as well as projections for 2017. And thank you for your patience, and please terminate each of your telephone lines. Thank you.