

## Q3 2016 Earnings Call

### Company Participants

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

### Other Participants

- Kazuki Watanabe, Analyst
- Masao Muraki, Analyst
- Natsumu Tsujino, Analyst

## MANAGEMENT DISCUSSION SECTION

### Operator

Ladies and gentlemen, thank you very much for participating in Tokio Marine Holdings' FY 2016 Q3 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 may, therefore, 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 the IR Group of Tokio Marine Holdings. Let me explain the overview of third quarter fiscal 2016 results 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 News, Release & Topics to give you a presentation for the first 15 minutes or so. Then we will be taking questions afterwards.

Now, I will start with the overview of consolidated results. Please turn to page 2 of the PowerPoint material. Net premiums written and life premiums are as shown on the slide. Consolidated ordinary profit increased year-on-year by 26.2% or by ¥65.5 billion to ¥315.7 billion. Net income attributable to owners of the parent increased by 26.1% or by ¥47.2 billion to ¥228.1 billion.

Progress of the net income against the fiscal year projection is 81.5%. Adjusted net income, group profits KPI will be explained in more detail on page 4. It excludes effects of provision for catastrophe loss reserve and amortization of goodwill associated with the acquisition of TMHCC, et cetera. Adjusted net income increased by ¥76.9 billion to ¥319.9 billion.

Next, I will explain the factors related to consolidated ordinary profit. Please turn to page 3. In the Domestic Non-Life business, due to increase in net premiums earned, decline in net incurred losses relating to natural catastrophes and decrease in net provision for catastrophe loss reserve, underwriting profit increased.

On the other hand, last year, there was increase in dividends income from overseas subsidiaries relating to acquisition of TMHCC whereas this year, there is a rebound of this factor, which led to decrease in net investment income.

As a result, Domestic Non-Life business overall saw a decrease in ordinary profits by ¥46.4 billion year-on-year. Domestic Life business saw a decline in profit due to decrease in gains on sales of securities and rebound of reversal of contingency reserve for variable annuities last year.

Overseas subsidiaries saw increase in profit due to profit contribution from newly consolidated TMHCC despite the stronger yen.

For consolidation adjustments, negative adjustment decreased due to decrease in dividend payment from consolidated subsidiaries of TMNF, which led to decrease in consolidation adjustment by ¥100.1 billion year-on-year.

Now, let me explain about adjusted net income. Please turn to page 4. 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 coming from business activities.

Year-on-year changes along the process of reconciliation from statutory accounting net income to adjusted net income are the two points explained on the slide. TMNF provision for catastrophe loss reserve decreased, leading to decrease in reconciliation amount. At the same time, TMHCC consolidation led to increase in reconciliation amount due to the amortization of goodwill. As a result, adjusted net income increased by ¥76.9 billion to ¥319.9 billion.

Now, I will turn to Domestic Non-Life business. Please turn to page 5. For net premiums written for private lines of insurances, 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 1.2% year-on-year or a decline by ¥16.8 billion.

FINAL

Line-by-line situation is explained on page 7. Net incurred losses of private insurance decreased by ¥32.9 billion due to factors such as decrease in net incurred losses relating to natural catastrophes occurred during the term and reaction from large losses which happened last year despite the increase in provision for reserve for foreign currency denominated outstanding claims due to progression of yen depreciation.

Business expense for private lines of insurance decreased by ¥4.3 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 ¥35.5 billion year-on-year. As a result, underwriting profit increased by ¥103.7 billion to be ¥99.7 billion.

Next, net investment income and others. As detailed on page 8, net investment income and others declined by ¥147.8 billion year-on-year to ¥146.5 billion mainly due to a decrease in dividends from overseas and domestic subsidiaries. But please also note that this does not affect our group-wide consolidated earnings since dividends from subsidiaries are almost eliminated in the consolidation adjustments.

Sales of business-related equities have amounted to approximately ¥97 billion since the beginning of this fiscal year, and sales gains are approximately ¥70 billion. In addition to these factors due to an increasing gains on sales of fixed assets, net income declined by ¥63 billion year-on-year to ¥193 billion.

Next, to review our combined ratio performance, please go to page 6. For private lines of business, loss ratio on an earned/incurred basis dropped by 3.7% for the year (08:05) to 57.7% mainly due to a decrease in net losses incurred related to natural catastrophes. Business expense ratio increased by 0.1 point year-on-year to 32.2% due to a decrease in net premiums written. As a result, for private lines of business, combined ratio on an earned/incurred basis decreased by 3.6 points year-on-year to 89.9%.

Next, let me discuss Nisshin Fire's performance on page 9. Underwriting the profit of Nisshin Fire grew by ¥1.1 billion from a year ago to ¥5.1 billion. This is mainly due to an increase in net premiums written and decrease in net incurred losses related to natural catastrophes. Meanwhile, net investment income and other declined by ¥1.1 billion year-on-year to ¥0.6 million due to a decrease in interest and dividend income. And net income stayed at ¥3.8 billion, flat from a year ago.

Next, I will discuss TMNL. Please go to page 10. ANP of new policies declined by 6.2% from a year-ago since we restricted the sales of individual annuities. But if we exclude long-term saving products, ANP of new business grew by 5.7% year-on-year due to an increased sales of protection products, which we have been focusing on, supported by new household income term insurance product. ANP of in-force policies grew by 4.4% year-on-year, thanks to the successful acquisition of new business.

To touch upon key figures under JGAAP as indicated on this slide, net income declined by ¥4.8 billion year-on-year, ¥11.8 billion. But core operating profit increased ¥2 billion year-

on-year to ¥24 billion since net provision for underwriting reserves decreased due to the limited sales of individual annuities.

Last, but not least, let's review the performance of International Insurance business on page 11. In the International Insurance business, net premiums written grew by 33% on the local currency basis due to the contribution of TMHCC and steady progress of various growth measures. But in yen term it only grew by 12% year-on-year due to the appreciation of Japanese yen.

To break this down by region, North America grew significantly certainly due to the contribution of TMHCC. Philadelphia and Delphi also grew their top lines on the local currency basis. Thanks to rate increases on renewal book and acquisition of new business. But due to the stronger Japanese yen, their top line declined in yen term.

Europe grew its top line on the local currency basis due to the successful expansion of business at Tokio Marine Kiln, but it also declined year-on-year in yen terms due to stronger yen. Reinsurance business went down, mainly due to the absence of an increase in multi-year policies, which were recorded in the previous year FY 2015.

Next, to discuss business unit profit of International Insurance business, please go to page 12. Business unit profit grew by 51% on a local currency basis due to the contribution of TMHCC and steady progress of various growth initiatives, but it only grew by ¥24.8 billion over the year to ¥120.4 billion, in yen terms, due to the appreciation of the Japanese yen. North America grew its profit, thanks to the TMHCC contributions. Philadelphia and Delphi also grew on a local currency basis due to an increase in the investment income associated with the growth of their underwriting books, but the profit declined due to stronger yen.

Profit from Europe grew due to foreign exchange gains and absence of large losses, which we recorded in FY 2015. Asia declined due to large losses as well as lack of one-off factors which boosted the profit in the previous year.

Breakdown for our three major businesses in North America are included on page 13 for your reference.

This concludes my presentation, and we would now like to entertain questions that you may have during the rest of the time. Thank you.

## **Unverified Participant**

Thank you, Mr. Wada. Now, we would like to start Q&A.

## **Q&A**

## **Operator**

Our 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 domestic and the overseas businesses. We want to know about the large claims that have occurred in both markets. Please let me know, for the domestic market, the loss ratio went up due to FX, and so it's really difficult to see what's really happening, but I would like to know to what scale the large-scale losses are happening compared to the usual times.

And also for the overseas market, in Brazil and Asia, I believe there are some impacts coming from such large losses, but overall in the third quarter, how was the situation compared to other times? And my second question is just a confirmation on some numbers, three months ago when you adjusted your projection, the overseas natural catastrophe losses, you were budgeting ¥36 billion, but looking at the actual occurrence of natural catastrophes for nine months, and also for the final quarter, which is October to December quarter for them. How was the situation and what was the forecast for the full-year basis?

**A - Operator**

My name is Watanabe (15:35) from the Corporate Accounting department. Regarding the Tokio Marine & Nichido Fire's large losses, I would like to tell you the situation for the large losses last year. Net incurred loss was ¥3 billion, a little over ¥3 billion last year. In the first half, we had (15:56) fire accidents, et cetera. So last year, in total, we had the loan payment of over ¥10 billion. For this fiscal year, we don't really have such large losses, so there is a reaction that we are (16:10) this year versus last year.

**A - Tsuyoshi Hattori** {BIO 2408931 <GO>}

Continuing on to the large losses from the overseas market, from the International Business Development department. My name is Hattori for Asia. We have had large loss on year-on-year basis. Of the difference of ¥5.9 billion, there was an impact coming from the increasing marginal distrust (16:37), yen appreciation. So, the impact coming from the larger losses is several billion yen.

In Latin America, a similar impact happened in Brazil. And on top of that, the loss ratio (16:54) of entire market went up. So this is not just something happening in Brazil, but the bad result is the large losses, and also large impacts, and also FX impacts as well as the repair cost impacts for the auto business, and we are now executing a recovery plan from this worsening of the loss situation.

Regarding the natural catastrophes, in the third quarter, net incurred loss was ¥19.5 billion full-year basis, on budget it's ¥36 billion, and we have Hurricane Matthew, et cetera, in Q4. However, we are still maintaining that ¥36 billion of natural catastrophe loss budget. And I believe it is going to sit within ¥36 billion by the end of the year.

**Q - Masao Muraki** {BIO 3318668 <GO>}

Thank you very much.

## Operator

Next question is from Ms. Tsujino of JPMorgan.

### Q - Natsumu Tsujino {BIO 2234779 <GO>}

Thank you very much for this opportunity. Now, as it was just mentioned with regards to overseas, Hurricane Matthew, is the losses incurred by the hurricane in the order of (18:18). I believe that was the magnitude that we were informed of before. And so that means that we still have about ¥15 billion or so buffer. And so, do you believe that you still have ample buffer left by ¥11.5 billion? And that is my first question.

And secondly, related to the sales of business-related equities, I believe that you have sold more than ¥97 billion so far this year and your target is ¥100 billion or more this year. Does it mean that in the fourth quarter, you're not going to stretch yourself and not going to sell more? Is that the right understanding?

### A - Tsuyoshi Hattori {BIO 2408931 <GO>}

My name is Hattori from International Business Development Department of the Holdings. With regard to Hurricane Matthew, as we responded in the second quarter conference call, the magnitude of the losses incurred has not been revisited. And therefore, it would reverse the nat cat losses. We believe that the actual losses are going to be within the budget.

However, of course, there are some further losses incurred by large scale accidents, and we still are monitoring the numbers. And therefore, we are not able to give you the final number just yet. However, we don't think that we're actually going to be too different than what we have initially budgeted for.

So you know that there are some losses that are actually incurred, because of large asset (19:44). We are not able to give you specific comments with regards to specific accidents. However, there were several large losses that we already factored into the revisions that we announced earlier.

### A - Operator

My name is (20:00) from Financial Planning Department of the Holdings. Let me answer your second question with regards to sales of business-related equities. As we have communicated traditionally, of course, we need to be mindful of our corporate customers and that is the reason why we have been carefully negotiating with the customers before we sell their equities. And we have already achieved close to ¥100 billion worth of sales.

And to your second – to your question as to whether we are going to accelerate these sales furthermore. We believe that we'll be able to stick to our schedule based negotiations. If we're to look at the market condition itself, but we don't think that we're

going to actually change the pace, speed of the actual sales. And we are sticking to the initial target of achieving ¥100 billion or more per annum. So I would say that we are even more confident that we can achieve the target this year.

**Q - Natsumu Tsujino** {BIO 2234779 <GO>}

Thank you.

**Operator**

The next question will be from Daiwa Securities, Mr. Watanabe.

**Q - Kazuki Watanabe** {BIO 15948747 <GO>}

This is Watanabe speaking. I have two questions. My first question has to do with ESR. What was the estimation amount at the end of the December? If you have the number, let me know.

The second question has to do with the premium rate for the auto insurance. So, there is (21:32) reducing the advisory rate, and if that's going to happen then are you going to lower your premium for auto?

**A - Operator**

My name is Matsuo (21:42) from Corporate Planning. As of the end of December, the ESR number has not been calculated, and we cannot answer that question.

Second question?

My name is (22:01). There was a decision to lower the advisory rate from the rating agency, and I know that decision was made. However, as for the specific level of the rate, nothing has been decided, and there's nothing more that we can tell you from our side. The loss ratio for this term was 60.5%.

However, we do estimate escalation of the repair cost and also there is going to be revision of the credit law, as well as the revision of the (22:34) tax. And therefore, we are expecting worsening of the combined ratio and therefore for April 2017, our auto premium, it is probably going to remain the same. However, for the further rate revisions that they talked to about, we would like to look at the market situation and other factors relating to the loss ratio.

Thank you very much.

There seems to be no question at this point in time. Thank you for your patience. There's seems to be no question at this point in time, so Mr. Wada over to you.

**A - Kiyoshi Wada** {BIO 19963983 <GO>}

Ladies and gentlemen, thank you very much for attending Tokio Marine Holdings FY 2016 Q3 financial results conference call today. If you have any further questions, please do not hesitate, but contact us anytime. Thank you very much for your attendance.

## Operator

With this we will now like to conclude Tokio Marine Holdings conference call announcing FY 2016 Q3 results. Thank you very much for your attendance today. This is the end of the call. Thank you.

*This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.*