Q2 2017 Earnings Call

Company Participants

- Kiyoshi Wada, Group Leader, Corporate Communications & Investor Relations Group

Other Participants

- Kazuki Watanabe, Analyst
- Koki Sato, Analyst
- Masao Muraki, Analyst
- Natsumu Tsujino, Analyst
- Tatsuo Majima, Analyst
- Wataru Otsuka, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, thank you very much for participating in Tokio Marine Holdings FY 2017 Second Quarter Financial Results Conference Call. Please be advised that during the presentation, all the lines other than the speakers' lines are put on mute. Please also note that this conference call is being recorded.

Before we begin, let me remind you that the presentation 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, I will hand over to Mr. Wada.

Kiyoshi Wada {BIO 19963983 <GO>}

My name is Wada from the IR Group of Tokio Marine Holdings. I will explain the fiscal year 2017 second quarter results and full-year projections of Tokio Marine Holdings, which was announced today. I would like to ask you to access our website. Then from the homepage under Topics, access the page to find the PowerPoint materials which we will be using today in the conference call. Presentation will be about 25 minutes, and after that we will take questions.

Please turn to page 3 for the consolidated results overview. Net premiums written was ¥1,806.4 billion year-on-year plus 6.2%, increased by ¥105.6 billion due to the expansion of underwriting at domestic non-life and international subsidiary, as well as the yen depreciation. Life insurance premiums increased due to increase in in-force policies at

TMNL, where life premiums was ¥445.9 billion year-on-year plus 4.9% or increased by ¥21.4 billion year-on-year.

As for profit, due to large natural catastrophes such as North American hurricanes and large losses at TMNF, consolidated ordinary profit was ¥93.6 billion and net income was ¥78.5 billion. Adjusted net income, a group KPI for profit which adjust impact of a catastrophe loss reserve and amortization of goodwill declined by ¥75.7 billion to ¥143.5 billion. Before moving on to the next page, I will explain about the impact of large natural catastrophes such as North American hurricanes to the entire group.

Please turn to page 33. As you can see, the net loss incurred for the large natural catastrophes is almost the same amount as what we announced in October. The large natural catastrophes we are referring to this time occurred in August to September. Therefore, usually any impact from the overseas businesses do not appear in the second quarter earnings.

However, this time, due to its materiality, we are adjusting the consolidation accounting and including its impact to the second quarter earnings of the group this time under the title of adjustment relating to large natural catastrophes. We are showing the full-year projections of natural catastrophes on the bottom of page 33, and we are expecting increase in the amount for both domestic and international businesses.

Next, I will explain about the consolidated ordinary profit. Please turn to page 4. In the domestic P&C business, although there was an increase of net investment income due to increase in dividend income from overseas subsidiaries at TMNF. Underwriting profit decreased due to impacts of large losses which led to ordinary profit decrease by ¥14 billion.

In domestic life business, ordinary profit decreased due to increase in provision for contingency reserve and decrease in gains on sales of securities. In overseas subsidiaries, the progression of yen depreciation and profit expansion in North America led to profit increase. However, including the impacts of large natural catastrophes, ordinary profit decreased. For consolidation adjustments, amount of negative adjustment expanded by ¥39.2 billion year-on-year due to increase in dividend payment from consolidated subsidiaries at TMNF.

Now, let me explain about adjusted net income. Please turn to page 5. Adjusted net income decreased by ¥75.7 billion to ¥143.5 billion. Along the reconciliation process from statutory accounting to net income to adjusted net income, you can see the various movements year-on-year as shown on the slide.

Now, I will turn to domestic P&C business. Please turn to page 6. Our net premiums written also in other lines of insurance grew their top line, which led to 1.9% year-on-year or up by ¥17.4 billion. Please refer to page 8 for line-by-line situation. Net incurred losses increased by ¥62.6 billion due to increase in net incurred losses relating to natural catastrophes and reversal effect of decrease in provision for foreign currency denominated outstanding claims reserves due to appreciation of yen last year, as well as impacts of large looses.

In the net incurred losses relating to natural catastrophes, the impact of Reinsurance from oversea subsidiaries relating to large natural catastrophes are included. Business expenses for private lines of insurance increased by ¥4 billion due to increase in agency commissions associated with the revenue growth and others. As a result, underwriting profit for the quarter decreased by ¥53.9 billion year-on-year to ¥7.9 billion. As for net investment income and others, net investment income increased by ¥36.6 billion to be ¥132.8 billion due to increase in dividend income from overseas subsidiaries despite decrease in gains and losses and derivatives and sales of securities. Details explained on page 9.

Most of the dividend income from subsidiaries are eliminated on consolidated basis. Therefore, there is no impact by this to group's consolidated earnings. Business-related equities sold in the first half of the year was ¥68 billion and capital gain from the sales was ¥52 billion. Due to the above-mentioned reasons, net income decreased by ¥11.6 billion to be ¥112.4 billion.

Next, I will explain about the combined ratio. Please turn to page 7. The private insurance line's E/I loss ratio increased to 61.8%, increased by 5.8 points due to increase in natural catastrophes related incurred losses, as well as reversal effect from last year's decrease in provision for foreign currency denominated outstanding claims reserves and the impact of large losses. As for the expense ratio, it worsened by 0.2 points year-on-year to 32.2%, mainly due to increase in net premiums written. As a result, private insurance line's E/I combined ratio went up by 5.6 points to be 94%.

Now, I will explain about Nisshin Fire insurance company. Please turn to page 10. Nisshin Fire's underwriting profit increased mainly due to net premiums written increased in fire and new products as well as decrease in net incurred losses relating to natural catastrophes, which resulted in underwriting profit increase by ¥0.6 billion year-on-year to ¥3.2 billion. As for net investment income and other, there was increase by ¥0.3 billion year-on-year to ¥0.9 billion due to reversal effect of foreign exchange losses in fiscal 2016. As for net income, there was a decline by ¥0.5 billion year-on-year to be €2.6 billion.

Next, I will explain about Tokio Marine & Nichido Life Insurance Company. Please turn to page 11. As for new policy ANP, while we suspended the sales of long-term saving product, new policy ANP declined by 11% year-on-year. However, excluding the long-term saving-type products, new policies ANP increased by 2.6% as we saw favorable sales of household income term insurance. For in-force policies ANP, we saw 3.7% growth year-on-year due to increase in new policies.

As for key figures in financial accounting, net income decreased by ¥4.4 billion year-on-year to ¥6.1 billion due to increase in provision for contingency reserves and decreasing gains on sales of securities. As for core operating profit, it decreased by ¥2.3 billion year-on-year to ¥14.2 billion due to partial provision of underwriting reserves owing to the last minute demand before reduction of the standard interest rate.

Now, I will explain about international insurance business. Please turn to page 12. Net premiums written of international insurance business increased by 14% over year to ¥867.6 billion due to the steady progress of growth measures implemented in each business and depreciation of Japanese yen. As you can see on the table on the far right, after excluding the currency impact, the top line still grew by 5%.

If we break this down by region, North America grew by 13% due to rate increases in renewal book and business expansion at three major group companies within the region. Europe also grew, thanks to recent expansion at Tokio Marine Kiln. In South and Central America, auto business grew in Brazil. And growth measures taken in various markets in Asia, particularly in India went well. As a result, those regions recorded significant growth respectively.

Next, to review business unit profit of international insurance business, please refer to page 13. Business unit profit declined by 55% or ¥43.6 billion year-on-year after reflecting adjustment related to large nat cat losses such as North American hurricanes during the third quarter. However, excluding this adjustment, the profit increased by ¥5.2 billion year-on-year.

As we reviewed at the outset, business unit profit by region does not reflect the impact of large nat cat events. On that note, I will now explain actual performance by region. First, North America grew by ¥10.8 billion overall, while Philadelphia was hit by large losses and TMHCC suffered from deterioration of foreign exchange gains and losses. Delphi's profit increased due to the absence of realized capital losses recorded in fiscal year 2016 and growth in investment income.

Europe and Reinsurance declined due to deterioration of foreign exchange gains and losses. However, Asia grew positively due to reserve takedown and profitability improvement in each country. For more details about three major group companies in North America, please refer to page 14 later.

Next, I will explain business unit profit of our entire group. Please go to page 15. We use business unit profit as a KPI to measure enterprise value of each business. Different from adjusted net income, dividend from group companies and gains and losses from sales of business-related equities are not included, and business unit profit for life insurance business is defined as the change (00:15:33) over a term under review.

Business unit profit of domestic non-life business was ¥69.1 billion, down by ¥29.6 billion year-on-year due to the reasons explained on the slide. Next, domestic life business went down by ¥113.6 billion to ¥86 billion. This is mainly because of the absence of the impact of the changes in the measurement methodologies of MCEV that we made last year, while there were positive factors such as rise in yen rate and economic improvement. International insurance business declined by ¥43.6 billion to ¥36 billion as we reviewed earlier.

This concludes the highlight of the second quarter results. I will now discuss full-year projections of FY 2017. Please turn to page 17. As for net premiums written in fiscal year

2017, we revised upwardly the original projection by ¥50 billion to ¥3,540 billion due to business expansion and depreciation of Japanese yen at overseas group companies. We also made an upward revision to life insurance premiums by ¥20 billion to ¥910 billion due to growth of in-force policies at TMNL.

Meanwhile, as for profit, we revised downwardly both consolidated ordinary profit and net income attributable to owners of the parent, due to large nat cat events in TMNF and international group companies, as well as increased provision for underwriting reserves for a new product at TMNL. As a result, adjusted net income was also revised downwardly by ¥67 billion from the original projection to ¥315 billion.

Please proceed to page 18. Ordinary profit of TMNF is revised downwardly by ¥17 billion to ¥322 billion, and Nisshin Fire is revised upwardly by ¥0.3 billion to ¥6.8 billion. Therefore, ordinary profit of the entire domestic non-life business is revised downwardly by ¥16.7 billion from the original projection to ¥328.8 billion. Projection for domestic life insurance business is ¥25.1 billion revised downwardly by ¥9.3 billion. And international insurance business is ¥125 billion, down by ¥45 billion from the original projection. As for consolidation adjustment, negative adjustment is expected to be reduced by ¥6 billion from the initial expectation.

Next, to review guidance on adjusted net profit, please refer to page 19. Major changes made from the original projections in the reconciliation from JGAAP-based net income to adjusted net income are shown on the slide. Adjusted net income is revised downwardly by ¥67 billion from the original projection to ¥315 billion.

Next I will discuss domestic non-life business, so please go to page 20. At TMNF, underwriting profit is expected to go down by ¥23 billion from the original projection to ¥107 billion, mainly due to increase in net losses incurred related to natural catastrophes and impact of large losses. Net investment income and other is revised upwardly by ¥5.9 billion to ¥214.1 billion due to increase in sales gains and losses of securities despite decreased dividend from subsidiaries. As a result, net income is expected to be ¥250 billion, down by ¥20 billion from the original projection.

Next, for Nisshin Fire, please turn to page 23. Net income of Nisshin Fire is expected to reach ¥4.9 billion, up by ¥0.4 billion from the original projection, reflecting the upward revisions made to the projected underwriting profit and net investment income and other.

Next, please go to page 24 for TMNL. ANP of new business is expected to be ¥114.3 billion, which is an upward revision by ¥22.7 billion from the original projection, reflecting the impact of a new commercial product. ANP of policies in-force are as shown on the slide. As for key figures on the financial accounting basis, net income is projected to be ¥16.3 billion, down by ¥7.6 billion; and core operating profit at ¥28 billion, down by ¥6.4 billion from the original projections, respectively. This is due to an increase in provision for underwriting reserves associated with the upward revision made to the new policy ANP.

Next, for international insurance business, please turn to page 25. Net premiums written of international insurance business is revised upwardly by ¥69 billion to ¥1,711 billion. This is due to business expansion, mainly in North America, South and Central America, and Reinsurance business, as well as increased shareholdings in a P&C subsidiary in India.

Next, to review the guidance of business unit profit of international insurance business, please go to page 26. Business unit profit is revised downwardly by ¥49 billion from the initial expectation, mainly due to the impact of large nat cat events such as hurricanes in North America. As for projection of three major group companies in North America and business unit profit on a group-wide basis, please prefer to page 27 and 28, respectively.

Last, but not least, I would touch upon our ESR on page 30. Our ESR is calculated based on risks measured at 99.95% VaR to maintain AA credit rating, while referring to European Solvency II method and deducting restricted capital from capital calculation.

To review where our ESR stands at the moment, please go the next page. This shows major factors behind the movement of ESR from the end of March 2017 through the end of September 2017. While net asset value decreased due to shareholder returns, risk capital also decreased. As a result, our ESR became 141%. Net asset value declined to ¥3.4 trillion mainly due to share repurchase, while there were positive factors such as profit contributions during the first half of the year, an increase in unrealized gains in business-related equities.

Risk capital declined to ¥2.4 billion, mainly due to decrease in interest rate risks associated with a decrease in interest rate volatility in addition to sales of business-related equities. Now this time, we decided for ¥100 billion share repurchase program based on our comprehensive assessment of factors such as liquidity of our shares in the market in addition to the level of ESR.

This concludes my explanation. We would now like to open the floor for Q&A session. Thank you for your kind attention.

Q&A

A - Operator

Mr. Wada , thank you for your presentation. We would now like to begin the Q&A. The operator is explaining how to ask a question to the Japanese audience. Please wait on the line until we come back.

The first question will be from Mr. Muraki of Deutsche Securities. Please ask your question now.

Q - Masao Muraki {BIO 3318668 <GO>}

About the international business and about the share buyback, I have some questions for you. So starting with the international business, large losses. What is the budget for the large losses? Compared to the year beginning plan, you have reviewed it and how has it changed?

Actually, this is not only for international, but including domestic and non-life business because if I look at page 8, it says large- and medium-sized losses in fire and others. If I go to page 13, Philadelphia and Europe had some large losses. But you have reviewed the projections, so how are you evaluating those losses for the rest of the term?

And also, when you experience such large losses and large natural capacities at the same time for next year and after for the premium rating, how are you expecting the premium rate to pick up? Regarding the primary underwriting and also regarding the Reinsurance business outside of Japan, what kind of impact would this bring?

The second question is about the share buyback. I would like a more detailed explanation on what you have done, because you have announced the share buyback this time, but usual dividend payment is ¥120 billion and I assume there will be some buyback in the second half. So, the net income forecast of ¥230 billion, there's some upside to that. And any upside that you will translate into shareholder return? And could you explain how you have derived at this conclusion?

A - Operator

My name is Hattori (00:28:10) from Tokio Marine Holdings. About the large losses, I'd like to answer your question. About the large losses in the international business, there are some business size differences from location to location and the definition of the buffer is quite difficult, but we always had some revised budget. And clearly at the commercial package, we saw some large fire; and in also Europe and Asia, we saw some large losses due to fire. And centering around those large losses, compared to the original plan, we have made about several billion yen of downward factor for intentional business.

And because of the large losses experienced this term, in the Reinsurance business there was overcapacity situation and softening of the market. However, due to the occurrence of the large natural catastrophes, including cat risk, I believe some hardening is going to take place in the Reinsurance market in other lines and in regions. I believe the decline in the insurance rate is going to come to a hold and perhaps some increase in the rate.

And in the advanced market, Reinsurance market, I believe hardening of the market is likely to occur as well in the primary underwriting side. Reaction of the markets coming from those external factors are still uncertain. And due to the excessive capacity, we believe the changes will not be as great as what we had in the past. However, towards the profit growth for the international subsidiaries, I believe this will become our business opportunity.

My name is (00:29:58) from the Corporate Accounting of Tokio Marine & Nichido Fire. Similar to the international business, our TMNF in the domestic large losses, we do have the year forecast and we do have some quantitative budget which we do not disclose as usual. But just for your reference, in the first half of the year, the year-on-year – as you can see on page 8, the large losses that we have experienced, the factor that we have this year was a factor by above plus ¥25 billion pre-tax basis to the net incurred losses. That was the magnitude.

And on (00:30:46) basis of our large losses, we define large losses to be anything of ¥3 billion or more and midsize to be anything that is above ¥1 billion in loss. So, the total impact at this time for the first half was ¥25 billion, which was factored into the annual fund. However, comparing this versus last year, we had very few large losses last year. And also, as for the increase in the first half, we believe these are old transient increases that we had experienced for the domestic side of the business.

My name is (00:31:33) from the Corporate Planning of Tokio Marine Holdings. About the share buyback, about the share repurchase, as we have explained in the past, we still have the same policy. Therefore, judging by the market environment, business opportunity, we make the decision comprehensively in order to remain disciplined in our capital management.

And your question was about the impact to the dividend payment, because if I combine dividend amount as well as the share buyback amount, we don't really have a target in terms of the payout ratio versus the net income. However, against the adjusted net income which is ¥325 billion, this translates to 67%. And as I have said, the share buyback decision is made again by keeping capital management to be disciplined, considering the market, business investment opportunities, et cetera, especially this time when we say that ¥100 billion maximum to be spent for share buyback.

This year, as Wada explained earlier, there have been typhoon, other natural catastrophes this year, but we are looking at our underlying earnings capability and we believe that is enhancing from year-to-year. Therefore, based on the accumulated profit that we have and even considering some changes that could happen in the financial market, we will be able to deal with them. And after the share buyback, about the capital level, we have ample capital to consider further business investment and we thought the capital was still robust.

We would like to enhance ROE continuously and any business investment that would contribute to the profit growth, shareholder return and also keeping the disciplined capital management are the keys in managing the capital overall. And based on those ideas, we have decided on the ¥100 billion to be spent for share buybacks. That concludes my answer.

Q - Masao Muraki {BIO 3318668 <GO>}

I understood very well. Thank you very much.

Operator

Next question is from Ms. Tsujino of JPMorgan. Please go ahead.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

Thank you for this opportunity. Well, first off, internationally, nat cat budget on a full-year basis. You're expecting ¥93 billion now on a full-year basis. Out of that, in the first half you already used [Technical Difficulty] (00:34:28-00:34:37) domestically in Japan, which looks small. However, out of ¥93 billion that you have budgeted for internationally, the ones that you used in North America and also the ones that you used other than North America in the first half. So my question is, how much budget is still remaining for the second half?

And also, there has been some fires in California, bush fire in California. I'm sure that you have some tentative numbers, so if you could explain to me what budget that you have set aside for the second half of the year? And my second question is as follows – related to the questions asked earlier, related to large-scale losses at TMNF domestically in Japan, specifically. Now, I normally look at underwriting profit and then I also – I'm factoring (00:35:33) movement of nat cat losses, and also net out provision for the cat losses in order to arrive at the adjusted underwriting profit. And of course, there is a very small noise related to foreign currency denominated outstanding claim reserve this time around.

And now in the first half, ¥54 billion is the adjusted underwriting profit, I believe, after taking – excluding all the Reinsurance to the TMNF from international insurance companies, and it turned out to include the ¥3 billion in the second quarter. And so, in the first six months it must be ¥87.4 billion. However, you're expecting ¥125 billion (00:36:21) on a full-year basis. So, I believe that is a downward revision by probably several billion yen, but not much in the second half.

In the auto line of business, I believe in the third quarter – the third quarter seems to be somewhat weak normally. So, maybe the somewhat weak first six months is attributable to large-scale losses. So my question is, are you in line with the full-year projection? Are you confident that you can actually generate more profit in the second half of the year through the underwriting business? You seem to have a major impact coming from large-scale losses in the first half. So my question is, are you confident that you are performing in line with your full-year projection?

A - Operator

My name is Hattori (00:37:18) from International Business Development Department of the Holdings. On your first point related to nat cat losses, let me answer your question. Before tax, we are expecting ¥93 billion as a nat cat loss this year, and it's only ¥9.5 billion that's been incurred. And in relation to that, related to hurricanes in North America, there was a ¥63 billion that we have disclosed this time around. And so, if you take out those numbers then the remainder (00:37:54) remaining for the second half.

As for the second half, there has been some bush fire in California which has occurred in the second half, and we are still tallying all the accurate numbers. However, the losses are expected to be several billion yen, and therefore it should be within the budget that we're setting aside for the second half of the year for the fiscal year.

Next, from TMNF. This is (00:38:25) from Corporate Accounting Department. Let me answer your question with regards to underwriting profit in the second half, as well as the full-year projections at TMNF. There has been some nat cat losses and also increased provision for cat losses that you have taken out in your estimation. Of course, I'm not too familiar as to what kind of specific estimations you have actually made, and therefore I'm not sure as to whether I can actually give you an accurate answer to your question.

However, having said that, looking at the large-scale losses impact in the first half – because last year was whether it'd be non-year (00:39:00) in terms of the large-scale losses and we rather had more significant large-scale losses in the first half this fiscal year on the other hand, these certainly reflected those actual performance in revising the full-year projection. We have assumed rather normal level of the large-scale losses in the second half.

And in terms of currency. In the first half, the yen appreciated by about ¥11; and in the second half of the year on the other hand, we are seeing the Japanese yen being depreciated furthermore. And therefore, in terms of the impact of the foreign currency denominated outstanding claims, it would rather be a positive factor in between the first and second half comparison.

And so, looking at the underwriting profit, nat cat and also cat loss impact and also currency impact all been excluded, we are slightly below 50% progress rate against the full-year projection. We are currently at 45%. And we believe that given that we have already factored in one-time factors, this is rather a reasonable projection.

Now, what I have done is actually not some weird adjustment, I have just took out the net provision to cat losses from underwriting profit and also the impact of the cat – the large-scale losses were excluded. And currency was rather positive last year and expected to be ¥0.4 billion (00:40:26) negative this year, which is actually not part of my calculation. My question is, on a full-year basis, in order to achieve your guided adjusted underwriting profit.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

You have only achieved 87-plus billion yen in the first half as opposed to ¥195 billion on full-year basis. How challenging do you think achieving this full-year target is? How confident are you in achieving this number? And when you say, large-scale losses, per your definition of the large-scale losses, how much impact was coming from your defined large-scale losses. Was it about ¥20 billion and is it going to completely disappear in the second half? Is that the reason why you're saying that you are confident in achieving the full-year guidance?

A - Operator

This is Sato (00:41:21) from Corporate Accounting Department of TMNF. So your question is not about year-on-year comparison, so putting aside the currency impact. Well, first of all, in between the first and second half of the year in terms of underwriting profit, as you have correctly pointed out, in the first half of the year, we recognized large-scale losses which primarily occurred in the second quarter. And therefore, through the course of the second quarter from July through September, the cost of the large-scale losses on underwriting profit was negatively affected.

Now, looking at the full-year projection. Related to the first question asked by Muraki san as well. On year-on-year basis, ¥25 billion positive impact is expected on year-on-year basis comparison. And on top of that, I would also add that perhaps the combined ratio on the earned/incurred basis and the underwriting profit.

Now, there is an increased provision in the initial year. However, in the second half of the year, due to some changes or movement of the loss ratio of the auto in the second half, we think that the provisioning burden in the initial year of the contract is going to become smaller. So, that is another assumption that we have factored into our full-year projection.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

Understood. Thank you.

Operator

Next question will be from Mr. Watanabe of Daiwa. Please ask your question.

Q - Kazuki Watanabe {BIO 15948747 <GO>}

My name is Watanabe. I have two questions. The first question is about share buyback, your philosophy for share buyback once again, because in October, AIG, medical stop-loss business, was acquired and you have made some investment. And while you are doing this, compared to what you have now, you have announced an amount that was bigger than the usual; share buyback of ¥100 billion. Why did you enlarge this amount?

The second is about the forecast for the adjusted net income for the domestic business. And so, what are the factors and why did you reduce the projections? Why did you make a downward revision to the adjusted net income projection?

A - Operator

My name is (00:43:47) from Corporate Planning. About the share buyback. This time we made some investments about the medical stop-loss and we have announced the buyback amount that was bigger than the usual. That was your question. And we don't usually have the normalized amount for the share buyback from time-to-time. As I said, we look at the capital level, market environment, forecast for the financial market, and also going forward what are the business opportunities that we have ahead of us.

And striking the balance between those factors, we make a decision and decide on the amount. And so this time, looking at the capital level especially and also considering the future business sell (00:44:34) investment opportunities, we thought ¥100 billion was the appropriate amount to be spent for share buybacks this time. In the second half, once we get there we will rethink about this again. But it's not that we preset the amount as a budget before share buyback; that is not how we do the share buyback program.

From Tokio Marine & Nichido Life, my name is Yamada (00:44:58) from the Corporate Accounting. So compared to the year beginning plan, the adjusted forecast towards a downward revision and why are we making this revision. About the specific figures, I will not be able to disclose. However, the product which we were not planning at the year beginning, actually market launched in October, that's one. And also, FX gain and loss which happened in the first half, there was a contingency reserve for which we had to make a net provision. So those are the two reasons why we made a downward revision to the plan.

Q - Kazuki Watanabe {BIO 15948747 <GO>}

Thank you very much.

Operator

Next question is from Mr. Otsuka of Nomura Securities.

Q - Wataru Otsuka {BIO 16340098 <GO>}

Yes. This is Otsuka from Nomura Securities. Sorry for being repetitive. However, my first question is related to share repurchase and my second question is related to your future performance. So my first question – sorry for asking you a very simple question. However, in May, on the 26th, when you held a large meeting, you disclosed materials which included your thoughts that you would explore other means than share repurchase in order to adjust the capital level. So, what has been the result of your internal study on this particular point? Now, you decided for ¥100 billion share repurchase this time around. Is this part of your behaviors or actions to adjust the capital level? So, that's my first question.

And the second question is about, well, this financial earnings that you disclosed is somewhat difficult to understand. However, as Mr. Wada mentioned earlier, I believe that the underlying earnings capability has been strengthened. And in looking at the guidance, of course, there has been losses related to hurricanes and therefore other growth numbers are now down (00:47:09). However, compared to your initial expectation at the very beginning of the year, do you think that the underlying earnings has been strengthened in an actuality?

A - Operator

This is (00:47:22) from Corporate Planning Department of the Holdings. To your first question related to share repurchase. Now, at the beginning of this fiscal year, we explained in IR meeting that in order to adjust the capital level, we would explore other means or new methodologies. On this particular point, next week when we have the IR meeting, Mr. Nagano, our Group CEO, is planning to share our thoughts as to how we look at this issue going forward.

And next, this is (00:48:01) once again. Now, with regards to your question on underlying earnings power, I was not making an earlier comment specifically vis-à-vis the initial expectation. For example, compared to last year and also compared to – looking back the past few years, in the respective business we have been implementing various measures. And of course, this is the final year under the current mid-term three-year long plan and throughout the course of these past three years, I believe that our company's underlying earnings capability has been steadily enhanced. So, that's what I meant to say earlier in answering previous question.

Q - Wataru Otsuka {BIO 16340098 <GO>}

Just some simple clarifications related to my first question. Now currently, the ESR is 141%. Is it adequate or not adequate? Is this the point that you're planning to explain in more detail in the large meeting next week? And secondly, related to my second question on underlying earnings capability being enhanced. On page 25, you made an upward revision to the earnings internationally. Isn't that perhaps a demonstration that the underlying earnings capability is being actually enhanced?

A - Operator

Well, this is once again (00:49:22) from Corporate Planning Department of the Holdings. Now, with regards to 141% being - whether adequate or not. Our target is to keep our ESR in between 100% and 130%, and therefore, we certainly feel comfortable that ESR of 141% is an adequate level. And we talked about our considerations to explore other means than share repurchase to adjusted capital level in the last large meeting. And this is the point that Mr. Nagano is planning to follow up on in the next large meeting.

And to your second clarification question, we made an upward revision to our international earnings. Now, this is probably repetitive. However, not really compared to the initial expectation or on a year-on-year comparison from a longer-term perspective. I meant to say that compared to, for example, the previous mid-term plan during the course of the current mid-term plan, we think that our underlying earnings capability have been reinforced. So I know that this is somewhat a qualitative statement; however, this is our appreciation.

Q - Wataru Otsuka {BIO 16340098 <GO>}

Thank you.

Operator

Next question will be from Mr. Sato of Mizuho Securities.

Q - Koki Sato {BIO 19983862 <GO>}

Thank you for the opportunity. My first question is that the - the natural catastrophe-related information you have disclosed and your revised nat cat budget. On page 18, waterfall figure, for domestic P&C, ¥41 billion is here. And if I go back to page 33 - and I believe this is for the business unit profit basis, you have expanded the budget by ¥21 billion. So are these two numbers - two different numbers that are not in agreement? That's my first question.

The second question is that, also on page 33 for the domestic non-life business nat cat budget, you have expanded it by ¥21 billion. On the other hand, for the hurricane impact on business unit profit basis for domestic P&C, the impact was only ¥0.8 billion. And so, the expansion of the nat cat budget down here. Where does that come from? That's my overall question to you.

The second point is that for domestic life insurance business on statutory accounting basis, reserve, provision, et cetera, there was a downward revision for the life business. But if I look at the business by unit profit basis, there was an upward revision and new product was launched which I'm sure was a contribution and plus interest rate rose, so that was another contribution. Specifically, on page 28, for the business unit profit where ¥53 billion became ¥117 billion, so this was an upward revision by ¥64 billion. How much was the interest rate impact out of this difference?

A - Operator

My name is (00:53:11) from Tokio Marine Holdings Accounting Department. I'd like to answer your question about the natural catastrophe budget, business unit profit versus statutory accounting basis profit, what are the differences. Some of the major factors, if you go to page 33, for the North American hurricane impact. On business unit profit basis, most of the impact is coming from the international insurance business.

However, partly there is some impact at TMNF which is by ¥18.7 billion, which is being booked at TMNF on financial accounting basis. And this is still reflected in the full-year forecast on business unit profit basis. In the domestic P&C business, we have expanded the nat cat budget by ¥21 billion. However, on financial accounting basis, we are increasing this by ¥41 billion, and ¥20 billion is the difference between the business unit profit versus financial accounting basis.

And similarly, for the nat cat related question, the impact of the hurricane at the TMNF basis, the impact is ¥0.8 billion. However, the full-year projection rose by ¥21 billion. So why is there a difference? Other than the hurricane, we have some impact coming from the typhoon. For example in the September, there was typhoon number 18 which hit us by ¥11.3 billion of net incurred loss; plus in October there was typhoon 21 that hit Japan and we are expecting about ¥30 billion annually as net incurred loss. And due to those factors, we have to expand the nat cat budget for the year.

From Tokio Marine & Nichido Life Insurance Company, my name is Yamada (00:55:03) from the Corporate Accounting. For the domestic life business, the business unit profit, I believe you are talking about the difference between the original plan versus the revised plan where it was originally ¥53 billion, now it's ¥117 billion, the difference is ¥64 billion. And what is the impact of the interest rate within this difference? We cannot disclose the specific figure; however, I can say that most of this difference is coming from the changes in the macro economy, including interest rate hike in yen.

Q - Koki Sato {BIO 19983862 <GO>}

Just one point to clarify about the life business. In 2016, I believe the actual figure for 2016 was ¥20 billion plus due to change in the MCEV and I'm sure macro economy changed in the meantime. But basically, are we expecting decline in profit still?

A - Operator

My name is Yamada from the life (00:56:13) company again. Decline in profit, meaning?

Q - Koki Sato {BIO 19983862 <GO>}

Excluding the MCEV calculation method change, are we still seeing reduction in profit? Yes, that is my question.

A - Operator

In 2016, the increase in MCEV was ¥373 billion. And as of that, the difference coming from the MCEV change was ¥243 billion. And so, excluding that it was ¥150 billion of difference.

Q - Koki Sato {BIO 19983862 <GO>}

I got it. Thank you.

Operator

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

Q - Tatsuo Majima {BIO 15338044 <GO>}

This is Majima. I have one question to ask you, on page 18, which has been asked over and over already, but in the second half, nat cat assumptions. Now, you are I believe already starting to take down cat loss reserve. And I believe that that would essentially offset the losses. And therefore, in the second half, I believe to be on the (00:57:34) side, whether the nat cat losses are to be expanded furthermore or not. I don't think that they're actually going to impact the business performance perhaps, because of the take down of the cat loss reserve. Is my understanding correct?

And according to this waterfall chart, ¥41 billion impact of natural cat losses as opposed to ¥26.9 billion impact of the cat loss reserve. What is the difference between the two?

A - Operator

This is Sato (00:58:03) from Corporate Accounting Department of the Holdings. On a non-consolidated basis at TMNF, let me answer your question. In the second half of the year, whether we can actually absorb all the losses related to the nat cat losses with the take down of the reserve, that is something that we actually do have to assess by looking at the losses incurred in what specific line of business, and we also have to abide by the rule. And we have to see whether we can actually take down the cat loss reserves or not by connecting the losses to the actual business where we have written the losses. However, as you have currently pointed out, primarily around in the fire line of business through the take down of the reserve, we do believe that most of the cat losses are going to get absorbed.

And to answer your other question about the difference between the ¥41 billion of natural cat losses incurred versus the impact of the cat loss reserve. I believe those numbers do not actually merge up (00:59:16) with the upward revision that we should be making. But again, on the group-wide basis, we will have to abide by the rule in deciding how much we can actually take down from the reserve, and therefore the numbers do not necessarily merge up (00:59:32) all the time.

And also, at TMNF, the nat cat loss budget is ¥80 billion, most of which is expected to be actually paid throughout the course of this current fiscal year. However, it is (00:59:46) 100% will be paid, and therefore there will be some outstanding claims as of the end of March this year that we have also factored in as an assumption. And so, that should be looked at against the take down or the provision of the cat loss reserves next year.

And also, initially we expected ¥40 billion as the budget for nat cat loss throughout this fiscal year. And because the loss in the fire line of business was actually less than 50%, until it reaches 50% in neutrality (01:00:24) the losses will always have to incur without us being able to take down the losses – take down the cat loss reserve, and that is where the difference is coming from.

Q - Tatsuo Majima {BIO 15338044 <GO>}

So, which particular line of business has not reached a loss ratio which allowed you to take down the reserves? I thought that across all different lines of business, you have reached the threshold lines, but...

A - Operator

This is Sato (01:00:54) from the Corporate Accounting Department. We do not disclose the specific numbers by line of business, but your understanding is correct. However, with regards to the fire line of business, while we still have the budget of the ¥40 billion, the actual loss ratio was still short of 50% threshold. And that is a reason why we are seeing a difference that you asked earlier.

Next question is from Ms. Tsujino of JPMorgan.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

About the profit of the Tokio Marine & Nichido Life Insurance Company. The dividend payment for the policyholders, if we exclude the reserve for the policyholder dividend payment, in the first quarter it was ¥4 billion. This was very low. However, afterwards in the first half, it's ¥10 billion, and so there was additional ¥6 billion. And in the first quarter, there was additional net provision to the reserve. But then in the second quarter, there was an addition of ¥6 billion.

The full-year amount, ¥34.5 billion; the progress was quite slow. And ¥34.5 billion for the full year, the regular – the standard provision was included in this number. And this time, the reason you're making a downward revision that is because the impact of the product in October, and also there was an FX gain which will impact to the profit in the second half. So everything is coming in the second half, it seems like. But if that's the case then why are we making such a slow progress in the second quarter and that doesn't really explain. So...

A - Operator

Yamada (01:03:06) from Corporate Accounting of Tokio Marine & Nichido Life. Your question is that - compared to the original plan, the adjusted plan, the net income changed to ¥23.9 billion to ¥16.3 billion and you mentioned the ¥34.5 billion, but I believe you are talking about the core operating profit, and I believe you want to know the forecast of the core operating profit of the life business.

And somebody asked earlier that, originally, there was a product which we were not planning to sell which we actually started selling in October. So, that's one. That's one major reason for the reduction in profit. The second is the FX loss and the provision to the reserve. That already appeared in the second quarter and that was factored into the plan this year. So it was not part of the plan for the beginning of the year, but now it is part of the plan.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

I got it. That explains it. I understand why second quarter number was low.

Operator

There seems to be no questions. So Mr. Wada, over to you.

A - Kiyoshi Wada {BIO 19963983 <GO>}

Ladies and gentlemen, thank you very much for participating in Tokio Marine Holdings' fiscal year 2017 second quarter financial results conference call. If you have further questions or if you need further clarifications, please do not hesitate to call us. Thank you very much for your kind attention.

Operator

This concludes Tokio Marine Holdings' fiscal year 2017 second quarter financial results conference call. Thank you very much for your participation till the very end. Please hang up the phone. Thank you.