Q4 2015 Earnings Call

Company Participants

- Kiyoshi Wada

Other Participants

- Futoshi Sasaki
- Kazuki Watanabe
- Masao Muraki
- Natsumu Tsujino
- Taichi Noda
- Wataru Otsuka

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, thank you very much for participating in Tokio Marine Holdings FY 2015 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 may differ from the current projections.

With that, let us get started with the conference call. Mr. Wada, please.

Kiyoshi Wada {BIO 19963983 <GO>}

My name is Wada from (00:54) IR of Tokio Marine Holdings. Let me explain the overview of fiscal 2015 results, and fiscal 2016 projections of Tokio Marine Holdings, which was announced today. We will mainly use the PowerPoint document that can be found on the top page of our website to give you a presentation for the first 30 minutes. Afterwards, we will have a Q&A session.

Please turn to page three of the presentation material. First, I will explain about the consolidated results overview. Net premiums written was ¥3,265.5 billion year-on-year, plus 4.4% or increase by ¥137.9 billion. This is mainly because of increase in premium income at domestic P&C business centering around also on fire insurances, as well as expansion of underwriting of International Insurance business. Next, life premiums of domestic and international life business was ¥471.6 billion, year-on-year, plus 114% or an increase by ¥251.2 billion. Life premium increased because of increase in in-force policies at TMNL, as well as because of less surrender of variable annuities formerly sold by Financial Life.

Ordinary profit was, year-on-year, 7.7% increased by ¥27.6 billion or ¥385.8 billion. Net income attributable to owners of the parent was, year-on-year, plus 2.9% or increase by ¥7.1 billion to ¥254.5 billion. We will explain more about the consolidated ordinary profit in more details later on. Adjusted net income, which is KPI for the group total, is calculated by taking financial accounting basis net profit, then deducting impact such as additional provisioning to catastrophe loss reserve. Adjusted net income of the term was plus 8.8% year-on-year or increase by ¥28.6 billion or ¥351.9 billion.

Next, I will explain about the factors influencing consolidated ordinary profit. Please turn to page four. In domestic P&C business, at Tokio Marine & Nichido Fire, there was a decline in underwriting profit but increase in net investment income, ordinary profit increased by ¥113.1 billion. As for underwriting income, net premiums earned increased, but at the same time there was increase in net incurred losses related to natural catastrophes, higher large losses and increase in net provision to catastrophe loss reserve leading to decline in underwriting profit. Nisshin Fire, however, there was increase in the dividend income, and there was an improvement in the gain from the derivatives, and the sales coming from the security sales, which led to increase.

Nisshin Fire saw increase in net premiums earned, but some increase in net incurred losses related to natural catastrophes and net provision for catastrophe loss reserve, its ordinary profit was a decline by ¥7.9 billion. Due to the above mentioned reasons, domestic P&C business overall had increased in ordinary profit by ¥105.2 billion. In Domestic Life business, we saw a reversal of contingency reserve associated with surrender of variable annuities. Other results, ordinary profit increased by ¥8.3 billion year-on-year. In overseas subsidiaries, there was decrease in net incurred losses relating to natural catastrophes. However, there was some large losses and foreign exchange losses in addition to the appreciation of yen against emerging market currencies leading to decline in ordinary profit by ¥9.4 billion.

For consolidation adjustment, amount of negative adjustment increased by ¥75.9 billion year-on-year. This is because of increase in intra-group dividend payment from consolidated subsidiaries at Tokio Marine & Nichido Fire, which led to increase in consolidation elimination. Let me now explain about the adjusted net income. Please turn to page five. Adjusted net income is based on the financial net income at the time of each financial settlement, and is adjusted by excluding various reserves such as catastrophe loss reserve, which is unique to P&C business, as well as excluding gains or losses on sales or valuation of fixed asset. It serves as (06:04) profits KPI showing profit generated by business activities of the term. Adjusted net income of the term increased by ¥28.6 billion year-on-year to ¥351.9 billion. Adjusted ROE improved by 0.2 points versus last term to 9.1%.

Major factors of changes in adjusted net income year-on-year were improvement of gain and losses on derivatives, and an increase in gains on sales of securities, despite an increase in net incurred losses mainly related to natural catastrophes in Domestic Non-Life business. At overseas subsidiaries, there were large losses and also FX losses.

Reconciliation from net income to adjusted net income and the differences from last term are as shown on the slide. Next, I will explain about the Domestic Non-Life insurance business. Please turn to page six. I will start from underwriting profits and refer to the important factors. For net premiums written, all lines of insurance increased their top lines centering around auto and fire lines of insurances. Net premiums written for private insurance increased 4.8% or up by ¥85.1 billion.

Situation over each line of business is explained on page eight. Please refer to page eight later. Net incurred losses of private insurance increased by ¥77.3 billion, and major factors are as described on the slide. Business expenses increased by ¥34.2 billion due to increase in agency commissions associated with revenue growth. Additional provisioning of catastrophe loss reserve increased by ¥28.6 billion year-on-year due to the improvement of written-to-paid (08:10) loss ratio in auto insurance. As a result, underwriting profit for the term decreased by ¥46 billion or ¥13.8 billion. Underwriting profit, excluding the impacts of catastrophe loss reserve was a decline by ¥17.3 billion year-on-year or ¥107.4 billion.

Next, I will talk about net investment income and others. Mainly due to the increase in dividend payment from overseas subsidiaries, improvement on gains and losses and derivatives, and increase on gains from sales of securities, net investment income increased by ¥159.4 billion to be ¥352 billion. The business-related equities sold in fiscal 2015 was approximately ¥122 billion, and gain from the sale was ¥90 billion. Due to the abovementioned reasons, net income increased by ¥116.2 billion to be ¥301.6 billion. Next, I will explain about the combined ratio. Please turn to page seven. In fiscal 2015, mainly due to the increase in natural catastrophes related claims payment, private insurance E/I loss ratio increased by 1.6 points to 60.1%. Impact of the natural catastrophes last term was 1.6 points, whereas this term, it was 4.1 points.

Loss ratio excluding natural catastrophes factor improved compared to last year. As for expense ratio, despite the improvement seen from the increase in net premiums written, we saw increase in average agency commission rate associated with an increase in policies with higher commission rate, and increase in corporate expenses due to system cost for strengthening the business platform. Expense ratio went up from previous year by 0.4% to 32.6%. As a result, E/I combined ratio increased by 2 points to 92.7%. On page eight, we are showing the line-by-line premium and loss ratio situation. On page nine, we are showing the details of asset management results. Please refer to those pages later.

Now, I will explain about Nisshin Fire Insurance Company, please turn to page 10. Nisshin Fire saw increase in net premiums written mainly for auto. At the same time, there was increase in net incurred losses related to natural catastrophes, and decline in amount of reversal in fire insurance. As a result, underwriting profits decreased by ¥6.8 billion year-on-year to ¥7.8 billion. As for net investment income and others, mainly due to increase in impairment losses on securities, net investment income decreased by ¥0.6 billion year-on-year to ¥1.9 billion. Net income of the term declined by ¥6.4 billion year-on-year to ¥6.1 billion, mainly due to the reasons for decline in underwriting income.

Next, I will explain about Tokio Marine & Nichido Life Insurance Company. Please turn to page 11. First, I will explain about the annualized premiums or ANP. As for new policies ANP, while we limited the sales of long-term savings products, we saw favorable sales in the third-sector line owing to new products such as medical and cancer products. New policies ANP increased by 18.3%. Excluding the long-term savings-type policies, it was an increase by 13.8%. For in-force policies ANP, due to the favorable market condition in the first half of the year, we saw some surrender and lump-sum payment upon reaching target in variable annuities, while we achieved increase in new policies which led to increase in in-force policies ANP by 4.2%. Excluding variable annuities, it was an increase by 12.4% year-on-year.

Now, I'll explain about financial accounting. As for the net income, there was a reversal of contingency reserves associated with surrender of variable annuities, and reaction effect due to the recording of deferred tax assets of Financial Life, which was not formerly done. Net income decreased by ¥14 billion year-on-year to ¥14.7 billion. It was in line with the annual projection for the term. As for core operating profit, it decreased by ¥0.4 billion year-on-year to ¥25 billion. Now, I'll explain about International Insurance business. Please turn to page 12. Net premiums written from the International Insurance business was flat year-on-year at ¥1,304 billion due to emerging market currencies. Excluding the FX effects, it increased by 6% year-on-year due to the progress of growth measures in each business segment.

Let me explain about each region. North America increased its top line by 5% due to rate increase of renewal book, and increase in new business book at Philadelphia and Delphi. Europe, on local-currency basis, had increased its top line due to business expansion at Tokio Marine Kiln, however, had decrease in net premiums written by 2% in yen terms due to FX effect. South America and Central America had brisk auto insurance sales in Brazil in local-currency terms. But in yen terms, top line dropped by 22% due to FX effect. Asia had increase in top line due to brisk auto insurance sales in India and China in local-currency basis, but in yen terms, top line dropped by 3% due to FX effect. Reinsurance business increased its net premiums written by 26% mainly by expanding underwriting in non-catastrophe business and multi-year policies.

In life business, net premiums written decreased by 30% mainly due to suspension of sales of the specific products in Singapore. Next, I will explain about the business unit profit of International Insurance business. Please turn to page 13. Business unit profit of International Insurance business declined by ¥13.7 billion year-over-year to ¥131.8 billion due to several large losses, foreign exchange losses, and depreciation of emerging market currency, despite a decrease in natural cat losses. But we still achieved our full-year forecast of ¥123 billion.

To break this down by region, first, North America increased by ¥8.3 billion, mainly due to the expansion of business and decrease in natural cat losses in Philadelphia. Also investment income increased at Delphi. Europe declined by ¥11.4 billion, mainly due to large losses and foreign exchange losses. South and Central America dropped by ¥500 million, due to foreign exchange. On the local currency basis, profit increased mainly due to increased investment income associated with rise in interest rate.

Asia declined by ¥2.5 billion year-on-year because of the lack of a one-off factor which boosted the profit in the previous year in Singapore. Reinsurance profit increased by ¥1 billion year-on-year because of the lack of reserve provisioning in FY 2015 unlike the previous year, despite large losses. Life declined by ¥8.8 billion mainly due to a decrease in new business as well as in unrealized gains associated with a decline in stock market in Singapore. For more details about Philadelphia and Delphi, please refer to page 14.

Next, I will go over the business unit profit of the entire group on page 15. Business unit profit is a KPI designed to properly understand corporate value by business, excluding the impact of factors that are unique to insurance business such as cat loss reserves. Different from adjusted net income, we do not include dividend from group companies as well as sales gains and losses of business-related equities. And for Life business, the growth of EV during the term under review is included in the calculation.

On the J-GAAP basis, net income of TMNF grew by ¥116.2 billion year-on-year. But the business unit profit increased nearly by ¥6.3 billion year-over-year. That is because dividends from group companies and sales gains of equities are excluded from the business unit profit.

Next, Domestic Life business recorded a business unit profit of negative ¥188.1 billion, and that of TMNL became negative ¥187.4 billion. Excluding the impact of economic conditions such as decline in interest rate, MCEV grew by ¥115.6 billion. And business unit profit of International Insurance business increased due to the factors that I mentioned earlier. This is the highlight of FY 2015 financial results.

I will now discuss projections for FY 2016. Please turn to page 17. This is the consolidated projection for FY 2016. Net premiums written are expected to increase by ¥194.4 billion to ¥3.460 trillion, mainly due to the effect of HCC consolidation, despite the appreciation of Japanese yen. Life premiums income is expected to increase by ¥328.3 billion over the year to ¥800 billion due to the expected increase of in-force policies, decrease in surrender of variable annuities of former Financial Life, as well as HCC consolidation.

Net income attributable to owners of the parent is projected to increase by ¥10.4 billion to ¥265 billion, since net losses incurred by nat cat events are expected to decrease, and provision rate for cat loss reserves is lowered at TMNF. Adjusted net income, which is an indicator of group-wide profit, is expected to increase by ¥36.1 billion year-on-year to ¥388 billion due to the factors that I just mentioned, after excluding the impact of an increasing amortization of goodwill associated with HCC consolidation.

Let us next analyze how the consolidated ordinary profit is expected to change over the year on page 18. Consolidated ordinary profit is projected to decline by ¥5.8 billion year-on-year to ¥380 billion. Domestic Non-Life business is expected to decline by ¥71.5 billion to ¥315.4 billion. Underwriting profit is expected to grow due to the lower provision rate for cat loss reserves in the TMNF auto business, assuming that net losses incurred by nat cat will be a normal average level.

In the meantime, net investment income and other is projected to decline due to a decrease in dividend from subsidiaries and gains on derivatives in FY 2015 are not expected to be repeated this year. Domestic Life business is expected to drop by ¥6.1

billion to ¥22.9 billion mainly due to the decrease in reversal from contingency reserves associated with maturities of policies of former Financial Life.

International Insurance business is expected to increase by ¥18.3 billion year-on-year to ¥164.1 billion, mainly due to HCC consolidation and lack of large losses and foreign exchange losses which works negatively last year, despite the negative impact of stronger Japanese yen, as well as the average level of nat cat losses we are assuming this year against a relatively benign year last year. As for consolidation adjustment, negative adjustments are expected to decrease by ¥54.8 billion year-on-year because, while amortization of goodwill associated with HCC consolidation will increase the adjustment, dividend from continuing subsidiaries are expected to decrease at TMNF.

Next, please turn to page 19 to review our projections on adjusted net income. Adjusted net income is expected to increase by ¥36.1 billion year-on-year to ¥388 billion. Adjusted ROE is expected to increase by 1.4 points to 10.5% partly due to an expected decrease in net asset associated with stock price decline. As for major factors behind this projection of adjusted net income over the year, International Insurance business is expected to increase their income, because HCC is now consolidated and impact of large losses last year will disappear. And in the Domestic Non-Life business, on the other hand, sales gains of securities which we recorded last year are not expected to be repeated. As for the reconciliation between J-GAAP net income and adjusted net income, please refer to page 33.

Now, let me explain the definition of adjusted net income as we have added some more clarity from FY 2016. Adjusted net income is a profit indicator to understand the underlying business performance on a group-wide basis, therefore has not taken into account gains or losses on sales, revaluation of equities of subsidiaries and affiliated companies as other extraordinary profit or loss, since they are non-recurring profit or loss.

Now, in case we lower our stakes in subsidiaries or affiliates, and as those companies do not qualify as subs or affiliates any longer, the treatment of their equities was not clear in the conventional definition. So, while there is no actual case as such is expected this year, we have decided to exclude gains or losses from sales revaluation of business investment equities from the adjusted net income from FY 2016.

Please note that treatment of equities for pure investment purpose, to generate profit through purchases, sales as well as business unit equities, which we will sell consistently will remain unchanged, and they would continue to be included in the adjusted net income as part of the base to fund dividend payment. And please refer to page 32 and page 34 for more details including the revised definition of business unit profit.

Next on page 20 for TMNF. Net premiums written are expected to increase mainly due to an increase in the number of policies from auto, despite the negative effect of revenue growth in fire in FY 2015 on an year-on-year basis. Net incurred losses in (25:01) private lines are expected to drop by ¥7 billion year-on-year, mainly due to an expected decrease in nat cat losses. Provision to cat loss reserve expected to decrease by ¥55.9 billion, mainly due to the lowered provision rate for auto business. As a result, underwriting profit is projected to grow by ¥108.1 billion to ¥122 billion. Net investment income and other is projected to decline by ¥175.1 billion to ¥186.8 billion, since dividends from subs and improvement of gains and losses on derivatives which we recorded last year are not expected to be repeated.

Based on these projections, after taking into account the extraordinary losses, as well as the reduction of DTAs, in conjunction with the corporate tax rate cut that we recorded last year, net income is projected to drop by ¥56.6 billion to ¥245 billion.

Next, please go to page 23 for Nisshin Fire. Underwriting profit of Nisshin Fire is expected to decrease by ¥2.6 billion to ¥5.2 billion, while top line is expected to increase mainly in fire. Net losses incurred are expected to increase due to a rise in unit repair cost in the auto line, as well as decrease in the reversal of cat loss reserves. Net investment income and other is projected to be ¥1.4 billion, almost flat from a year-ago. As a result, net income is projected to decline by ¥1.8 billion year-on-year to ¥4.3 billion.

Please go to page 24 for TMNL. ANP of new policies is expected to decrease by 5.8% year-on-year, since we will limit the sales of long-term saving type products. Excluding the impact of the long-term saving products, top line should grow by 6.7% year-on-year, since we will promote the shift to production products, while limiting the sales of single premium products.

On the J-GAAP basis, net income and core operating profit are projected to be ¥15.6 billion and ¥24.9 billion respectively, almost flat from a year ago.

Next, please go to page 25 for International Insurance. Please note that the performance of Middle East was included in Europe conventionally, but it will become part of Asia from FY 2016. And based on this new definition, actual performance of FY 2016 is restated, and Middle East is included in Asia on this slide.

Net premiums written are expected to increase by 23% or ¥305.9 billion year-on-year to ¥1.610 trillion. Let us also review the projected business unit profit of International Insurance business on page 26. Business unit profit is expected to increase by ¥27.1 billion to ¥159 billion mainly due to the contribution from HCC. As for a detailed projections for Philadelphia, Delphi and HCC, please refer to page 27 later.

Next, please go to page 28 to review business unit profit projections for the entire group. Business unit profit of TMNL is projected - I just would like to touch upon Domestic Life business because it's different from other business. We're looking at EV growth as a profit indicator for Life. Business unit profit of TMNL is projected to increase by ¥226.4 billion to ¥39 billion due to the negative impact of economic changes such as interest rate decline recorded in previous year, as well as to the increase in new policies.

This concludes my presentation. And we will be happy to entertain your questions for the rest of the time. Thank you.

Q&A

Operator

Mr. Wada, thank you very much for your presentation. The operator is explaining how to update question to the Japanese participants. Please stay on the line until the operator finishes the explanation. Thank you.

The first question is from Ms. Tsujino of JPMorgan Securities.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

I have two questions. The first is for the company projections for fiscal 2016 for underwriting profit, you will be lowering the rate of provisioning for the reserve for the auto insurance. And, therefore, I believe that if you exclude provisioning and reversal and other factors, what will be the adjusted underwriting profit for 2016? My assumption is that it is likely to increase by ¥30 billion. And I just wanted to know the breakdown of this increase. So, lack of large losses, what other improvements are you expecting for the improvement of adjusted net profit?

Also, for fiscal 2016, the rate of provisioning for the catastrophe loss reserves for auto. This factor alone should be less burden on your shoulder for provisioning by ¥50 billion to ¥60 billion, I assume. But I guess you are keeping it to the minimum rate of provisioning in line with other insurers, and if you are doing that, that is not a problem. However, for 2017, when we think about how your profit is going to trend towards 2017, how shall we view that? So, what are the factors that will come in to the play? Well, anyway. So, I guess that alone becomes a positive factor for increasing profit. However, after 2016, from 2017, it's going to be the same condition year-on-year, but still it makes it difficult for me to project your profit for 2017. So, how shall I do that?

A - Operator

My name is Watanabe (32:51) from the Corporate Accounting Department. Let me answer your first question. There are two factors. One is the other new lines, and also I believe that that is going to be normalized to the average level for the other LOBs. There will be some reaction coming from the large losses and we will have lack of that.

For fire, prior to the product division, there was increase in premium and there was temporary burdening of the provisioning due to the fire and also due to the shortening of the term of the insurance. Compared to 2015, we will see decline in commission. So, that should also become a factor for 2016. For auto, due to less snow, there is one factor, however, there is also less burdening for the provisioning to the underwriting provisions, et cetera. So, due to – the first factor that I mentioned will become the major factor for 2016.

Thank you for waiting. About the catastrophe loss reserve for the rate of provisioning, for a while, we are keeping the 3.2% provisioning. And so, for 2016 and after, we will not see that as a fluctuating factor, once it hits that (24:37) 3.2%. Thank you very much.

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

Q - Kazuki Watanabe {BIO 15948747 <GO>}

Thank you very much for this opportunity. I also have two questions. First of all, as it was announced in December, I think that you actually sold your Life business in China. And this time around, how much capital gains did you record in conjunction with that? And also, you have revised the definition of adjusted net income. And with regards to this capital gains, may I understand the capital gain will continue to be included in the adjusted net income.

Secondly, now, again, you have revised the definition of adjusted net income and so – and you have been using the five-year loan average of adjusted net income as the base for the dividend. So, would the base number change because of the revision of the definition itself?

A - Operator

My name is Nagaoka (35:37) from Corporate Accounting of the Holdings. With regards to the sales of the Life business in China, overall, we have recognized approximately ¥35 billion as the sales gains of the business in China.

My name is (36:01) from Corporate Planning of the Holdings. Now, with regards to sales of the Final Life in FY 2015, adjusted net income would include the capital gains. And post-tax, the gains is about ¥28 billion and adjusted net income does not have any other major factors as the one that I just mentioned. And the number itself is not expected to change significantly because we are looking at the five-year long average.

Q - Kazuki Watanabe {BIO 15948747 <GO>}

So, in terms of the dividend payout, based on the five-year average, I think that the dividend payout ratio is going to be about 37%. Is that understanding correct?

A - Operator

Yes. This time around, the average – the payout ratio based on the average adjusted net income is 38%.

Q - Kazuki Watanabe {BIO 15948747 <GO>}

Okay. Thank you.

Operator

From Deutsche Securities, Mr. Muraki, please?

Q - Masao Muraki {BIO 3318668 <GO>}

My first question is about the results. Compared to your annual fund, it was a ¥240 billion of net income. And that was being revised to ¥220 billion at half term, and then, I guess, it was ¥254.5 billion at the end and has an uplifting factor. So, there was gain from sales of equity and also lowering of the interest rate. So interest rate swap-related gain must have been bigger. And also, less natural catastrophe, which occurred in the International business. So, are these the factors which were the upside versus your plan for 2015?

And as a second point, as Tokio Marine & Nichido Life, the EV compared to other life insurances belonging to P&C Group, your drop is bigger than the drop by the peers in terms of the EV. And why is that happening? Is it something technical? Or is that the whole life insurance percentage out of your portfolios? Or does it have to do anything with the mix of the different products in your Life portfolio?

A - Operator

My name is Nagaoka (38:32) from Accounting. To answer your first question, you have the correct assumption. So at the TMNF, the gains on security sales and derivative gains were bigger than we expected, which led to the increase in the profit above our expectation. And about your first question, about the nat cat occurrence in the international market, indeed, as you said, it was less than we expected, which was a factor pushing up profit. In terms of value, it was about ¥24 billion coming from this factor.

Q - Masao Muraki {BIO 3318668 <GO>}

Thank you. So, regarding the first question, this time compared to the company projections, there was upside and I believe that one-off factor. So, therefore, for the new company projections, I believe all those factors are annualized including the derivative gains. So, you are using the average number for that?

A - Operator

Yes. We are expecting a normalized level of those factors for this year.

My name is Mimura (40:00) from Tokio Marine & Nichido Life Insurance Company Corporate Accounting. About your second question, comparing us versus other life insurers, the calculation model, the productive mix, the size of the company are all of the factors that differ each company. And therefore, we cannot really tell where the differences come from. So, that's my first answer to you.

And as for the EV of Tokio Marine & Nichido Life for March 2016, the model or the calculation method of interest rate were not changed in the settlement from March 2016. Thank you very much.

Next question is from Mr. Otsuka from Nomura Securities.

Q - Wataru Otsuka {BIO 16340098 <GO>}

Thank you very much for this opportunity. Well, thank you very much the disclosing the number 10 minutes or 20 minutes earlier than normal. I hope that you will continue with this practice going forward because it's very helpful.

I also have two questions. First of all, on page 20, with regards to TMNF, this fiscal year's projection. With regards to investment income, I have a question. The sales gains of securities is expected to decline on a relative term, and this seems to be a major drop. What is the reason behind this? And also related to that, dividend and interest income, dividend from foreign securities, stocks expected to decline (41:37) which I understand. However, have you factored in the negative impact of the negative interest rate policy of Japan? Is that the factor behind this drop?

My second question is related to page 27 where you are showing the business unit profit, obviously major subs in the U.S. And when it comes to Philadelphia, as shown on the local-currency basis, nat cat losses are expected to be at normal level. Generally, through March period, in Texas, there was some hails, as well as storms, and travelers and other U.S. insurers were hit. Do we have to be worried about that in your U.S. subs?

A - Operator

My name is Number (42:26) from Financial Planning Department of the Holdings. With regards to FY 2016 projections, related to income in particular, as you have correctly pointed out, this is more of a reaction on a year-on-year basis from FY 2015. As it was mentioned earlier, with regards to securities, there was some dividend from group companies. And so this is one difference between FY 2015 and FY 2016. And with regards to the dividend of the business-related equities, we are rather taking a conservative view. And also in FY 2015 actual results, the dividend from group companies were also included. However, this is not expected to be repeated. And therefore, this is one factor resulting into an expected decrease in FY 2016. And another one, related to the sales gains that you also asked, as explained earlier, sales gains of the Sino Life is one factor which is not going to be repeated this year. And also with regards to business-related equities, we have looked at the actual stock prices at the end of March as an assumption in FY 2016, however, the stock price has essentially gone down from a year ago. This is one another major (43:40) factor.

My name is Iwata (43:45) from International Business (43:46) Department. To your second question in FY 2016, we have a budget of ¥47 billion in total for nat cat losses, and you talked about some losses incurred in Texas, and our company has not been materially hit by those events. So at this particular point in time, we are not in a position of needing to change the nat cat loss budget of ¥47 billion.

Q - Wataru Otsuka {BIO 16340098 <GO>}

I understand. Going back to my first question, just to clarify, so negative interest rate policy of Japan is not causing any negative impact in terms of the declining interest rate, and HCC is now consolidated. With regards to synergies with HCC, has that been factored into your projections for FY 2016 to some extent?

A - Operator

My name is Number (44:42) from Financial Planning Department of the Holdings. With regards to your first question on the negative interest rate policy of Japan, essentially, we have seen a negative interest rate for shorter dated notes, which is causing negligible impact. And also, we are buying some bonds for the ALM purpose. However, it is still in the magnitude of some ¥100 million, and so no major impact. And based on those assumptions, we have also put together the projections for FY 2016. To your second question related to synergies by consolidating HCC now to our group. Starting from the fiscal year, we have just begun a full-fledged effort of studying and also generating synergies in the area of revenue investment, as well as cost reduction. We are expecting to generate some synergies to some extent. However, we are not in a position of being able to share with you specific numbers just yet.

Q - Wataru Otsuka {BIO 16340098 <GO>}

I understand very well. Thank you very much.

Operator

From Goldman Sachs Securities, Mr. Noda?

Q - Taichi Noda {BIO 16478436 <GO>}

Thank you. I have two questions. The first has to do with the Kumamoto earthquake. So how much of that have you factored into 2016 numbers? Second point, TMNL, the study of new policies, the previous term, I believe it was about 63 (46:22) and under the current negative interest rate environment, do you think you can still have an equally large study of new policies? And also ESR, I don't think you have it, but if you do, please tell me what the latest ESR is.

A - Operator

My name is Watanabe (46:42) from Corporate Accounting. About the Kumamoto earthquake, most of that have will be impacting Tokio Marine & Nichido Fire for 2016, nat cat overall, it is about ¥45 billion in budget, and this does include Kumamoto earthquake impacts. Specifically, there is a corporate fire insurance riders, and we are factoring that in by ¥5 billion. And for the residential earthquake, for the payment situation, we are (47:13) information of the association. In terms of P&L, the net payment, the amount that is equivalent to the net payment is going to be provisioned in the reserve, and therefore, it should not impact the bottom line.

This is from Tokio Marine & Nichido Life. At the life insurance company, the ¥60.3 billion of value of new policies, what is the situation with the current interest rate level? For fiscal 2016 in the profit projections, the expectation for the value of new business is on the assumption that the current interest rate will continue, and I believe it is going to be in the positive range. For ESR at the Tokio Marine & Nichido Life.

My name is Matsuo (48:12) from the Holdings. The most recent (48:14) situation is going to be explained next week on May 27 when we hold the meeting. So I will not be able to disclose the number today.

Q - Taichi Noda {BIO 16478436 <GO>}

Thank you.

Operator

Next question is from Mr. Sasaki of Merrill Lynch Japan.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

I am Sasaki from Merrill Lynch. I also have two questions. First of all, I would like to clarify two numbers. In this fiscal year's projections, auto policy incurred loss ratio as excluding natural cat, what is the expectation? And also, in the FY 2016 projection, how much of sales have you factored in, in terms of sales of the (49:04) equities? I know that your budget is ¥100 billion per annum, but what is the specific number incorporated in the projections? Secondly, with regards to shareholder returns, based on the information that you have shared with us today, if I calculate the return ratio, I think that ratio is going to be about 35%. And I think that your policy is to return 35% or more to the shareholders. And if there is some upside, may we understand that you might also consider buying back your own shares?

A - Operator

My name is Guillermo (49:53) from Personal Line Underwriting Department of TMNF. So earned incurred basis slightly (49:59) loss ratio, excluding natural cat, it is expected to be 60.5%.

May name is Number (50:12) from Financial Planning of Holdings. In FY 2016, we are expected to also sell ¥100 billion of business-related equities like we did in last year. And based on the actual as of the end of March, we have calculated the expected sales gains, which was included in the projections.

My name is Matsuo (50:33) from the Planning Department of the Holdings. With regards to dividend in FY 2016, ¥388.8 billion is adjusted net income that we are projecting. And based on that dividend that we are planning to pay out is expected to be in line with our policy, which is 35% or above. And so currently, the payout ratio is expected to be 35.1%. With regards to share repurchase given the current situation, we would first of all have to see how the natural cat events will develop or whether it would occur. There are some uncertainties regarding the natural cat, as well as other events. And therefore, at this particular point in time, including the future development of the additional monetary easing of the BOJ that we also have to monitor, we haven't really made any decision on the share repurchase. However, as we continue to set the business-related equities and generate profit, and also the new contribution of the profit from HCC, because we are also expecting to increase our profit like we have done and said, so far, we would continue to flexibly study share repurchase. And with regards to dividend, in line with the profit growth, we would like to continue to stably grow the amount of dividend per our policy. So, basically the stable increase of the dividend will be the primary goal of our shareholder return.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

So that means, with regards to share repurchase, to some extent, once you get more clarity on the profit that you would generate, you would consider the possibility of the share repurchase. Is that how I should understand what you're saying at the moment?

A - Operator

Well, perhaps, just to reiterate, with regards to decision of doing a share repurchase, before we make the decision, we have to first of all consider how we want to utilize our capital buffer. And in that consideration, we have to see the availability of the business investment opportunities, and we also have to see whether we need to be prepared for any regulatory changes, and also we have to look at the capital level or ESR to see whether we have to adjust our capital position. And also we have to see the changes or potential changes in the market environment. And then we have to make a comprehensive decision. And so we wouldn't make a call of buying back our own shares just based on the increased level of the profit.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

I understand very well. Thank you.

A - Operator

The operator is explaining how to ask a question to the Japanese participants. Please stay on the line while he is explaining.

There seems to be no more questions on the line. So I will get back to you, Mr. Wada.

A - Kiyoshi Wada {BIO 19963983 <GO>}

Thank you for participating in the overview of fiscal 2015 results and fiscal 2016 projections. If you have any further questions, do not hesitate to contact us. Thank you very much.

Operator

This concludes the fiscal 2015 financial announcement meeting of Tokio Marine Holdings. I thank you once again for your participation, and you can hang up on your line now. This is the end of the conference. Thank you.