S2 2013 Earnings Call

Company Participants

- Kengo Sakurada, President
- Shinji Tsuji, Director
- Unidentified Speaker, Unknown

Other Participants

- Jun Shiota, Analyst
- Masao Muraki, Analyst
- Natsumu Tsujino, Analyst
- Unidentified Participant, Analyst

Presentation

Kengo Sakurada {BIO 15149542 <GO>}

As was introduced, my name is Sakurada, the President of NKSJ Holdings. As was already presented before, we had the earnings report. So I'm not going into the details.

For those analysts they are saying that please keep the parts which you usually know. But since I have this presentation here I'd like to talk about important points.

We have four important points to tell you. As was announced in November, the management plan and the progress and also NKSJ Group has the main pillar Domestic P&C business. So what kind of improved profitability in the Domestic P&C business is something I'd like to talk about. And also the future growth strategy. And also your interest, the capital management.

This is the initial year of the management plan. In one word, compared to the time of the establishment of the plan, owing to all of the effort, we exceeded our expectation.

As was already announced, this was due to the improved profitability in the Automobile Insurance business; that is the major contributing factor. Also, the change in the driver's grading system in the industry. And also products and also the premium rate revision seems to be taking effect gradually.

Of course, we shouldn't relax right now; we really have awareness about the importance of the industry. So what we can do in the industry and what we can do as a system is something we have to pursue continuously.

And also, Life Insurance business; we have cross-selling opportunities and that's less than 6% or so. That's something we have to be aware of.

Also, the media ask about overseas strategy usually. And we have our own initiatives. We have growth strategy for overseas businesses as well. So I'd like to talk about that.

As for capital management, we have the basic policy we have to stick to. And right now we have a very favorable situation in the financial market. So we shouldn't really enjoy that too much. We have to discipline ourselves in our capital management policy.

Also, the risk/asset balance has not really improved because of the market situation. So we have to really strive for further effort. The points here today is the business strategy, that's number three; and also number four, balance sheet in the presentation, is something, as a CEO, I'd like to focus on today.

So please turn to page three for the overall consolidated result. The top line is very stable; P&C 4.5% and Life Insurance 5.8% increase, respectively.

Also, I think all the industries are enjoying the stock market. And because of that, the capital management is improving and also the Life Insurance business is stable, as planned.

So JPY104.7 billion of ordinary profit and a JPY43.6 billion of net income contributed to our earning. That is a V-shaped recovery from the deficit of the previous year. However, what is important in the consolidated result of FY '12 is the improvement of Automobile Insurance and the asset management.

I'd like to briefly touch upon the Automobile Insurance. Please turn to page 11. This is the combined ratio of the voluntary Automobile Insurance business. Because of the revisions of the premium rate and the increase of premium income, in FY '12 year on year we have improved by 1.6%.

However, the combined ratio still exceeds 100%; that is a great challenge for us so we need to have some initiatives to improve the situation. And we are addressing this part as well.

As for the capital management, please turn to page 15. The investment profit totaled JPY159.9 billion. Compared to last year of JPY61.7 billion, it was an increase of nearly JPY100 billion. As you may know, it was mainly due to our policy of stock reduction and also by disposing of securities. We benefited from the appreciation in the stock market. And the gains on sales increased.

The main intention behind the stock reduction is to reduce the risk. But we also need to look at the impact on the annual PL. So looking at the market conditions, we try to sell at a good timing, getting that sales. I believe for the fiscal under review, we were able to sell at a relatively favorable timing.

Our realized losses at the end of the first half inflated. But the loss was mitigated thanks to the recovery in the equity market.

Now, let me go over the earnings outlook for fiscal 2013, on page 20. This is a summary of the business forecast on a consolidated basis. For the P&C business we revised the product and the rate for the mainstay Auto Insurance effective April this year. And so thanks to that, the top line should be boosted.

Investment profit is projected based on the market conditions at the end of March this year. So if the assumption deviates from reality, then the projection also may deviate.

We also position Life business as a profit generator. And the Life profit is going to be built up. This fiscal year for the ordinary profit we're expecting JPY81 billion and JPY34 billion for net income.

The profit will decline year on year. But that is mainly due to the smaller drawdown of the capital reserve, an expectation of less gains on sales of securities. So I would like to reiterate that the underwriting profit is definitely improving.

Now let me talk about our management plan, on page 28. It seems long ago because of Abenomics, the management environment and the economic environment has really changed.

Last year, in November, we have announced the revised management plan. I'd like to just review some points of the plan. In this plan, Sompo Japan and Nipponkoa and the integration of those two as a trader, we are going to go into the sustainable growth cycle.

So we have four businesses here, these business segments. And we have clarified each business strategy for those four. Going forward, especially NKSJ Holdings will be the core to build up optimal business or portfolio to enhance corporate value on a net asset basis.

More than last year, we'd like to exert our initiative of the Holdings Company, page 29. These are numerical targets and the summary of that. So please refer to this bar again. I'd like to skip explanation.

Next, page 30. This is the adjusted consolidated profit that is the indicator for the numerical targets according to the time. In FY '12 the Domestic P&C business was minus JPY8.9 billion; that was in deficit.

But there was a drastic recovery. And because of that the adjusted consolidated profit doubled from JPY54.4 billion, that was the forecast, to JPY111.6 billion to achieve more than JPY100 billion.

And this fiscal year the Domestic P&C is going to be in the black. And the Domestic Life Insurance, even though slightly, we can maintain the higher level. So the adjusted consolidated profit would be JPY113.5 billion. However, looking at FY '15, the adjusted consolidated profit of JPY200 billion would be the key. And that would be due to the drastic recovery of the Domestic P&C business.

Domestic P&C recorded JPY71.3 billion of deficit in 2011, when the business was at the bottom. But has continuously recovered in 2012 and '13, by such effort as revisions in Automobile Insurance. The business is taking steady steps for the leap in 2015.

Also, 2015 is just a transit point for further growth for going concern. By making full use of the new system, we believe that we can realize further efficiency and productivity. The next page, please.

So the P&C companies will be merged; for the purpose of Sompo Japan Nipponkoa we are being ready. As was announced, the official merger will be September next year. However, from April this year we have already started the practical integration. That means for the same function for the two companies, for example product development and payment of benefit. And corporate planning, one executive officer would be in charge of the same function.

And also, for 68 departments we have unified general managers. So one general manager for Nipponkoa and Sompo Japan. And by October this year, for sales and also the benefit services function, totally 152 branch general managers will be unified.

Also, we have 811 sub-branches. And we are right now examining the possibility of unifying all the sub-branch managers before the official merger.

So before the official merger, we are really integrating those two companies. This is really precedented. One person should be in charge of decision-making; that is, one well system. That would not lead to only cost reduction. But also it would have a great effect for decision-making to enhance the speed. And we are really feeling the effect. The management meeting is held jointly as well.

So everything will be ready until the merger. The merger day would be an opening day for the new Sompo Japan Nipponkoa. Next page, please.

I'd like to talk about some numbers; merger synergy and one-time cost. We expect the synergy cost of JPY56 billion in 2015; that's at the time of the merger. Because of the labor costs and the real estate cost, the synergy for FY '12 and '13 would cause a little effect. However, we would see a real synergy effect from FY '14.

We appropriated JPY24.8 billion as the one-time cost in FY '12, for early retirement and reorganization of outlets. The trend would be the same for FY '13. But the cost is expected to decline. However, we expect to start the operation of the new integrated system in FY '14. That leads to JPY75 billion of the system consolidation cost. That's the system integration cost in FY '14.

Merger and systems consolidation are essential to have competitiveness. But we do realize the concern in the market on the impact on the single-year P&L. That is exactly why we practically started the integration for the earlier synergy. And are making efforts to improve Automobile Insurance businesses.

To control the performance for 2014, the one-time impact should be reduced; the cost should be absorbed; the cost for systems integration and the service in should be absorbed. That is our responsibility.

The next is about the improved profitability of Automobile Insurance, page 33. Because of the past deterioration of the business, we decided to raise the premium rate step by step. In October last year, we revised the revision of the rating system; and also again in April this year we revised both products and premium rates. The effect of the revision contributed to the loss ratio of FY 2012. And we expect to see further improvement in FY '13.

Still, business is in the red, including the expense ratio. We will have to watch the effect of the revision of rating system for further revisions of products and premium rates to improve the balance.

We also need to strengthen underwriting. And promote delivery of vehicles to prime maintenance centers. And active use of recycled parts, to ensure appropriate insurance payments per claim.

Page 34; this is the update on the improvement as of the end of FY '12. This is about Domestic P&C business. This is the improvement, going forward, until FY '15. When we established the plan, we pretended the progress of the balance after adjusting the one-time cost for merger and natural disasters.

At the time, the forecast for FY '12 was minus JPY30.9 billion. But the actual result was plus JPY144.4 billion (sic; see slide 35 "JPY14.4 billion"). The difference is due to the impact of the improvement of Automobile Insurance. And as a result, the forecast in last November turned out to be moderately conservative.

So that is the plus point for the management plan. So our better-than-anticipated FY '12 performance has given us a head start toward our target. But the hurdle still remains high. So we will continue working to revise products and premium rates.

Next page; about Himawari Life. In the contract in domestic life insurance market, NKSJ Himawari Life is growing steadily, leveraging strength of having P&C distribution channels of the Group.

The annualized premium income increased by 14% in the past three years; especially medical insurance, with high profitability, has grown by 30% in the same period. Because we have protection-type products, that is our focus, because of the profitability. And especially Medical Insurance business is very good, MCEV has grown dramatically to achieve JPY674.8 billion in the end of FY '12.

Next page, please. In our Life Insurance business, the strategy is based on embedded value expansion. We use MCEV, a highly reliable and transparent standard.

Since the Life Insurance merger in October 2011, the penetration of product strategies emphasizing EV. And promotion of P&C insurance channels to sell insurance products, are really taking effect steadily. Accordingly, the increase of adjusted embedded value became JPY107.8 billion, after including experience variance and assumption changes.

For FY '15, we'd like to continue to win new policies by maintaining good product portfolio, centered on protection-type products, to aim at the adjusted EV increase of JPY100 billion to JPY110 billion. We think we can achieve the goal.

Next page please, about Life Insurance as well. This is about products and channel strategies. Weight of protection-type products and P&C channels are important because of the profitability. After the merger in October 2011, such sales strategies in Life Insurance business have been stably implemented.

The weight of protection-type products in the annualized premium income is increasing in FY '12 to 48% from 47% in the previous fiscal year. The weight of the P&C channel increases from 59% to 62%. It's going to increase farther -- and it's going to increase more.

The next page is about channel strategies. We especially focus on training of sales representatives who can sell protection-type products, since P&C and Life Insurance business need different expertise in some areas. So stably, we would like to foster good sales representatives. And that should enhance our strength in the Group.

As for overseas businesses, next page please. There is no change in the overseas investment strategy. We are not going into unknown markets. And we would like to expand our business in the areas where we already have presence. We have limited resources. So we would like to avoid spending too much resources. So it's very important for us not to go into unknown markets.

In each country, we have different uniqueness. So we have to look at the uniqueness to differentiate ourselves from the other mega P&C companies. We would like to deftly move in the overseas market. That is how we would like investors and experts to view us.

In Personal line, we have important areas such as Brazil, Turkey, Malaysia. And in those countries we would like to be a major player to establish stable business. And in the other countries, we would like to focus on the deregulation about the investment to focus on partnership and joint ventures.

Also in Vietnam and Myanmar, of course, we would like to explore the opportunities. Anyways for overseas investment strategy, we would like to be selective and also, we would like to focus to be active. There is no change in the strategy.

Overseas business is not only for M&A, as in the next page. We have assumed reinsurance business in the overseas countries. So this was also indicated in November last year, we will have rigorous risk management and we would like to develop the overseas reinsurance business. For fiscal 2012, the net premiums from the overseas reinsurance business assumed was JPY34 billion. By 2015, we'd like to grow this to close to JPY60 billion level.

Now let me move on to the balance sheet items on page 42, please. The basic capital management policy remains intact since the Group was established. Maintaining financial soundness, improving capital efficiency, increasing shareholder return are the three elements with which we aim to strike a good balance to increase the net asset value and the enterprise value.

To simplify how we are going to strike the balance between the three. In quantified specific targets, we want rating of AA; ROE of over 7%; and pay out stable dividend. And total payout ratio of 50%.

Please turn to page 43. Let's look at adjusted consolidated net assets. At the end of March this year, the total amount was JPY2.3 trillion or JPY5,400 per share -- or over JPY5,400 per share. It is a substantial increase on a year-on-year basis. And as you may be aware, the reasons behind it, for one, was the increase in the unrealized profit on stock holdings, which was revised to JPY250 billion. And also little less than JPY60 billion of embedded value growth of the Life business.

On page 44, you will see the solvency margin ratios under the Japanese standard for the three core entities. All are exceeding the regulatory requirement of 200%.

On page 45, you can see the status of capital and risk, based on the internal standard economic value. In measuring the risk, AA equivalent confidence level of 99.95% of value at risk is applied. The result is indicated by the graph showing the buffer between the capital and risk of JPY700 billion. And the solvency margin by dividing the capital by risk is 146%.

The year-on-year capital increase was mainly driven by the increase in unrealized gains on stock holdings. At the same time, by proactively winding down the business-related stocks, we were able to avert an increase in risk. However, looking at the capital base, it is still vulnerable to the fluctuation in the equity market. Taking the opportunity when the market is robust, we would like to proactively reduce the risk by selling down the stocks to build a firm capital base.

Next page is the investment portfolio. Let me start with the Domestic P&C business. The general account is managed by diversifying the investment. And the savings-type account adopts the ALM. We will continue to have a conservative management policy.

General account, which represents 70% of the total investment, still has an exposure of over 30% to the domestic equities. So we would like to facilitate a reduction of this exposure. The breakdown of the foreign securities is shown by the pie chart at the bottom right. We give considerations for balance of asset class and currency.

The duration gap of asset and liabilities in the savings-type account is roughly a year. So the risk is small. And the risk in rate fluctuation is significantly limited.

The next page is on the Life Insurance business. As you can see, it's mainly invested into yen fixed income assets. The duration gap is also small and overall, it is a conservative portfolio. As I have mentioned, we emphasized embedded value. So the main portion of the product mix for Himawari Life is the protection-type policies. So for investment policy, they will maintain a conservative position, without becoming too aggressive.

Next page please; this may be a concern to you as it is our exposure to the GIIPS countries. Due to the stronger yen, the outstanding balance increased slightly. But it only accounts for a little over 1% of the net assets. And it is well within the manageable level.

The next page is about the financial guarantee exposure. In fiscal '07 and '08, the big losses were caused by ABS-CDO guarantees. We have been gradually winding down this exposure. And as of March 2013, all the financial guarantee we assumed was settled and the ABS-CDO exposure came down to zero.

Now please turn to the next page. And this is the progress on the stock reduction. As you can see, in fiscal 2012, from December when the stock market started to rise, throughout the Fourth Quarter, we disposed our holdings proactively. The annual stock reduction exceeded the plan of JPY127.1 billion by far and raised JPY197 billion. In the previous business plan in which fiscal '12 was the final year, initially the plan called for disposal of JPY300 billion. But the actual result was much higher having sold JPY370 billion.

The current four-year plan spans from fiscals 2012 to 2015. In the first year, in fiscal '12, as I mentioned, we were able to sell a little less than JPY198 billion. Also this fiscal year, we'll be watching the market and continue to sell down the stockholdings. But by closely monitoring the market conditions. But under the current circumstances, we're hoping that we can cut down the holdings by close to what we achieved in fiscal '12.

And last. But not least, I'd like to talk about the shareholder return. As we have already unveiled, the annual dividend was lowered to JPY60. This was a reduction of JPY20. But we would also conduct share buyback equivalent to a per-share dividend of JPY20. So that the total payout will not change. For fiscal '13 and beyond, we'd like to keep at least JPY60 per share. And we'd like to maintain a stable dividend payment.

And looking at the capital base, as well as taking a balance between investment for growth and capital efficiency, we'll consider the magnitude and measures for shareholder return. For fiscal 2013, we plan to pay an interim dividend of JPY30 per share, as we have announced.

This will wrap up my presentation. Thank you very much for your attention.

Questions And Answers

A - Unidentified Speaker

Now we would like to receive questions. If you wish to ask questions could you please give us your name and the company name, please? Please raise your hand.

Q - Masao Muraki {BIO 3318668 <GO>}

Muraki, Deutsche Securities. I have two questions. First of all, page 31 and page 32, this is about the effects of integration, the practical integration. In the past, as I watched the mergers of P&C businesses, after the merger the share declines. That's the tendency this time. It's really unprecedented. You have active practical integration. So at which timing the share would be adjusted? And when do you think it's going to be returning to the appropriate level?

And page 34, you were talking about more than assumed improvement? I'm not really sure if you talked to Prime Minister Abe about the consumption tax increase. If the Prime Minister would decide on the increase in consumption tax from next year and onwards, you have to incorporate that. How much impact would you assume? And to offset that, what kind of initiatives can you make? Those two are the points.

A - Unidentified Speaker

About the share adjustment, well, the merger was not really all of a sudden. Already March 23, we decided on the merger. And even before that, under the Holdings Company, we were operating together. So I'm not really saying the impact would be zero. But looking at the positive and negative side, I don't think there are so much impacts by merging. I'm not really sure unless we operate. But at least in the corporate market from the date of the merger, we are going to start the business; that's not the situation.

I think it's the same for the other companies to reduce -- a reduction of the strategic holding stocks would have more impact. But I don't think the impact will be larger. It's very negligible. I'd like to ask Mr. Tsuji about this, the consumption tax.

A - Shinji Tsuji {BIO 16148256 <GO>}

As for consumption tax, according to the current midterm plan, it's 2015. And as for the impact, we assume about JPY35 billion. In terms of P&C business, we have benefits to be paid, for example, for repair of automobiles and also houses. And in terms of expenses, we have fees and commissions for agents. That will be impacted. As for Life Insurance, it's only commissions and fees for agencies. So for Life Insurance, it's limited. But as a whole Group it's JPY35 billion.

When we look at the past increase of consumption tax. And how P&C business has stressed, when we look at that it's the same, the balance of the Insurance business. And also how we set the premium rate is important. Increasing consumption tax means the citizens should bear the cost so we have to pass that on to our premium rate. As you can see, the Automobile Insurance is our mainstay. And step by step we are increasing the premium rate. And also we have the revision of the rating system as well.

So the balance of the Insurance business itself is improving because of the effort. So that is the impact we estimate. But actually, in the practical world, of course we have to make an utmost effort as a company to offset the situation. If we cannot absorb the impact of the consumption tax, of course we have to pass it on to the final product. Probably the interim earnings report would show the impact of the increase in consumption tax. And after that, we'd like to examine what we have to do.

Q - Masao Muraki {BIO 3318668 <GO>}

JPY35 billion, that means 3 points' impact on the next fiscal year, plus 3% of the tax. And 3% increase?

A - Shinji Tsuji {BIO 16148256 <GO>}

We are thinking about FY '15 for the estimate. So next April, 3%. And October next year, 2%. So actually about 4%, yes. In page 65 you have the rate increase and that is taking an effect. Even so, the combined ratio of the automobile industry, as in page 66, it's more than 100%. So even though we don't have the increase of consumption tax, you might think about the increase of the premium rate. And by increasing the consumption tax, of course, you have to use the premium rate to adjust the situation, yes.

Q - Masao Muraki {BIO 3318668 <GO>}

Thank you very much.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

Tsujino, JPMorgan. Regarding dividend, your current dividend is JPY60 per share. And for the JPY20 equivalent you're doing share buyback. And last fiscal year when you made that change, well, the market conditions and the industry conditions were something that you would give due consideration to possibly increase the dividend again. But at this point, do you have any changes in the dividend policy? Or, for the time being, are you more focused on share buyback, because it's undervalued? What is your thinking behind dividend policy? That's my first question.

And my second question is on the Life business. The new policy embedded value grew. In the third sector insurance product, I think it was very strong in the past. So it kind of slacked off. But overall the embedded value for the other sector policies increased. The margin is higher on the third sector insurance. When you look at the product mix. And the growth of the embedded value, what is your thoughts? Can you elaborate more on how you are growing the embedded value, vis-a-vis the product mix?

And also, the Life business has been strong for the last two or three years. But in order to make this a sustainable momentum, what kind of measures are you planning to implement?

And my third question is about the consumption tax again; sorry to be persistent. I can see a negative impact from the consumption tax. And against that backdrop, many people talk about increasing their premium rate for the other lines. But you may be thinking about the clients and making some conservative comments. But just this industry I can foresee a very negative impact in the consumption tax hike.

So the companies in the industry is aligned; I think the industry-wide efforts must be made as quickly as possible. But can you elaborate on your measures against the consumption tax hike?

A - Unidentified Speaker

Yes, regarding the shareholder return, our policy for shareholder return is already unveiled. So after deducting the adjusted EV of the Life business from the adjusted consolidated profit, our medium-term goal is to pay out 50% in total back to the shareholders.

Since the establishment of NKSJ Holdings, for the first and second year we were making losses. But we were still paying JPY80 per share. And for fiscal 2012, we changed the policy of our shareholder return. And this is because, as we communicated with investors, we came to understand that as you mentioned, if our stocks are undervalued we should do more share buybacks. So we incorporated that as a part of our shareholder return policy.

Also, in the past, we had always paid out JPY80 per share. But we reduced that to JPY60 and the difference of JPY20 was used to do a share buyback.

And at this point, the internal discussion of the shareholder return, at the BOD for example, for fiscal 2012, we have made a decision to pay out JPY60 per share. And for the difference of JPY20 we will conduct a share buyback as quickly as possible.

For fiscal 2013, regarding our dividend projection, as Mr. Sakurada mentioned, we will pay out an interim dividend, JPY30. And the year-end dividend of JPY30. And as for share buyback program, we have not made a decision yet.

When we changed to this shareholder return policy we made a commitment to pay out a steady dividend of JPY60. And for the upside we will continue to do a thorough discussion to see what is the best at the time. In June, we will have the annual shareholders' meeting. And the BOD members have gone through the tenure of three years. So there will be a reshuffle of the BOD members.

So for now, for example, when we announced our first half results. And we look at the profit and the capital base at the time. And also the full-year projection. And when we have a better visibility of how much is going to be the loss for the natural disasters, then at that point we will reconsider the additional shareholder return above the JPY30 interim dividend and JPY30 full-year dividend for fiscal 2013.

So we will be looking at the performance of the business and the capital base to make the decision. And also potential investment opportunities at the time. And also, at this time, we are going to do a share buyback for the first time after establishing the NKSJ Holdings. So after the share repurchase, we will look at how the market and the market participants will respond to that. And after looking at the outcome, we will make decisions regarding the shareholder return for fiscal 2013.

And for fiscal 2014, the net premiums written for the Domestic business is going to be the largest after the integration of the companies. So we will need the support of our shareholders. So we want to be forward-looking in making the proposal for our dividend policy in fiscal 2014.

And regarding the breakdown of the Life business, I think that can be answered by the Secretariat. But on a nominal basis, last year and this year -- sorry, two years ago and last year it grew by roughly JPY100 billion. But with the interest rate decline, which is not reflected in the EV calculation. Also the genuine EV growth was a little less than JPY60 billion.

For the protection-type, which is our main product for Himawari Life, that's how we would like to grow the Life business, simply put, to make this sustainable; I think your question was, what kind of measures are we taking.

When we look at the facts, the cross-sell ratio -- I don't know how convincing you feel this is. But the cross-selling ratio is a little over 6%. And some may doubt that. One fact that we know is that after the merger, after the integration of the two companies -- the two Life Insurance companies have been integrated, we have the ex-Nipponkoa agents as one channel. And the agents of the ex-Sompo Japan as another channel. But after the merger, the growth of the Nipponkoa channel has been quite substantial. So in reality, for the next two/three years we really want to solidify this channel strategy.

And looking forward, for the Life business when we think about the outlook for the Life market, we can rely on the agent to offer the expensive product, because for those products face-to-face encounter is important. But to offer different types of product we also believe that direct sales is effective. We have DIY Life in our Group. And some of the professionals, like the international planners love this product offering, because they are unique.

So through the DIY Life, which is dedicated to direct sales, we want to grow the business. And also Himawari Life, which leverages on the agent distribution channel, I think we can strike a good synergy. We don't know if we want to integrate these two entities. But I think these can be leveraged as different types of channels.

And as for your last question about the consumption tax, I get your point. But at this point in the industry, regarding the consumption tax hike, there is no industry-wide effort to discuss about this issue. And as for what to do going forward, because this is an insurance policy, underwriting margin will be the principle. So this April we just raised the premium rate. So we need to take some time to give the considerations. So that's the only answer I can offer you at this point.

Q - Jun Shiota {BIO 4127431 <GO>}

Shiota, Daiwa Securities. I have two questions. The first one is about reduction of stocks. According to page 50, on the right side, the upper part, I'm not really sure how it goes on. The upper part is real thing. And you have actively sold in the previous year. And in FY '13, probably the tendency is the same. But the stock ratio about 34% of the general account in FY '15 is going to decline farther, I believe. So if you have any target level, could you please share that with us?

And in page 45, you have the internal solvency ratio. And the risk level by reducing the stock. How much impact would you expect for FY '15? Could you please explain that, too?

My second question is about the overseas businesses. In this fiscal year, your plan is to reduce profit and also, you are in the process for stable profitability. The President said that deft operation is something you are pursuing; could you please elaborate on that?

Your target is a little bit less than JPY20 billion of the adjusted profit. Can you organically achieve that, or do you need M&As, or for assumed business, would it have any impact on that? Those two are my questions.

A - Unidentified Speaker

So first of all, about the stock. In the presentation material, we have page 43 to explain that. That's the net asset after adjustment, consolidated net asset, as of the end of last year fiscal year. And also the end of March 2013.

Reduction of stock equities, for example, how much % of the portfolio, or how much % of the net assets? Well I think we should have the concept for that.

And please look at this page, P&C business. When you take only P&C for net assets, JPY1.6 trillion, JPY1.5 trillion or so, that's the number. And as of the end of March, our holding of the relationship stock was about JPY1.5 trillion. And as of the end of last fiscal year, it was about JPY1.4 trillion.

We have sold the equities. But because of the market situation, even though we sold about JPY200 billion as of the end of March, the market cap based actual value is increasing, because of the market situation.

When we proceed with this selling, because this is a relationship stock, strategically holding stock, we have relationship with those companies. So when we sell those companies' stocks to reduce the number, we have negotiations. But the negotiations are very tough, because we want to avoid the situation where we have some negative impact on the policy business, Insurance business.

JPY1.6 trillion only for P&C, that's a net asset. I suppose about 70% is the target. Well I think that's necessary. As we proceed with the selling for each fiscal year, to some extent, we would like to establish a target for selling. And also, we'd like to have numerical targets from 2010, 2011, 2012. JPY300 billion was the target for those three years. But we have done already JPY370 billion of reduction in the midterm plan, for FY '13, '14, '15.

So for these three years, the reduction level, since we have done JPY370 billion in the first half of the plan, we think it was drastic. But we still have some higher level. For the next three years, we wouldn't probably go for JPY370 billion or JPY380 billion or so. But to the closer level, we might have to sell more stocks.

For FY '13, for the single year, for FY '12 JPY197.8 billion was the reduction. And as I mentioned before, for the remaining three years, we wouldn't go for the same level as FY '12. But we might have to be closer to that. Otherwise, we cannot really catch up the reduction of the relationship stock. And also the strategically holding stock. That's our thinking.

As for overseas business, before, I was talking about the comparison with the other mega P&C companies. And we would like to deftly operate our business. We are in the process for that; I think you have pointed out about that. And what you are saying is true. The main cause is that we have a reduction of the top line. And also bottom line. The common theme here is, compared to those days, we never thought about this kind of interest rate reduction.

And another thing, especially about Brazil, we are, right now, estimating the cost for merger. And also the costs for systems consolidation. And we might have to bear the cost beforehand. But we are not really saying that we were not able to control every situation, compared to what we estimated at first.

We are really trying to strengthen the overseas businesses in each market; overall, Brazil, Turkey, Malaysia, Thailand, Indonesia, India. What we have to do is very clear. And we have already taken an action. So this situation would not continue. And after making estimates and analyzing, of course, we would like to take another opportunity to explain the situation.

And about the stocks; by selling strategically holding stocks, how much risk do we have associated. That was the question. To reduce strategically holding stocks, about half of the amount we can reduce the risk. For example, if we sell JPY200 billion, JPY100 billion would be the risk associated. And risk we can reduce.

Q - Jun Shiota {BIO 4127431 <GO>}

Thank you very much.

Q - Unidentified Participant

I just have one question.

A - Unidentified Speaker

Sorry, I want to make additional comment. Regarding the year-on-year change, some of the media reporters would ask me for the difference in the absolute value of the overseas business.

Last fiscal year, at the end, the actual difference, for example, (inaudible) versus Tokio Marine at about JPY50 billion difference at the bottom line. But I guess Tokio Marine's overseas business was successful, that Philadelphia Kiln generated over JPY40 billion in contribution.

Also, Mr. Hirano said that it's a difference of how the acquired company was profitable. Also we need to think about how we can be successful in M&A strategies. And I may be repeating myself. But we are not pursuing size or absolute value in yen terms. We want to go into a market where we are familiar with. And we want generate return after amortization of goodwill.

So we are not looking at the profit value; we're more looking at the profitability. So playing smart means we're focusing on the profitability. And I will refrain, at this point, from identifying a particular country or market. Thank you.

Any other questions from the floor? So now, I would like to close the Q&A session. Thank you very much for your attention and participation.