Q4 2015 Earnings Call

Company Participants

- Unidentified Speaker, Unknown
- Yasuyoshi Karasawa, President and CEO

Other Participants

- Futoshi Sasaki, Analyst
- Natsumu Tsujino, Analyst
- Tatsuo Majima, Tokyo Securities Co., Ltd.
- Unidentified Participant, Analyst
- Wataru Otsuka, Analyst

Presentation

Yasuyoshi Karasawa {BIO 7391405 <GO>}

Hello, everyone. My name is Yasuyoshi Karasawa and I am President and CEO of MS&AD Insurance Group Holdings. Thank you for joining us at our information meeting today.

In FY14, the global economy staged a moderate recovery. The US economy continued to see modest gains. In Europe, despite destabilizing factors, there were signs of recovery.

Looking at the Japanese economy, in the first half of 2014, personal spending was weak due to the impact of the consumption tax hike. But thanks to the effects of the government's economic policy, among other factors, corporate earnings and the employment situation began to improve. The economy is now expected to recover.

Backed by this economic environment, our earnings, especially in the domestic non-life insurance business, improved significantly and the Company posted very strong results. The main factors for the strong results were an improvement in earnings from domestic automobile insurance and below-average losses from natural catastrophes.

Today, I would like to describe the progress in our initiatives in the first fiscal year of our medium-term management plan, Next Challenge 2017, which has brought among strong results and our strategies to achieve further rapid growth from this fiscal year onward.

Please turn to page one of the handout. Let me describe the main points of today's presentation.

We announced our FY14 financial results last week on May 20. We posted record net income for the third consecutive year. An earnings structure was established in each business segment, especially in the domestic non-life insurance business, where underwriting profit finally turned positive. We made good progress with our reorganization by function to achieve growth and boost efficiency simultaneously.

In FY14, the two non-life insurance companies continued to perform well, recording a 3.1% rise in total direct premiums written. Cost cutting also made progress. The cumulative cost savings came to JPY31 billion compared to FY11.

Considering the establishment of a sustainable earnings-producing structure in each business segment. And the change in the business environment, we have revised upward our forecast for FY17, the final year of the medium-term management plan.

We will review our numerical management targets after the interim closing of this fiscal year. Specifically, we have revised our consolidated net premiums written forecast to JPY3,200 billion, or more, from JPY3,100 billion. And Group core profit to JPY200 billion, or more, from JPY160 billion.

Meanwhile, to increase earnings strength, we will work to lower the expense ratio, aiming to achieve in FY17 an expense ratio of the mid-31% range and a combined ratio of 95% or less, believed to be the most competitive level in the industry.

In the current medium-term management plan, we have begun to pursue ERM in earnest. We will maintain financial soundness while, at the same time, improving capital efficiency steadily. Our challenge is selling strategic equity holdings. We will step up efforts to sell them.

As we announced on May 20, we will strengthen our corporate governance structure for transparent, fair, prompt and decisive decision making.

Let me talk about shareholder returns. Following the improvement of an earnings structure, we will increase the pace of dividend increase from this medium-term plan. We forecast that we will distribute an annual dividend of JPY70 per share in FY15. We conducted a JPY10 billion share buyback in November last year and have decided to buy back an additional JPY20 billion.

Please turn to page 2. Let me describe our numerical management targets.

Group core profit in FY14 stood at JPY155.7 billion, almost reaching the JPY160 billion target for the final year of the medium-term management plan.

As I have said, we revised the forecasts for our consolidated net premiums written and Group core profit for FY17 up to JPY3,200 billion and JPY200 billion, or more, respectively. We will take steps to achieve a Group ROE of 7%.

Skipping a few pages now to move on to page 6, I will be describing trends in the combined ratio in the domestic non-life insurance business.

Abnormal combined ratios exceeding 100%, due to structural issues in the voluntary automobile insurance and the sharp rise in the number of accidents from around 200, 2010, have almost become normal. Factors here include exhaustive efforts to improve earnings in the past few years and a revision to the rate setting system.

The graph on the next page, page 7, shows trends in the combined ratio in Japan's overall non-life insurance sector for reference. As you see, from 1996, when liberalization took place, the combined ratio exceeded 100% for just five years from FY08 to FY12.

In some years, the combined ratio for the entire sector has fallen below 90%. You can see that, historically, a combined ratio of 95% or less which we are targeting is a normal level.

We still need to continue our earnings improvement efforts for fire insurance and accident insurance. Overall, we will maintain appropriate underwriting and will seek to increase premiums written. In addition, we will work to reduce the expense ratio to stabilize the combined ratio at 95% or lower.

Please turn to page 8. The combined ratio has come close to the target and we have nearly established a structure for constantly achieving an appropriate profit margin. We can now take advantage of our strengths, that is a large amount of premiums written and a high growth rate, to achieve growth in earnings.

We still need to take steps steadily to improve earnings in a number of fields -- for example, underwriting profit for accident insurance is still in negative territory. In the fire insurance business, we need to deal with increasing natural catastrophes and water leak accidents caused by the aging of buildings and facilities.

Overall, however, we believe that we are entering a phase where we can expand premiums written through appropriate underwriting.

Please move on to page 10. This page describes our channel strategies and product strategies to expand premiums written.

MSI and ADI are jointly developing products, taking advantage of changes in the social environment and new risks in growth industries and growth fields and combining their strengths.

They're expanding their businesses by selling jointly developed products through their respective sales channels. For example, they have jointly developed and launched overseas crisis management expense insurance and comprehensive global business insurance in the previous fiscal year.

They have also jointly developed a voluntary automobile insurance product for young people purchasing an automobile for the first time. The two companies have begun to share initiatives and facilities for their motor channel agents.

Meanwhile, we are expanding our underwriting through good risk taking by making more proposals to individuals, businesses and local governments associated with the mitigation and prevention of catastrophes.

Representative examples include connecting automobile insurance which is intended to promote safe driving and reduce risk, using telematics technologies, SMA Navi for businesses. And construction work insurance and industrial fire insurance that help with the mitigation and prevention of flood and wind disasters through precautions like providing weather alert service in collaboration with weather news incorporated to policyholders.

Now please look at page 11. I will be describing our initiatives to reduce the expense ratio on this page.

Cost reduction through reorganization by function has been making progress. At the end of FY14, effective total Company expenses, which do not include an increase in expenses in proportion to a rise in premiums written and special factors, were JPY31 billion less than the level of FY11.

We aim for a cost reduction of more than JPY50 billion at the end of 2017 through efforts to reduce costs. We intend to lower the expense ratio at MSI and ADI, which is a simple sum of the two company's figures to the mid-31% range at the end of FY17, down from 33.2% at the end of FY14.

The expense ratio at Mitsui Sumitomo Insurance is expected to fall to the 30% range this fiscal year. At ADI, retail insurance lines, including voluntary automobile and household fire insurances, account for a large percentage of the total business. Thus, the company is at a slight disadvantage compared to competition in terms of agency commissions. However, we believe that ADI will be able to lower the expense ratio significantly by sharing the expertise of MSI.

Please turn to page 12 for the description of Mitsui Direct General.

From FY11, the company was in the black. Unfortunately, however, due to a decrease in the top line and the worsening of the loss ratio, given fierce competition in the online automobile insurance market, the company posted a net loss.

Because the business of Mitsui Direct General is the Group's strategic business, the Group will work to rebuild the company quickly through a JPY5 billion capital increase and a review of the product strategies and operations.

We skip a few pages to page 15. MSI Primary Life has consistently achieved net income of more than JPY10 billion every fiscal year -- a target in the medium-term management plan since FY12, when the investment environment recovered with the winding down of the European sovereign debt crisis.

MSI Aioi Life has posted a profit since FY12, the year immediately following the merger. The two life insurance subsidiaries, whose markets and business models differ from each other, have been contributing to Group core profit.

Please look at page 16. Let me describe the situation of MSI Aioi Life channel strategies and product strategies.

Sales of new medical insurance, Ace, which was launched in December 2013, have been strong. Expanding the ratio of the third sector in the product portfolio has been a challenge, as you see in the graphs on the lower right corner of the slide. The ratio of the third sector increased significantly. The ratio in the annualized premiums of new policies exceeded 30%.

One of the reasons for the expansion is a greater contribution of sales through cross-selling channels associated with the transfer of the sales of long-term third sector policies to MSI Aioi Life in the reorganization by function. Following the transfer of long-term third sector policies to MSI Aioi Life in the reorganization by function, the promotional sales capabilities through cross-selling channels, both for life and non-life insurance, gained momentum.

Let's skip to page 19. Now I would like to describe the channel strategies and product strategies of MSI Primary Life.

In FY14, premiums written exceeded JPY1 trillion, driven by sales through regional banks and Shinkin banks. Insurance contracts handled through these banks increased steadily, thanks to the company's well-developed bancassurance support system, including an established training program and product development capabilities. As a result, the sales capabilities have been strengthened.

MSI Primary Life has launched, in rapid succession, new products that reflect changes in the market environment and customer needs. And we believe that they have been well received by the market. We expect that MSI Primary Life will continue to steadily contribute to earnings from FY15 onward.

Now please look at page 22. Let me describe the international business.

In FY14, there were fewer natural catastrophes than usual, except in the Americas, where there were some major incidents. Reinsurance performed well and exchange rates had a positive effect. As a result, net income rose approximately JPY20 billion from a year ago.

Given the less positive effect of exchange rates, natural catastrophes and major incidents on the level of usual years. And the initial cost at BIG, the acquisition of which was completed in March this year, net income is expected to decline. However, we expect that net income will begin trending upward again.

Please turn to page 23. I would like to describe our Asia business.

In Asia, where we're strong, we're expanding our business steadily, as the largest non-life insurance group in the ASEAN region, taking advantage of high economic growth in the region.

In April this year, we appointed Alan Wilson, CEO of the holding company for Asian operations and Executive Officer of MSI, to bolster cooperation between MSI and our Asian operations. We aim to be ranked among the top three in all countries in the ASEAN region through M&A and other growth strategies.

Taking advantage of our strengths in the ASEAN region, we have started an alliance strategy under which we are developing mutually complementary relations with global players, including AXA, Generali, Mapfre. And QBE, to use each other's facilities and services.

Let's skip a few pages and move on to page 29. We have been embedding ERM in earnest in FY14. And it is now the essence of our management. This page describes strategic equity holdings.

We have recently restated our policy on the holding of strategic equities. Please refer later to our policy shown on the left side of the slide. We will work to achieve our target of selling strategic equity holdings of JPY300 billion by the end of FY17, ahead of schedule.

Please look at page 30. On this page, I would like to describe the economic solvency ratio.

The ESR, a preliminary figure at the end of FY14, rose 18percentage points to 201%, reflecting a steady recovery in the capital market and the Group's earnings strength.

The ESR has reached 200%, our target, due to an increase in unrealized gains on securities. We will continue our efforts to improve the quality of capital by accelerating sales of strategic equity holdings, aiming to maintain an ESR of 200% stably by the end of FY17.

Please turn to page 31. On this page, I will be explaining the enhancement of the Company's corporate governance, which we announced on May 20.

We will strengthen our management system for transparent, fair, prompt. And decisive decision making, aiming for the Group's sustainable growth and an improvement in enterprise value.

Specifically, we will raise the ratio independent outside directors to all directors to one-third. And have established criteria for selecting director candidates and auditor candidates. We will introduce a stock option system for directors and executive officers, excluding outside directors, at MS&AD Insurance Group Holdings. And MSI and ADI core Group companies.

We have established a governance committee chaired by outside director, Tadashi Ogawa. The committee will make recommendations about corporate governance, policies and arrangements.

Please look at page 32. Lastly, let me talk about shareholder return.

As I have said, underwriting profit has moved into the black at last and we're about to firmly establish a structure that sustains stable earnings. While promoting ERM, we will improve earnings, capital efficiency and financial soundness, striking a balance between them. We believe that this is what our shareholders and other stakeholders want us to do.

On the next page, you will find a graph showing trends in the shareholder returns.

We related Group core profit in each fiscal year to share buybacks in the following fiscal year. However, some investors and analysts said that it would be easier to understand if dividends are related to share buybacks for the same calculation period. Thus, we have changed the calculation method. For further information, please refer later to the appendix data from the next page.

Finally, the Group aims to provide transparent information to seven types of stakeholders and create value together with them. We will reflect in our management positive and constructive communication, especially with shareholders and investors, about sustainable growth and improving enterprise value.

Thank you for taking time to be with us today.

Questions And Answers

A - Unidentified Speaker

We would like to start the Q&A session. Please state your affiliation and your name before you start asking questions. We would like to have as many people as possible to ask questions and, therefore, may we limit questions to two questions per person. And I hope you would understand.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

Tsujino, JPMorgan Securities. One question relates to the acceleration of sale of business relationship shareholdings. You are going to sell more than you actually sold during 2014. But the capital raising assumptions, the assumption for FY15 projection, looking at that, it appears to be very close to the actual amount of sales in FY14, minus gains realized, to make additional provisioning for price fluctuation reserves.

In terms of the Company policy, while the projection is made conservatively, am I right in understanding that the sales then could be higher than the projection because the sale is further accelerated?

Secondly, you said you're going to decide the shareholder return based upon the Group core profit. It appears that Tokyo Marine, although it is yet to have an information meeting but Tokyo Marine has changed the definition of adjusted profit as the basis to determine shareholder return.

And the new definition includes realized gains from the sale of the business relationship shares, although the valuation loss is not included but the realized gains are included in the profit, out of which the shareholder return is decided.

The sales will reduce risks. And the part of that to be returned I think is quite understandable. However, in the case of Group core profit, it could deteriorate at times, due to the underwriting cycle. So Tokyo Marine's method may be a good one, in my view. So could I invite your comment? Could you share with us your view on such an approach?

A - Yasuyoshi Karasawa {BIO 7391405 <GO>}

Thank you very much. The first question about the speed of the sale of business relationship shares, in FY14, the first fiscal year, compared with the JPY300 billion target, shares worth JPY91 billion were sold on the net basis.

Relative to the target figure of business relationship shares sale, the amount sold was JPY91 billion, which is somewhat above the annual pro rata figure of a four-year period. And during this fiscal year, we'll aim at a similar level as FY14 or even higher -- the amount of sale we have in mind is close to, or higher than, FY14.

If sales at such a level continue for these two years at stage 1, a substantial portion of the JPY300 billion sales can be completed ahead of the schedule. As a management, I want to accelerate it further. This is something you can look forward to.

Your second question about the sources for dividend, change of definition by Tokyo Marine has not been brought to my attention yet. There are three major insurers, each competing against each other. And each facing its stakeholders.

If a peer has taken such an action, we are ready to study it as one approach. As for now, however, we don't intend to change our way of payout -- that is 50% of our Group's core profit, as a medium and long-term return.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

Thank you.

Q - Unidentified Participant

The first question relates to the expense of the domestic non-life insurance business. And the second point relates to the investment including overseas business.

Page 11 shows plans for the expense ratio, going forward. And first, about the expense, I would like to ask questions for the short term and also medium term. The plan shows a decreasing expense ratio this fiscal year. Your plan indicates a JPY10 billion decrease in non-personnel expenses. Why is this? That's the question relating to the short run.

And over the medium and long term, this graph indicates expense ratio of mid-31%, 31.5% for the two companies combined. Probably this level is still higher than your peers by 1 or 1.5percentage points.

If these companies continue to exist side by side. And with ADI having somewhat higher agent commission rate than others because of its product mix, is 31.5% the limit that you can reduce the expense ratio to? Is this the lowest level -- do you think this level is the lowest level you can attain? Over the medium and long term, is expense ratio reduction of such a magnitude, in your view, enough?

Secondly, you did not explain in detail future investment. If you retain 50% or more of profit, in essence. And if you sell strategically held equities, risk exposure will decrease, generating a significant amount of investable resources. Where do you plan to use such reserve capacity for investment?

A - Yasuyoshi Karasawa {BIO 7391405 <GO>}

Of the two questions you ask, the first one was on expense ratio, that is a JPY10 billion reduction in non-personnel expenses. In addition, regarding the expense ratio outlook out to 2017, you asked whether 31.5% is the limit or not.

As for the first question, expense ratio reduction we aim at is 0.7percentage points from 33.2% to 32.5% for FY15. So that is a 0.7percentage points decrease. The 0.7 points is broken down between 0.4 points achieved naturally through top-line growth. If overall expenses, the personnel and non-personnel combined remains unchanged, the expense ratio will decline 0.4%.

The remaining 0.3percentage points is due to a technical issue -- that is change from the declining balance method depreciation to straight line method. That's for the current fiscal year.

As for reduction potential over medium and long term, MSI had been much advanced in the expense ratio reduction. MSI's IT system had been unified, business processing had been more efficient. Such an expense ratio structure continues to be built in, in its budget. Back in 2005 and 2006 MSI's expense ratio was among the best in the industry at around 30-plus-%.

However, because of business suspension in 2006, we spent a lot of money for quality improvement, disregarding its implications on expense ratio. Our focus on quality, then, is producing benefits -- efficiency increased through IT systems and employees innovatively expanding their capabilities. This shall bring expense ratio down to around 30% level.

We need to establish a below 30% expense ratio structure to compare against so-called global players of the world. We need to envision that, moving forward. It also means making people more efficient, including streamlining duplicate structure with agents.

Over and above that, our integrated IT systems' unity will generate effect in our Group starting in 2017. And so efficiency enhancing effects of IT systems' investment will come to play in full in FY17.

There is one more factor -- as a part of function based reorganization we'll make claims handing more efficient through systems unification. And so in the next plan, higher efficiency of claims handling will come into play. On that assumption, 31.5% is merely a signpost along the way.

In the next plan, I want MSI to go below 30% early on with ADI to further reduce its expense ratio leveraging MSI's systems' knowhow. I want our Group to aim at below 30% mark at an early stage through synergy produced by both companies.

Moving on to the investment-related question. Here, as you pointed out. And I think it is shown on some page, as our capital buffer has become quite substantial, with ESR almost at 200%, we need to slash strategically held equities further to enhance the quality of our capital. As CEO, I'll commit myself to this and intend to deliver this commitment.

Our challenge, therefore, is to increase the efficiency of capital we have in our buffer. And I believe the most effective means is M&A using such a reserve capacity and also our other leverage. And if good opportunities are presented, while carefully avoiding high prices I'd like to seize such an opportunity with audacity. And want to improve capital efficiency by doing so. I want to increase Group core profit through this and return value to shareholders.

Just for your reference, our revised core profit target of JPY200 billion, or more, is solely based upon organic growth and does not include any profit contribution from M&A.

Q - Unidentified Participant

I have a follow-up question on the first point. MSI's general company expense ratio in the new fiscal year is 13.6%. At 15.8% ADI's ratio is 2percentage point higher -- that is cost ratio other than agent commission. Considering the size, can ADI lower it to about the same level as MSI?

A - Yasuyoshi Karasawa {BIO 7391405 <GO>}

You're talking about ADI?

Q - Unidentified Participant

Yes.

A - Yasuyoshi Karasawa {BIO 7391405 <GO>}

In the case of ADI, the agent commission is one of the problems. And in FY15, MSI's expense ratio is to fall significantly below that of ADI. Here, agent commission rate has declined. This is due to transfer of lines with relatively lower agent commission, such as marine and commercial lines, from ADI to MSI. Thus, MSI benefits from 0.2percentage point lower commission rate and expense ratio. This is a handicap on the part of ADI.

Yet another special factor is that some part of ADI's IT system remains not fully unified. Once systems' unification progresses further, including unification of host computer in FY16, I believe expense ratio will come down at a faster pace in the next step. A progress in this regard will promote business process reform. And expense ratio can well be reduced further, in my view.

Q - Wataru Otsuka {BIO 16340098 <GO>}

Otsuka, Nomura Securities. I have two questions to ask relating to page 1. It relates to upward revision of numerical target and I would like to break my question into two. One relates to the establishment of the structure that produces sustainable earnings. And the second relates to the change in environment and I would like you to elaborate more concretely.

The establishment of a stable earnings producing structure, there must be some background to that. In this part, in probably the domestic and non-life business, rate revision works its way through, or realization by function proceeds further, with a progress and its pace much faster than anticipated. So why, or what, is in the background of this establishment of sustainable profit producing structures?

And second relates to the change in the environment -- are you referring to change of the investment environment, or a change in the competitive environment? I guess the target figure was raised because the change in the environment was different from what you had expected initially. So could you elaborate on that?

A - Yasuyoshi Karasawa {BIO 7391405 <GO>}

About the reason for the upward revision of the management figures -- about the stable earnings producing structure, you're exactly right. The combined ratio has come down more than anticipated, which is reflected in expense ratio and underwriting profit. Such a structure has taken root more or less.

On top of that, while further efforts are needed for fire or personal accident lines, the prospect there is getting better. So this is what we have shown with profit generating structure establishment.

With respect to the change in environment, overall economic conditions, financial and economic conditions within Japan, common development in the world, concerning those, the further outlook, the course of NIKKEI average, the exchange rate development, seem somewhat stable.

The only factor defining that is low interest rates. I think the current interest rate situation must be taken as assumption for our forecast. Having said that, sharp spike in interest rates also poses problems. I hope that low interest rate stably transition to rising interest rate.

Q - Wataru Otsuka {BIO 16340098 <GO>}

May I ask an additional question, moving on to page 2? The figure for FY17 is JPY160 billion and it increases from JPY160 billion to JPY200 billion, or more, that is the Group core profit, means an increase by JPY40 billion yen, or more. You are going to review Group core profit forecast, going forward. I wanted to grasp its image -- is the main driver of this upside a further improvement of domestic non-life business?

A - Yasuyoshi Karasawa {BIO 7391405 <GO>}

Yes. You are right, the profit improvement of domestic non-life business is a major factor behind this.

Q - Wataru Otsuka {BIO 16340098 <GO>}

Thank you.

Q - Unidentified Participant

I have two questions relating to investment overseas and also the level of capital. The first question relates to overseas investment and I'm referring to page 23. Could you share with us the sort of target geography and the amount you might have in mind? That's the first question.

And second one relates to page 30 and here, as an ESR you intend keep stably over the medium term, you have cited 200%. Since you're reducing risk capital, I believe that will tend to increase. What sort of a range do you have in mind beyond which you consider capital to be excessive? If you have a specific data point which, if exceeded, would compel you to reduce capital. And how long do you intend to take to determine that?

A - Yasuyoshi Karasawa {BIO 7391405 <GO>}

You had two questions. The first question relation to overseas business, are you interested in the target area and the amount relating to investment or M&A, the purport of the question, yes, that is right.

As I state in every forum, our first priority continues to be in Asia. As I said in my presentation earlier, we aim to be one of the top three players in each of the ASEAN countries. And we will leverage that advantage and we will further solidify our strength as the largest non-life insurer in the ASEAN region. To this end, we will execute M&A. So that's the first priority area.

In addition to that, in Asia, we acquired Aviva in 2004, which bore much fruits. It was a very efficient investment. Today, such a deal is offered only with stiff price tag. We don't come across an excellent M&A deal like that nowadays. We shouldn't end up with a bad acquisition. So we want to choose a deal that offers good investment efficiency. In this sense, while it may be difficult in Asia aiming at top three in each of the ASEAN member, I want us to be bold.

The geography to follow in Asia in my view is Europe and United States -- if anything, Europe more than the United States. As you know, we have our own Lloyd's syndicate since 2000, which we have been operating since 2000. And it already ranks around 20th or so among Lloyd's syndicates and generates several billion in profit.

Having accumulated knowhow sufficiently, we want to have a leading position in the Lloyd's market by becoming one of the top 10 syndicates. As I have been saying for some time, if there is a good target, we'll acquire it. So that's our second priority.

In addition to that, including Continental Europe or the United States or Latin America, we would be proactive in executing M&A if we find a good deal conducive to improved capital efficiency.

On your second question on ESR level, why our ESR has reached 200%, as I mentioned in my presentation earlier, it was partly a consequence of a large business relationship shareholding and an increase in unrealized gains in them.

Our goal is to enhance the quality of capital to keep ESR above 200% stably and obtain AA rating. To have AA rating on our financial strength is our important objective. To begin with, we want to attain ESR level required for AA rating.

Over and above that, we need some reserve strength for natural disasters and investment I talked about earlier. Nonetheless, once we've reached a stage where we can keep ESR about 200% stably, with higher quality of capital during the planned period, we would like to revisit our shareholder-related approach and implement such a revised approach.

Did I answer your question?

Q - Unidentified Participant

Thank you.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

Sasaki, Merrill Lynch Securities. I have one question relating to the slide on page 2. It is written here that you're taking initiatives to achieve 7% Group ROE. It seems rather difficult, given current levels of stock prices and also, most recent Group ROE of 5%. But what sort of options do you have in mind concretely in terms of initiatives you will be taking?

A - Yasuyoshi Karasawa {BIO 7391405 <GO>}

You're quite right, including the prevailing conditions in such as stock market levels, environment is conducive to enhancing financial reserve capacity. I shouldn't complain. But at the same time, it hinders our efforts to improve ROE.

Therefore, we want to increase core profit to the maximum extent possible. JPY200 billion is not enough. So we've stated JPY200 billion or more. We want to achieve ROE of 7% by implementing a strategy including M&A to enhance ROE.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

What sort of options are available for the denominator? Could you share with us your ideas?

A - Yasuyoshi Karasawa {BIO 7391405 <GO>}

Talking about measures on the denominator side, to reduce the denominator, we'll try to scale down the denominator by buying back shares proactively and taking other measures. Given the size of unrealized gains, these measures alone are not enough. I, therefore, believe that increasing profit in the numerator is the most important strategy primarily.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

Thank you.

Q - Tatsuo Majima {BIO 15338044 <GO>}

Majima, Tokai-Tokyo Central Center. About the strategically held shares, even if you do what is described on page 29, in all likelihood, transportation equipment and financial shares will remain in your portfolio, ultimately. If that is the case, your equity portfolio could very well be left with transportation machinery, equipment and financials. As you follow your strategy or strategic shareholding guidelines, doesn't sector bias concern you much?

A - Yasuyoshi Karasawa {BIO 7391405 <GO>}

You asked about the strategically held equity portfolio. As you mention, our portfolio is lopsided to transportation equipment and financials. If we ask for consent to sell on pro rata basis, the resulting downsized portfolio will still be overweight with those sectors.

As we reduce the overall volume of shares we hold for business purpose, although it doesn't mean we are not concerned about the structure of the portfolio. But unless we sell those shares that occupy large weight in the portfolio, portfolio restructuring does not progress.

For now, I'm going to say that sales will be done on the pro rata basis as my answer to your question. But let me add that we signed up for stewardship code and already, two companies combined had communication and dialog with some 350 companies last fiscal year. And we also made policy statement regarding corporate governance code. Issues of efficiency regarding strategically held shares are included in that statement.

As we continue such communication, issuing companies have come to understand the situation better. Thus, environment is being created to facilitate the sale of strategically held equities, based upon mutual understanding. Therefore, the way we enunciate our policies in compliance with the stewardship code or corporate governance code and dialogs with issuing companies are going to be extremely important in this context.

Thank you very much. It seems that the questions have been exhausted and, therefore, we would like to conclude the Q&A session at this juncture. If you come up with new questions, please feel free to contact us at public relations and the IR division.

This concludes the first information meeting for FY15 conducted by MS&AD Group Holdings. Thank you very much for your attendance.