Q1: You have stated that the sale of strategic equity holdings will be accelerated in FY2015, but looking at the estimate for gains/losses on sales of securities for FY2015, the figure is closer to that obtained after deducting the gains on sales realized due to the extraordinary provision for the price fluctuation reserve from the actual results for FY2014. With regard to your policy on the sale of strategic equity holdings, is it correct to understand that while you will move in the direction of accelerating sales, the company's forecast for gains/losses on sales of securities does not take this into account?

A1: That is correct. During the period covered by the current Medium-term Management Plan, we aim to sell strategic equity holdings valued at 300 billion yen, but in FY2014, which is the first year of the Medium-term Management Plan, we sold 91 billion yen of such shares, exceeding the average value required to meet our target over four years. In FY2015, we intend to sell at a level exceeding that of FY2014. Through these moves, we hope to carry out much of the sale of the targeted 300 billion yen in strategic equity holdings by the end of the first stage of the Medium-term Management Plan, and subsequently further accelerate such efforts.

Q2: On the definition of Group Core Profit, which is the source of shareholder returns, Tokio Marine has changed its definition of adjusted earnings for determining shareholder returns to include the realization of gains on the sale of strategic equity holdings (gain on sales of securities) in adjusted earnings. What are your views on methods such as that adopted by Tokio Marine?

A2: I do not know about the status of the reviews underway at other companies, but we are naturally prepared to consider an approach being considered by one of the other mega non-life insurance companies. However, at present, we intend to provide shareholder returns approximately 50% of Group Core Profit in the medium run based on our current definition, and do not have any plans to change this for the time being.

Q3: Your plan for business expenses in FY2015 states that non-personnel expenses will be reduced by approximately 10 billion yen. What are the factors behind this reduction? Furthermore, in the medium-to-long term, your expense ratio will be somewhere between 1 and 1.5 percentage points higher than other groups. You have two domestic non-life insurance companies within the group, and the agent commission rate being slightly higher than other companies due to the product portfolio of ADI may be one factor causing this, but please advise whether 31.5% level as far as expense ratio is the lowest level under the current arrangement?
A3: We plan to lower the expense ratio by 0.7 percentage points from 33.2% in FY2014 to 32.5% in FY2015. Looking at a breakdown of that 0.7 percentage point change, around 0.4 points can be accounted for by top line growth, and we believe that the expense ratio will fall by around 0.4 points due to growth in premiums written, if overall expenses including personnel expenses and non-personnel expenses remain unchanged. The other factor is the change in the method of accounting for depreciation and amortization, from the declining-balance method to the straight-line method, and this is expected to result in a decrease of 0.3 points.

With regard to lowering the expense ratio in the medium-to-long term, we believe it is necessary to lower the level to below 30% by reforming roles, system-based efficiency, and the resulting recovery in the top line, etc. The new integrated system called Unity is expected to have a greater impact beginning in FY2017, and the improved efficiency brought about by the reorganization by function of loss adjustment operations that is currently being considered will also have an effect. The expense ratio of 31.5% is only a waypoint, MSI will lead in coming close to breaking 30%, while ADI will aim to utilize the expertise in improving the efficiency of operations using MSI's systems in order to further reduce company expenses, with the intent of bringing the level of the entire group below 30%.

Q (Follow-up): MSI's company expense ratio for FY2015 is 13.6% while ADI's is 15.8%, with ADI's company expense ratio more than 2 points higher. Is it possible to lower ADI's company expense ratio to the same level as MSI's?
A: That is as you pointed out. During the period of this plan, we intend to integrate the old host computer systems at ADI, and once progress has been made in that effort, business reforms will also progress significantly, and we believe that we will be able to lower the expense ratio to some extent. In particular we expect to be able to lower the expense ratio at a substantially accelerated pace in stage 2 of the Medium-term Management Plan.

Q4: You have substantially retained earnings of over 50% of income, and will have considerable surplus for investment if risk is reduced through the sale of strategic equity holdings. What do you plan to use this surplus for?
A4: We would like to steadily implement further reductions in strategic equity holdings to improve the quality of our capital stock. In addition, we believe that M&A is the most effective means of improving capital efficiency, and if any good opportunities arise, we will actively engage in such opportunities even if we utilize leverage beyond our surplus in order to improve capital efficiency. As a result, we will increase Group Core Profit and move forward to provide shareholder returns. Note that the forecast for Group Core Profit, over 200 billion yen in FY2017 does not include profit from M&A deals, and only incorporates organic growth.
Q5: Could you provide more specific information on the “establishment of an earnings structure” and “changes in the business environment” that you say are reasons for raising your forecasts for numerical management targets? To begin with, is the effect of premium revisions in the domestic non-life insurance business and greater progress than expected in the reorganization by function in the two domestic non-life insurance companies behind the “establishment of an earnings structure”? Also, with regard to “changes in the business environment,” how have the asset management and competitive environments changed from your initial assumptions?

A5: As you point out, “establishment of an earnings structure” refers to a greater reduction than anticipated in the combined ratio, primarily in automobile insurance, and also the ability to lower the expense ratio more than planned in the domestic non-life insurance business, with the effects of these being reflected in underwriting income. The combined ratio is still slightly high for lines such as fire and personal accident insurance, but improvements are now feasible for these lines, and we believe that the domestic non-life insurance business has almost completely established a structure able to ensure stable earnings.

With regard to “changes in the business environment,” we believe that we are now able to make a stable forecast that the Nikkei average and exchange rates will be at better levels than initially assumed when the Medium-term Management Plan was drawn up, considering general economic conditions, financial conditions in Japan, and stable conditions globally. The only problem is low interest rates, and we believe that we will need to make forecasts assuming the current difficult situation in this area.

Q6: Was expectation for further improvement in the domestic non-life insurance business the main factor that led to you raise the forecast for Group Core Profit from 160 billion yen to 200 billion yen?

A6: As you point out, improvement in earnings in domestic non-life operations was a major factor.

Q7: What specific regions and amounts do you have in mind in the area of new investment overseas?

A7: Unchanged is the fact that Asia will remain the highest priority region in our international business. We aim to be positioned in the top three in each ASEAN country and will carry out the M&A, etc. required to reinforce our strength as the largest non-life insurer in ASEAN.

Furthermore, in Europe, we have our own syndicate ranked around 20th among Lloyd's syndicates on the Lloyd's market, which provides about billions of yen in profit every year. Once we have accumulated enough expertise, we would like to obtain a position in the top ten and establish a leading position within the Lloyd's market. We will be proactive in making the necessary investments to this end.

In other regions, we want to increase capital efficiency by conducting proactive M&A when good opportunities arise in terms of improving capital efficiency in continental Europe, the United States, and Latin America.
Q8: You have stated that ESR should be kept stable at 200% in the medium term, but you are currently reducing risk and ESR is trending upward as profits increase. If this situation progresses, what will be the level that you determine to be excess capital, and is there a point where you will need to reduce capital if this level is clearly exceeded? Also, could you explain how much time spent on determining this level has been reached?

A8: The preliminary figures for the end of FY2014 show that ESR has reached 200%, but much of this can be attributed to strategic equity holdings and an increase in unrealized gains. In the future, we aim to improve capital quality to ensure this consistently exceeds 200% in order to obtain an AA rating. In addition, we believe that a certain level of surplus is necessary to respond to natural catastrophe risks and make investments.

However, if ESR can be stably maintained at 200%, including the improvement of capital quality during the period covered by this plan, we will review our approach to shareholder returns.

Q9: Please explain the specific choices you expect to make to achieve group ROE of 7%.

A9: The most important element for achieving our group ROE target is improving Group Core Profit. This time, we raised our forecast for Group Core Profit for FY2017 to 200 billion yen or more, but we believe that even 200 billion yen is not enough, and have intentionally added the wording “or more.” We aim to achieve ROE of 7% by steadily executing our strategy of improving capital efficiency through measures such as M&A, during the period covered by the Medium-term Management Plan.

Q (Follow-up): What options do you have in terms of the denominator in the equation?

A: We are working to reduce the denominator as we actively repurchase our own shares, but considering the large size of current unrealized gains, this alone is not enough, and we believe that increasing the Group Core Profit that is the numerator is unquestionably the most important strategy.

Q10: If you proceed with selling strategic equity holdings, your share portfolio may become biased toward the transportation equipment and financial sectors. What is your view on this?

A10: As you point out, the Group's portfolio of strategic equity holdings currently has a large portion in the transportation equipment and financial sectors. As we promote a reduction in strategic equity holdings, we will be unable to meet our sales targets if we attempt to hold onto shares in specific sectors; we thus intend to sell evenly across all sectors without bias toward any sector.

Meanwhile, we have announced our acceptance of the Stewardship Code, and MSI and ADI have had dialogue with a combined total of approximately 350 issuers in FY2014. We have also stated our policy of holding strategic equity holdings considering investment efficiency in response to the
Corporate Governance Code, and we believe that dialogue with issuers based on this has led to increase mutual understanding. Therefore, we think the environment will enable us to sell strategic equity holdings based on mutual understanding in the future.

First, we believe it is extremely important to clarify our policy in terms of the Stewardship Code and Corporate Governance Code, and conduct dialogue with companies to achieve that policy.

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