

Questions and Answers

Information Meeting, June 1, 2007

Q1: As for investment in quality improvement, you say 7.3 billion yen was expensed for fiscal 2006, and 18.4 billion yen is planned for fiscal 2007. I would like to ask how much it will be for fiscal 2008 and some years thereafter and in what fields it will be invested.

A1: Investment in quality improvement is planned to be approximately 1.8 billion yen for fiscal 2007. We intend it includes investments in computer system enhancement and operational improvement in all the fields based on review on business processes. As I have repeatedly explained since last year, bringing such investments early in fiscal 2007 and 2008 should result in remarkable business improvement so soon in fiscal 2009 and onwards. At this moment, I would only say "a considerable amount" for fiscal 2008, but you would take it as a prior investment.

Q2: In developing the plan, did you consider any change of investment composition to allocate more to the life insurance business or the overseas business, including M&A opportunities, than to the domestic businesses?

A2: As a policy of distribution to shareholders, we intend to appropriate about 40 percent of annual Group Core Profit to distribution to shareholders and retain the rest 60 percent, which we will invest in new opportunities with high growth potentiality such as in the overseas business and the life insurance business. This policy is unchanged.

Q3: According to today's Nikkei Financial Daily reports, MSI has syndicated a program to securitize insurances with regard to typhoon risks. I would like to ask if you had the plan already at the beginning of this fiscal year, and what was the purpose.

A3: The typhoon risk securitization was planned in the pre-year stage. Although we usually hedge risks of natural disasters within Japan by outward re-insurance, we implemented the securitization because the re-insurance market is not always stable enough and we need to have some alternative instruments to transfer such risks to others. It works as an instrument supplementary to re-insurance as it can fix costs at a certain level for five years.

Q4: I have two questions; firstly as for selling out those stocks held for the purpose of relation

management of corporate clientele, I guess you will need to make a daring step forward soon or later. Would you explain it a little bit more, please?

Secondly as for distribution to shareholders, I understood the basic policy, and furthermore, I would like to know what sort of changes would cause you to think of increasing it.

A4: To the first question of the stocks held for the customer relation purpose, there's no change to the policy of selling stocks held worth 500 billion yen in the aggregate by the end of fiscal 2010 though I admit delay of actions in selling them for various reasons in fiscal 2006.

To the second question of distribution to shareholders, we haven't changed our policy of returning funds equivalent to 40 percent of annual Group Core Profit through cash dividends and share buyback. After achieving the management target of New Challenge 10, there may be a chance of re-setting a distribution target.

Q5: As for distribution to shareholders, if you should come under the pressures from certain major shareholders, what would you do?

A5: We are now making a group-wide effort to raise corporate value in each business according to the plan, and honestly speaking, all I can do is to explain this in appeal to shareholders for understanding. So, please understand the current policy of distribution to shareholders in order to increase corporate value of the entire group.

Q6: Comparing the financial results of the non-life insurers for the ended year, I find it characteristic that results are divergent in investment performance because market stock prices benefited them differently according to the composition of each portfolio. Although market prices worked more favorably in your case this time, the more you are going to sell out stocks held, the higher concentration on particular industry sectors or company names it will result in, and then, the more vulnerable net asset value will be to the risks of price fluctuation of such particular sectors and names. If comprehensive income is adopted in the future, earnings will now fluctuate via stocks held. If so, would it be one of options to re-invest proceeds for better risk diversification, rather than simply selling them out?

A6: You are right. I admit we hold stocks in those sectors whose market moves benefited us on a relatively high level, so you are also right in the point there's a risk that they can, in turn, negatively affect us in an opposite situation. Including such possibilities as you point out, we are studying what reduction of stocks held should be like, while we hold the policy of selling stocks worth 500 billion yen in the aggregate for years.

Q7: I would like to ask you for summarizing the outcome of and the responses to the administration dispositions. Also as an industry-wide issue, do you think a spate of such incidents have ended up? Have you found any structural problem among the agents?

One more question about investment management, what do you believe your current advantage in this respect?

A7: To avoid making the discussion complicated and confused, let me hereby withhold a detailed explanation on specific matters related to the administrative dispositions. I would rather explain later between you and us. Currently in our industry, ten peers other than us are placed under the similar dispositions. From the current situation, it appears all these insurers will finish filing reports on the claim payout problem to the FSA by the end of June, and things will end up then. In contrast, the problems such as incorrect premium rates applied to and incorrectly recognized structures of buildings in fire policies will take as long as a year to be fully investigated, may be by next March or April. These are industry-wide issues that should be tackled on the initiative of the General Insurance Association of Japan in order to regain social trust as soon as possible.

As for the agent problem, a written confirmation of applicant's intent relevant to life insurance or third-sector policy is mandatory effective this April. Although, legally speaking, it is not required for a non-life insurance policy, the Big Five, inclusive of us, are resolved to ask fire policy applicants to submit confirmations from April, and to ask auto policy applicants to submit ones effective June. Any insurer or agent will not survive unless it duly fulfills the duties to explain material matters to and obtains a written confirmation of these matters from an applicant and thus makes sure to offer a product that fits the applicant's need.

As a characteristic of our investment management, I point out the basic portfolio. It is designed to maximize net return, which we call "value added," exclusive of funding cost, capital cost and operational expenses in it, but not simple gross return. Although it is difficult to reach the ultimate model in the actual practices partly due to the stocks held for the customer relation purpose, we intend to endeavor towards it as close as possible. In accordance with the basic portfolio, we basically adopt the index management and partly the active investment for some additional return.

Q8: Are you going to increase alternative investment from the current level of 100 billion yen?

A8: We are trying to reach the basic portfolio by fiscal 2010, and we increase alternative investment step by step within this framework.