

# Questions and Answers

Second Information Meeting, Fiscal 2007, November 30, 2007

Q1: It was referred to that large-scale accidents affected negatively loss ratio. What is a large-scale accident by your definition? How many did they take place interim 2006 and interim 2007, and how material were they?

A1: An accident for which a claim in force amounts 150 million yen or more is what we call a large-scale accident. Claims paid for large-scale accidents were about nine billion yen larger than interim 2006. Or on an incurred basis as charged, they were about 13 billion yen larger than interim 2006.

Q2: The automobile line sees its earned-incurred loss ratio falling, and what is your basic pricing idea in the coming product revision?

A2: It is one of the most critical issues for management to lower loss ratio of the auto line though loss ratio is now falling a bit. While we continue to tackle it in the ongoing actions as planned, we are making a preparation for new car policies which are scheduled to be released interim 2008. Loss coverage, premium rate table and pricing are under review to push down loss ratio. Tactical pricing and disciplined underwriting must go together in a bid to lower loss ratio to a normal level.

Q3 : I understand you have a considerable amount of credit derivative exposure disclosed as of the end of March 2007, on a notional amount basis, that is over Yen 400 bn. Though most of such exposure, as I understand, has nothing to do with US sub-prime mortgages, yet I would like to have a general idea about what it's all about.

A3 : More precisely, the whole exposure amount of credit derivatives as of the end of September is Yen 603.6bn. You can classify it into two categories, that is CDOs and "single-corporate" credit derivatives.

The exposure amount of CDOs is Yen 407.7 bn, and that of “single-corporate” is Yen 195.9 bn. AAA credit ratings have been assigned to all the tranches that we have. And the credit ratings assigned to “single-corporate” category is substantially high as well.

As to the collateral of the CDOs, Yen 393.2 bn is backed with pools consisting of corporate risks. ABS-CDOs are two tranches. Total exposure of them is Yen 14.5 bn.

Out of them, one ABS-CDO contains US sub-prime risk. The notional amount of the ABS-CDO is Yen 12.2 bn. The US sub-prime risk contained in the ABS-CDO is Yen 10.2 bn. As there is a tranche of Yen 12.2 bn subordinate to our tranche, the sub-prime risk under the ABS-CDO is fully covered by the subordinated tranche.

Therefore, we conclude our exposure to US sub-prime mortgage here is zero.

Q4 : I'd like to ask about your financial guarantee business. As I understand, you are in tie-up with MBIA. I'm just wondering how big is that business in terms of size, and if you have any relationship capital in MBIA or vice versa.

A4 : First off, we don't have any relations with MBIA in terms of capital or personnel. We have re-insurance business with three of so-called “US monolines”. The largest exposure amount is that ceded from MBIA. And next comes that ceded from FSA.

Total re-insured amount is Yen 755.7 bn. Out of this, so-called “public finance”, i.e. US municipalities and the like, represents Yen 414.4 bn, and the remaining Yen 341.3 bn is for “structured finance”. Out of “structured finance”, ABSs backed with auto loans, card credits, and the like accounts for Yen 240.7 bn.

As to the rest, CDOs represents Yen 34 bn, and RMBSs represents Yen 66.6 bn. Out of the CDOs, ABS-CDOs with US sub-prime RMBSs as part of the underlying assets represents Yen 3.1 bn. The amount of US sub-prime RMBSs under such ABS-CDOs is Yen 0.5 bn. There are tranches of Yen 0.8 bn subordinate to our tranches and such subordinate tranches exceed our tranches in amount.

Therefore, we conclude our exposure to US sub-prime

mortgages here is zero.

Out of RMBS exposure of Yen 66.6 bn, there are RMBSs backed with US sub-prime mortgages. The total exposure amount of such RMBSs is Yen 1.1 bn. So, Yen 1.1 bn is *the* exposure amount that we have disclosed regarding US sub-prime mortgages. The loss amount is negligible.

Q5 : I understand “Yen 1.1 bn” is the smallest among the three big P&C companies in Japan in terms of exposure to US sub-prime mortgages. What has brought about this good result?

A5 : In the first place, I understand MBIA and FSA have smaller exposure to this area. Secondly, we initially excluded ABS-CDOs from the eligible categories to be ceded to us under the re-insurance treaty.

Q.6: What will be the positioning of the head of the holding company like in relation to those of group companies under its umbrella?

A6: I, Toshiaki Egashira, will double as CEO of the holding company and that of MSI.

Q7: Catastrophe loss reserves of the automobile line have fallen so low to a six percent level. Do you think it sufficient or not? And if not, what would you think make it up? Using earnings would decrease Group Core Profit and consequently could work against the dividend policy, wouldn't it?

A7: As for the automobile line, we don't think we need provide more to catastrophe loss reserves because it is hardly probable to undergo such a huge catastrophe loss, for losses are relatively constant every year. Rather than this, catastrophe loss reserves are essential to the fire line to provide for natural disasters. Actually we make a provision equivalent to nine percent every year, and the reserves have reached 100 percent of annual premium revenues of the line. Also in light of the international accounting standards, catastrophe loss reserves are not adopted

thereunder. Therefore we have no idea to provide more as for the car policies.

Q8: Why *now* have you decided to shift to a holding company system? Generally speaking, those companies which intend to integrate certain businesses of the group companies took such scheme in most cases in the past. Are you preparing for such management reorganization as they did in near future, too?

A8: Our intention of the shift is just what I have explained. As addressed in New Challenge 10, we aim to achieve business expansion in each of the five major domains. To this end, we must create and increase synergy as well as tighten corporate governance practices. That's why we have decided it *now*. Subject to a permit from FSA of Japan, filing to the US SEC and approval at an extra general meeting of shareholders, we hope to establish it on April 1, 2008. Such business integration as you mean is not on agenda at all.

Q9: What synergy do you expect in the holding company system? As to governance, how about outside directors therein?

A9: We at MSI have invited not a few outside directors and auditors for years, who are highly knowledgeable in various fields, and thus we maintain the governance system under their effective control. We will carry over this tradition to the holding company to have some outside directors and auditors therein while MSI continuously maintains it as now.

As to intended synergy, the holding company, a new parent company, will devote itself to the group management such as in pursuing optimal allocation of human and other resources. Meanwhile, the current subsidiaries will become able to make decisions more smoothly with more clearly defined management responsibilities given now that they stand parallel with MSI, which will become a fellow company to them. I believe synergy will work well in such situation.

Q10: How do you expect combined ratio is going on in the Asian operation? In South America, the market has rushed to so hot a competition that combined ratio has worsened. Do you think you need to prepare for such competition in Asia? One more question; you have repeatedly mentioned you are interested in acquiring a life insurer somewhere in Asia, and are you still so?

A10: On the base of the long histories of operation both Mitsui Marine and Sumitomo Marine formerly had in Asia, MSI has significantly solidified its market status in this region by the non-life operations acquired from Aviva, and Mingtai Fire and Marine in Taiwan. As an insurer embedded deeply in the region with the local customers accounting for 70 percent of total premiums, we have excellent staff and employees staying with us after the takeovers in addition to the advantage of our experiences of years. So we don't worry about running the operations there. Also in underwriting, we have subsidiaries in almost all of the countries and territories of the region, and we play a role of leadership as we rank among top five in most of these local markets. Therefore, again, we expect it unlikely that combined ratio will abruptly worsen in the region. To the other question, we have not changed the idea that we are positive to purchasing an excellent life insurer in Asia if we have a chance.

Q11: What do you position the regional holding companies abroad under the new system of the holding company? What do you think they should be like if the overseas business comes to have both life and non-life operations abroad under its control in future.

A11: For the time being, the regional holding companies abroad will be kept untouched just as they are. It remains as a future management issue whether or not they should be put directly under the master holding company in Japan.