

Q&A Session at Second Information Meeting for Fiscal 2011 (Summary)

Q1:

(Risk Management after the Flooding in Thailand)

- You are very strong in Asia and have the largest share in the Thai market among Japan's major non-life insurance companies. Given that, I understand that you incurred the greatest loss (expected consolidated net loss of ¥130 billion in the current fiscal year) from the flooding among the three major non-insurance groups.
- How will you use the experience in your risk management, including reinsurance?
- If you do review your risk management, could that affect your underwriting strategies and market shares overseas and your future growth?

A1:

- We have managed the Thai flooding risk quantitatively, using a model, and qualitatively, considering local circumstances.
- The flooding this year was very unusual and the greatest disaster ever in the past few decades. Based on that experience, we started to review the PML and risk countermeasures for each region.
- We will also arrange the best reinsurance schemes that we can think of.
- The area with the largest total natural disaster risks is Japan. This applies to all non-insurance companies in Japan. I would like to say that natural disaster risks in Asia, and in other regions overseas, are quite limited when they are compared with typhoon risk or earthquake risk in Japan.
- This has been factored into our underwriting policy, so, our overseas strategies will not change.

Q2:

(Reaction to Rating Put on Credit Watch after the Thai Flooding)

(1) Following the flooding in Thailand, S&P put some subsidiaries of yours (insurers) on credit watch on November 22. Do you plan to present any plan for reducing risk to retain your present AA- rating?

(Schedule to Sell Strategic Equity Holdings)

(2) Are you planning to accelerate reductions in your strategic equity holdings?

(Product Strategy in Voluntary Automobile Insurance)

(3) Looking at trends in net premiums written in voluntary automobile insurance, net premiums written are rising at MSI but appear to be slowing slightly at Aioi Nissay Dowa Insurance.

- I believe that MSI is selling a relatively long-term, discounted product. If there is a correlation between MSI's product and the difference in trends in net premiums written that I pointed out, I wonder whether your product strategy is appropriate.
- Even though underwriting results are improving, I wonder whether the tactic of selling a long-term, discounted product is right when the industry is going to introduce a new non-fleet discount/loading rate table created by the Non-Life Insurance Rating Organization of Japan. Please explain.

[Supplementary Explanation]

"New Long*," a line-up of voluntary automobile insurance products of MSI

*Long-term (two- or three-year) voluntary automobile insurance product paid in installments

- The premiums of New Long are lower than those of ordinary one-year contracts for the same period. (The premiums of a three-year New Long contract are 2% or more lower than those of one-year contracts for three years on average.)
- The discount of premiums reflect reductions in business expenses to be achieved by New Long, as renewal procedures for New Long are less frequent than those for ordinary one-year contracts..
- As with one-year contracts, premiums for New Long do change depending on the existence or nonexistence of claim payments and the types of claims, if any, in the previous year.

A2:

- (1)** The first question, I understand, is whether we are considering ways to enhance capital strength after our subsidiaries were put on credit watch. Since there is no problem with capital adequacy, we are not considering any specific plan at all.
 - Nonetheless, following a number of recent natural disasters, including the Thai flooding, we are discussing the ways to secure fat liquidity. Of course, there is no relationship between liquidity and capital.
- (2)** As we have announced, we are selling strategic equity holdings of the Group worth ¥300 billion before the end of FY2013. We will sell them on schedule.

Q:

- Of course, I believe you have sufficient capital. I would like to know what your target is.
- On page 12 of today's document, you say that your net asset value is ¥750 billion more than your total risk exposure measured by 99.5% VaR. However, I do not believe that you can retain AA if you use the 99.5% VaR measure.
- I would like to know whether you are determined to retain the current AA- rating.

A:

- Are you saying that we cannot retain AA because we use the 99.5% VaR measure?

Q:

- I am not saying that you will definitely be unable to retain AA. I am saying that that is the general impression in the industry.

A:

- I do not believe that you are saying that we will more likely achieve a high rating if we use the 99.95% VaR measure. For example, I understand that a major reinsurer in Europe emphasizes 99.5% VaR for business management and is rated AA-.
- I have never heard a ratings firm say that you cannot be rated AA because you use 99.5% VaR.
- Companies have different risk conditions. It seems strange to hear an argument about which is generally better, 99.5% VaR or 99.95% VaR.
- Let me add that we have developed our model based on models created by three world-renowned modeling companies.

Q:

- I am not saying that I see problems in your capital. I would like you to understand that my question is what your target is.

A:

- I understand. We would indeed like to retain the present AA level.

(3) As you may know, the Group is building a common system, which is scheduled to start operation in FY2013.

- When the system is completed, the Group will be able to share common products and common business processes. Until that time, the Group's policy is that each operating company sells their products independently, while

learning from each other.

- Under this policy, MSI has launched a long-term product that is discounted somewhat, while Aioi Nissay Dowa Insurance is selling a distinctive voluntary automobile insurance product.

Q3:

(Combined Ratio Target in Domestic Non-Life Insurance Business)

- (1) In the domestic non-life business, the two other groups aim to achieve a combined ratio of around 95%. What are your medium- to long-term targets? Could you tell us what percentages you are aiming for and when you are aiming to achieve those percentages?

(Consideration of Further Reorganization of Non-Life Subsidiaries)

- (2) It has been some time since the business integration of three companies was announced. You have said that you are considering reorganizing the companies, including through reorganization by function or by field, or merger. The Financial System Council is discussing the diversification of reorganization method. In the circumstances, what is your direction about the reorganization of the two subsidiaries? Could you give us an update?

A3:

- (1) As you know, we have set numerical targets for FY2013 in our medium-term management plan New Frontier 2013, and achieving a combined ratio of 97% in the domestic non-life insurance business is a prerequisite for achieving the numerical targets. Our combined ratio target is therefore reducing the ratio to 97% by 2013.

Q:

- The other groups say that their combined ratio target in the domestic non-life insurance business is 95%, rather than 97%, although they do not specify the timing.
- Can we understand that 97% is your goal, or do you have other goals after reaching 97%?

A:

- We would like to achieve 97% in 2013 at any cost. We will naturally have higher goals, or lower combined ratios, after that.

- (2) We are considering every option for reorganizing the two operating companies, seeking the best possible structure of the Group. If the argument of the Financial System Council that was reported in newspaper articles is realized, we will have more practical options. We are paying close attention to that.

Q4:

(Criteria for Investing in Asia)

- (1) You place Asia at the center of your overseas strategy. I sense that the costs (of acquisitions and investments) there are rising because the region's growth potential is attracting attention.
- How do you evaluate the costs when you consider investment in Asia? Do you think that you can pay high prices because of the large growth potential? Could you show us your criteria?

(Progress in Integration Costs and Synergies)

- (2) When you described the content of page 4, you said that the figures on the page are the same as those on the material for the previous presentation in June. I would like to confirm that we can understand that synergies are growing as planned. Are there any areas in which you can accelerate the pace of growth?

A4:

- (1) Let me describe acquisitions and investments in Asia in non-life insurance and life insurance separately.
- In the non-life insurance business, the integration of both the operations in Asia of AVIVA, which we acquired in 2005, and the facilities that we had as local corporations before the acquisition was mostly completed in each country.
 - As synergies from the integration are growing steadily, we are not considering additional acquisitions in the non-life business.
 - In the life insurance business, we feel that we have already carried out major investments in the three countries (China, Malaysia, and Indonesia) that I described today. However, we are planning further research and aiming to strengthen our life insurance business in Asia. We are not going on any specific investment deals at present, though.
 - We will consider prices that we can afford if the prices are appropriate for

investment opportunities.

- (2) Overall, we are making progress as planned.
- Specifically, the building of a new integrated IT system, the cost of which accounts for a large percentage of total integration costs, is making steady progress, although that progress was delayed slightly in May due to the effect of the earthquake.
 - We expect that the integration will proceed roughly on the schedule shown on the page.

Q5:

(Integrated Risk Management)

- (1) I have a question about “Net Asset Value and Total Risk Exposure” on page 12.
- You said that you are performing alarm management under stress scenarios. Following the Thai flooding, will you change the worst-case data from the past that you consider in your stress tests?

(Shareholder Return Policy)

- (2) Is there any possibility that natural disasters will affect your policy of share buybacks?

(Sales Policy for Variable Annuities)

- (3) I understand that with the establishment of a reinsurance subsidiary, MSI Primary Life will maintain its sales policy for variable annuities with a minimum guarantee. Is that correct?

A5:

- (1) In association with the relationship between the alarm point and the disaster in Thailand, I could say after discussing with insurers and experts in Europe that recent natural disasters reflect climate change and crustal movements.
- In that sense we do not think that we should place too much confidence in our natural disaster model.
 - Of course we will make our best efforts to enhance our model, incorporating new knowledge and data. However, the model has its limits. We therefore need to incorporate a stress buffer in the integrated risk management, considering the limits of the model. I understand that the significance of the alarm point will increase.

- We would like to enhance our alarm point and stress analysis by accumulating data and the knowledge of scientists and by improving communication with experts in the market.

(2) Please understand that there is no direct relationship between the occurrence of natural disasters like the Thai flooding and our shareholder return policy, that is, to aim to steadily increase dividends and to buy back shares opportunistically.

(3) The reinsurance subsidiary will hedge the minimum guarantee risk in financial markets. The basic effect of this is the same as the transfer of risk to a MetLife group company. We will therefore continue to offer variable annuities with minimum guarantee and fixed annuities, striking a balance between them.

Q6:

(Asset Management: Exposure to Foreign Securities)

(1) In the first half of the fiscal year under review, it seems the foreign securities held by Aioi Nissay Dowa Insurance caused relatively large unrealized losses in the consolidated results of MS&AD. Are you considering taking any action, such as selling the foreign securities in stages or hedging them?

(Action Against Accumulation of Risks)

(2) I have a feeling that corporate risks are emerging, considering the earthquake, the Thai flooding, and unstable financial circumstance. Are you considering any countermeasures against the accumulation of risks?

A6:

(1) Before the business integration, there was a difference in asset management style between MSI and ADI. As you see on page 14 of the handout, foreign bonds account for a larger percentage of the portfolio at ADI than they do at MSI. We will continue to mitigate risks by hedging foreign bonds.

(2) As I mentioned earlier, Japan has the largest risks, especially natural disaster risks.

- We can say that the Group has strengths in business transactions, especially transactions with large companies. As global companies develop their production bases overseas, the risks that we underwrite are generally dispersing.
- As I said earlier, following the Thai flooding, we are reviewing risk management in each region. Stepping up underwriting overseas to attenuate risks in Japan in the meantime would be natural thinking for an insurance company.

Q7:

(Whether Medium-Term Management Plan Will Be Reviewed)

- (1) I understand that the external environment, including the financial environment, has become more and more challenging since the formulation of the medium-term management plan. Will you continue to aim to achieve the numerical targets set out in the plan by cutting costs and improving earnings, or will you review the numerical targets, given changes in the environment?

(Views about Earnings in the Non-Life Business and the Sale of Strategic Equity Holdings)

- (2) I would like to know the direction of your policy on your non-life insurance business and the sale of strategic equity holdings. With the occurrence of natural disasters, profitability in the non-life insurance business is declining. If that reduces overall profitability in the commercial line, will you accelerate the sale of strategic equity holdings, or will you seek to improve earnings by raising premium rates and other means?

A7:

- (1) As you may know, the medium-term management plan New Frontier 2013 is for four years from FY2010 to FY2013. As you have just pointed out, the economic environment and economic indicators have changed since the plan was developed in FY2009.
 - The first two years of the four-year medium-term management plan (“Stage 1”) will end in March next year, and the second two years (“Stage 2”) will start in April next year. We plan to start our action to discuss Stage 2 toward the end of the third quarter and in the fourth quarter.
 - If we decide to change the numerical targets in our discussions, we would. However, at this moment we simply have not concluded that we will change them.

- (2) As you know, we have offset an underwriting loss in our core business with net investment income in recent years. We took steps to post an underwriting profit and initially planned to post a small underwriting profit in FY2011. However, partly because of natural disasters, it looks to be difficult to post an underwriting profit this fiscal year. We will continue to put priority on posting an underwriting profit at an early stage.
- Strategic equity holdings will likely be affected by volatility in stock markets no matter good their performance is. We therefore plan to sell ¥300 billion in strategic equity holdings within three years as planned. This policy has not changed.

Q8:

(Underwriting in Thailand)

- (1) Suppose that in co-insurance arrangement in Thailand, is it possible for any amount of claims to exist that you don't recognize due to delayed claim notice from the lead insurer?
- (2) You are expecting reversal of catastrophe loss reserve in no small amount this fiscal year. Does that mean MSI Japan have insured or inwardly reinsured most of the policies underwritten by your facilities in Thailand?

A8:

- (1) Even if we are not a lead insurer, as a matter of course we are in touch with our clients and recognize for the amount of losses.
- (2) Our group has three facilities in Thailand; a branch of MSI and two subsidiaries. MSI and ADI have inwardly reinsured certain amount separately from each subsidiary. We have estimated the reversal amount of catastrophe loss reserve, taking all that into consideration.

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