FY 2010 First Information Meeting Q&A Session (Summary)

Q1: You say you are going to continue to take a proactive approach to sales of your strategic-shareholdings (*seisaku kabushiki*), but is there a target figure? According to the fiscal 2010 forecast issued by each company, it appears that Aioi Insurance Company, Ltd. (“Aioi”) and Nissay Dowa General Insurance Company, Ltd. (“NDI”) are not forecasting very substantial share sales. I’d like to get some kind of idea of how long it will be until you work out the details concerning (an overall) sales figure.

A1: The shareholdings by the group’s three domestic non-life insurance companies (as of the end of March 2010), the majority of which are “strategic shareholdings”, are approximately ¥2.4 trillion in total. (Of the total, Mitsui Sumitomo Insurance’s holdings are approximately ¥1.7 trillion, and Aioi and NDI’s holdings approximately ¥700 billion). With regard to these shareholdings, we will continue to proceed with selling them, considering the significant risk of price fluctuation. We will approach this matter as a group, by standardizing group-wide management of our strategic shareholdings, including management on an issuer-by-issuer basis, and so on.

With regard to the sale of our strategic shareholdings, as we have discussed several times before at previous information meetings, Mitsui Sumitomo set a target for fiscal 2004 through fiscal 2010, and has moved forward continuously with those sales. Though the pace of sales has slowed a bit as the market environment has not been very favorable in the past two to three years, shares sold as of March 2010 amounted to approximately ¥300 billion on market value basis. The planned amount of sales by Mitsui Sumitomo for fiscal 2010 is ¥37 billion.

Aioi and NDI, too, intend to reduce their strategic shareholdings, but the specific target, such as a sales figure for this fiscal year, is currently yet to be set, as we view the preparations for their upcoming merger in October to be the highest priority.

Q2: With regard to your vision for the future once the Group has two main non-life insurance companies, it has been stated from time to time that consideration would be given to every option, including a function-specific or field-specific reorganization, or additional mergers. To the extent possible, please tell us where discussions currently stand.

A2: Concerning our future vision for our core non-life insurance companies, discussions are advancing, but as we are not yet in a position to offer any specifics, I'd like to ask for your patience.

Q3: Looking at page 2 of the fiscal 2010 forecast, a profit decline is expected for Mitsui Sumitomo's overseas subsidiaries, while the plan is for losses to shrink slightly for the subsidiaries of Aioi Nissay Dowa Insurance.

Meanwhile, the group's profit indicators on page 9 show that the plan is for a profit increase for your overseas businesses. I imagine there are differences depending on the computation basis, but when looking at profit for the overseas businesses, I'd like to know how fiscal 2010 compares with fiscal 2009. Also, losses have been continuing for the overseas business that Aioi is working on in cooperation with Toyota's finance business. Could you discuss how this business will be positioned strategically in the new group?

A3: The reason we expect a decline in profit for the subsidiaries in Mitsui Sumitomo's overseas business in our fiscal 2010 full-year forecast is that while the previous fiscal year was a strong one for its reinsurance subsidiary, with few natural disasters, we are viewing things conservatively this fiscal year. The F&I business mentioned in your question is in the red, but the effects of its deficit-cutting measures are gradually becoming apparent. This is why we are forecasting a reduction in the deficit for Aioi Nissay Dowa Insurance's overseas subsidiaries. Concerning Aioi Insurance's European business, there is no change in our policy of continuing to promote the F&I business as before.

Q4 (1): You explained that you will manage strategic shareholdings, including management on an issuer-by-issuer basis, as a group. Concerning the capital cost of your strategic shareholdings, how do you (currently) assess the sales divisions of your two non-life insurers? Alternatively, how will you assess them (in the future)?

A4 (1): We have set an ROE target of 7% for fiscal 2013. And with regard to the capital cost for asset management, including that of strategic shareholdings, and the capital cost for our group operating companies, we of course set this having taken into consideration investment effects from a cash flow perspective. In setting the cost of capital, we set and manage it taking into account the differences in cash flows for each business. As for the level of return, we review potential deals by, for example, assuming a return of around 10% if we are investing in a new business.

Q4 (2): With regard to managing the capital costs incurred through strategic shareholdings, there are companies that structure things so that the sale of shares ties in with an incentive for the sales division. What is the status of your company's approach? In other words, if you sell strategically-held shares, then you can reduce the capital costs that go along with holding them. So the incentive is structured so that even if the sale itself acts as a negative on sales performance, when the cost of capital advantage is taken into consideration, it is possible to evaluate the sale as a net positive.

A4 (2): We are considering sales incentives, but we are not yet at the point of implementing them. We are reviewing comprehensive, rational evaluation standards that include the cost of capital.

Q5: The NKSJ Group announced a ¥200 billion overseas investment, but what is the situation at MS&AD? Regarding overseas M&A, you have stated since before that your target is "Asian life insurers and ASEAN non-life insurers." But if one were to think about the current state of your investments in, for example, the Chinese life insurer, your investment amount remains close to the portfolio-investment level. I'd like to ask in what way you will be aiming to enter that market.

A5: As for the "Chinese life insurer" as you pointed out, we recently took an equity stake of approximately 7% in Sinatay Life Insurance Co., Ltd. This life insurance company is licensed throughout China, and we believe there is great promise for future growth. We will watch future developments, and depending on conditions, we would like to look ahead to the possibility of investing up to the 20% maximum limit for foreign investment. In addition to our recent investment, we are taking a proactive approach, through measures such as sending a non-resident director to participate in Sinatay's management. Concerning "Asian life insurers and ASEAN non-life insurers," we are currently considering deals in countries such as India and Malaysia.

Q6: Concerning your sales network, what sort of approach are you considering to improve the productivity of your insurance agencies, which, taking a simple aggregate of the three companies' agencies, exceed 90,000?

A6: If we eliminate the duplicates, the number of our agents is roughly 80,000. Up to now, Mitsui Sumitomo, Aioi, and NDI have each undertaken structural reforms of their sales networks. Specifically, they have consolidated or discontinued agencies including those were unable to achieve accountability, and have, in some cases, appointed new agencies. Through such initiatives, there has been a considerable shakeup over the past several years. We will continue this trend, and it will also lead to improved productivity.

Q7: It would seem that as a result of integration, your underwriting capacity would increase amid an expansion in size and capital. Will your presence in the reinsurance market change going forward?

A7: Speaking about reinsurance, it is plausible that due to the increase in underwriting capacity resulting from integration, we could retain within the group the portion that we had been ceding, by utilizing our reinsurance subsidiaries. As a result of the multiple non-life insurers within the group effectively exploiting the underwriting capacity of the reinsurance subsidiaries, we could also anticipate integration synergies, such as being able to reduce reinsurance fees that we have been paying to companies outside of the group up until now.

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