Fiscal 2007 2nd Informational Meeting

November 30, 2007

Good afternoon, everybody. My name is Toshiaki Egashira. Thank you for sparing time for us in spite of your tight schedule. Now I start my presentation with the interim 2007 results and fiscal 2007 forecast.

< Interim 2007 Results and Fiscal 2007 Forecast >

Here is a summary of the results for the ended interim on page 4. Although net premiums written increased slightly by only 0.2 billion yen on a stand-alone basis, consolidated net premiums rose 4.3 percent or by 32.5 billion yen as a result of a 33.5 percent growth collectively at the subsidiaries. At MSI only, last year's slow sales of installment premium policies account for this slightest progress under the financial accounting, though net premiums steadily increased on a sales basis, which we use in a monthly report. As for consolidation, Mitsui Direct General, which became a subsidiary last year, is contributed to the considerable premium growth in addition to the overseas units which have steadily grown for years.

Consolidated net income fell by 4.2 billion yen. While MSI saw net income dropped mainly due to more expensed in the corporate quality improvement efforts than a year earlier, the subsidiaries collectively reported a one billion yen growth in net income as the overseas non-life subsidiaries performed well. Later I will refer to performance of the overseas non-life subsidiaries on a regional basis.

Now I am going to explain issue by issue, using the handout. The first part deals with the non-consolidated results for the ended interim. Underwriting profit dropped by 5.2 billion yen at MSI alone from a year earlier due to the increased costs of corporate quality improvement as I have referred to. In the investment management operation, net interests and dividends received increased by 4.5 billion yen, however net capital gains such as those on securities sold decreased by 5.6 billion yen. By the way, while we have been reducing risk assets for years according to the plan, for this particular year we planned to sell more in the second half than the first one. That is why net capital gains stayed relative low for the ended interim. Taking all these reasons, net income declined by 5.7 billion yen.

The upper box on page six contains premiums and loss ratio by policy lines. Net premiums written managed to increase 200 million yen only as the fire and marine lines offset the shortage of the automobile and personal accident lines. Although the line of automobile insurance, the mainstay product, has been facing a tough market situation, we will try to expand in sales at steady pace through the quality improvement measures under New Challenge 10. Loss ratio rose partly because payout increased due to more large-scale accidents taken place and also the strengthening of the claims handling system required more loss adjustment expenses. However particularly to the auto line, we have been tackling to normalize premium-cost balance, and total payout decreased though loss ratio rose mainly because of premiums declined. In addition, earned-incurred loss ratio came to improve. I will later explain in details.

The lower box is a summary of the expenses. Total company expense and total operating expense climbed by 6.9 billion yen and 5.7 billion yen, respectively. It was because of the additional costs for taking actions for corporate quality improvement such as developing a computer program to strengthen the claims handling system as well as checking whether policies were properly written or not.

Skip to page nine, which summarizes performance of the overseas non-life subsidiaries on a regional basis. Total net premiums written rose to 128.7 billion yen, 32.2 billion yen higher than a year earlier. It is equivalent to 16 percent of consolidated net premium written, and indicates MSIG's subsidiaries are growing significantly.

Looking at the subsidiaries by region, Japan's 12.6 billion yen represents premiums earned by Mitsui Direct General, which came within the scope of consolidation in the running fiscal year. This company has been growing well, marking sales growth of more than 10 percent every year, and again for the ended interim, growth rate reached 18.5 percent. The Asian region increased net premiums 15.5 percent. All units within the region reported sales growth, and rosy performance was heard particularly from Malaysia and Taiwan. MSIG's position is dominant and unshaken in this regional market. The European operation and reinsurance subsidiaries also fared well. In the Americas, net premiums declined. It was because we patiently refrained from acting overly in the local business whose loss ratio is relatively high. In terms of net income, while the Asian operation is stable, a sign of improvement was seen in the Americas as the tightened underwriting control was rewarded, and the reinsurance business performed very well.

Page 10 shows performance of our two life insurance subsidiaries; MS Kirameki Life handling death benefit type products, and MSI MetLife specialized mostly in variable annuity insurance. Their operations are running well.

Move on to Page 11 to have a full-year forecast. First of all, consolidated net premiums written are expected to increase 3.9 percent to 1, 550 billion yen. It is because of inclusion of Mitsui Direct General in consolidation in addition to the growing overseas business in spite of a slight downslide at MSI alone.

Consolidated net income is expected to fall by 8.8 billion yen to 52 billion yen. MSI alone sees it will drop by 5 billion yen or so due to investment in the proactive measures under the plan. In addition, MS MetLife expects commission payment will increase in Japan GAAP as it boosts the business, and there will be a negative impact of floods in the UK.

Now page 12 for MSI alone in details. As to top line, direct premiums written, which is a benchmark of domestic sales, will increase 0.5 percent or so annually. The corporate business is doing well though the individual sales are slow because of the activity promoted for checking whether policies are properly written. And net premiums written will decline by 4.4 billion yen to 1,320 billion yen, including a 5 billion yen setback associated with the reinsurance scheme changes with the overseas subsidiaries.

Both loss ratio and expense ratio will be higher than interim 2006. Written-paid-basis loss ratio will rise mainly because some will be reversed for payment out of the provision made last year. In contrast, payout will be 2.5 billion yen lower than a year ago on an incurred basis. As I will later refer to, there is a sign that losses are decreasing. Expense ratio will rise by one percentage point or a bit more because overall company expense is increasing as a series of intensive investments are accelerated for the business process improvement in progress. Net underwriting loss will be 32.3 billion yen, even with a year ago, as the sharply rising company expense will exceed the improving incurred losses. So reduction of losses will still be one of the top issues on agenda.

Next, in the investment management, interests and dividends received will be some 95 billion yen, slightly greater than a year ago, due to anticipated increase of dividends on Japanese stocks. Net capital gain is as you see on the screen. That includes 23 billion of capital gain on sale of stocks. Summing up them all, ordinary profit will decrease by a little more than 2 billion yen from a year ago to 78 billion yen. Net income will be 50.5 billion yen partly due to increased expenses related to real estate to be booked as extraordinary losses.

Page 13 sets out net premiums written, loss ratio and so on by policy line. The automobile line will see premiums drop 1.0 percent due to the sluggish market continuing in prospect, coupled with slow sales of brand new cars. In contrast, the corporate business will remain robust as capital investment and transportation are increasing in the corporate sector, and the fire, marine and some other lines will enjoy growth in premium revenues. As I mentioned before, incurred loss will decrease by 25 billion yen, because of the reason including decrease of natural disasters due to fewer typhoons this year.

Next page deals with company expense. Total company expense will rise by some 20 billion yen from a year ago to 293.1 billion yen. It includes about 24 billion yen for what we call “quality improvement cost,” which is a generic name of investments in the business process innovation, and the strengthening of management base.

< New Challenge 10 >

From now, I explain our strategy, focusing on five issues; that is the mid-term management plan, loss ratio, expense ratio, investment management and capitalization policy. Page 16. Now I am going to explain again its major points though I did it last June. This plan aims at corporate growth, using competitiveness enhanced through quality improvement in products and services. To this end, we are progressing in restructuring business process and strengthening platform for quality improvement.

The restructuring of business process aims to provide high quality services in every job of a process throughout from product development, via sale and contract maintenance to claim payment. Paperless application of insurance with no need of personal seal, procedures of confirming an applicant’s intent, a system compatible with diverse payment methods for premium collection, and fundamental review on job flow of claims handling, and to test such new procedures for effectiveness in five service centers appointed as pilots; these are specific examples. Taking these steps, we are steadily establishing new business processing and upgrading infrastructure. Through these innovative attempts in the business process, we strive to become able to provide "outstanding quality," quality on a level far beyond customers' expectation and to impress customers with it at any time.

As we announced that we decided to shift into a holding company system as a course of action to fulfill the mid-term management plan, and now I explain the objectives. On page 17, here is the structure of the holding company system. At the holding company to be established, we will build a group corporate governance system, promote the individual group businesses while balancing them in good order, and firmly execute the group strategy for creating maximum value for customers. The holding company will be responsible solely for group management in such as designing a group-wide strategy, allocating management resources within the group, supervising the group companies. Using the customer base and business expertise accumulated within the group, we will pursue group-wide optimal operation.

Upon transformation, each group company will establish a system for autonomous business execution in its domain and facilitate a quick decision in response to the market condition. For this purpose, strategic positioning of those companies and their responsibilities will be explicitly defined and further authorities will be granted to them. Taking these measures, the group companies will seek to operate individually fitting to their markets and collectively create synergy and utilize total group power. Towards the holding company system, we will establish Mitsui Sumitomo Insurance Group Holdings, Inc. through transferring of MSI shares only at the first step, and then three of MSI's subsidiaries, that is MS Kirameki, MSI MetLife and Mitsui Direct General, will be put under the umbrella of the holding company.

Here you see the numeric targets of New Challenge 10 again on page 18. We are accordingly conducting the plan to reach the goals set at the end of fiscal 2010 though the domestic non-life business is currently taking time for the quality improvement measures and the life business is getting a little slower as I referred to in the part of the interim results

Here we have come to the critical issues of earnings; loss ratio and expense ratio. On page 19, you see an outlook image of earned-incurred loss ratio normalization represented by a trend of the ratio through fiscal 2010. We will successfully complete the product innovation and the sales innovation to ensure conclusion of contract meeting a customer's intent as well as claims handling innovation to fundamentally review the current procedures. This will enable us to curtail some operating costs and pull down earned-incurred loss ratio gradually, and consequently we expect the ratio on a 63 percent level as of March 31, 2011.

The automobile line sees a sign that earned-incurred loss ratio peaked out in fiscal 2006 due to the effect of various actions taken for loss ratio normalization. We expect the ratio will improve from fiscal 2007, and the premium table review upon product revision scheduled fiscal 2008 will accelerate the improvement momentum.

And actually we are making some progress as a result of the specific countermeasures adopted in the ended interim. This continues to the next page. First, we have tightened control of applying the underwriting standards. Each sales unit has prepared the underwriting standard individually according to the conditions of its local markets and its historical loss ratio data so that these standards now facilitate more precise risk segmentation and underwriting at each unit. For example, it applies deductible of property damage liability to the contract in case of a customer experiencing relatively many accidents in accordance with the standards. In response to the new standards, the support computer program was also altered to screen out those contracts at the point of quotation for which certain action is necessary to comply with the standards and alarm an operator of it upon application. This computer alteration is in service since this September.

We have extracted 1,763 agents and fleet customers whose loss ratio has been floating relative high and made plans to remedy them. The sales division and the claims handling division are cooperatively focusing on these agents and customers and patiently taking specific loss preventive actions to them such as educating their employees to prevent traffic accidents, giving them a proposal or recommendation on the internal rules of commercial cars owned by them. As a result, as you have seen on the previous page, loss ratio has begun to fall, and we continue these actions in the second half.

Going to page 21 for expenses, we need to keep expense ratio as low as around a 30 percent level in order to achieve the combined ratio target at 95 percent or less for fiscal 2010. Expense ratio will rise to 31.9 percent or so for this full-year term due to the advanced investments associated with the quality improvement actions, and, following the uptrend, it will slightly increase fiscal 2008, too. These investments are planned to be made intensively in the three years ending fiscal 2009, and after the strategic investments ending that year, it will again fall towards a 30 percent level.

For investment management, please turn to page 26. We are adopting two approaches to increase net asset value in the investment management. The first one is to build the “basic portfolio.” The basic portfolio is an optimal asset allocation to maximize net return on it in the mid-term prospective environment, taking into account not only interests and dividends to be received, but also funding cost, equity cost and any other operating expenses. This portfolio, when completed, will facilitate better risk diversification from the standpoint of ALM purpose and simultaneously stabilize profit base, and produce a base less vulnerable to macro-economic changes. We are going to re-allocate assets in the current portfolio step by step accordingly to complete it by March 2011.

The second point is, along with building the “basic portfolio”, to adopt “active investment” management and will diversify sources of return. By the “active investment,” we aim at higher return than the index investment.
Just for your information, I will touch on the sensibility against interest rate hike. In case both long- and short-term interest rates concurrently rise by one percentage point, fair value decreases by about 170 billion yen on the asset side, while fair value decreases by about 210 billion yen on the liability side. As a result, net fair value increases by about 40 billion yen. Vice versa in case of interest rate plunge. In case the yen gets one yen stronger per both dollar and euro at the same time and stays at the levels for half a year, interests and dividends to be received from the foreign currency assets fall by 600 million yen.

So we have come to the investment strategy for fiscal 2007. Page 27. We are making investment according to the five policies on the page. Firstly, we have continuously sold the stocks held worth 180 billion in total yen before the end of March 2007 under the policy of “500-billion-yen worth reduction by the end of March 2011.” And the reduction amount planned for the running year is 29 billion yen. While reduction pace has become a little bit slower for last couple of years in recently re-emerged trend of cross-holding of stocks, we have been studying such alternatives as off-balancing resolution for stock amount reduction in addition to outright sale. When materialized, an off-balancing resolution would enable us to accomplish the “500-billion-yen worth reduction by the end of March 2011.”

Secondly, we are mitigating interest rate risks from an ALM viewpoint. As the casualty annuity liabilities have relatively long maturities, and therefore, we need to lengthen the lives of the matching assets accordingly or hedge such risks with interest rate swap transactions. The third one is to increase personal loans. We are continuously promoting loans in tie-ups with excellent house manufacturers and credit companies, thereby increasing these long-term assets with relatively wide spread. It comes fourth as part of diversification of return sources to increase alternative investment. The breakdown of alternative investment is as shown on the page. We are not pursuing simply high return: Alternative investment is made under the in-house rules and regulations such as position limits and stop-loss rules.

Here comes a current big topic, the US sub-prime mortgages. May I draw your attention to page 28, which clearly shows that our exposure to that field is minimal and marginal.

Next, please turn to page 34. The overseas business performed well as planned in terms of net income for the ended interim. However, in the full year period, we anticipate net income short of the target as planned at the front end, mainly due to the two floods that occurred last June and July in the UK.

Now, please turn to page 37 for capitalization policy. Here I'm going to explain the current level of fair value asset and how we will make use of the capital. On the left side of the page is a conceptual image showing comparison between our net asset value and total risk exposure, with two bars representing them. The left one represents net asset value of MSIG, amounting to 3.5 trillion yen, computed by the measurement method unique to MSI. Out of the right one, total risk exposure accounts for 1.8 trillion yen computed by value at risk measured at 99.5 percentile probability level. Furthermore, the total risk exposure grows to 3.1 trillion yen after a simulation test with two stresses; these are the Nikkei Average as of March 31, 2003 which was the bottom level after the “bubble” burst; and natural disaster damages equivalent to those experienced in fiscal 2004, the worst record in the post-war period. On this total risk exposure, in our recognition, we need to add capital buffer for business continuity, which makes the minimum capital requirement. As to the balance of 200 billion yen, where net asset value exceeds minimum capital requirement, we will allocate it to the investment in business fields with high growth potentiality, or financial investment in higher gains. As to the prospective investment target, high on the list is something like overseas life insurance business.

The next page deals with distribution to shareholders. MSI has a basic policy to distribute to shareholders, through dividend payment and buyback of its own share, approximately 40 percent of “Group Core Profit” earned for the year, and to keep the increasing trend of dividend-per-share. We have not a bit changed this policy. The left chart shows total amount distributed and total distribution ratio over the last three years. Total distribution ratio hovered above 40 percent, floating at 53 percent, 90 percent and 41 percent, respectively for fiscal 2003 through 2005. Incidentally, in accordance with the basic policy to keep the increasing trend of dividend-per-share, we anticipate an increase in the dividend for fiscal 2007 by one yen, making annual dividend-per-share 15 yen.

Finally, I will offer some explanation for “ROE based on Group Core Profit,” a benchmark unique to MSIG. In the formula definition, “ROE based on Group Core Profit” is to be calculated by dividing “Group Core Profit” by “consolidated shareholders’ equity.” While “Group Core Profit,” the numerator, is not supposed to include capital gains on stocks, consolidated shareholders’ equity, the denominator, contains net unrealized gains on stocks held, etc. The reason why capital gains on stocks are not included in the “Group Core Profit” is that it is a target benchmark set in the mid-term management plan to indicate ordinary profitability of the whole Group and, with capital gains on stocks excluded, ordinary profitability would be properly measured. If we factor 5.5 percent as expected return on the stock portfolio into the numerator calculation, “ROE based on Group Core Profit” would be pushed up by 3.2 percentage points. Accordingly, “ROE based on Group Core Profit,” set at five percent under “New Challenge 10”, would be higher than eight percent, and it would surpass our average capital cost 5.1 percent. We also disclose our performance by the US GAAP, and the US GAAP ROE, when calculated by the comprehensive income approach, would be 7.1 percent as an average over the past six years after the establishment of MSI by merger.

That is all from me. There are various data disclosed on page 41 and thereafter, and page 48 shows the numeric targets for the year and the progress. Just have a look for reference. Thank you.