Mitsui Sumitomo Insurance

New Challenge 10

Information Meeting

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Ladies and gentlemen, thank you very much for taking time out to attend this meeting. I'm Toshiaki Egashira, president and CEO of Mitsui Sumitomo Insurance Company, Limited, or MSI.

Now let me start the presentation by explaining "operation overview" and "strategy summary" of MSI. This April, we embarked on New Challenge 10, a mid-term management plan covering the period as far as fiscal 2010. In the process of its development, we recognized the business environment as shown in the handout on the lower half of the pertinent page. Please refer to it later.

It's a great pleasure for me to inform you the new plan today which was developed through the effort that all the MSI employees and its agents have addressed head-on various issues on the table since last year. The "basic group strategy" of New Challenge 10 is an upward spiral, first starting from quality improvement, leading to trust and growth, and then returning to further quality improvement. Its concept is as you've just seen in the video. I *do* wish to establish a corporate brand through constant effort for quality improvement, and make it a leading edge for an even more solid operational base.

First off, I'll explain the "quality improvement strategy." New Challenge 10 sets out the "quality improvement strategy" and the "group business strategy" under the "basic group strategy." The "quality improvement strategy" focuses on the three vital elements as the base for improving the quality. The first is to project stakeholders' voice onto a wide range of operations. The second is to foster our employees and agents. The third is to improve the business processes and infrastructure.

The next page shows a summary of the "group business strategy," each domain of which I'll explain in the following slides. The MSI Group will continue to increase its corporate value in these five business domains.

On this slide are the targets set out in the New Challenge 10. Let me explain them in comparison with the former plan. Firstly, we have set the Group Core Profit target as of fiscal 2010 at “100 billion yen or over,” which has remained unchanged from the previous plan. In the previous plan, we defined the major strategic targets mainly by the relative ranking in comparison with major peers in the industry. In New Challenge 10, however, we have set them in absolute figures, as you see in the slide, with intent to define them clearer. As for the Group ROE target, which was set at “7 percent” in the previous plan, we have now set it at “5 percent or over” in the new plan, as we have changed the assumed Nikkei average as of the end of fiscal 2010 from 12,500 yen to 19,000 yen. There’s no change in the policy on distribution to shareholders and the reduction of stocks owned, which I will refer to in detail later.

Next, here’s a forecast of progress in each item. Net premiums written, regarded as one of indicators of sales performance, are expected to increase by 0.2 percent as Mr. Ikeda has explained. It means the domestic non-life business, which was adversely affected by the administrative dispositions, will recover. Consolidated net premiums written are expected to increase by 2.7 percent for fiscal 2007. Combined ratio will rise a little bit due to implementation of the business process innovation.

Now I move on to the domestic non-life business. What we need to do in the domestic business is to innovate the business process. We will carry out a business process innovation program, in each field of products, sales and claims-handling.

First the name of the game here in the “product innovation” is the streamlining of the product line and the improvement of quality. For these objectives, we will make cross-divisional efforts. More specifically, we are going to reduce personal lines products by approximately 80 percent, from 68 to 15. As to the extra riders, we are going to reduce them by half, from some 1,400 to some 700.

In respect of computer systems, we are developing a system to control product development process, with which we will collectively administrate such product information as product permits, on an across-the-product lines basis.

The second point is the sales innovation to aim at building a sales system of high quality. It is really important for all the agents that they should fulfill the duties to explain material things and offer high quality services to all the customers along with a chain of agents' sales practices which we call "basic cycle of insurance." Confirmation of applicant's intent based on the principle of fitness has now been listed as one of FSA's mandatory supervisory guidelines for insurance companies. Consequently, since April, we are carrying out "*Shikkari Kakunin"* campaign, which intends to remind an agent of re-checking particulars of a policy with the applicant's intended purpose. In order to construct a network of agents unfailingly practicing the basic cycle of insurance, firstly we will strengthen education and guidance to agents and conduct a quality improvement movement, secondly get the infrastructure of sales activities well prepared for in a way of benefiting customers, and thirdly pursue the sales network reform.

Here I'll explain the "sales network reform" in somewhat more detail. We will speed up scrap and build of agents through integration and dismissal, or opening new ones and growing existing ones larger, and improve quality of the network. We need new agents for sustainable growth, so will continuously open new agents of high quality after adequately giving initial education. Also, we discern whether an agent is able to practice the basic cycle of insurance, and continuously try to integrate with another or to dismiss an agent we find unable to do it. The number of the agents is declining as scheduled, and will be less than 50,000 as of March 31, 2008.

I move on to our approaches to new sales channels. As you are aware, Japan Post will be privatized on October 1, this year. The to-be-reborn companies of *Yubin-kyoku* post office with 20,000 offices and *Yucho* postal saving bank with 233 branches will be gigantic sales channels of financial products, including life and non-life insurances. We have established a business relationship with Japan Post to date, in various fields, including but not limited to the group insurance we have supplied to its 300,000 employees, and OTC sales of Compulsory Auto Liability Insurance for motorcycles at its 20,000 post offices. As is shown on the screen, each of the three companies in MSI Group will proactively provide its products and high quality service according to the needs of these to-be-reborn companies.

Also on December 22 (the twenty second), the regulatory restriction on bank OTC sale of life and non-life insurances will be completely lifted. We are ready to provide them with broader line of products and higher quality of service that MSI Group could offer.

Here comes the “claims handling innovation.” New Challenge 10 defines the ongoing claims-handling reform as the “claims-handling innovation,” and is innovating the claims-handling system. The objectives of this innovation are, as shown on the screen, quality improvement and the realization of fair uniformed and speedy claims-handling service. Taking over five principal measures implemented in the claims-handling reform, “Good Job Movement” is going on in the claims-handling field, by which we aim to regain trust from customers as soon as possible. The first computer system for the new business processes will be placed in operation this autumn. Thus we are promoting the “claims-handing innovation.”

Here’s the loss ratio. The earned-incurred loss ratio for all product lines rose by 4.1 percentage points to 67.6 percent for fiscal 2006. It’s mainly due to the increased number of the accidents, and the personnel in the claims-handling division reinforced to prevent failure in claim payment, in addition to such natural disasters as Typhoon No. 13. We expect the earned-incurred loss ratio to decline for fiscal 2007 due to the absence of burdens of unusual natural disasters and IBNR reserve increase. The chart in the lower half of the page shows the trend of earned-incurred loss ratio of automobiles, which is a critical issue for us to tackle. The chart is shown on a basis where loss adjustments expenses deducted, which has increased due to staff reinforcement since last year, and IBNR increase deducted as well, which increased in fiscal 2006 due to computation method sophisticated. As you see, the earned-incurred loss ratio rose in fiscal 2006 due to the increased number of accidents, delay of actions in normalizing the premium-cost balance, and higher payment per claim in the bodily injury cases. In fiscal 2007, though, we expect lower loss rate by resuming premium-cost balance normalization. Specific measures will be dealt in the next slide.

So here are the premium-cost normalization measures for automobile insurance. Firstly from an underwriting aspect: Loss ratio varies from region to region,

and so does situation of car accident. At MSI, each sales department and branch develops its local underwriting standards to sort out good risks. We are going to put a supporting computer system in place this fiscal year to apply such standards without fail to all cases, where even finer standards will be applied. As to the countermeasure for agents and fleet customers whose loss ratio is consecutively high are concentrated, we have sorted out 1,700 target parties, analyzed them for cause, and are providing them with counseling.

Together with these profitability enhancement efforts, we are getting down to revision of product line. While developing products that are customer-friendly, and easier for employees and agents to explain, we will review the premium rate table and coverage. Taking these actions altogether, we plan to improve earned-incurred ratio by 2.4 percentage points for the coming two years.

Next page deals with the trend of company expenses. Expense ratio outcome of fiscal 2006 remained even with the previous year, but it is expected to pick up by 0.8 points to 31.6 percent for fiscal 2007 due to proactive investment in quality improvement. Some 18 billion yen will be spent for the business process innovations, which has been explained earlier, and "*Sha-in Hatsu-ratsu*" or an employee nurturing program as additional strategic investment in fiscal 2007.

Now let's turn to the life insurance business. MS Kirameki Life marked its tenth anniversary last September. Although it experienced a slight slowdown in sales in the previous fiscal year due to the business suspension orders imposed on MSI, it steadily increased amount in force on an eight-trillion-yen level to 8.1 trillion yen as at the fiscal year end. Net effective income before providing standard underwriting reserves also rose to 6.9 billion yen.

Upon MSI's formulating New Challenge 10, Kirameki accordingly developed "*Kirameki* Next 10," a mid-term management plan. Kirameki aims to boost number of policyholders, amount in force and annually adjusted premiums, and make each of them, as at fiscal 2010, one and a half times as large as they are now. Its embedded value is shown on the next page, and please have a look later.

Next comes MS MetLife, specialized in personal variable annuity products. It reported net income of 8.9 billion yen by the US GAAP, which is one of the

components of Group Core Profit. Its targets in fiscal 2010 are black ink on a single year basis by Japanese GAAP and net income of 20 billion yen by the US GAAP, or ten billion yen in terms of MSI's share. That's what MS MetLife is going to achieve.

MS MetLife increased capital by 5.1 billion yen on May 18 and strengthened its financial base, receiving injection from MSI and MetLife Inc. of the U.S. on a fifty-fifty basis. MS MetLife's embedded value is as illustrated on the page.

Now take a look at three overseas regions and the reinsurance subsidiaries for their results for fiscal 2006 and future plans. As for overseas earnings, net premiums written increased remarkably in fiscal 2006 due to robust performances of the Asian operation and the Lloyd's business. With no particular large-scale natural disasters or accidents, loss ratio stayed low for the year, net income recovered significantly from a 1.4 billion yen net loss to a 1.7 billion yen net income. Net income for fiscal 2007 and 2008 is expected to be 15.6 billion yen and 17 billion yen respectively. This outlook includes recovery of the Americas operations which is expected to get in the black as a consequence of the efforts to date.

For more details by region, first have a look at Asia. MSI boasts top-class presence in the industry in the major countries of Asia, and will pursue corporate quality improvement and business expansion to further reinforce the business base. We stand positive for mergers and acquisitions of insurance companies, whether it's a life or non-life insurer, should there be any good opportunities. Besides Asia, we expect the European operation and the re-insurance business to contribute to earnings. We promote underwriting corporate risks in the European local markets, mainly in the Lloyd's business. In the re-insurance business, we aim to make high and steady profit by utilizing two re-insurance subsidiaries of different business models.

Page 43 illustrates an image of overseas Group Core Profit reaching 20 billion yen in fiscal 2010. Each of the overseas operation, with Asia as a driving force, the Americas, Europe and the re-insurers, as well, will contribute to earnings growth.

Next comes the investment management. Fair value of the investment assets totaled 7, 401.8 billion yen as of March 31, 2007. It increased by 2.8 percent

from one year before mainly due to market stock prices risen. Also, interests and dividends received for fiscal 2006 increased by 14.3 billion yen or ten percent, reaching 151.2 billion yen. It's mostly because dividends were raised backed by improved corporate earnings, in addition to increased coupon payments on foreign bonds due to bullish overseas stock markets and weaker yen rate.

MSI's investment management strategy aims to increase fair value of the assets with two approaches. First is the "basic portfolio." The "basic portfolio" means the composition of investment assets where net return maximizes, taking into consideration not only interests and dividend received but funding cost and capital cost. With this strategy, the current investment portfolio should increase value, and in addition, it should become, as a whole, less vulnerable to macro-economic changes. The current portfolio is supposed to reach the "basic portfolio" in fiscal 2010.

The other approach is the "active investment". This intends to exceed an index management in return by diversifying the portfolio to some extent and still based on the assumption of going towards the "basic portfolio."

The fiscal 2007 investment policy sets out the following approach, basically aiming to make the current portfolio closer to the "basic portfolio" as I've just explained. Firstly from an ALM viewpoint, we will mitigate the interest rate risk which is here to stay because of the long-term liability of annuity casualty insurance, by increasing long-term assets and employing interest rate swap. From a credit risk viewpoint, we will keep promoting personal loans, and also diversify the credit we undertake. From a viewpoint of portfolio diversification, we will increase such alternative investment as is less correlated to the conventional portions of investment. Incidentally, alternative investment is placed under tight control similar to those on other investment portions, in respect of exposure ceilings, stop-loss rules, and others, according to the internal investment standards.

Finally we are going on to the capitalization policy. The box now you see is a summary of financial benchmarks. Among the stock price-related ones, may I draw your attention to the fact that the "adjusted PBR" has remained below one.

Our policy on distribution to shareholders is as follows: Basically, we intend to distribute to shareholders, through dividend payment and buyback of the Company's own shares, an estimated amount equivalent to 40 percent of annual Group Core Profit, and also keep dividend-increasing trend. The left chart on the screen depicts results of distribution to shareholders from fiscal 2003 through 2005. While the line on the chart indicates Group Core Profit, the bars represent the annual distribution paid out of the source of Group Core Profit, consisting of cash dividends and share buyback. Rate of total distribution, in sum of dividends and buyback, to annual Group Core Profit floated at 53 percent, 90 percent and 41 percent for fiscal 2003, 2004 and 2005, respectively. We would like to continuously make a total distribution stably on a level approximately equivalent to 40 percent of annual Group Core Profit.

In addition, year-end dividend per share for the March-2007 term shall be increased by one yen, according to the basic policy of keeping dividend-increase trend, which makes the annual dividend 14 yen per share.

The last page deals with utilization of capital funds. The left chart is a conceptual diagram of comparison between fair value of the net assets and total risk exposure. Fair value of the group net assets represented by the left bar is computed by the measurement method unique to MSI, and was worth about 3,400 billion yen as of March 31, 2007. The bottom part of the right bar represents total risk exposure, worth about 1.5 trillion yen by Value-at-Risk measured at 99 percentile probability level over a year. After deducting some buffer for unpredictable risks added on the total risk exposure from the fair value of net asset, the left margin is net excess fund. Net excess fund is estimated to be 400 billion yen to 500 billion yen after a stress test on the assumption of the closing level of the Nikkei average at the fiscal 2003 year-end and the total damage caused by the typhoons for fiscal 2004. Net excess fund will be utilized in making investments to strategic areas with high growth potentiality.

On the other hand, unrealized capital gains on stocks held account for approximately 60 percent of the fair value of net assets. Stocks held provide a great volume of solvency, but it can lead to shrinking fair value of net assets once stock prices plummeted. We are going to keep steady steps in selling the stocks held to reduce this risk-fluctuating factor. The left bottom box states annual amounts sold since fiscal 2004, and we have no intention to change the policy of selling stocks held worth 500 billion yen in the aggregate by the end of

fiscal 2010.

That's all of my presentation. Page 50 of the handout shows a financial summary, and just have a look later, please.

Thank you very much for your attention.