2011 Business Update

Company Participants

- Daisaku Honda
- Hiroshi Amemiya
- Shin-Ichiro Okada
- Shuzo Sumi, President, Tokio Marine & Nichido
- Tsuyoshi Nagano

Other Participants

- Analyst
- Jun Shiota
- Masao Muraki
- Natsumu Tsujino
- Takanori Miyoshi

Presentation

Shuzo Sumi {BIO 3861639 <GO>}

Thank you very much for attending our IR Briefing today. Before I start my presentation, I would like to express our sincerest condolences to those affected by the Great East Japan Earthquake in March. I would also like to take this opportunity to appreciate all the strong encouragements and donations that we have received from our business partners, agents and shareholders throughout the world.

Some of our own employees and agents were also affected by this disaster. But all of our employees within the group are consulting efforts to pay claims properly to the affected customers in an expeditious manner to help them recover their normal life as soon as possible. Since the earthquake, about 9,000 employees in total have been engaged in claim handling with the target of responding to the forward claims within two months after March '11.

We met our original target almost. Up to now, we received about 140,000 claims, out of which payment is complete for a little under 90% of the forward claims and loss assessment is 94 to 95% complete. So, we have already covered 97 or 98% of the forward claims. But we are still receiving nearly 1,000 new claims everyday, and are working on the remaining 2%.

We believe that the situation is going to continue for a while. Tokio Marine Group intends to fulfill our social responsibility fully as an insurance group with non-life insurance business at its core.

Let me now begin my presentation on our fiscal year 2011 business plan. On May 19th, we announced the financial results of FY 2010, and explained our performance in the teleconference that we held in the evening of the same day. So, I will primarily present to you our business plan and strategies for FY 2011 today. But let me briefly review how we did in FY 2010.

Please go to page two of the handout material. Under the ordinary income, net premiums written on the consolidated basis declined by 0.9% year-on-year, while the domestic P&C business increased the top-line primarily in the lines of motor and CALI business. Contributions from our overseas subsidiaries were affected by strong Japanese yen.

Life insurance premiums also went down by 12.8% year-on-year. Tokio Marine Nichido Life increased its in-force policies steadily and grew its top-line. However, Tokio Marine Nichido Financial Life maintained its risk restricted approach in its policy distribution and their top-line declined.

Ordinary profit went down over the year. This is because in the domestic P&C business, claims incurred increased significantly due to the Great East Japan Earthquake. Likewise in the overseas business, there were many natural catastrophe events, such as the earthquakes in Chile in February, and in New Zealand in September 2010.

The second earthquake in New Zealand this February, and the Great East Japan Earthquake on March '11 incurred not a few losses to our overseas subsidiaries. Those subsidiaries will recognize these losses in their fiscal year 2011 financial accounts on the non-consolidated basis as their fiscal calender is from January to December.

However, because the consolidated calender of Tokio Marine Group is from April to March, the losses are already adjusted and reflected in FY 2010 as you can see in the diagram at the bottom of the page. Also, in order to avoid confusion, we have indicated the adjustment related to the natural disasters separately in the ordinary profit table at the top of the page, rather than including it in the overseas subsidiaries numbers.

For more details on FY 2010 actual results, please refer to the data section at the back of this material at your convenience.

Next, please refer to page three for our FY 2011 consolidated guidance. Ordinary income is expected to go up by 1.9%, thanks to the growth of net premiums written and life premium income. Ordinary profit is expected to increase.

For our domestic P&C business, we have assumed this year to be an average year in terms of natural disaster events, such as typhoons and earthquakes. Also most of the claims related to the Great East Japan Earthquake will be actually paid in FY 2011, that will allow us to take down the catastrophe loss reserve.

In the overseas insurance business, as I mentioned earlier, losses incurred by the earthquakes in New Zealand in February and in East Japan in March will be booked in 2011 on the non-consolidated basis. However, the losses are already recognized in FY 2010 on the consolidated basis.

Taking this into account, ordinary profit of international business is expected to increase year-on-year after adjustment. As a result, we expect our ordinary profit and net income will go up versus a year ago. I will discuss the non-consolidated full year guidance of Tokio Marine Nichido later.

Let us look at our adjusted earnings on page four.

Our company has been using adjusted earnings to facilitate the understanding of the profit and loss that we make in a single fiscal year. In FY 2010, our group adjusted earnings was 72 billion yen, down by 28 billion yen from the revised guidance of 100 billion yen that we announced as of the end of the first half.

This is primarily because while Tokio Marine & Nichido Life increased its EV significantly, thanks to a reduction in its non-personnel costs and a rise in long-term interest rate from the end of the first half. Profit from the domestic P&C business and international insurance business went down substantially, suffering from natural disasters including the Great East Japan Earthquake.

Projection for FY 2011 is shown in the table at the top at far right. Same as in the statutory accounting, we assume that profit from domestic non-life and international insurance business will increase as the impact of the March '11 earthquake will disappear. And we project our adjusted earnings to increase by 56 billion yen to 128 billion yen.

Please proceed to page five to review the trend of adjusted earnings for the period of five years. As you can observed here, our adjusted earnings were heavily hit by two major events, Lehman Shock and March '11 earthquake. This is the highlight of actual results and guidance, a statutory financial performance as well as our adjusted earnings.

Let me also walk you through in a bit more detail the impact of the Great East Japan Earthquake on page six.

As for the impact of the disaster to our P&L, incurred losses on the residential earthquake insurance, that we directly underwrote are estimated to be around 200 billion yen at the moment. As you know, residential earthquake insurance is managed in the no loss, no profit scheme, supported by the government reinsurance system and underwriting reserve for residential earthquakes. Therefore, it does not impact our company's performance.

Meanwhile excluding the residential earthquake on the other private policies that we underwrote directly, around 150 billion yen of losses is projected to have been incurred. However, we have been doing appropriate risk control through overseas reinsurance arrangements for instance and contained the net losses incurred within the group overall at about 90 billion yen in FY 2010.

As the net losses incurred will be paid in FY 2011, we expect to draw down the catastrophe loss reserve by approximately 42 billion yen, and the impact of the March '11 earthquake to our P&L during the two fiscal years is estimated to total about 50 billion yen before tax. The impact will be even smaller after tax.

Next, I will discuss our management strategies of our group overall as well as our respected businesses. Please turn to page seven.

Tokio Marine has aim to expand profit and improve capital efficiency by leveraging all the capabilities we have within the group, and we will continue to promote this strategy further this fiscal year.

In order to achieve these goals, we need to improve and expand profitability of our existing businesses, especially we must improve the combined ratio in our domestic P&C business. This will remain as one of our top priority issues. We will also maintain our traditional policy of reducing risks of business related equities, we plan to sell such equities furthermore.

Capital generated through these initiatives will be invested in new business opportunities globally with higher capital efficiency including M&A transactions. This is how we intend to capture new growth potential and improve our capital efficiency, and the more diversified business portfolio should enhance our capital efficiency even further.

Next, I will discuss business strategy by business domain, please go to page eight.

This page summarizes the details of FY 2011 guidance of Tokio Marine & Nichido. Net premiums written is expected to trend flat year-on-year, because as the table on the note shows, if you look at the premiums written by line, in all the lines excluding CALI, premiums written are expected to decline mainly due to the earthquake.

Meanwhile, underwriting profit is expected to grow significantly by 80.1 billion yen year-on-year, because we assumed this year to be an average year in terms of natural catastrophe events. And incurred losses will decline substantially from a year ago. And as the losses of the earthquake will be paid out, the catastrophe loss reserve will be taken down.

Investment income is expected to decline by 54.4 billion yen versus a year ago. This is because we think corporate performance will become weaker due to the impact of March '11 earthquake and interest and dividend income will decrease.

In addition to that, we have assumed to sell business related stocks by about 100 billion yen worth as initial target for this fiscal year versus 187 billion yen that we did in FY 2010.

As a result, net income is expected to grow by 21.2 billion yen as the underwriting profit is expected to increase more than the investment income decline.

Next, please go to page nine, and look at our combined ratio in our underwriting business. The combined ratio at the top of the page is for private insurance policies on the written paid basis and does not include CALI and residential earthquake insurance which are no loss, no profit business.

First, loss ratio is expected to increase by 6.3 points to 68.4% as the outstanding claim reserve related to the Great East Japan Earthquake will be paid. In the meantime, in the previous fiscal year, putting aside the losses from the massive earthquake, other incurred losses were relatively small. So, if we exclude the impact of the March '11, we think our loss ratio would improve. Expense ratio is estimated to be 35.1%, down by 0.1 point from FY 2010.

Disaster related costs, and increased IT costs are expected to push up non-personnel expense ratio. But on the other hand, personnel expense ratio and agency commission ratio are projected to come down. All-in-all, the combined ratio as forecast increased by 6.3 points to 103.4%. If we exclude the impact of the Great East Japan Earthquake, the combined ratio will be 97.9%.

Next, I will talk about our major challenge which is profitability of auto insurance, and how we intend to improve it on page 10.

In the auto line of business, we have continuously improved products and rates. As a result, unit premium per policy increased and underwriting profit improved in FY 2010. On the other hand, loss ratio on the written paid basis deteriorated 1.3 points to 71.0% because drastically increased traffic volume in summer, and historical heavy snow in winter led to increased paid claims. Also frequency of traffic accidents increased. Loss ratio on the earn to incurred basis increased also by 1.6 points to 70.4% due to the same reasons.

In our full year forecast for FY 2011, we assumed that the negative factors for the loss ratio that we observed in summer and winter of FY 2010 were one-off situations. Excluding those factors, the number of traffic accidents decline after the disaster, but more recently, it is starting to increase again. And the situations are still unclear at the moment.

In putting together the full year guidance, we have also assumed that as economy picks up in the second half of this fiscal year, traffic volume would grow accordingly, and the frequency of accidents could increased again.

In order to improve profitability, we are expecting to see the benefit of product and rate revisions that we did in FY09 and FY 2010 to be materialized this fiscal year. In addition, we will promote a series of countermeasure further. Those measures are starting to show some effects gradually, and we will make utmost efforts to improve the profitability of auto insurance.

We were planning to introduce a new rate scheme based on new a segmentation in July 2011. However, given the impact of the disaster, we decided to postpone the launch till January 2012. We will continue to monitor the profitability of this line of business and determine how much the rate table needs to be revised.

And auto insurance has a structural issue where that's merit rating system where unit price per policy keeps coming down as policy holders are upgraded. We would like to resolve this issue sooner than later while it takes some time.

Now, I will explain to you the growth strategy of Tokio Marine & Nichido on page 11.

While we work to improve profitably of auto business, we will surely execute growth strategies. The core driver behind the growth strategies is, Super Insurance which we renovated in October last year. Since last October, this product has been selling more than we expected.

The number of new policies sold in FY 2010 were far above the initial target of 200,000 and reached 360,000 policies. Premiums written also exceeded the original target of 10 billion yen. As the note describes, about 10% of the premiums written is a shift from our competitors books. And therefore, net new addition to our company's sales contributing strongly to our top-line growth.

In FY 2011, we will focus on selling more Super Insurance in major distribution channels by leveraging the competitiveness of Super Insurance product. We will continue to acquire more new policies and maintained and increased the in-force book and grow the top-line even further. In addition, we would like to communicate competitiveness of our proprietary product Super Insurance to our peers distribution channels to expand our distribution networks going forward.

Next, please go to page 12, for Nisshin Fire's projections.

Underwriting profit is projected to go up by 6.1 billion yen year-on-year. This is because the top-line is expected to grow particularly in the auto line of business and business expenses will be reduced further. On the other hand, investment income is expected to decline by 3.2 billion yen year-on-year, due to a decline in sales gains of securities.

As a result, we project the net income to increase by 1.1 billion yen to 2.7 billion yen. Please refer to this material for more detail at your convenience. This is all for the strategies in the domestic P&C business. Let me carry on to talk about domestic life business.

First, please turn to page 13 to look at Tokio Marine & Nichido Life.

As the graph at the top of the page 13 shows, Tokio Marine & Nichido Life is maintaining its solid growth. Their EV growth which we look at as an indicator for profit is projected to be 39 billion yen versus as of the end of FY 2010.

In this statutory accounting book, the company achieved 5.2 billion yen of positive net income and cleared the cumulative losses as we achieved the standard underwriting reserve ratio of 100% in 2010 after 15 years since the company started its operation. In FY11, the net income is expected to increase further to reach 11.3 billion yen.

Please proceed to page 14. On the product and service front, Tokio Marine & Nichido Life strategy is to launch new product to capture increasing needs for living benefits and to revise core products to make them more convenient to customers.

The distribution channel strategy is to sell more through collaborative initiates, between life and non-life channels. The company will further the cooperation with non-life agents and strengthened cross-selling based on the revised Super Insurance. At the same time, life partners will continue to focus on tie-up sales to the existing customer base of Tokio Marine Nichido building on the successes that they achieved in FY 2010.

Please go to page 15 for Tokio Marine & Nichido Financial Life.

The business environment in the variable annuity market continues to be tough. And our priority will be risks control. We will maintain risks restrictive sales policy. At the same time, we will continue to review business processes as well as cost, so that this business is streamlined enough to meet difficult business environment.

Next, I will discuss International Insurances Business on page 16.

In FY 2011, we have different business strategies for different lines of business. In the commercial business and reinsurance business in U.S. and Europe, we will maintain stringent underwriting discipline to expand both sales and profit.

Concurrently, the market could harden due to a series of natural catastrophe losses, and we will ensure to capture the opportunities presented by the cyclical change. For a life and non-life businesses and emerging markets, we aim to grow our business over the medium to long-term inline with the steady growth of these economies.

We aim to leverage various distribution networks to expand both top-line and profit. Losses accrued at Kiln and other reinsurance subsidiaries by earthquakes in New Zealand and East Japan in January to March quarter were adjusted to be booked in FY 2010. Schematics at the bottom of the page show, its impact to the projections.

Please refer to page 17. In FY 2011 forecast, net premiums written is expected to increase by 10% year-on-year driven by steady economic growth in emerging countries, such as in Asia as well as economic recovery in western markets.

Adjusted earnings are expected to increase by 110%, because as you can see in the second line from the bottom in the table, there was a natural catastrophe loss of 27.9 billion yen in January-March quarter in 2011 which would not be repeated in FY11.

For the actual results in FY10, please refer to detailed description on page 36 later.

Next, I will explain the situations around major international businesses as well as their projections. Please go to page 18.

In FY10, Philadelphia continue to grow its top-line successfully by 5%. Far above the industry average of 1.0% in the U.S. P&C market. While increased natural disasters pushed up the combined ratio by 3.5% from a year ago. Philadelphia still maintained a favorable ratio of 89.3% which is far lower than the U.S. industry average 102.1%. We assumed that the fierce competition will continue in FY11. But Philadelphia is expected to grow its net premiums written continuously by leveraging its outstanding competitiveness.

Adjusted earnings are expected to decline slightly due to intensifying competition, but the combined ratio is projected to be maintained at a favorable level of around 92%. As we did a press release the other day, we are planning to establish Tokio Marine North America, the holding company for the U.S. operations in August this year. Down the road, Philadelphia and U.S. branch of Tokio Marine Nichido will promote their growth strategies in the U.S. insurance market under the newly established company.

On page 19, at Kiln, we would like to expand the underwriting by leveraging the change of market cycles. And by fully utilizing our 100% own syndicate in Lloyd's and by maintaining a selective underwriting policy, we aim to expand the profit further.

The chart shows the non-consolidated adjusted earnings of negative 3 billion yen in FY 2011. This is before reflecting the earthquake losses to FY 2010 and factors in about 10 billion yen of negative factors related to New Zealand earthquake in February as well as the Great East Japan Earthquake.

As described on page 20. In the reinsurance business same as Kiln, we aim to expand underwriting profit without missing the timing when the market cycles change. In January this year, we started to implement new growth strategy for our international reinsurance business to expand profit and diversify risks further.

In FY 2011, non-consolidated adjusted earnings are expected to be negative 3 billion yen due to approximately 14 billion yen loss from the New Zealand earthquake in February. Like Kiln, the losses are booked in FY 2010 on a consolidated business, therefore do not have any impact to FY 2011.

Next, let me touch upon emerging markets on page 21.

In order to expand the international business, we have strengthened our presence in Europe and U.S. through the acquisitions of Philadelphia and Kiln. Concurrently, we have been actively engaged in emerging markets as medium to long-term profit growth opportunities.

We will roll-out life insurance and Takaful business in addition to P&C business in various regions including Asia, Brazil and Middle East. Preparation for life insurance business in India is almost complete, and the operation will commence in the near future.

On page 22, I will discuss asset management strategy of our group. As a global insurance group, our group wide asset management strategy is to secure liquidity and do ALM. Based on these fundamental principles, each company aims to improve return within the risks tolerance level accepted given their respective liability profile.

Asset management strategy of Tokio Marine & Nichido is shown on page 23.

As the uncertainty around corporate performance in the wake of the disaster gets cleared, we believe the Japanese economy will do well. Tokio Marine Nichido will continue to secure liquidity and stable investment income and expand net asset value. We would also maintain our traditional policy and sell business related stocks steadily. Our plan at the moment is to sell approximately 100 billion yen worth of such stocks.

Please allow me to talk about Enterprise Risk Management, Capital Management Policy as well as Shareholder Return on page 24.

Under the Enterprise Risk Management regime or ERM, we aim to strike the right balance between risk volume and required capital to meet AA credit rating standard. At the same time, we intend to build well diversified business portfolio, so that we can achieve stable profit and enhanced return on risk capital.

As of the end of March 2011, we maintain the capital buffer of 800 billion yen. There was some impact of the earthquake, but through reinsurance and sales of business related stocks, we controlled or reduced risks and EV of domestic life business grew, thanks to its solid growth.

We will continue to brush up and build more sophisticated methods to quantify risks. By strengthening ERM, we would like to realize a proper balance between soundness of the company as an insurer and higher capital efficiency.

Last but not least, let me talk about shareholder return. First on dividend, while core adjusted earnings declined on the year-on-year basis, we decided to maintain our steadily growing dividend policy and pay 50 yen per share on the full year basis, same as a year before. With this dividend, our payout ratio against the normalized core adjusted earnings will become 55%.

Next on share repurchase. Traditionally, we have announced the budget for share repurchase for the year together with announcement of full year and interim financial results. But from this fiscal year, we decided not to do such regular announcement.

Share repurchase is supposed to be a flexible means to give returns to shareholders, but because our company has done regular announcements once or twice a year, we were not necessarily able to enjoy it's flexibility fully.

In particular, at a time like this where management is quote to navigate the company swiftly to meet the drastic changes in the business environment, we would like to be able to enjoy flexibility to the fullest extent. This is the reason why we decided not to do the regular announcement of share repurchase budget ahead of the time.

Needless to say, our strong focus on shareholders remains unchanged. We would like to do the buyback during the course of a year in a flexible manner after considering various situations holistically including market environment, capital position and business investment opportunities. Although it was a brief and quick run through of highlights, this is all from my presentation. I would like to ask for your continuous support to our company.

Thank you very much for your attention.

Questions And Answers

Operator

We would now like to open the floor for the Q&A session. Please feel free to ask questions that you may have. When you ask questions, you do not have to state your affiliations. If you do not like, you do not have to state your name or your company's name. Also to ensure that we receive questions and opinions as many people as possible, we ask you to limit your questions up to two at a time. We thank you for your cooperation in advance. If you raise your hand, President Sumi will call on you and we will bring you a microphone. Now, if you have questions, please raise your hand.

Q - Natsumu Tsujino {BIO 2234779 <GO>}

I am Tsujino from J.P.Morgan. My first question is concerning capital management policy. May I understand that you will be making the announcement as to by when you will buyback how much shares upon a decision is made at a Board Meeting like you did before you started a regular announcement of share repurchase schedules twice a year at interim and full year financial results briefing. And you do not know when the announcement will be made, is this correct? Earlier this year, many things happened including the earthquake, given these developments should we assume the actual share repurchase is going to be done perhaps later in the year?

Should investors be patient and not expect the buyback in July or August? This is my first question. Second, page 24 shows your risk volume. I believe the risk volume became smaller partly because you sold business related stocks last year, but also because the market value of stocks dropped as the stock market went down, but the materials also points to several risk control measures. Out of my curiosity, what type of measures did you used specifically to reduce the risk volume by how much specifically? Thank you.

A - Shuzo Sumi {BIO 3861639 <GO>}

I understand your first question on share repurchase policy is about timing. We said we will do this in a flexible manner. But the timing is now clear in particular in awake of the earthquake and your question is whether July or August is unlikely or not? As mentioned earlier environment around us has been in the state of major floods. Since the Lehman Shock regulations on the financial industry in particular Basel III or Solvency II are much changing the banking and insurance sectors globally. And state of business investment opportunities is changing so dramatically and we need to make very quick decisions.

In this context, we need to act in a flexible manner like I explained today. So, it's fair to say that this decision on share repurchase has nothing to do with the impact of the earthquake, because we intend to make our decisions by looking such factors as size and timing of business investment opportunities, cash position and stock price comprehensively. It is difficult for us to say when specifically. At any rate, we will act in a flexible manner. Mr. Amemiya, Executive Vice President will answer your question on the details of risk volume reductions.

A - Hiroshi Amemiya {BIO 7352816 <GO>}

Yes, let me answer your second question. Page 24 indicates that as you have pointed out the value of our capital moved, because the value of stocks moved in accordance with stock prices. And risk volume itself went down, because as Mr. Sumi mentioned earlier we sold business related stocks and reduced risks. The comment on this page shows that the impact of losses by the earthquake to our net asset value is controlled by reinsurance to reduce risks to our capital. Gross NAV is also possibly contributing to maintaining capital buffer that's what this box means. Did this answer your question?

Q - Natsumu Tsujino {BIO 2234779 <GO>}

I am sorry that the point of my question was not perhaps clear. Risk volume has been reduced from 2.7 trillion yen to 2.4 trillion yen, because you took some measures to control risks. The second bullet point in the box says that you reduced risks by selling business related stocks. I would also assume the risk volume declined, because the market value of stocks dropped. My question is other than these factors, how much did your other risk control measures contribute to reducing risk volumes?

A - Hiroshi Amemiya {BIO 7352816 <GO>}

We would like to revert back to you with detailed numbers later, but in terms of the impact of sales of business related stocks, we sold about 187 billion yen worth of such stocks on the market value basis. When we measure our risks based on 99.95%, we apply risk charge of 50% or above. So, the risks reduced through the sales is contributing to the reduction of risk volume. Any additional comments on factors behind risk reductions?

A - Daisaku Honda {BIO 15148042 <GO>}

I'm Honda. Risk volume went down primarily because the market value of stocks fell and we sold stocks. We sold about 180 billion yen worth. So, the risk reduced here is about 90 billion yen. We did many other things, but volume wise these were the biggest factors behind the lower risk volume. Yes please.

Q - Masao Muraki {BIO 3318668 <GO>}

I am Muraki from Deutsche Bank. My first question is related to capital management policy. Page 25, shows a schematic which is similar to what you have shown so far. Number-wise, I believe you traditionally explained that that capital is approximately a little under 2 trillion yen excluding unrealized gains. And applying 7%, you said that maximum fund for dividend and share buyback is about 140 billion yen.

Could you confirm whether these numbers are still relevant? You're paying out a little under 40 billion yen as dividend and excluding unrealized gains, your capital came down a little. But let's say that you spend about 100 billion yen to buyback your own shares and I see your core adjusted earnings on the normalized basis has dropped to about 70 billion yen this time. When we forecast your dividend, don't we need to take into account your profit?

My second question is about your countermeasures to improve profitability of domestic P&C business, especially your auto business. This is a little technical, but on page 39, you have indicated an image of merit rating system. I understand that the discussion is currently underway to review this mechanism, but if you don't do anything about this, the unit price of auto policy will come down by 1.5 or close to 2% under this mechanism. If this system changes and if you get downgraded after an accident by foreign notches as opposed to three notches under the current system, would it help to mitigate the natural decline of unit price to some extent? If you have done any estimation please let me know?

Related to the improvement or profitability I also have a mid to long-term question. You are projecting your combined ratio of your private insurance excluding earthquake policy is to be 97.9% in this fiscal year, which is a pretty high level historically in recent years. Combined ratios of American top players have been 95% and about 91% in Europe on average. Given that there is an interest rate gap of about 2% between Japan and foreign countries. I believe you need to improve your combined ratio to be better than international peers. Over the medium term to what level do you intend to lower your combined ratio from 98% level this year? Thank you.

A - Shuzo Sumi {BIO 3861639 <GO>}

There were three questions. Mr. Amemiya is going to answer the first question.

A - Hiroshi Amemiya {BIO 7352816 <GO>}

Yes, your first question was on page 25. If our traditional thinking behind the capital strategy budget has changed or not? Our idea here has not changed. We continue to apply 7% as the cost of capital to our total capital to come up with the upper limit of capital strategy budget for shareholder return. I believe you also asked us whether we need to take into account the level of profit when we look at the amount of dividend?

On this point, we have communicated so far that we are looking to return 40 to 50% of normalized core adjusted earnings as dividend. And we have not changed our policy here either. As mentioned earlier, due to the impact of the disaster, core adjusted earnings came down slightly and as a result payout ratio turns out to be 55% this time.

Thank you. Traditionally you indicated that at maximum you will return 40 billion yen as dividend and 100 billion yen through buyback for instance. The total amount of return would then far exceed the average core adjusted earnings almost two times of the 70 billion yen within the earnings that will constrained the shareholder return. This capital strategy budget is like a framework for giving return from the stock of the capital that we are entrusted to manage.

When we consider how to use this capital going forward within this framework. As we explained earlier, I am sure we will have both offensive and defensive strategies. On the offensive side, we would use the capital for M&A or if the market hardens we would take more risks. Including these options, we would make a decision by looking at the total picture like we have done to-date.

A - Tsuyoshi Nagano {BIO 16141096 <GO>}

Shall I take the second question?

A - Shuzo Sumi {BIO 3861639 <GO>}

Yes, Mr. Nagano would you please.

A - Tsuyoshi Nagano {BIO 16141096 <GO>}

I am Nagano. Let me answer second and third questions. On your second question, while it is difficult to say specifics here. As you have correctly pointed out our combined ratio of auto business is currently as high as 104%. And we need to do something about this as an urgent issue. As we try to resolve this issue, we believe that the merit rating system needs to be changed. Otherwise the combined ratio would naturally deteriorate by one or a little less than 1.5% every year. The question here is, how quickly can we stop this natural increase? This is not the type of issue that an individual company can handle completely on their own.

We are reviewing this issue by exchanging opinions with relevant authorities. And specific methods to make the revision are also under considerations. It takes an extremely technical study to find out by how many notches the drivers with accident experience need to be downgraded to stop, the increase of combined ratio and there are many different ways to tackle the issue.

We would like to first of all lower the combined ratio of auto business to 100% and then further to 99 or 98% as soon as possible. Auto business accounts for 50% of Tokio Marine & Nichido's portfolio. If we improve the profitability of auto business that will lead to the improvement of the company's overall profitability.

Because of the earthquake, the combined ratio is currently 101%, but if we put aside 81.9 billion yen of losses from the earthquake, our combined ratio would have been about

96% on the earn to incurred basis in order to ensure that the ratio is now going to go up. We will improve the profitability of auto business and reduce costs furthermore on the expense side. And over the medium to long-term, we would like to keep our combined ratio of private insurance policies around 95% constantly to match the profitability in western countries as you pointed out earlier. Did that answer your question?

Q - Masao Muraki {BIO 3318668 <GO>}

Thank you.

A - Shuzo Sumi {BIO 3861639 <GO>}

Any other questions?

Q - Jun Shiota {BIO 4127431 <GO>}

I am Shiota from Daiwa Securities Capital Markets. If I may ask you two questions, first there is a concern that credit rating for JGBs may be downgraded, I believe your credit rating is linked to the sovereign rating in many ways, could you give us your comments as to how the JGB downgrading would affect your company, if it happens? My second question is on your future M&A plans.

There was a slight mention on this in the discussion on capital management policy earlier, but when the reinsurance market hardens, M&A is one of the options available for you for instance. Also since you are done with building standard underwriting reserve in the domestic life business now, you could expand the size of the businesses one way or another, I would appreciate your comments on any M&A transaction that is starting to take shape or looks promising? Thank you.

A - Shuzo Sumi {BIO 3861639 <GO>}

First question is what happens if JGB is downgraded, Moody's, who is considering the downgrading this time does not set any sovereign ceiling but S&P does. So, every time the JGB ratings were downgraded, our ratings were also lowered. I would not say the impact of downgrade into Tokio Marine Group overall is none, but in total the impact is not so significant.

In particular credit ratings do not affect our domestic P&C and life insurance business much. Reinsurance business is affected by the rating to some extent and if the rating is downgraded from the current AA to say A for instance, it will affect the business to some extent, but the extent of impact will still be small in the total picture.

On your question on M&A plans. There are many developments in various markets across Europe, U.S. and the emerging markets in both life and non-life spaces. As I briefly touched upon earlier, introduction of Basel III and Solvency II may accelerate bank's actions to divest their insurance businesses from their umbrellas for instance.

Also particularly in Asia, as the markets grow so rapidly, I believe there will be various opportunities to be presented in both life and non-life space. Having said all that, as a fundamental principle, we are not interested in doing M&A as a means to expand sales or top-line. We will only be engaged in transaction with good profit potential for the future and help our growth in a big way.

You also asked me about expanding the size of our domestic life business or doing an M&A within the space. As I have communicated in previous occasions as well, there are very few stock companies and targets are very limited. So, we would like to carefully study growth potential as well as synergy effect with our own business before we make decisions. Did we cover all of your questions?

Q - Jun Shiota {BIO 4127431 <GO>}

On your first point, about our country ceiling can you accelerate the sales of stocks quite dramatically to avoid the application of country ceiling for instance, is that an option?

A - Shuzo Sumi {BIO 3861639 <GO>}

We have had many discussions with credit rating agency as to why the ceiling has to be applied to us in connection with our stock holdings. But looking at Tokio Marine Group overall, the major part of our capital is still allocated to Japan. And while profit contribution from overseas business is growing, top-line contribution from domestic business is still bigger with non-life and life businesses combined.

Also as you just pointed out, we still have many Japanese stocks. We understand that because of all of these factors, we are affected by the sovereign rating. And irrespective of the ceiling application, we have been reducing risk volumes associated with business related equities in view of new solvency standard and IFRS regime to be introduced going forward, as we need to better control risks.

Some people say that we have too much JGBs. JGBs are managed separately on our book for ALM purpose, but they should hear as not limited to business related equities only. At any rate in the mid to long-term, we strive to become a global company that wouldn't be affected by sovereign rating.

Q - Jun Shiota {BIO 4127431 <GO>}

Thank you.

A - Shuzo Sumi {BIO 3861639 <GO>}

Any other question? Yes, the gentleman at the back.

Q - Analyst

Please enlighten me on two things. First on share buyback, when you say flexibility do you consider your own share price in making a decision flexibly. Even if for instance you buyback your own share 50 billion yen worth on a regular basis, I cannot quite see that would underline your company's management flexibility. So, are you conscious of your stock price or are you trying to be prepared for another and large investment, could you expand on this a bit more? My second question is not directly related to financial performance, but I believe that after March 11, both Japanese consumers and companies recognized so strongly that they need to control risks.

I am not sure if it is going to be a derivative or securitization, but taking this opportunity do you think you can come-up with some commercial insurance products to help controlling risks and generate new commercial business? And by doing so can you foresee that you will become an unrivaled player in the domestic market over the long-term? I would appreciate your thoughts as President of the company. Thank you.

A - Shuzo Sumi {BIO 3861639 <GO>}

Your first question is whether we are conscious about our own stock price, when we decide on our share repurchase program and if it is part of the flexibility that we wish to keep? As I mentioned earlier, we will consider the size or timing of business opportunities as well as market situations overall. And we will certainly look at stock price as part of our comprehensive decisions. If we believe that Tokio Marine's business will contract and try to find a right balance in that context, I believe we will reduce this risk buffer by buying back and canceling our own shares.

However, as I explained earlier, we are rather aiming to expand our business globally. Therefore, when we say we want to use this capital buffer flexibly, we mean that we would like to use this capital flexibly to support business investment for further growth. Of course, I am not ruling out the possibility of share repurchase. We would like to strike a right balance and we wouldn't simply make decisions based on how our stock prices doing. To your second question after the March 11, both companies and individuals are becoming much more sensitive toward risks as you have correctly pointed out.

We are already receiving many inquiries from various companies and consumers across the nation as they look for unconventional support for risks. While, we have not decided on our strategy for completely new products. Tokio Marine Group have been aiming to became a risk solution partner for our corporate customers in particular as our mission. And already provide solutions which I think is more advanced than conventional solutions to cover respective risks that our corporate customers are exposed to.

To cover all the risks, insurance policy itself may not be enough. So, for instance as it was covered in a TV program the other day, we work with a company called BELFOR to provide very quick disaster recovery upon an accident.

We helped a brewing maker in Sendai in Northeast Japan resume their business quickly. And a paper mill was also able to resume their operation in about a month with much cheaper cost. While, if they were to introduce brand new equipment, it would have taken five to six month and cost them some 100 million yen. This is one way of providing risk solutions to our customers.

Also, the earthquake has caused loss of income due to non-utilization of capacities in addition to property losses. We are already hearing many voices that are quoting for not only property insurance, but also insurance coverage for loss profit as well as various costs related to the earthquake rather than devising any product, we are trying to make various propositions by utilizing the existing products in different ways. We are confident that Tokio Marine & Nichido is most skilled in this area within Japan and we intend to expand our presence here. Did this answer your question fully?

Q - Jun Shiota {BIO 4127431 <GO>}

Yes. Thank you very much.

A - Shuzo Sumi {BIO 3861639 <GO>}

There is one more person at right.

Q - Takanori Miyoshi {BIO 16985826 <GO>}

My name is Miyoshi from Goldman Sachs. I would like to ask you about your overseas strategies in particular for reinsurance business. According to page 20 of the material, you are opening new branches overseas and you are aiming to achieve net premiums written of US$200 million in 2015 in Switzerland and Australia in total or $20 million after tax. But I think your reinsurance business is more skewed toward U.S. business. I know this is a long-term issue, but how big do you think this reinsurance business is going to be in total in FY 2015? You also talked about hardening of reinsurance market, what is your assumption behind this targeted growth of the reinsurance business?

A - Shuzo Sumi {BIO 3861639 <GO>}

Mr. Okada, Senior Managing Director will take questions on reinsurance.

A - Shin-Ichiro Okada {BIO 15401816 <GO>}

I am Okada. Our reinsurance business has grown to a sizable business already. As you have rightly pointed out, we have many U.S. businesses in our underwriting portfolio. U.S. is the biggest market for us and the most profitable business in terms of pricing. This time we opened branches in Switzerland and Australia in order to diversify and expand our reinsurance business furthermore. As shown in the material, we expect to make US 200 million at the top-line and US 20 million in the profit. The reinsurance business is already making a sizable profit contribution within our international business. And I think their contribution is above 20% on a normalized basis.

Your question is where we are going to bring this business to down the road? Within the total risks that we assume on the Group-wide basis including Japan, international risks are still smaller in proportion. We can directly underwrite some risks, but there are other risks that are difficult for us to directly underwrite such as European Continental risks. That's where we would like to use reinsurance to establish our presence there first. Overall targets for premiums written as well as profit will be developed officially in our next medium-term plan starting from the next fiscal year. But, I believe that to achieve enough profit, we need premium written of about US 200 million overall.

It is extremely difficult to say how gradually the soft market will become a hard market and how much we intend to make in what particular years specifically as an assumption. But over the cycle, we would like to achieve the level of sales that I mentioned earlier. Did this answer your question?

Q - Takanori Miyoshi {BIO 16985826 <GO>}

Yes. Thank you. If I may ask you a follow-up question. What are the things that investors should look at to understand that the reinsurance market is hardening therefore the business is going to grow? For instance, I believe U.S. hurricane contracts will be renewed in July or more renewals in generally, but what will be the trigger to expand your reinsurance business?

A - Shuzo Sumi {BIO 3861639 <GO>}

Market cycle changes, when a major cat loss is incurred. Typical examples would include Katrina in the U.S. in 2005 and 9/11 in 2001. When a market loss of some trillion plus yen is incurred internationally, the market would harden because insurers and re-insurers suffer from major losses which undermine their capital and the company's try to raise rates dramatically in order to recover the capital.

Over the last 12 months or so, while there was no major catastrophe in the U.S., catastrophic events took place in Chile, New Zealand and in Japan, and in April and May, tornadoes are hitting the U.S. The losses are yet to be tallied up, but various institutions have come up with rough estimation on a higher side. Some estimates that losses incurred by tornadoes, the U.S. primary insurers would amount to some 100 billion yen to 1 trillion yen with April and May combined. Re-insurers are also hit by the events.

Another thing is decline in interest rates. Interest rates are coming down globally and pushed down investment income which also translates to hard market. Many insurance brokers were voice announced various forecast that I think indicates to you whether the market is hardening.

Q - Takanori Miyoshi {BIO 16985826 <GO>}

Thank you.

A - Shuzo Sumi {BIO 3861639 <GO>}

Any other question?

Q - Analyst

I would like to ask you about capital management policy. I understand that you have allocated roughly 200 billion yen to the extended earthquake insurance this time. If you try to make a return of about 8% every year, the underwriting profit of fire insurance needs to be 16 or 20 billion yen, otherwise it means that you are not getting enough return given the capital that you allocated to the line of business. But yet extended earthquake insurance does not seem to contribute much to the bottom-line, and it is primarily windstorm and flood coverage that generates profit in some years.

Earlier you talked about profit and earthquake risk coverage. If your customers accept pricing, which is good enough to cover cost of capital. Then I understand you would consider allocating the capital there and yield some return rather than buying back your own shares.

However, if the Japanese customers are not willing to pay enough, why not return to capital to shareholders. What is your outlook on market environment in particular for extended earthquake insurance? Do you think you can raise the pricing to make enough return?

A - Shuzo Sumi {BIO 3861639 <GO>}

I earlier said that in order to meet height and sensitivity toward risks, we need business interruption insurance, but I don't think we can respond to all the risks through insurance only. Needless to say, reinsurance market related to earthquake is hardening, and it is our fundamental principle that we achieve appropriate pricing commensurate to risks.

We are not thinking about offering coverages at a lower price just because customers awareness toward risk is increasing. We intend to find a balancing point between us and customers and receive reasonable premium.

Having said that, I don't think we will keep underwriting earthquake related risks one after another. The capacity in the reinsurance market is not in a big surplus, and this requires a balancing act. A site found residential earthquake insurance policies, we have assumed earthquake related risks through extended earthquake rather come with buyer policies and in many other ways for instance, additional coverage through Super Insurance as well as the reinsurance.

The net loss incurred to Tokio Marine & Nichido amounts to about 80 billion yen. After taking down the catastrophe loss reserve, the loss will be reduced to about 40 billion yen before tax and the number will become even smaller after tax. We will continue to underwrite earthquake risks. But we intend to do so by taking into account profitability.

Some people may argue that we should stop this line of business and return the capital to shareholders through share repurchase. But again, we plan to balance the share repurchase with business investment to promote our growth strategies.

Q - Analyst

Thank you.

A - Shuzo Sumi {BIO 3861639 <GO>}

Any other questions?

Q - Analyst

I have a question about risks volume on page 24. You mentioned that you would consider changing methods to quantify risk volumes in a more sophisticated manner. The risks volume came down primarily because of the reduction of shares. The Great East Japan Earthquake occurred under the Japanese Solvency Standard to calculate the risk volume of natural disasters. You will only have to look at the bigger of the two either typhoon or earthquake.

In other words, a big typhoon and a huge earthquake would not come at the same time. Therefore, we only have to look at the bigger of the two, which doesn't really make sense. But given such standard, isn't your risk volume on page 24, based on two lenient assumption in terms of correlation between typhoons and earthquakes.

If you put a more stringent assumption on the correlation, regardless of how much stocks you would actually reduce, natural cat risks are too big. And the total buffer doesn't change much anyway, isn't this going to be the case? This is my first question.

The other question is concerning methodologies to measure risks. You are using 99.95% VaR. Whether it is 99.9 or 99.95? It is nearly 99.5 or 99.95 of the expected risks. What is currently discussed is Switzerland for instance, is to use Tail VaR or to measure risk volume including risks that are out of expectations. If you use Tail VaR, does your risk volume change significantly? This is my second question.

I have another question concerning the merit rating system. You said you are reviewing the system, but is it nearly your internal review, and are you trying to change your own rate tables slightly within the merit rating system framework set by the rating bureau? Or do you expect the rating bureau would change it's merit rating system itself? These are my three questions. Thank you.

A - Shuzo Sumi {BIO 3861639 <GO>}

First, as to how we are seeing risks, the Japanese Solvency Standard will be changed from 90% to 95% value at risk. But we are not looking at our risks at that level. We are rather using 99.95% VaR, which is even higher than 99.5% to be adopted under Solvency II Standard. So, I don't think we are lenient, but rather stringent here.

This relates also to your second question. But when we look at natural disasters in particular, we are making judgments based on 99% Tail VaR as you just noted. In addition to that, we run various trust tests quite strictly by assuming various types of natural disasters in both stocastic model and scenario based model.

On your third question on merit rating system, as Mr. Nagano mentioned earlier, Tokio Marine & Nichido is reviewing the system internally. The ultimate decision is to be made by the rating bureau. We don't know whether the rating bureau will come up with a conclusion along the same line of our thinking as a result of their study. But we are conducting our own work, hoping that the bureau will revisit the system. I hope this answers your questions.

It is almost time to close this meeting. We are happy to take one more question. Well, anyone?

Q - Analyst

One question from myself. As you mentioned, you will review your medium-term management plan. In terms of numbers compared to the current mid-term plan and given the current situation, I think adjusted earnings from domestic P&C business needs to be improved and is stated today that you would like to lower the combined ratio to 95%.

To improve the combined ratio by roughly 5 points, I don't think you could simply pass on costs to customers through pricing and product revisions.

If the company is to make some efforts and then raise rates, then I would imagine you would share the 5% improvement between you and customers, something like 2% through your expense ratio reduction and 3% from pricing.

With that said, the next question is how long does it take to revise the pricing and lower the combined ratio to 95% in actuality. For instance, if you say that you would try to reduce your expense ratio after raising rates, your customers may not be happy. If so, both needs to be work on swiftly.

I know you haven't announced your new mid-term plan yet. But I would appreciate your comments as much as you can on orientation, level of commitment and time frame that you have in your mind at the moment? Thank you.

A - Shuzo Sumi {BIO 3861639 <GO>}

As you just pointed out, in order to lower the combined ratio, we need to lower loss ratio and expense ratio concurrently. We need to work on both. For the past one or two years, we have been taking all our efforts within our entire company to reduce expense ratio and significant amount of reduction is being made.

We need to make new business investment as well as IT investment, but business expense reduction shouldn't wait. Rather we need to act on it proactively, and then ask our customers to accept rate increase. Otherwise, I don't think we can convince our customers.

As I explained today, we will thoroughly execute measures to improve all the results while we continue to reduce expenses, and we will see whether we should position the combined ratio as one of the major targets under the medium-term plan.

We ran over the originally scheduled time a little bit. So with this, we would like to conclude today's IR briefing. Our executives on the stage will be here for awhile, if you have time, please feel free to approach them.

Thank you very much for your attendance today. Thank you very much.