

## **MS&AD Insurance Group Holdings Conference Call (November 19, 2012) Summary of Q&A Session of the FY2012 Second Quarter Results Briefing**

Following is a summary of the Q & A session from the IR conference call held on November 19, 2012.

Q1. I understand that at MSI there was an improvement of a little more than 20 billion yen in underwriting income for the second quarter even taking into consideration the reversal of the catastrophe reserve, and at ADI there was a decrease in underwriting income. Can you please explain the contributing factors in each case?

A1. At MSI, the reversal of the catastrophe reserve was the most dominant factor. In addition to this, incurred losses excluding compulsory automobile liability insurance and residential earthquake insurance decreased 8.1 billion yen and earned premiums increased more than 10 billion yen accompanying an ongoing increase in revenues.

At ADI, there was an increase in incurred losses due to an increase in natural catastrophes in Japan, and although business and other expenses fell 4.0 billion yen, underwriting income declined 2.6 billion yen year on year.

Q2. Could you please comment on whether there is any difference in circumstances between MSI and ADI in regard to the average payout per claim in automobile insurance for the two insurers? Could you also please give us your forecast?

A2. The average payouts per claim are as shown in the briefing materials. At MSI, average payouts for property damage liability coverage and vehicle damage coverage were +0.3% and +0.0% respectively, and at ADI, +1.9% and +0.8% respectively. Although the average payout per claim for property damage liability coverage and vehicle damage coverage is rising, we do not believe there is a significant difference between the two insurers.

In regard to the outlook for the EI loss ratio excluding loss adjustment expenses in terms of figures for the full year, we anticipate a 62.6% EI loss ratio for MSI, a year-on-year improvement of 2.7 percentage points, and a 62.8% EI loss ratio for ADI, a year-on-year improvement of 2.0 percentage points.

Q3. Although incurred loss due to flooding in Thailand is declining at MSI, do you also anticipate a downward trend in the second half even excluding the exchange rate impact due to the depreciation of the Thai baht?

I also see that there has been an upward revision in the incurred loss excluding major

natural catastrophes such as the flooding in Thailand. Could you please comment on the extent to which the impact of large claims in fire insurance and other events have been factored into this revision?

A3. At MSI, the exchange rate impact accounted for about 5.0 to 6.0 billion yen in the 17.2 billion yen decrease in the incurred loss due to flooding in Thailand. However, we are not certain of the movement in the second half, so we have factored in an impact of the same amount as the first half in our plan for the year.

In addition, we have increased our outlook for incurred loss for events other than major natural catastrophes by 11.3 billion compared with the forecast at the beginning of the year and fire insurance accounts for 9.4 billion yen of this increase. This revision is based on results for the first half and reflects the impact of major events, snowstorms and lightning strikes.

Q4. I see that in your full-year consolidated earnings forecast you have revised net income for overseas subsidiaries 6.7 billion yen downwards. Could you please explain the factors for this?

A4. This was due largely to our lowering of our income forecast for Sinarmas MSIG Life in which MSI has a 50% stake when we observed a downturn in the market value of investment portfolio in that company.

Q5. I believe that the special provision for the catastrophe reserve for fire insurance as of the beginning of the year was 90.0 billion yen for MSI and 16.0 billion yen for ADI. However, what is the outlook for the full year?

A5. The special provision in our full year forecast is 40.0 billion yen for MSI and nil for ADI. First of all, we formulated a reserve plan with a catastrophe reserve balance for fire insurance based on a scenario for natural catastrophes with a 70-year recurrence interval. The reasons for the revision were twofold: the reversal amount this time fell below our initial forecast, and the target reserve had fallen due to an increase in the purchase of reinsurance coverage.

Q6. Are your market assumptions for the full-year forecast based on criteria current as of the end of September?

A6. The stock market quotation is based on the assumption that no major changes will occur from the end of September onwards. Based on conditions current, our assumption for the full year is a little over 9,000 yen in Nikkei 225 index.

- Q7. Is there any change in your sales plan for strategic equity holdings?
- A7. There is no change in our plan to sell strategic equity holdings to the value of 300 billion yen over a three-year period. This year too we intend to proceed with sales of strategic equity holdings worth more than 100 billion yen.
- Q8. MSI's special provisions forecasts have fallen from 90 billion yen to 40 billion yen. What effect would this have on underwriting income?
- A8. The payment of insurance claims has been less than anticipated at the beginning of the year, so the reversal of the catastrophe reserve forecasts has also been less than forecast at the beginning of the year. Therefore, the decrease in the special provisions corresponding to this decrease is neutral to income. On the other hand, the amount by which the special provision decreased due to a decrease in the target reserve stemming from an increase in the purchase of reinsurance coverage is projected to result in an increase in underwriting income.
- Q9. Can you please comment on increases in revenues of your overseas subsidiaries' top line on a local currency basis? Can you also comment on the factors contributing to the improvement in income in the reinsurance business?
- A9. The increase in top line income on a local currency basis is 2.4%. The exchange rate impact is -4.7 billion yen. If we look at the increase by region, in Asia it is +3.8%, with a foreign exchange impact of -1.6 billion yen, in Europe it is +6.7% with a foreign exchange impact of -1.4 billion yen, and in the Americas it is -1.2% with a foreign exchange impact of -200 million yen.
- In the reinsurance business, despite the occurrence of the earthquake in New Zealand last fiscal year, there have been no major catastrophes this year, so the balance has returned to positive.

(Follow-up question)

- Q. Do you intend to continue your review of your underwriting policy in the reinsurance business?
- A. In the reinsurance business, MSI has two subsidiaries which underwrite natural catastrophe risk and general risk mainly in the United States and Europe. We are proceeding with a reorganization aimed at reducing our underwriting for general risk. Our policy for general risk is to engage in profit-oriented underwriting and we do this with the understanding that this may result in a decrease in the top line. However, natural catastrophe risk also

generates income and we intend to expand our business in this area.

Q10. You have revised your net loss ratio forecasts on written-paid basis for the full year. Can you tell us the reason for the decrease for MSI and the increase for ADI?

A10. The net loss ratio forecasts excluding compulsory automobile liability insurance and residential earthquake insurance for MSI has been revised from 75.5% to 72.5%. The factors contributing to this revision were the decrease in insurance payments related to flooding in Thailand, increases in insurance premiums compared with forecasts at the beginning of the year, and an improvement in the automobile loss ratio.

The net loss ratio forecasts excluding compulsory automobile liability insurance and residential earthquake insurance for ADI was revised from 67.4% to 68.7%. This increase reflects the recent increase in claims paid in fire insurance and automobile insurance. The fire insurance ratio includes claims paid up to the second quarter in relation to the impact of snowstorms occurred in the previous fiscal year.

Q11. To what extent do you foresee the payment of major claims due to events such as hurricanes in the United States?

A11. We are currently investigating the impact of Hurricane Sandy and although there is a possibility that our figures will change significantly, at the moment we are anticipating the payment of claims in the vicinity of 8.0 billion yen. Although we have not factored a particular amount of loss for Hurricane Sandy into the full-year forecast, in our forecasts we always include to a certain extent insurance claim payments resulting from major events. Therefore, we believe we will be able to absorb the impact to a great extent.

Q12. The incurred loss for flooding in Thailand has decreased 17.7 billion in total for the group as a whole. This decrease excluding the foreign exchange impact is approximately 11.0 billion yen. However, could you please tell us whether the amount decreased following the payment of claims or whether there was an overall decrease in the incurred loss including unpaid claims?

A12. The reason the incurred loss relating to flooding in Thailand has decreased was due to an overall review which included unpaid claims.

Although no clear breakdown in individual amounts is yet available in regard to the decrease excluding the foreign exchange impact, the decrease in the incurred loss is believed to be mainly due to claims where a total loss was anticipated but where it was later determined repairs were possible and the difference in these cases was the decrease

of the incurred loss.

Q13. To what extent has the target amount of the catastrophe reserve for fire insurance decreased due to the increase in reinsurance purchases?

A13. At this time I would like to refrain from giving specific figures.

Q14. Can you tell us the approximate amount of Sinarmas MSIG Life's assets?

A14. Total assets are about 200 billion yen.

Q15. Earlier you stated that you are forecasting 8.0 billion yen in claims for Hurricane Sandy. Does that include payments for claims in the reinsurance business?

A15. Yes, that includes payments in the reinsurance business.

Q16. What is the approximate difference between the net asset value and total risk exposure?

A16. As usual, we intend to announce this at our information meeting, which is to be held on December 4. Therefore, we will refrain from providing a response today.

Q17. I believe that the catastrophe reserve for fire insurance at MSI has decreased by about one-third and does not meet the target reserve. Are you planning to put in place a special reserve from next fiscal year onwards as well?

A17. From the next fiscal year onwards, our basic plan is to provide as we generally do for a reserve at a rate of 9% of insurance premiums.

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