

MS&AD Insurance Group Holdings Conference Call (August 10, 2012)

Summary of Q & A Session of the FY2012 First Quarter Results Briefing

Following is a summary of the Q & A session of the IR conference call held on August 10, 2012.

Q1. I understand that you did not make special provisions for catastrophe reserves during the first quarter, but can you please comment on plans for future provisions?

A1. At this stage, the extent of payments on insurance claims for the disaster in Thailand this fiscal year as well other claims due to natural disasters is not yet certain. Therefore, we intend to make a final decision on special provisions regarding catastrophe reserves based on reserve balances at the end of fiscal 2012.

(Follow-up Question)

Q1-2. I understand that you are expecting special provisions of about 106 billion yen for catastrophe reserves for the group as a whole this fiscal year. Even if the final amount is not as high as anticipated, is it correct to assume that you will go ahead with the special provisions at the end of the fiscal year?

A1-2. That is correct.

Q2: The directional of change in the EI loss ratio in automobile insurance is different for MSI and ADI. The increase in payout per claim for ADI is also slightly higher than that for Mitsui Sumitomo. Could you please comment on whether there is a difference in circumstances between the two insurers?

A2: The EI loss ratios for MSI and ADI are 65.6% and 59.3% respectively. The difference is basically attributable to their methods of calculation. MSI uses the simplified method based on past results while ADI's calculations are based on actual recent claim events.

In addition to this factor, note that the number of policies for MSI is increasing, and rate revisions by both insurers have resulted in increases in unit prices, with MSI showing a 4.5% increase and ADI a 2.4% increase. The number of insured events in April and May increased due to the impact of the Great East Japan Earthquake in the previous fiscal year,

but in June this number fell, and we believe that the effects of improvement in revenues and expenditures in automobile insurance for both companies are beginning to show.

Q3. Could you please tell us about future insurance claim payments as a result of the floods in Thailand? Insurance claim payments in the first quarter amounted to 23.6 billion yen, which seems to represent progress of about 15% against the approximate 160 billion yen balance of outstanding claims at the end of the previous fiscal year. Can we assume that progress will continue at the same pace in the future?

A3. In the case of MSI, the cumulative amount of claims paid since last fiscal year is 112.9 billion yen, or payment of approximately half of the total incurred loss of 227.4 billion yen due to the floods in Thailand. The rate of progress in payment since the end of March 2012 is approximately 10%. ADI has also made similar progress, although the total amount is different.

While progress is slightly behind what we anticipated, in a number of cases it has been difficult for customers who were caught up in disasters to complete documentation for insurance claims in cases, for example, where they require time to establish new disaster prevention measures. Our aim is to complete payment of 90% of claims within the current fiscal year. We intend to continue to cooperate with customers as we move forward with the steady payment of outstanding claims.

Q4. TOPIX has fallen from 854 at the end of March 2012 to 750 at present, and 54.8 billion yen in losses on devaluation of securities were posted for the first quarter. MSI and ADI together are expected to record gains of approximately 45.5 billion yen on sales of securities. However, could you please comment on measures you will take to achieve that plan if TOPIX continues to trend at the current level?

A4. We expect gains on sales of securities of a certain level during the current fiscal year but at the moment we are not considering any special measures. We will consider matters in view of trends in the market going forward.

(Follow-up Question)

Q4-2. I understand that there are plans to sell more than 100 billion yen in strategic equity holdings in the current fiscal year, but are you thinking of revising this amount at present?

A 4-2. At present we are planning to reach our initial target. We will monitor conditions from now until the second half and then I believe we will review our plans.

Q5. In fire insurance, I believe that the impact of reinsurance was one of the factors in the difference in growth of direct premiums written and net premiums written, but could you please say a few words on current conditions in rates and coverage?

A5. In net premiums written for fire insurance, the impact of rate increases in reinsurance and additional purchases accounted for about 5.0 billion yen of a 7.6 billion yen decline at MSI during the first quarter. At ADI, reinsurance in fire insurance increased approximately 3.0 billion yen, but the impact of reinsurance rate increases and additional purchases account for about 1.0 billion yen of this amount. In addition, we have been increasing reinsurance in long-term fire insurance with a view to reducing risk, and the impact of this accounts for about half of that 3.0 billion yen. In our forecast for the current fiscal year, we expect increases in reinsurance ratios and coverage will have an impact of approximately 18 billion yen on the Group as a whole. There are cycles to rises and falls in reinsurance ratios and we are considering whether to continue additional purchases of reinsurance coverage accompanying expansion of the risk buffer. Therefore, this is not a trend that will have a long-term impact.

Q6. In regard to the investment assets of ADI, I believe the ratio of overseas securities was high, but can you please tell us about investment policy of ADI in the future?

A6. In balancing our investments, we consider the portfolio as a whole, bearing in mind the characteristics of liabilities. In the future we intend to continue to decrease stocks and open foreign bonds by shifting to yen-denominated bonds. We maintain a somewhat high exchange rate hedge ratio for foreign bonds and we intend to consider foreign bonds bearing in mind hedge ratios and other factors as a whole as we monitor currency movements.

(Follow-up question)

Q6-2. Could you please tell us about the composition of foreign currencies in your foreign securities?

A6-2. Today we do not have data on the composition of foreign currencies. Please allow us to answer that question at a later date.

* Supplementary Information

At ADI as of the end of June, US dollars accounted for the highest ratio of foreign currency-denominated securities, followed by euros and British pounds, with securities in these currencies in the top three positions comprising more than 80% of all foreign securities. In addition, we put in place exchange rate hedges for over 50% of these foreign securities, and for the majority of euro-denominated securities among these.

Q7: Could you please comment on the contribution to profits of overseas equity-method life insurance affiliates before and after the amortization of goodwill?

A7: 1.4 billion yen on a gross basis (before goodwill amortization). I would like to refrain from responding about the amount after amortization.

Q8. Reversals of catastrophe reserves in fire insurance have increased at ADI. Could you please comment on whether there were other factors for this apart from the Great East Japan Earthquake, the floods in Thailand, and natural disasters that occurred during the current period?

A8. At ADI, in addition to reversals due to the natural disasters you mentioned, are last year's snow disaster events. In addition, a decline in net premiums written associated with increases in reinsurance premiums was also a contributing factor.

(Follow-up question)

Q8-2. Could you please tell us about reversals of catastrophe reserves in fire insurance at MSI?

A8-2. The reversal of the catastrophe reserve for fire insurance during the first quarter was 28.0

billion yen, with payments for the floods in Thailand accounting for 21.4 billion yen and, natural disasters including damages caused by the so-called “bomb-like” low pressure fronts and Typhoon No. 4 experienced by Japan accounting for 7.9 billion yen respectively. These are the main factors. The impact of payments on insurance claims due to incidents in the previous fiscal year was not a factor.

Q9. What about the impact of torrential rains in China and floods in Great Britain?

A9. We believe that the torrential rains in China will have little impact on insurance claims payments. As far as the floods in Great Britain go, at present we have no information indicating that any customers in the Group have suffered major damages.

Q10. The LIBOR problem has possibly increased D&O risk worldwide, but could you please comment on exposure in D&O insurance?

A10. In D&O insurance, we basically underwrite our customer contracts in domestic Japan, and we do not believe there is any significant exposure that could pose a problem. Please bear in mind that criminal acts are exempt from D&O insurance liability, and no payment of insurance claims is made to a corporate officer directly involved in any criminal act.

Furthermore, it is my understanding that as a general rule our reinsurance business does not underwrite D&O insurance.

Q11. Could you please explain how you reflect the impact of major claim incidents when you calculate incurred loss according to the simplified method?

A11. At MSI, certain factors are added to the incurred loss based on actual past loss results. As factors having a significant impact on results for the first quarter of the current year, we factored in natural disasters in Japan amounting to 16.1 billion yen (compared with 1.1 billion yen in the same quarter the previous year). We also added 700 million yen for the impact of individual major claim incidents other than natural disasters. In addition to these, we reflected a decrease of 8.7 billion yen as the foreign currency impact on foreign currency-denominated outstanding claims. (Figures are all totals of items.)

At ADI, although we deem the IBNR reserve to be the same level as at the end of the period, we basically do calculations based on results and also reflect major claim incidents.

Q12. In terms of investment income, could you please provide details other than net interest and dividend income, gain or loss on sales of securities and losses on devaluation of securities?

A12. The figures for MSI include 8.9 billion yen in foreign exchange losses. This was due to the impact of a weak baht and strong yen on baht-denominated deposits maintained for the payment of insurance claims associated with the floods in Thailand. The figures for ADI include a redemption loss of about 2.0 billion yen.

Q 13. What about the impact of heavy rains in areas of Kyushu that occurred in July?

A13. We expect about 2.0 to 2.5 billion yen in insurance claims payments for MSI and a little under 2 billion yen for ADI.

Q14. I believe that there is a possibility that your company will join IAIG (the Internationally Active Insurance Group). Could you please comment on arrangements and preparations underway at present?

A14. We have formed an internal project team which is currently undertaking research and examining arrangements under the International Association of Insurance Supervisors (IAIS) ComFrame (a common framework for supervising IAIG).

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