

MS&AD Holdings

1st Information Meeting of FY2013 (Held on June 4, 2013)

Q & A Session Summary

Following is a summary of the Q & A session from the 1st Information Meeting of FY2013 held on June 4, 2013.

Q1: I would like to ask about the forecast group core profit for FY2013. Domestic non-life operations were higher and overseas business was lower than the targets in the mid-term management plan. What were the factors contributing to these revisions?

A1: In domestic non-life insurance business, because some payments of claims for floods in Thailand scheduled to be completed during the previous fiscal year were extended into the current fiscal year, reversal of catastrophe reserves is expected to be larger than estimated when setting targets. (Because profits and losses related to the catastrophe reserves are included in domestic non-life insurance business), this is the main positive factor.

In the overseas business, profits in life insurance in Asia were delayed compared to the initial plans and, therefore, results are expected to be less than the initial plans. However, the delay in the overseas business is around one year, and we believe we will reach the targeted income (30 billion yen) next fiscal year.

Q2: The initial target for ROE in FY2013 was 7%, but the actual forecast of 5.6% seems a little low. Do you plan to take any steps in terms of capital in order to raise the level of ROE?

A2: The lowering of the expected ROE is because it is difficult for income, which is the numerator when determining ROE, to increase at the same pace as the sudden increase in net assets, due to unrealized gains resulting from the recent rapid increase in share prices. Of course, we recognize that increasing ROE is a key management issue, and we plan to work to raise the level of income through improvement of the loss ratio. In terms of capital, we will actively invest in growth areas, and would also like to consider ways to make returns to shareholders. With regard to shareholder returns, as previously promised, we have established a policy of returning 50% of group core profit in the medium term, and we will proceed to consider this while monitoring the condition of our capital.

Q3: Is there a possibility of temporary costs arising from the future integration of overseas bases? Furthermore, when do you expect to see the benefits of integration to appear?

A3: This will be explained when made public along with the cost of other reorganization by function and the synergies of integration, because the costs of the future integration of overseas bases are currently being reviewed.

Q4: In your overseas business, there seem to be countries with a rising combined ratio, and countries with a low growth rate of net premiums written in Asia. What factors are contributing to these changes?

A4: There are different factors in each region, so I will explain each of them.

In Malaysia, we formed an alliance with the Hong Leong Group in the life insurance business, and also integrated with the Hong Leong Group in the non-life insurance business. The effects from the integration have already run their course, with the growth rate of net premiums written subsequently slowing in FY2012.

In Singapore, net premiums written grew at a rate on a par with normal years because there were less big projects in FY2012 than in the previous year.

In Hong Kong, we had a strict underwriting in workers compensation insurance due to a deterioration of the loss ratio.

In Indonesia, we underwrote strictly due to intensifying competition mainly in the auto insurance market.

With regard to the combined ratio in China, the riots had the effect of increasing the loss ratio and slowing the entry of Japanese companies into the country.

Q (follow-up): What impact do you think these market conditions will have on FY2013?

A: Overall, we believe the Asian market will continue to grow in FY2013. Furthermore, based on the assumption of current market conditions and loss ratios on a par with normal years, we expect to see increases in both premiums and earnings in each of the regions in our overseas business including other regions as well as Asia.

Q5: In FY2013, Mitsui Sumitomo Insurance is expected to pay 75.8 billion yen in claims for the floods in Thailand. In this case, I believe there will be a considerable reversal of the catastrophe reserves even if major disasters are on the same level as typical years. Compared to this, the reversal of the catastrophe reserves in the calculation of underwriting income in the company's plan seems to be quite small. What is the reason for this?

A5: We expect Mitsui Sumitomo Insurance to pay 75.8 billion yen and Aioi Nissay Dowa Insurance to pay 7.0 billion yen in claims for the floods in Thailand. We have adopted a conservative view of the reversal of the catastrophe reserves in order that our income plan will not fluctuate significantly even if payment of claims for the floods in Thailand do not go as planned.

We intend to make revisions as required while monitoring the status of payment of claims.

Q (follow-up): If payment of claims for the floods in Thailand goes ahead, do you think you may make a special reserve for the catastrophe reserves in FY2013?

A: It is quite possible that we may make a special reserve for the catastrophe reserves in FY2013 because there will be a shortage in the funds accumulated in the catastrophe reserves if a significant reversal in the catastrophe reserve is made when all of the payment of claims for the floods in Thailand has been paid.

Q6: I would like to ask about efforts by MSI Aioi Life in the third sector insurance market. Annualized premiums of new policies and annualized premiums of policies in force are around half the level of other life insurers affiliated with non-life insurance companies. Considering the scale of the non-life insurance agency channel, it seems that MSI Aioi Life should be the largest. But have you considered any measures for expansion in the third sector insurance market, such as product strategy?

A6: Aioi Nissay Dowa Insurance is also selling in the third sector insurance market, and the handling of this market is dispersed throughout the group. Through the reorganization by function announced in January, the third sector insurance business will be converged into MSI Aioi Life, and we believe that this will lead to an increase in MSI Aioi Life's amount of policies in the third sector insurance market.

Q (follow-up): Even adding the amount handled by Aioi Nissay Dowa Insurance, this still seems low compared to other life insurers affiliated with non-life insurance companies. Are you considering any measures in terms of products?

A: The matter including product strategy is currently under consideration but we are not yet at the stage where we are able to announce our plans.

Q7: I would like to ask you about enterprise risk management. Your company is apparently enhancing risk-based management, but is it correct to assume that you believe clearing regulations as an Internationally Active Insurance Group (IAIG) under the International Association of Insurance Supervisors (IAIS) is sufficient? Major life insurers and Tokio

Marine, which recently conducted briefings on their results, explained that they intend to compete on level footing with internationally active insurance companies, but does MS&AD aim to raise its capital ratio?

A7: The promotion of ERM at MS&AD is not for the purpose of clearing IAIG regulations, but aimed at competing on a level footing with major internationally active insurance companies.

With regard to the level of capital in enterprise risk management, we ensure there is sufficient capital to guarantee that the confidence interval in risk measurement is 99.5% and the holding period is one year, and ensure there is a capital buffer by conducting stress tests to confirm the adequacy of the level of capitalization. As a result, we have ensured that the level of capital has been around 150% on average in the past.

Q (follow-up): At the current level of 150%, do you think you are on a level footing with major overseas insurance companies?

A: Besides confidence interval in the estimation of risk in each company, the integration method and diversification effect also have an impact. We believe the company's framework is a conservative view of the diversification effect and believe that we are at a level able to compete with major overseas insurance companies.

Because there is a partial trade-off between advanced enterprise risk management and improvement of the efficiency of capital, MS&AD is conducting management by paying heed not to have excessive capital in conservative risk measurements while maintaining a level of capital that is on a level footing with major overseas insurance companies.

[Supplementary explanation]

The expression "the level of capital has been around 150%* on average in the past" is used in A7 above, but the exact figures are as follows:

Average since management integration: 142%

As of end-March, 2013: 157%

Q8: The forecast for the group core profit for FY2015 has been lowered from the estimate of 160 billion yen announced in the Information Meeting for the interim period of FY2012 to 130-140 billion yen in this announcement. Why is that?

A8: This is mainly due to the expected impact of the consumption tax rate hike and deterioration of interest and dividends income due to the effect of low interest rates. In

particular, consumption tax is expected to have an impact not only on auto insurance, but also various parts of the domestic business including the domestic life insurance business.

Q9: Has there been any change to the policy of aiming for ROE of 9% in FY2015?

A9: There is no change in our management stance of improving ROE. Specifically, we will investigate costs and synergies resulting from reorganization by function, and plan to indicate our targeted ROE once we have formulated the next mid-term management plan.

END

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