

## MS&AD Holdings Conference Call (February 14, 2014) FY2013 3Q Results Briefing Q & A Session Summary

Below is a summary of the Q & A session from the IR conference call held on February 14, 2014.

Q1: With regard to the earnings forecast for the full year, even considering the increase in business expenses and the increase in seasonal losses in automobile insurance in the fourth quarter as explained earlier, we estimate ordinary profit could exceed the Company's forecast by 40 billion yen or more. Since you have not revised your earnings forecast, is there a possibility that you will increase the provision for the catastrophe reserve more than anticipated? If not, am I correct to understand that the earnings for the full year will increase?

A1: First of all, we do not have any plans to significantly change our policy regarding the catastrophe reserve.

It has been our policy to conservatively estimate the reversal of the catastrophe reserve in revenue and expenditure plans with regard to insurance claims for accidents that occurred in the previous fiscal year, and even if the reversal exceeds the anticipated amount, we operate on the assumption that there will be an additional provision at the end of the year, so there will be no impact on revenues and expenditures.

However, since insurance claims for this year related to the floods in Thailand in FY2011 are expected to fall short of the anticipated level based on the situation at the end of December, we don't believe conditions will require an additional provision to the catastrophe reserve. We will determine whether or not an additional provision for the actual catastrophe reserve will eventually be required based on general consideration of factors such as insurance claims as of the end of the year including those other than for the floods in Thailand, the condition of the risk curve and our reinsurance policy, but at present we foresee that the catastrophe reserve will be maintained at a certain balance and we believe that there is little need for an additional provision.

With regard to earnings improving, they are at around the anticipated level at this stage, and it is our view that they will end up in line with our plans.

Q2: The increase in the average payout per claim for automobile insurance shown in Slide 7 is believed to be caused by a decrease in insurance claims due to a revision in the grade system, but how do you expect to incorporate this into next fiscal year's revenue and expenditure plan and future revisions in premiums?

A2: As indicated in the line graph in Slide 7, the number of accidents covered by automobile insurance is decreasing due to a decrease in the actual number of traffic accidents and the impact of the revision to the grade system. As you have pointed out, the average payout per claim is believed to be rising for both collision damage coverage and property liability coverage, partially in relation to the decrease in accidents, but the number of accidents covered by automobile insurance and the average payout per claim is within the scope we had initially envisaged. Therefore, the full-year EI loss ratio for automobile insurance is forecast to be at or slightly below the level indicated in our revised plan: 67.6% for Mitsui Sumitomo Insurance and 66.2% for Aioi Nissay Dowa Insurance. We will consider next year's plan and future revisions in premiums based on current conditions, but the details are to be determined.

Q (follow-up): Revenues and expenditures for automobile insurance in FY2014 are expected to considerably absorb the negative effect caused by the hike in the consumption tax rate, due to the effect of the revision in premiums implemented last October, but if that is the case, it appears that the need to raise premiums in the future is decreasing. Meanwhile, the impact of the decrease in accidents due to the revision in the grade system has been greater than expected this fiscal year, but this effect is not expected to be a

factor next year. How do you view this?

A: As I mentioned earlier, this year has generally been in line with the company's forecasts, and we will consider future revisions in premiums in light of current conditions and the effect of past revisions in premiums.

Q3: Income of overseas subsidiaries appeared to decline in the third quarter compared to the first and second quarters. Could you describe the factors that led to this? Also, what is the forecast for the fourth quarter?

A3: The decrease in income of overseas subsidiaries from the second quarter to the third quarter was attributable to the EI loss ratio increasing by 2.6 points from 52.5% in the second quarter to 55.1% in the third. This is a minor fluctuation from a level that was originally low, and is not due to any special factors. Net investment income seems to be comparatively less in the third quarter because the effect of the sale of securities was somewhat large in the second quarter.

With regard to the forecast for the 12 months ending March 31, 2014, as shown in the <Reference> page at the end of the document, net income, which was 19.3 billion yen in the third quarter, is forecast to be 22.0 billion yen for the full year. The loss ratio is expected to remain at around the current level, and it is our view that the increase in net income attributable to the fourth quarter will be limited to 3.0 billion yen since there are no major positive elements in investment performance such as were present in the second quarter.

Q4: The cumulative amount of losses caused by natural disasters during the first nine months seems to be approaching the forecast for the full year, but could you describe the current situation and forecast including the impact of snowfall in February?

A4: The current snow depends on the amount of snowfall in the future, but with respect to last week's (Feb. 8-9, 2014) snow damage, Mitsui Sumitomo Insurance is expecting claims totaling 1.0 to 2.0 billion yen across all lines, and Aioi Nissay Dowa Insurance is expecting almost the same level. Vehicular accidents where slipping is caused by snowfall differ somewhat from typhoon damage because they are difficult to categorize. Because of this, the occurrence of a certain number of such accidents is included in the normal projected losses incurred for automobiles. We believe the losses caused by last week's snow can be absorbed within that range.

Q (follow-up): Is it correct to understand that natural disasters are expected to fall within the range forecast for the full year?

A: That understanding is correct.

Q5: You explained that the combined ratio for domestic non-life insurance shown in Slide 4 is proceeding according to plan, but could you describe the compatibility with the targets of "95% in 2015 and 95% or under in 2017" explained at the information meeting, and how the achievement of these will be structured?

A5: The detailed structure of achievement is being discussed in the next medium-term management plan currently being considered, but the general direction is that, in addition to the continued efforts to reduce accidents centered on automobile insurance, there will be a possibility of the need for revision in premiums including passing on the impact of consumption tax. Meanwhile, we are aiming to utilize the reorganization by function, which is being fully implemented in fiscal 2014, to further reduce business expenses. We believe that the combination of these will result in a loss ratio in fiscal 2017, for example, of just above 62%, business expenses around 32%, and a combined ratio at the 95% level.

Q6: It is understood that the view on shareholder returns is to "return 50% of Group Core Profit" but will shareholder returns be increased if earnings increase this fiscal year?

A6: The company's policy on shareholder returns is to provide "shareholder returns around

50% of Group Core Profit" and may not be exactly 50%, but in principle, our approach is naturally to increase shareholder returns if earnings increase.

Q7: The year-on-year improvement in the EI loss ratio, excluding the impact of natural disasters on automobile insurance in domestic non-life insurance companies shown in Slide 7, increased in Aioi Nissay Dowa Insurance compared to the interim period, but is it correct to understand that the improvement is accelerating? Also, is it correct to assume that the figures for Mitsui Sumitomo Insurance are conservative because the simplified method is used?

A7: The simplified method is not used for calculation of outstanding claims for Aioi Nissay Dowa Insurance, and we believe the actual conditions are represented to a degree. The number of accidents covered by automobile insurance has decreased and we understand this factor is evident in the improvement.  
The simplified method is used for Mitsui Sumitomo Insurance at the end of the third quarter, but the six months from April to September use the standard method to determine the actual figures for the interim results. The simplified method is only used for the three months from October to December, but even based on this, although the simplified method is used, we see it as being the optimal estimation at the present time.

Q8: This October marks the start of the second year of the impact of revisions to the grade system used in automobile insurance. Although policyholders who caused accidents made a transition to an accident history system with a lower discount during this period, accidents have decreased and more policyholders increased their grade. Considering these factors, how have you estimated fluctuations in premiums written? Also, the revision of the grade system that had been considered for a decade has finally been realized, and revenues and expenditures are currently improving, but the consumption tax rate is set to increase. Will you analyze these separately or in combination in future analyses of revenues and expenditures?

A8: Actually, we have not been able to properly isolate individual factors in our estimations, but the new grade system is designed to be evenly funded, so it is our view that it shouldn't result in things getting better or worse. The other portion concerning improvement in the loss ratio and the effect of consumption tax is obviously considered separately, and as we have stated in the past, we haven't changed our approach with regard to the impact of consumption tax, in that we will make efforts to reduce business expenses and pass on costs to premiums if required.

Q (follow-up): I understand that evenly funded arrangements will occur when the new grade system has been leveled, but can't it be assumed that something like premium revenues will increase in the process of leveling?

A: Premiums may fluctuate in the transition to the new system, but it is hard to forecast actual results.

Q9: Is it correct to understand that losses in ordinary profit and net income are projected for the fourth quarter? Am I correct in understanding that there has been no change in your forecast from the interim period?

A9: That understanding is correct. In the process of creating our revised targets announced last November, we drew up targets to wrap up the third quarter for internal control, but as mentioned in the initial explanation, the top line and earnings on the whole match the forecasts we announced for the third quarter. Also, there have not been any events requiring significant revisions for the fourth quarter, so we believe that the amount will decrease from the third quarter to the fourth quarter and end up at the figure that we have indicated at present.

Q (follow-up): I don't believe a loss has been recorded in the fourth quarter in the past, but do you expect to post a loss this fourth quarter?

A: Your understanding of this fourth quarter is correct. In the past, for example, we posted an extremely large impairment losses on securities exceeding 100 billion yen in the interim period last fiscal year, but those losses improved significantly due to a significant rise in share prices in December, and although there were numerous negative factors in last year's fourth quarter, the overall result was positive because of the significant positive factors that cancelled these out. This year as well, we are seeing a trend that is pretty much the same. Every year we tend to see this pattern.

Q (follow-up): Do you forecast an impact on the earnings by the additional provision for the catastrophe reserve, which you explained earlier?

A. As I explained earlier, we plan to implement additional provisions for the catastrophe reserve according to the progress of payment of claims for the floods in Thailand, and we do not anticipate a negative effect in the fourth quarter.

Q10: What was the rate of increase in net premiums written for overseas subsidiaries on a local currency basis?

A10: The rate of increase on a local currency basis was 7.6%, which is almost in line with our target.

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