Below is a summary of the Q&A session from the IR conference call held on November 19, 2014.

Q1:  What can you tell us regarding the most recent status of the impact of natural catastrophes?

A1:  At the end of 2Q, this amounted to 9.6 billion yen at Mitsui Sumitomo Insurance, and 5.4 billion yen at Aioi Nissay Dowa Insurance. The estimated final amount of net losses for Typhoons 18 (Phanfone) and 19 (Vongfong), the most recent subsequent events, is expected to reach about 9.0 billion yen for Mitsui Sumitomo Insurance and 5.0 billion yen for Aioi Nissay Dowa Insurance.

Q2:  What about the number of automobile accident claims handled since October?

A2:  In October, the number of accident claims per day was down 3.6% year-on-year for Mitsui Sumitomo Insurance, and fell by 4.3% for Aioi Nissay Dowa Insurance. While the drop was narrower compared to the period through the end of September, the number has continued to fall.

Q3:  In automobile insurance, the average payout per claim for vehicle damage coverage was up 4.7% at Mitsui Sumitomo Insurance and 4.0% at Aioi Nissay Dowa Insurance, which seems to indicate an acceleration of the rise seen in 1Q, when the averages climbed 2.7% and 2.3%, respectively. What is your analysis of this situation?

A3:  While 1Q compares the average payout per claim for the one-year period through the end of March with that for the one-year period through the end of June, for 2Q we compare the average payout per claim for the one-year period through the end of March with the one-year period through the end of September, possibly reflecting the greater impact of the increase in the consumption tax. Given, however, that the average payout per claim continues to rise, we think this requires ongoing attention.

Q4:  The number of units of automobile insurance rose 0.4% at Mitsui Sumitomo Insurance and fell by 0.9% at Aioi Nissay Dowa Insurance, putting you relatively behind in the number of units compared to Tokyo Marine and Sompo Japan. What factors do you feel are behind this?

A4:  While we haven’t analyzed the situation at other companies, just comparing Mitsui Sumitomo Insurance and Aioi Nissay Dowa Insurance, their agency channels mix is structured differently, and our understanding is that as a result, the drop in new car sales has had a significant impact on Aioi Nissay Dowa Insurance.
Q5: Net premiums written for overseas subsidiaries include a positive foreign exchange impact of 9.4 billion yen, and a positive effect from new consolidations of 6.6 billion yen. On a local currency basis, what does this represent in terms of growth rate?

A5: The growth rate by region, excluding the impact of exchange rates, was 10.9% for the Americas, 9.7% for Europe, 4.1% for reinsurance, and 19.1% for Asia. Note, however, that of the increase in Asia, 6.6 billion yen represents the impact of new consolidations of a subsidiary in Australia. In terms of income, the impact of exchange rates was around a positive 700 million yen for the overseas business overall. Regarding new consolidations in Asian/Pacific region, the company involved began underwriting this year, and because of the heavy burden of provisions for policy reserves in the first year, they actually ended up about 400 million yen in the red at the interim net income stage.

Q6: Regarding Group Core Profit, looking at the transition on a segment basis, from your results for the first half to your forecast figures for the full fiscal year, there seems to be less growth in the domestic non-life insurance business. What are the reasons for this?

A6: In the domestic non-life insurance business, incurred losses tend to increase in the second half as the number of fires increases with drier winter air, and more automobile accidents are caused by slippery road conditions. The relative weight of reversal of catastrophe reserve is also high in the first half, creating an imbalance as we move to bolster reserve provisions in the second half. In addition, because a great many of the stocks held as investments issue dividends in June, higher profits are recorded in the first half. For these reasons, it is structurally difficult for non-life insurance companies to generate profits in the second half of the fiscal year. Our earnings forecast for the current fiscal year thus does not assume any special factors.

Q7: The forecast for incurred losses at Mitsui Sumitomo Insurance, aside from natural catastrophes, has been revised downward slightly from the initial forecast of 790.8 billion yen to 784.2 billion yen. Given the improvement in the situation with automobile insurance, this decrease seems small. Does the current revised forecast represent a quite conservative outlook?

A7: It’s not that we’ve been conservative in our expectations for incurred losses in automobile insurance; rather, we assume an increase in incurred losses due to an increase in premiums from other categories.

Q8: Net income forecast for overseas subsidiaries for the fiscal year is 28.0 billion yen, but as the results for the first half, you’ve already recorded 17.0 billion yen. This means the outlook for the second half is 11.0 billion yen; can you explain why you’ve forecasted this amount for the second half?
A8: By region, we expect income to fall primarily in Europe and Asia. In Europe, income in the first half was generated through a reversal of outstanding claims from past fiscal years, but we do not expect this kind of effect in the second half. In Asia, expenses tend to be greater in the second half of the fiscal year, and our forecast for this fiscal year thus calls for expenses to be weighted more heavily in the second half compared to the first half of the fiscal year.

Q9: The forecast for Group Core Profit for this fiscal year has been revised upward to 120.0 billion yen. Under your shareholder return policy about 50% of Group Core Profit to shareholders, this could mean a fund of about 60.0 billion yen for shareholder returns. You’ve announced a 10.0 billion yen share repurchase program, but given that you still have residual fund, does this mean there could be additional share repurchases going forward?

A9: Regarding returns to shareholders, our policy does not mean that we annually return 50% of Group Core Profit generated in that fiscal year; rather, we aim to end up at that level in the medium term. We will repurchase our own shares flexibly and as opportunities arise, while taking into consideration market conditions, the state of our capital and other factors.

Q10: Can you tell us how you decided on the 10.0 billion yen amount for this next share repurchase?

A10: While we determine share repurchases as opportunities arise within a medium-term range, the repurchase amount this time was determined in the context of recognition that our shares were undervalued.

Q11: Are the funds for the latest share repurchase coming out of profits, or has the net asset portion also been added?

A11: Funds for the share repurchase are being sourced from Group Core Profit.

Q12: In the past, you’ve implemented a share repurchase about once a year, in the range of a few billion to upwards of 10 billion yen. Now you’ve announced this latest share repurchase, the second in this fiscal year following one in May. Do you plan to implement share repurchases on a biannual basis going forward?

A12: Our policy on returns to shareholders calls for us to return about 50% of Group Core Profit in the medium term. In addition, we are proactive and flexible in implementing share repurchase, a policy that has not changed. While we have no fixed schedule for the frequency of share repurchases, as I just noted we do endeavor to provide the greatest return possible to our shareholders in line with our policy on shareholder returns.
Q13: You’ve indicated you will be recording a gain on the sale of securities and adding to your price fluctuation reserve, but you could also have the option of leaving the unrealized gains as is and selling them off as needed. Why did you decide to transfer these taxable gains at this time?

A13: If the market should drop steeply, resulting in a reversal of the price fluctuation reserve, this could conceivably make it difficult to sell. This is why we believe it’s important to realize these gains and add to our price fluctuation reserve by selling when the market is on an upswing.

(Supplementary explanation)
Because the balance of the price fluctuation reserve for the two non-life insurance companies as of the end of FY2013 had fallen below levels prior to the global recession (the end of FY2007), and because more than 50.0 billion yen in devaluation losses was recorded in FY2011, we recognized that those balances were inadequate. At the same time, we saw the recovery of the Japanese stock market to levels exceeding 15,000 yen as a good opportunity to secure an additional 50.0 billion yen in gains on sales of securities and add 50.0 billion yen to the price fluctuation reserve.

Q (follow-up): If you wish to lock in unrealized gains, you could also hedge using futures—is the goal to further reduce strategic equity holdings?

A: Hedge transactions through futures also incur costs, so we plan to secure gains through a sale, primarily of strategic equity holdings. Note, however, that because a complete sell-off of strategic equity holdings requires time to get consent of the other party, our policy is not to focus on a complete sell-off, but to prioritize securing gains through a sale and locking those gains in as price fluctuation reserve.

(Supplementary explanation)
One goal of maintaining price fluctuation reserve is to take advantage of the effect they have on stabilizing accounting profits in the event of a future major loss on devaluation. In addition, because the gains will be secured primarily through sale of strategic equity holdings and the addition to the price fluctuation reserve will not be considered part of Group Core Profit, in total this move will have no impact on Group Core Profit. Because these gains are secured with the intent of expanding price fluctuation reserve by taking advantage of an elevated stock market, we do not necessarily aim for a complete sell-off of strategic equity holdings.

Q14: Is the sales of securities being used to fund an additional provision for reserve for price fluctuation separate from your sales of strategic equity holdings?
A14: The sales of securities to fund an additional provision for reserve for price fluctuation centers on a sale of strategic equity holdings that was not incorporated in the FY2014 initial forecast.

Q15: What is the amount you estimate will be generated for the provision for reserve for price fluctuation by the sales of strategic equity holdings? Also, if you are unable to get the other party to accept the sell-off, will you have to buy the shares back before the end of March?

A15: Because our goal remains only to secure 50.0 billion yen in gains, we have not set an estimate for the amount of the sale. Strategic equity holdings for which an agreement cannot be reached will be bought back by the end of March.

Q (follow-up): In your initial forecast for the year, what was the amount you estimated for the sales of strategic equity holdings this fiscal year?

A: Under our medium-term management plan, we are scheduled to sell off 300.0 billion yen in strategic equity holdings in the four years beginning this fiscal year, with a benchmark pace calling for the sell off to be spaced out nearly evenly across each fiscal year. Actual sales, however, will proceed depending on market conditions.

Q16: I understand that as price fluctuation reserve balances increase, reversing those reserves in the event of net capital losses can have the effect of controlling profit volatility. But doesn’t market price reinvestment of funds gained through such sales increase the risk of capital losses, offsetting any effect they may have on curbing volatility as a result?

A16: Some strategic equity holdings carry a book value that is much lower than market price, and we will secure gains primarily through sale of a portion of our holdings in these kinds of shares, while taking care to avoid an increase in impairment risk subsequent to reinvestment.

Q17: What kind of schedule do you have for recording these gains to be used for price fluctuation reserve and the additional provision to those reserves?

A17: The additional provision for price fluctuation reserve is scheduled to be recorded at the end of this fiscal year. Some of the gains were already generated by the end of 2Q, but the majorities are scheduled to be recorded in 3Q and 4Q.

Q18: In the event a reduction in the corporate tax rate is passed, will this result in any changes in your plan for additional provisions for price fluctuation reserve as a way to make up the difference? Also, please tell us the amount of any impact you expect in the event the corporate tax rate is lowered.

A18: In the event the corporate tax rate were to be lowered by one percent, for example, our pro forma calculations indicate this would have a negative impact of about 14.0 billion yen on the Group as
a whole. Even if a reduction in the corporate tax rate is passed this fiscal year, we basically would still like to go forward with the additional provision for price fluctuation reserve.