MS&AD Holdings Conference Call (August 12, 2016)
FY2016 1Q Briefing Q&A Summary

Below is a summary of the Q&A session from the IR conference call held on August 12, 2016.

Q1: Is it correct to assume that the drop in profit at Mitsui Sumitomo Primary Life ("MSP Life") was due almost entirely to the impact of a drop in Australian dollar interest rates? Also, is the reversal of price fluctuation reserves something that takes place by rule?

A1: Please refer to page 23 of the materials. Australian dollar interest rates fell by 51 basis points compared to the end of March, resulting in a loss of ¥19.4 billion, while the yen also strengthened against the Australian dollar by ¥9.5 yen (about 11%) versus the end of March, the impact of which generated additional losses of ¥11.5 billion, for a total loss of ¥30.9 billion.

While under the law the reversal of price fluctuation reserves, under the law such reversals are taken against losses in assets due to price fluctuations, but in the case of MSP Life, not only in assets but also liabilities, policy reserves fluctuate with interest rates, in addition to which large foreign currency-denominated liabilities are also affected by exchange rate fluctuations. Thus, combining the effect on assets and liabilities, when a net loss is generated by the impact of interest and exchange rates, including gains realized on sales of securities, MSP Life takes a reversal on price fluctuation reserves.

Q (follow-up): Are we correct in understanding that there is no change in the ¥15.0 billion profit initially forecast for MSP Life, and that the ¥15.0 billion is a buildup of the basic profit with other impacts being offset?

A: The initial forecast assumed that interest and exchange rates would remain flat, and did not anticipate the impact on profit and loss resulting from these fluctuations. Going forward, that impact from interest and exchange rate fluctuations will continue to be absorbed by price fluctuation reserves, and thus will have no impact on full-year performance. The ¥15.0 billion in profit comes from two profits. First is the accumulated service charge of insurance-related fees collected in proportion to the balance of variable products. For fixed products, profit margins of interest rate accumulate gradually. The ¥15.0 billion figure represents the anticipated total of these accumulations over a year.

Q2: Can you tell us if the extraordinary loss from system-related expenses associated with the transfer of third-sector long-term policies in force was something that was initially planned? Also, which subsidiaries generated this extraordinary loss?

A2: This was incorporated in the initial fiscal year plan. These expenses are system-related expenses associated with the transfer to Mitsui Sumitomo Aioi Life (“MSA Life”) and consolidation of third-sector long-term policies in force held by Mitsui Sumitomo Insurance (“MSI”) and Aioi Nissay Dowa Insurance (“ADI”). These system expenses are booked as assets at MSA Life, and are scheduled to be amortized in fiscal 2019, when the system goes on line, and beyond. However, because the transfer of third-sector long-term policies is an intra-Group transaction, for the purposes of the Group the fees arising from this transaction were recognized as a lump sum in the current fiscal year, and booked as an extraordinary loss in consolidated adjustments.

Q (follow-up): Are we correct in understanding that the ¥20.9 billion in extraordinary losses listed in item 10 on slide 3 of the materials is the amount for the full year?

A: That is correct. Of which the ¥20.4 billion in system-related expenses associated with the transfer of third-sector long –term policies in force, which comprises the bulk of that total, and represents future amounts booked this year as a lump sum.

<u>Regarding system-related extraordinary losses planned for fiscal 2016</u>

In addition to the above, approximately ¥5.0 billion has been incorporated in the plan as an extraordinary loss related to expenses for development of a joint claims service system (that portion not booked as assets).

Q3: Can you provide a breakdown in the decline in net interest and dividends by individual factors, including reduced dividends from Japanese stocks, the strengthening yen and the drop in interest rates?

A3: The biggest factor in the decline in net interest and dividends received is delay of the payment of dividends from overseas subsidiaries, approximately ¥2.2 billion (dividends booked in 1Q of last fiscal year shift to 2Q and or later). The impact of reduced dividends from shares amounts to a few hundred million yen, while the impact of lower interest rates and exchange rates is minor.

Q4: While there are likely a number of factors involved, can you explain the net foreign exchange impact, if possible with figures for each currency?

A4: I do not have figures on hand for a breakdown by currency, so we will provide that information in the summary of this Q&A session.

Regarding foreign exchange impact by each currency

Foreign exchange impact includes both positive and negative impacts, and on a net basis, no major impact arises from any one currency. Note that the majority of both positive and negative impacts arise from the U.S. dollar. In other currencies, the British pound, the Euro and others also had an impact, but compared to the U.S. dollar, that impact was limited.

Q5: Are we correct in understanding that with few natural disasters, Group Core Profit is progressing according to plan, or performing above the initial plan?

A5: Group Core Profit is progressing for the most part according to plan, about on par with fiscal quarterly net income. The impact of the Kumamoto Earthquake was incorporated in the initial fiscal year plan, and at MSP Life, the impact of Australian dollar interest and exchange rate were handled through a reversal of price fluctuation reserves, so there is no change from the initial plan. The difference between quarterly net income and Group Core Profit arises from system-related expenses of third-sector booked as extraordinary losses, but those are not included in calculating Group Core Profit. Overall, we are progressing in line with initial plan or slightly above it.

Q6: Price fluctuation reserves at MSP Life have dropped significantly, from ¥55.0 billion to ¥32.9 billion. What is the likelihood you will raise the pace of provision in the following fiscal year and beyond?

A6: To date, we have made a provision to the price fluctuation reserves to prepare for a situation like the current one. Our basic policy going forward will essentially be to systematically make a provision while taking into consideration the level of future price fluctuation risk for both assets and liabilities, but the details are still under consideration.

Q (follow-up): Are we correct in understanding that because MSP Life economically hedges by holding securities, there is little impact from Australian dollar exchange rate and interest rates?

A: Current losses reflect a net loss on trading securities. Considering unrealized gains on securities held for policy reserves are not shown, on an economic value basis they are largely offset, though not to a net zero.

Q7: ESR has fallen 27 points, from 181% at the end of March, 2016 to 154% at the end of June. Given that your goal is 200%, is there a likelihood you will be issuing subordinated debt or changes to your shareholder returns policy?

A7: The majority factor behind the 27 point drop in ESR is the drop in domestic interest rates. In the immediate term, interest rates are rising, stock prices are recovering and the ESR level is also recovering. If interest rates drop further going forward, there is a possibility that our goal of reaching 200% by around fiscal 2019 may be moved back slightly. At the same time, with our capital buffer in excess of ¥1.4 trillion, we are not apprehensive about the adequacy of capital. In that sense, we do not believe it will be necessary to raise funds by issuing subordinated debt and so on. Our shareholder returns policy also remains as is.

Q8: If policy reserves at MSP Life, while they may impact profit and loss, if they are economically neutral, please tell us whether you can exclude price fluctuation reserve gains and losses from Group Core Profit?

A8: That may be one approach, but to date we have handled accounting profits and losses through price fluctuation reserves. Even in cases where positive interest rates and foreign exchange rates have generated profits, we have continued to build price fluctuation reserves and include them in Group Core Profit. We intend to continue doing so for the time being.

Q9: Can you break out ordinary income and net income at MS Amlin? Also, while investment performance, like in the form of comprehensive income, moves in conjunction with fair value, but do you have figures on a realized basis?

A9: Ordinary income is ¥2.4 billion, with net income of ¥3.9 billion. Regarding investment performance, MS Amlin accounts for fluctuations in fair value of shares and bonds by booking them on the profit and loss statement. This figure also has an impact not on comprehensive income, but on net income. While we can’t segment out fair value fluctuations alone, you can look at this as the impact of fair value fluctuation of assets.

Q10: Regarding system-related expenses associated with the transfer of third-sector long-term policies in force, are we correct in understanding these will be amortized at MSA Life in the next fiscal year and beyond, and that that burden will eventually go away?

A10: Amortization at MSA Life will begin in fiscal 2019. You are correct that the amortized portion will be offset in consolidated adjustments, with no future burden on a consolidated basis.

Q11: It appears that Group Core Profit is performing better in domestic non-life insurance, but worse in the overseas business. What are the factors behind this?

A11: In domestic non-life insurance, performance is ahead of plan primarily due to insurance underwriting profit. Overseas, the year-on-year drop in profit in Asia is due to the impact of the Taiwan earthquake and so on, but that has already been incorporated in the plan. Europe is down somewhat due to the number of major accidents slightly exceeding plan. Reinsurance is flat, but with fewer natural disasters than originally planned for, performance is slightly above plan, and existing businesses are progressing more or less according to plan. At MS Amlin, investment performance has been below estimates, but has improved in the near term, and we think they will return to planned levels if markets recover going forward.

Q12: Are we correct in understanding, then, that you are more or less on track across all items for the company's full-year plan?

A12: That is correct.

Q13: What is the status of capital at MS Amlin as of the end of June, following Brexit?

A13: Figures are not yet available for the end of June, but MS Amlin books all fair value fluctuations on its profit and loss statement. While market conditions slumped temporarily immediately following Brexit, they improved in the period between the end of March and June, and we do not believe there were any fluctuations that might have a significant impact.

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