

MS&AD Holdings Conference Call (November 17, 2017)

FY2017 2Q Briefing Q&A Summary

Below is a summary of the Q&A session from the IR conference call held on November 17, 2017.

The following abbreviations of company names are used in this document.

MS&AD Holdings : MS&AD Insurance Group Holdings, Inc.

MSI : Mitsui Sumitomo Insurance Co., Ltd.

ADI : Aioi Nissay Dowa Insurance Co., Ltd.

MSI Aioi Life : Mitsui Sumitomo Aioi Life Insurance Co., Ltd.

MSI Primary Life : Mitsui Sumitomo Primary Life Insurance Co., Ltd.

- Q1: What kind of natural catastrophes and their extent of loss are you expecting after October?**
- A1: As for domestic natural catastrophes, our estimation for this fiscal year is about ¥67.0 billion. After subtraction of 1st half-year results the figure for the 2nd half-year will be ¥42.2 billion (¥26.0 billion for MSI, ¥17.0 billion for ADI). Estimated loss for Typhoon No. 21 is ¥21.0 billion for MSI and ¥15.0 billion for ADI.
- Q2: Regarding MSI, can you explain why you raised your profit forecast from initial forecast despite the negative factors of the absence of the share exchange gain related to Max Life Insurance and the increase in domestic natural catastrophes?**
- A2: Owing mainly to the impact of natural catastrophes, incurred losses have increased. However, full-year underwriting profit is roughly in line with our initial forecast partly due to positive impact related to catastrophe reserves.
- In addition, an increase in gains on sales of stocks, which reflects the buoyant stock market, has contributed greatly to the upward revision to our profit forecast.
- Q3: Regarding automobile insurance, it has been decided that all companies will lower their premium rates in January 2018, and EI loss ratios have been rising. What is your view on automobile insurance underwriting profit from next fiscal year onward in light of these factors?**
- A3: In 2Q FY2017, the EI loss ratio for automobile insurance rose slightly, but the extent of the increase was small, and we do not think the downward trend in the EI loss ratio will change. One factor behind the rise in the loss ratio in 2Q FY2017 is the fact that the loss ratio declined in FY2016 due in part to the recoil from the accumulation of appropriate reserves in the previous years. Consequently, we do not think that the loss ratio has risen this fiscal year especially. As the impact of the reduction in premium rates will appear over several fiscal years, we do not think that the level of the loss ratio will change very greatly during next fiscal year.

Q4: Regarding the combined ratio for automobile insurance, I remember you previously expressed the view that you were looking at a level of around 95% in the medium to long term even if the loss ratio deteriorates somewhat. At the present time as well, is it correct to assume that this view has not changed?

A4: You are correct.

Q5: Outstanding claims reserve for automobile insurance at MSI increased by about ¥10 billion versus 1Q. I understand this was the recoil from the fact that the amount in 1Q had decreased due to the impact of the loss ratio method, and there is no particular problem regarding this?

A5: You are correct.

Q6: Regarding the factors that reduced profit at MS Amlin, you explained that apart from the impact of natural catastrophes, you also increased outstanding claims reserves. Were you unable to forecast the occurrence of this increase in reserves in the due diligence at the time of acquiring this company? Also, what are your assumptions about an increase in reserves from next fiscal year onward?

A6: In the due diligence, we examined the company minutely. However, after that the company was exposed to a harsh business environment where the market softening continued and these huge natural catastrophes occurred. We therefore comprehensively took into account this overall loss situation and built up reserves conservatively. As for next fiscal year onward, we will consider this matter based on the situation at the time.

Q7: Regarding MS Amlin, what kind of policy will you promote going forward concerning the reinsurance business and business centered on specialty lines other than reinsurance? Do you think it is possible that insurance premiums will harden? Will you have a policy of growing the reinsurance business and how will you achieve the balance between reinsurance and other business?

A7: Regarding MS Amlin, we see reinsurance risk including natural catastrophes as one of the pillars of business, and we made acquisition after recognizing a certain degree of volatility. In the case of natural catastrophe risk, we set the appropriate allowable maximum amount in several recurrence intervals and conduct cycle management. In the current environment, we will prepare for a phase of increasing revenues based on a harder market without increasing risk weightings. Going forward, we have drawn up a plan where revenues will rise by around 10% for North American natural catastrophe risk. In regard to general risk, however, while the wave of market softening has been spreading from reinsurance to other insurance categories, we have flexibly

shifted underwriting to new insurance categories, as we are seeking a category portfolio where we can expect a relatively high return, but the loss ratio worsened in some areas. We have completed the specification of categories that were deteriorating and have already implemented countermeasures such as rate increases and business withdrawal. In general, the European and US corporate insurance markets are open, and if loss ratios worsen, it will be comparatively easy to exit. Therefore, by dealing with policies in categories with poor results within general risks, we are changing the portfolio and aiming to improve returns. Indications of a change in the market for natural catastrophe risk have also emerged, and we have already commenced initiatives related to issues in general risks. Based on these countermeasures, we believe that earnings will recover through FY2018 and FY2019, and you should see an improvement in results over a slightly long-term period.

Q8: Regarding the hurricanes in North America and Mexico EQ, ADI has incurred comparatively large losses, but in terms of risk management for the overall group, do you think that ADI should take such natural catastrophe risk? Also, I would like to know your views from the perspective of risk management.

A8: The business model for underwriting natural catastrophe risks at ADI's Head Office Reinsurance business entails selecting reliable underwriters among those that are underwriting natural catastrophe risks and taking risks through quota share reinsurance, which is a different business model from that of MS Amlin. ADI is underwriting these natural catastrophes to achieve the effect of risk diversification as well. The annual budget for incurred losses related to this business is about ¥10.0 billion, and the loss amount on these natural catastrophes does not exceed the amount that we have assumed may arise. Regarding risk management, we conduct integrated risk management on a group basis, and for all overseas businesses, risk management where the holding company cooperates with operating companies is functioning adequately, so we do not believe there have been any problems. Moreover, we consider how to control fluctuations in periodic income on a group basis.

ADI's annual budget for underwriting natural catastrophes is ¥10.0 billion. Of this, ¥3.0 billion has been allocated to large scale natural catastrophes and the remaining ¥7.0 billion has been allocated to small scale natural catastrophes. In addition, MS Amlin's budget for major losses including natural catastrophes is ¥22.5 billion a year.

Q9: Are there any problems regarding MS Amlin's underwriting discipline for general risks? Also, have you accurately assessed where there are problems?

A9: Categories that we believe face problems specifically include automobile insurance in some countries in continental Europe, yacht insurance through specific channels, comprehensive

insurance for small and medium-sized enterprises in the United Kingdom, and corporate property insurance and liability insurance in continental Europe. While facing the impact of the softening market, we have expanded insurance portfolio that we underwrite where we expect more returns. As a result, the loss ratio has risen in some lines, but we believe trial and error is necessary in some areas. We were aware of problems, and in some cases, we have taken steps to exit such businesses swiftly.

Q10: Has MS Amlin experienced greater losses than its competitors related to natural catastrophes? Are there any problems related to underwriting natural catastrophe risks?

A10: In the case of Harvey and Irma, for example, we believe that the scale of losses at MS Amlin was smaller than the figures disclosed by our competitors, so we do not think MS Amlin's losses are larger than those of its competitors. Furthermore, when compared with the estimated figures for losses at European and US insurance companies as well, MS Amlin's losses do not actually stand out, so we do not believe there are any particular problems regarding underwriting of natural catastrophe risks.

Q11: Regarding the possibility of latent impairment losses at MS Amlin, could you explain what conditions are required for impairment losses to be recorded?

A11: In accordance with the Japanese accounting standards, if it appears that the management environment is worsening considerably, we view this as a sign of impairment, but we do not believe that such a sign is apparent at present.

Q12: Do the hurricane losses include losses arising from non-insurance products such as CAT bonds?

A12: The figures we disclosed for the impact of hurricanes are entirely related to insurance underwriting. Although CAT bonds are subject to fluctuation in market value, they do not have any impact such as impairment losses.

Q (follow-up): Are there any products where you are underwriting insurance in the form of securities? If so, what is the amount concerned?

A: Domestic non-life insurance companies have some of these products. The scale is at the level of several billion yen.

Q13: Please tell us about the status of ESR as of end of September 2017.

A13: We will disclose it at the Information Meeting scheduled on 28 November.

Q14: In view of your earnings forecast figures and the figure of 50% of Group Core Profit, which is in the shareholder return policy, is there any possibility of a dividend reduction for the

current fiscal year? Also, is it correct to assume that the possibility of a share buyback has disappeared for the current term?

A14: Our shareholder return policy is to return approximately 50% of Group Core Profit “in the medium run,” and as we have previously explained, we are putting high priority on stable dividends. At present, we are forecasting a dividend per share of ¥130, which is the same level as our initial forecast. As for share buybacks, we previously said that we will purchase our own shares “flexibly,” so please understand that our policy is to conduct share buybacks flexibly, and as opportunities arise, with due consideration to market conditions and the state of our capital.

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