MS&AD Insurance Group Holdings
2nd Information Meeting of FY 2015 (Held on November 25, 2015)
Q&A Session Summery

Below is a summery of Q&A session from the Information Meeting held on November 25, 2015

Q1: You stated that you will lower the combined expense ratio for Mitsui Sumitomo Insurance and Aioi Nissay Dowa Insurance to 31.5% in FY2017, but I believe this will require business expenses to be reduced by approximately 20 billion yen from the FY2015 level. Please tell us about any changes you intend to make from previously explained efforts and any new efforts aimed at achieving this.
Also, in relation to this, could you explain the effect of the recently announced early retirement offer on extraordinary losses and next period onwards?

A1: To begin with, one measure to lower the expense ratio to 31.5% is career/transition assistance measures recently announced by Aioi Nissay Dowa Insurance, which represents savings of around 4.0 billion yen, and another is the integration of hosts of the individual companies' systems from FY2017, which represents savings of around 6.0 billion yen, an overall expected reduction of 10 billion yen. In addition, by reducing non-personnel expenses through the joint use of bases and by reducing personnel expenses through the upgrading of employee roles, we expect a reduction of over 20 billion yen, and believe that the expense ratio of 31.5% is quite attainable in FY2017.
The extraordinary loss associated with Career/transition Assistance measures at Aioi Nissay Dowa Insurance is expected to be 12 billion yen, and this has been included in our earnings forecast.

Q2: The forecast for Group Core Profit in FY2015 is 130 billion yen, while the forecast annual dividend is 70 yen and the share buyback you recently announced will total 10 billion yen. Assuming you conduct a 20 billion share buyback next May as you did this year, the shareholder return will be 55.8%. Your medium-term policy is to return 50% of Group Core Profit, and looking at past years' results show returns of around 40% in some years while others have been around 50%. When combined with last year's shareholder return, I think this is exactly 50%. Please explain your approach to shareholder returns over the entire year, including this aspect.

A2: We have stated that we intend to offer shareholder returns of approximately 50% in the medium run, and sometimes actual returns were above this level and sometimes they were not, as you pointed out. Meanwhile, we intend to steadily increase dividends, and have provided stable dividends even when group core profit was negative.

With regard to shareholder returns over the entire fiscal year, in addition to the 70 yen dividend and the 10 billion yen share buyback in the interim period, I am unable to make a comment here today as to whether we will conduct a 20 billion yen share buyback at the end of the fiscal year. However, we intend to make overall efforts to achieve shareholder returns that can meet the expectations of our investors and shareholders.

Q3: **You stated that the medium-term target level for strategic equity holdings is 10% of consolidated total assets and 30% of risk weight, but this appears to mean you will reduce equity holdings by around one-third of the current equity holdings. Please let me know if these figures are the consolidated ones including the effect of acquiring Amlin. Also, please state the pace at which these holdings will be reduced in the future.**

A3: We have not indicated the timing at which we will reach our medium-term target level for strategic equity holdings, but assuming that market value continues to be the current level, we will need to reduce these holdings by almost 40%, from the current level of approximately 16% to the targeted level of 10% of consolidated total assets. The shares held by the Group are currently valued at 2.8 trillion yen, so a reduction of approximately 1.0 trillion yen is required.

As we recently announced, we intend to sell 500 billion yen of these shares during the period covered by the current Medium-term Management Plan. Assuming current share price levels, we will achieve a reduction of a total of 1.0 trillion yen in shares if we sell an additional 500 billion yen during the next Medium-term Management Plan. We would like to indicate the general direction with regard to this matter when we formulate the next Medium-term Management Plan.

To begin with, we will steadily sell 500 billion yen of shares and sell more if possible during the period covered by the current Medium-term Management Plan, and by doing so, shareholders and investors will be assured of the feasibility of the medium-term target level for strategic equity holdings at 30% of risk weight and 10% of consolidated total assets.

Q4: **With regard to shareholder returns, please explain whether gains on the sale of strategic equity holdings will be a factor when considering shareholder returns.**

Also, your share portfolio seems to be biased toward the automobile industry, but will this be subject to reduction in the future?

A4: The method of calculation of Group Core Profit that forms the basis for shareholder returns will continue to exclude capital gains for the time being. It is an issue to review in the future, but we do not currently intend to immediately include capital gains in Group Core Profit at this point.

However, under our policy that we will return approximately 50% of Group Core Profit in the medium run, some years are above this level and some years are below it.

We believe that this may be a factor to some extent in making decisions in years with capital gains and those without them.

On the sale of shares in the automobile industry, we will consider sales in consideration of a medium- to long-term view such as economic rationale and strengthening business relations, but this is based on the target of reducing the total amount of risk of strategic equity holdings as a whole and we will consider the matter without bias. However, this is based on the assumption of obtaining the understanding of the issuers.

Q5: I think you already reached the FY2017 target of 31.5% expense ratio in the interim period of FY2015. Please explain what factors may lead to increases or decreases moving toward FY2017, such as rush demand for long-term fire insurance that arose this fiscal year.

A5: As you pointed out, our expense ratio was reduced in the first half of FY2015 due to rush demand for fire insurance. This is expected to undergo a correction over the entire year and end at 32.5%. To achieve our target of 31.5% in FY2017, we believe it is important to reduce business expenses as explained earlier and also achieve steady growth in our top line.

Q6: With regard to the forecast for earnings in FY2017, what is your approach to the pricing strategy for automobile insurance including the impact of the increase in consumption tax.

A6: Underwriting profit of automobile insurance has been improving, but one factor increasing the loss ratio is the issue of consumption tax hike as pointed out earlier, and another is the revision to lower the statutory interest rate, although legislation has not been passed yet.

With regard to the impact of consumption tax hike, we believe we should normally pass its impact on to our pricing. However, we may be able to absorb part of this impact if underwriting profit continues to perform favorably and we make progress reducing the expense ratio.

Q7: With regard to the results of assessment of the economic rationale of strategic equity holdings, how many stock issues or what proportion based on market value did you determine not to be rationale? Also, the general explanation until now has been that strategic equity holdings cannot be decreased because insurance premiums will decrease. Could you explain if your views on this have changed and why the decision was made at this time?

A7: A look at strategic equity holdings as a whole shows that they exceed the capital cost for the group, and we believe that they have economic rationale. We will assesse the economic rationale of individual stock issues by taking into account factors such as the yield of the shares, underwriting profitability and future growth potential. This is the first year we have assessed economic rationale using this method and we believe that we will need to review it every year. We have not disclosed actual figures, but stock issues lacking economic rationale will be 10 to

20% of the whole.

We have already substantially decreased our holdings of stock issues lacking economic rationale in the process of selling to date, and please be assured that most of the shares remaining at present have economic rationale.

The reduction of shares should not be viewed in terms of not being able to sell because insurance premiums will decrease, and we believe that we need to reduce the risk weight of strategic equity holdings as a whole in order to create a world-leading insurance and financial service group. To this end, our basic stance is that we may need to proceed to sell with the understanding of the issuers even if the stock issue itself has economic rationale.

However, our business partners with whom we have built long-term relationships of trust would like us to hold their shares in the long term. Even in such cases, we believe it is vital to persevere in our dialogue regarding when and how the shares can be sold with an understanding of our position in the medium- to long-term.

Furthermore, the acceleration of efforts such as these is set against a backdrop of our business partners gaining a greater understanding of the need to sell strategic equity holdings due to the establishment of the Corporate Governance Code.

Q8: Toyota Motor is engaging in positive investment and research in driverless car. I believe the insurance industry will need to develop products related to driverless car and devices assisting safety driving, but have you discussed anything with Toyota Motor?

Also, what is the outlook for new types of automobile insurance including technological development?

A8: We understand that General Insurance Rating Organization of Japan is currently examining devices assisting safety driving with the aim of establishing an ASV discount system, and we are waiting for the results.

The development of driverless car technology is accelerating not only at Toyota, but throughout the entire country. In this context, the insurance industry is considering the issue of how automobile insurance can respond to this, such as how to arrange the liability of car manufacturers and the liability of drivers. We will review such technological advances positively and actively, because we think insurance companies also should respond quickly.

In relation to Toyota Motor, within Japan, Aioi Nissay Dowa Insurance launched “Connected Auto Insurance” for T-Connect members this fiscal year. Also, abroad, we acquired the Box Innovation Group, which handles telematics-based insurance, and have proceeded to absorb their expertise. So, as you can see, we are researching how to respond to advanced automobile safety technology inside and outside Japan.

Q9: With regard to investment in international business, MS&AD believes that the acquisition

of Amlin will create a platform for the Company as a world-leading insurance and financial service group, but what view is this belief based on?

A9: World-leading insurance and financial service groups include AXA, Allianz and AIG.

Compared to these companies, our group has room for improvement in the balance of regional diversification. We believe it is necessary to diversify risks concentrated in Japan as much as possible to reach a level of around 50:50 divided between Japan and overseas. Furthermore, our profits are currently weighted toward domestic non-life business, and we believe that we need to increase the weight of international business and domestic life insurance business in terms of profit, to lower the proportion of profit from domestic non-life business to below 50%. We will be able to move closer to this level with the acquisition of Amlin.

Regional distribution and portfolio diversification can also be achieved through balanced contraction, but in order to create a world-leading insurance and financial service group, the provision of solutions and capacity to respond to a variety of risks in retail and corporate sectors as well as the financial strength and size are essential. We believe we need to realize this through balanced expansion. We need to face a variety of new risks such as driverless car, cyber risks, pandemics and major natural disasters, and we believe it is important to gain the necessary capacity to provide coverage for such risks. From this perspective, welcoming Amlin into our group will enable us to increase in size while also achieving regional distribution and diversification or our risk portfolio, thereby establishing a platform for the realization of our aspiration to create a world-leading insurance and financial service group.

Q10: The target of ROE is 7% in the Medium-term Management Plan, but I believe this will be almost 10% when Amlin is included. Is your ROE target 7% or higher? What is your medium- to long-term view?

A10: As we aim to create a world-leading insurance and financial service group, considering global players have a ROE of over 10%, we believe that we need to aim for a level over 10% in the medium- to long-term.

SQ (follow-up): The structure of ROE of top players in other countries differs from that of your group, and I believe there is little leverage with a large portion of capital being accounted for by unrealized gains on securities. Is it correct to understand that you can close the gap in your ROE level with global players if you proceed to sell strategic equity holdings and increase profitability including within Japan in the medium to long term?

SA: For example, in the case of Allianz, ROE is 10% with shares accounting for around 5% of assets. At present, the weight of shares is around 16% of our Group's net assets and ROE is about 5%. Based on this, we believe we can adequately reach the same level of

ROE or higher if we lower the weight of shares to 10% of our net assets and increase our profits.

Q11: **Other financial institutions including banks are also decreasing their strategic equity holdings. Do you have any intention behind your decision to accelerate selling that you would get ahead of other financial institutions? Also, do you feel there is a strong sense of resistance against your company, while other financial institutions are selling off their shares from an issuer's perspective?**

A11: The MS&AD Group has been considering the reduction of strategic equity holdings for some time, and we are not especially conscious of selling ahead of other financial institutions. However, we believe that investors' confidence in the Japanese stock market will increase with the elimination of cross-shareholding throughout Japan including other financial institutions, and advances are made in the reform of the economic structure of Japan and corporate governance reform.

For issuers, while they are not eager for their shares to be sold, we feel that there is a growing understanding of the recent trends to eliminate cross-shareholding. Nevertheless, as you point out, it must be troublesome for issuers when various companies sell of their shares. However, we are consulting with issuers on the sale of our strategic equity holdings including the timing of the sale, and we are proceeding with their understanding.

Q12: **The forecast Group Core Profit for domestic non-life business has been increased by 40 billion yen for FY2017, but no change has been made to the forecast for the combined ratio. Please provide a more detailed explanation of the factors leading to the increase in Group Core Profit of domestic non-life business.**

A12: The increase in the forecast for Group Core Profit of domestic non-life business is largely attributable to reduction of the expense ratio and a decrease in the loss ratio of automobile insurance. The 40 billion yen increase in the forecast for Group Core Profit is quite attainable if our top line naturally increases by around 3% as expected through FY2017.

No change has been made to the combined ratio forecast of “95% or less” but we expect a lower level than the previous forecast within this range. A major factor behind this change in forecast was greater confidence in the trend of improvement of underwriting profit in automobile insurance over the past two years. In addition, we believe the earnings structure of domestic non-life business will improve as we reduce the expense ratio.

Q13: **You decided to buy back 10 billion yen in shares this interim period, but I believe you also had the option of not buying back shares because you lowered the assumption of Group Core Profit.**

What kind of discussion led to the decision to buy back shares and what message is behind this decision?

A13: There are two aspects behind the decision to buy back shares.

One aspect is that because the peak season for natural catastrophes has already passed with the interim period, we can forecast a certain level of final profit for the entire year and, from a financial perspective, we will have sufficient leeway to buy back 10 billion yen in shares if Group Core Profit is 130 billion yen.

The other aspect is that due to the share price indicating a price-to-book ratio of 0.8 times, we want to send our message that our share price is still undervalued in spite of our growth strategy.

Q14: What is the reason for lowering the Group Core Profit forecast of international business for FY2017?

A14: There are two main reasons. One is that profit converted into yen will decrease as a result of Asian currencies being devalued due to the slowing of the Chinese economy. The other is that we expect greater expenses than initially anticipated for Box Innovation Group (BIG), we completed acquisition of BIG this year in Europe and found BIG had significant value including the brand and know-how, and decided to invest in systems and personnel to develop its business model. Although a little later than planned, we expect BIG's business to become profitable from FY2018.

Q15: Please explain the consideration currently being given to stage 2 of the Company's reorganization by function. Will you consider another level of channel reorganization and consolidation of loss adjustment organization in stage 2?

A15: We think the reorganization by function affecting premiums written including the reorganization of business / sales channels generally ended in success in stage 1. We have stated that we aim to simultaneously achieve growth and improved efficiency through the reorganization by function, and although there was rush demand for fire insurance, Mitsui Sumitomo Insurance and Aioi Nissay Dowa Insurance were ranked first and second among major insurers in terms of the rate of increase of direct premiums written in Japan during the interim period of FY2015.

The next main feature of reorganization by function is claims services. As we proceeded with reorganization by function in stage 1, we decided we wanted to achieve the same effect as the merger in claims services as much as possible. To do this, the joint use of systems is necessary. We will consider the joint development of claims services systems in stage 2, and will quickly implement changes in areas where we are able, such as working methods and the joint use of offices. We believe that initiatives based on joint development of systems for claims services will lead to significant improvements in efficiency in the next Medium-term Management Plan.

Q16: You will obtain large market with the recently announced acquisition of Amlin, but what country or region will you target next?

A16 As we explained previously, the Group is working to utilize its strengths in Asia and especially to be a leading position within the top three in each ASEAN countries. Furthermore, in the consideration of expanding our investment ratio in India in response to deregulation, and conducting reorganization by function in China and Thailand that continue to present challenges, we will consider a growth strategy including M&A, etc. if necessary.

Furthermore, in the Americas we will naturally look for good opportunities within disciplined investment from the perspective of ERM as well. In particular, we are the only Japanese non-life insurer with a presence in six emerging countries in South America, and we are focusing on the growth potential of these area. In Africa, we are currently partnering with AXA, but we plan to consider the possibility of independent expansion by the MS&AD Group in the future.

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