

MS&AD Holdings Conference Call (May 20, 2019)

FY2018 4Q Briefing Q&A Summary

Below is a summary of the Q&A session from the IR conference call held on May 20, 2019.

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.

MS Amlin : MS Amlin plc

Q1: The net premiums written for domestic non-life insurance indicates an increase in fire, casualty and voluntary automobile insurance. Would you please provide an outlook of the insurance premium rates and number of policies as factors leading to these respective increases? Also, are there any plans to raise premium rates for such product lines in FY2019?

A1: The forecast for insurance premiums by product line is shown on page 36 of the materials. We plan to raise fire insurance premium rates and expect that this will lead to an increase in premiums of approximately 7 billion yen.

SQ1: The premium growth rate for fire insurance is forecast at 4.8%. Is it correct to assume that this is due to the effect of the revision in premium rates?

SA1: The revision in premium rates is not the only factor because future outlook in insurance premiums is affected by factors such as sales activities and trends in the reinsurance market.

Q2: When calculating figures after deducting the net provision for catastrophe reserve, the impact of natural catastrophes, and the impact of exchange rate fluctuations on reserves from underwriting profit, ADI forecast's for FY2019 will decrease to 60.8 billion yen compared to the results of 86.1 billion yen. Would you please explain the factors and causes leading to this decrease?

A2: The factors contributing to this are the expected increase in the EI loss ratio and the year-on-year increase in non-personnel expenses mainly centered on system-related expenses.

Q3: In the FY2019 forecast for Group Adjusted Profit, shown on page 29 of the materials, domestic non-life insurance is up by around 12 billion yen compared to the medium-term plan, but international business is down by around 14 billion yen. What factors led to this?

A3: The main factors in the domestic non-life insurance business are the lowering of the forecast loss ratio on auto insurance compared to when the medium-term plan was announced, and an increase in insurance premiums. In the international business, the main factor was the revision of profit outlook for MS Amlin.

Q4: Of the 133.1 billion yen in gains on sales of securities, how much was capital gains from the reduction of strategic equity holdings and how much was capital gains from other operations? Also, please tell us the forecast amount of strategic equity holdings to be sold in the projected financial results.

A4: Of the gains on sales of securities, approximately 35 billion yen of gains on sales did not correspond to a

reduction in strategic equity holdings. We expect to reduce the amount of strategic equity holdings by just over 100 billion yen in total for the two companies from next fiscal year.

SQ4-1: Is it correct to believe that you have increased the amount you plan to reduce compared to when the medium-term plan was announced last year?

SA4-1: The figures announced last year were incorporated into the plan, and there is no change in the policy of aiming to sell just over 100 billion yen annually.

SQ4-2: Is it correct to understand that the amount of the reduction in strategic equity holdings incorporated into the plan has also been increased?

SQ4-2: That is correct.

Q5: MSI Aioi Life's annualized premiums of new policies in FY2019, shown on page 33 of the materials, indicates substantial decline. Please describe the underlying sales plans for corporate insurance and executive insurance. If sales exceed the forecast, will income be lowered due to the cost of acquiring new policies?

A5: Due to the impact of suspension of sales and the introduction of new tax rules, a decrease of approximately 30% is expected on a new policy AAP basis (operating insurance premiums).

The pillars of profit for MSI Aioi Life are income guarantee insurance in the first sector insurance market and medical insurance in the third sector insurance market, and because of this we do not believe the reduction in premiums from corporate executive insurance will have a significant impact on profit.

Q6: What factors led to the forecast for a decrease in income at MSI Primary Life?

A6: The factors that led to the forecast for a decrease in income at MSI Primary Life were an increase in the weighting of products with a high policy reserve burden in the first year of the policy resulting from a change in the product mix being sold, and a decrease in revenue from variable products as the amount of policies in force has gradually decreased for variable products.

SQ6: In contrast to the financial accounting income of domestic life insurance subsidiaries decreasing by 4.3 billion yen, Group Adjusted Profit of domestic life insurance operations only decreased by 2.6 billion yen. What factors led to this?

SA6: Group Adjusted Profit of MSI Primary Life is the same as financial accounting income. Therefore, the difference is due to MSI Aioi Life. MSI Aioi Life adjusts for the handling of a contingency reserve and a reserve for price fluctuation when calculating Group Adjusted Profit, and purchase differences also arise.

Q7: MS Amlin's profit forecast for FY2019 is forecast to be substantially lower than what was released in May 2018. When will it achieve the targets of the medium-term management plan? Please describe the factors that caused the delay in profit recovery.

A7: The reserve ratio for outstanding claims reserves is higher than we anticipated, but we believe this will be resolved once several years have elapsed. At present, we are reviewing and discussing MS Amlin's business strategy and cost structure. I apologize, but I will refrain from disclosing the forecast of the specific timing.

SQ7: You began improving portfolio from around the 2nd half of FY2017 and I thought you would be able to

reverse outstanding claims reserves at least from around the middle of FY2019. Why is it taking so long?

SA7: MS Amlin commenced initiatives to improve profitability a year ago, and although the loss ratio for non-catastrophe lines is improving, Lloyd's as a whole has not improved to that extent. Since the stricter regulation since last year applies to Lloyd's as a whole, it has been necessary to lower the loss ratio not only for MS Amlin but also for Lloyd's as a whole in order to reverse outstanding claims reserves. Considering this, I think it will take a little more time until we are able to reverse outstanding claims reserves.

Q8: What specific indicators are improving in relation to non-catastrophe lines at MS Amlin? Can we understand that there is room for further improvement?

A8: The EI loss ratio for non-catastrophe lines has improved by 10.6 points from 76.4% in FY2017 to 65.8% in FY2018. We will continue our efforts for further improvement.

Q9: Please explain the factors behind profit fluctuations of MS Amlin shown on page 38 of the materials. Net income in FY2019 was forecast to be 220 million pounds according to the materials from May last year, but this time it is 43 million pounds. Looking at the difference, it appears that the forecast for two years of earned premiums, indicated by the sum of (1) and (7) shown in the chart, had projected an increase of 38 million pounds, but is now projected to be a decrease of 113 million pounds, which has had a large impact on net income. Please describe the backdrop to this significant change in the forecast, and whether there is still an opportunity to secure the top line from FY2020 onwards in a way that was initially forecast.

A9: One reason for the change to the forecast is that we are focusing on profitability and we have adopted a policy of being disciplined in underwriting, and externally transferred runoff portfolios with low profitability. In addition, as part of the Lloyd's policy, the overall tightening in FY2019 also contributed to the decline. However, we have adopted a policy focused on profitability, so the loss ratio should be improving. Therefore, although the top line has admittedly decreased compared to the initial plan, we would like to improve the loss ratio and create an appropriate growth strategy. We expect to achieve growth in the future because market conditions are also changing gradually.

Q10: Do you have a degree of confidence in the profits and loss of MS Amlin in this plan after excluding large variations such as natural catastrophes, or do you still feel some risk in profits and loss other than natural catastrophes?

A10: It is very difficult to forecast natural catastrophes and the investment market, so we think it depends on these environments. However, with regard to non-catastrophe lines, the loss ratio is being steadily lowered, while we obviously think we still need to make further improvements. We have also been able to cut costs well. The improvements in general losses and cost reductions that form the basis for this have been improving steadily. Therefore, we recognize that our basic earning power is enhancing, although our profit may fluctuate if there are natural catastrophes or sudden large losses.

Q11: What are the reasons for earned premiums being forecast to decrease at MS Amlin this fiscal year?

A11: One reason is that we are conducting underwriting more strictly in our efforts to improve profits and loss.

Another reason is the recording of quoted insurance premiums in the handling of overseas insurance companies. In FY2018, there was a larger impact from this adjusted amount than what was quoted in the previous year. This year, we have made firm quotes, and this may lead to giving the impression that premiums are decreasing in comparison with the previous year's results.

Q12: What is the specific amount resulting from the impact of stricter underwriting? Also, with regard to the forecast for insurance premiums, what is the forecast for the premium rates and the number of policies?

A12: We do not have such analysis as MS Amlin has several companies under it.

SQ12: Many Lloyd's syndicates have forecast an increase in the top line. What are the reasons for premiums being forecast to decrease at MS Amlin?

SA12: I am not fully aware of the forecast of other companies, but I think Lloyd's has issued instructions for stricter underwriting, and MS Amlin follows these instructions. It is our policy to place greater emphasis on the bottom line than the top line.

Q13: The shareholder return ratio was 59.9% of Group Adjusted Profit, near the maximum of the range of 40% to 60%. We realized this time that the return ratio is raised to 60% when earnings decline due to factors such as natural catastrophes. Is it correct to assume that this will be less than 50% if earnings are strong and that on average returns will be around the midpoint of 50%?

A13: We would like to explain the policy on shareholder returns at the Information Meeting. We have not specified that it will be 60% when natural catastrophes occur or that it will be under 50% when they do not occur. Please understand that there is a variety of possibilities because in addition to stably providing sustained returns to shareholders, we will quickly and flexibly make share buybacks in particular, also considering factors such as the state of the share price and capital.

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