

## **MS&AD Insurance Group Holdings Conference Call (February 14, 2013)**

### **Summary of the Q & A Session of the FY 2012 3Q Results Briefing**

Following is a summary of the Q & A session from the IR conference call held on February 14, 2013.

Q1: Regarding the special provision for the catastrophe loss reserve at Mitsui Sumitomo Insurance, at the end of the interim period the plan was for a provision of 40.0 billion yen for the full year, but do you plan to raise this significantly from the planned amount given that profits for the third quarter have improved?

A1: A funding plan of the catastrophe loss reserve balance for fire insurance has been formulated based on a scenario for natural disasters with 70-year recurrence interval. At the present time, we have no plans to change the amount of funding from 40.0 billion yen, but ultimately we will determine amount by taking into consideration reversals this fiscal year, anticipated payments of claims arising from natural disasters, etc. from next fiscal year, and revisions to the reinsurance scheme.

Q2: According to Addendum 1, net income of overseas subsidiaries was strong at 11.8 billion yen, but does this include the net income of Sinarmas MSIG Life, which recorded loss in securities holdings? Furthermore, what kind of losses do you anticipate from Superstorm Sandy in the United States?

A2: "Overseas subsidiaries" includes all overseas insurance subsidiaries, and Sinarmas MSIG Life is also included. Also, the losses incurred due to Sandy have been pushed forward in the way they are recorded in consolidated accounting (the losses are incurred in the fourth quarter at overseas subsidiaries, but have been included in the consolidated accounting for the third quarter), and the group total of approximately 6.0 billion yen is made up of approximately 5.0 billion yen for Mitsui Sumitomo Insurance and Aioi Nissay Dowa Insurance combined, and approximately 1.0 billion yen for overseas subsidiaries.

Q2-2: You say that the net income of overseas subsidiaries includes the impact of Sinarmas MSIG Life and Sandy, but could you tell us what factors bolstered income?

A2-2: One factor was that large scale natural disasters such as the New Zealand earthquake and

flooding in Thailand occurred last fiscal year, and the absence of such disasters this year led to an improvement in the profitability of reinsurance subsidiaries. Another factor is the significant improvement seen in incurred losses in Europe.

Q3: Regarding the “Overseas subsidiaries” shown in Addendum 1, net income for the interim period was 10.5 billion yen, and in the third quarter was 11.8 billion yen. That growth rate seems low even when taking into account the impact of Superstorm Sandy. Were there any other factors involved? Also, what is the outlook for next fiscal year and beyond?

A3: One factor is that net income in Europe decreased from 1.2 billion yen in the interim period to 0.6 billion yen in the third quarter. As part of our structural review of business currently being conducted in Europe, net premiums written at subsidiaries in Europe decreased as a result of direct insurance in continental Europe being ceded to Mitsui Sumitomo Insurance until the new company there begins operating, part of the process of transferring business in continental Europe to the new company.

Furthermore, although net income in Asia increased by 0.7 billion yen from 5.7 billion yen in the interim period to 6.4 billion yen in the third quarter, a slight rise in the loss ratio contributed to the smaller increase in net income.

We are currently making projections for next fiscal year’s figures. We believe they will move in the direction of an increase, but please forgive me for not providing figures at this time.

Q3-2: Is the increasing loss ratio in Asia a transient issue?

A3-2: It varies depending on the region, but we believe it includes both the transient impact of large-scale claims, and the impact of an overall trend toward rising loss ratios in workers compensation insurance, etc.

Q4: Ordinary profit has progressed at a rate that has already surpassed the 48.0 billion yen forecast for the full year, with 145.8 billion yen recorded by the third quarter, but is the reason the full-year forecast hasn’t been revised because you foresee some kind of risk arising before the fiscal year ends?

A4: One major factor in ordinary profit reaching 145.8 billion yen was the reduction in the loss on devaluation of securities. Although at the end of the interim period, we forecast a loss on devaluation of securities at the end of the fiscal year of approximately 106.0 billion yen,

rising stock prices brought this to 61.3 billion yen in the third quarter, but because this is a result of stock price fluctuations, we have not revised our forecast for the full year. It is not because we have anticipated future risk.

Q5: The number of accidents appears to have been increasing since October; have the revisions to the non-fleet discount/loading rate table (and the resultant drop in number of incidents) had any impact?

A5: Although the number of accidents increased in some months, the cumulative total is 99.6% of the previous year's number for Mitsui Sumitomo Insurance and 99.9% for Aioi Nissay Dowa Insurance, so we have not determined that the number is necessarily on an upward trend. Based on our current analysis, we have not determined that revisions to the system have had an impact on the number of accidents.

Q6: What about the sensitivity of performance in relation to foreign exchange fluctuations?

A6: Consolidated net premiums written fluctuate by around 6 billion yen for the group as a whole when the dollar moves by 5 yen and other currencies move by 5%. On the other hand, because incurred losses will also fluctuate, foreign exchange fluctuations do not have a significant impact on our bottom line.

Q7: Comparing these materials with those for the interim period, both Mitsui Sumitomo Insurance and Aioi Nissay Dowa Insurance seem to have a poorer EI loss ratio in automobile insurance compared to the interim period. Could you describe the factors that led to this?

A7: Regarding Mitsui Sumitomo Insurance, the simplified loss computation method for the third quarter likely had an effect. For Aioi Nissay Dowa Insurance, past trends show the third quarter at a higher level than the interim period.

Q8: Is the loss ratio for automobile insurance lower than forecast?

A8: The EI loss ratio is expected to be 62.6% for the full year at Mitsui Sumitomo Insurance and 62.8% at Aioi Nissay Dowa Insurance, and is currently slightly below these levels. We believe we can more or less achieve our targets for these figures for the full year.

Q9: The improvement in the loss on devaluation of securities for Mitsui Sumitomo Insurance seems less than that of Aioi Nissay Dowa Insurance. Is this due to the impact of individual stocks? Can we assume that if the stock market continues to improve, the loss on devaluation of securities be further reduced?

A9: As you have noted, this is the impact of individual stocks. While some impact from individual stocks on the amount of losses on devaluation of securities will remain, this is decreasing overall as the market improves.

Q10: The incurred loss due to the floods in Thailand was a negative 10.5 billion yen, less of a decrease from the 17.7 billion yen drop in the interim period—is this due to a difference between estimated and actual results? If so, does that mean we should expect variations on the scale of several billion yen going forward?

A10: The appreciation of the Thai baht against the yen was a greater factor in less of a decrease in incurred loss compared to the interim period than any actual change in incurred losses.

Q10-2: I understand that you have already prepared deposits in Thai baht for outstanding claims from the floods in Thailand. Is this understanding correct?

A10-2: From early on, we have responded to claims from the flooding in Thailand through deposits held in Thai baht, which also serve to provide a hedge against exchange risk. That is, we have ensured that the impact of an increase in incurred losses on profitability due to foreign exchange fluctuations is minimized through gains realized on currency conversions from reversed Thai baht deposits. However, because the gains on currency conversions from these deposits are recorded in investment income, the effect on profitability appears at the bottom line stage and not the underwriting income stage.

Q11: What is the status of terrorism risks by region?

A11: We have been providing terrorism clauses in some cases to the extent controllable since September 11.

Q12: Net income at MSI Primary Life has been solid, at 8.9 billion yen for the interim period and 18.5 billion yen for the third quarter. Valuations gains seem to have contributed to this, but could you explain which asset classes are providing income? Also, what is the outlook

going forward?

A12: Gains and losses from variable products have not changed significantly since last year, but in fixed products, the recently released foreign-denominated fixed whole life insurance product has made a significant contribution. Valuation gains have increased due to the impact of exchange rates and interest rates on the Australian dollar-denominated products that carry a particularly large weight.

The balance of fixed product policies has been accumulating, and the increase in the difference between projected interest rates and actual investment yields has also been a factor in the increase in earnings.

Q13: According to Addendum 7, Mitsui Sumitomo Insurance's incurred loss (for the first nine months) decreased by 253.6 billion yen compared to the same period in the previous year, and when the incurred loss of 194.0 billion yen due to flooding in Thailand in the same period last year is deducted, the remainder is 59.5 billion yen. Incurred losses as of the interim period decreased by 77.8 billion yen compared to the same period in the previous year, but when looking at the full year, can you tell us if there are any incurred losses you see arising?

A13: Residential earthquake insurance improved by 71.1 billion yen compared to the same period in the previous year, and when the significant special factors of flooding in Thailand and residential earthquake insurance are excluded, incurred losses increased by around 20.0 billion yen compared to the same period in the previous year. However, we believe that this is a natural trend, given that earned premiums also increased by approximately 25.0 billion yen.

Another special factor is the fact that as incurred losses from the Great East Japan Earthquake fell by 6.6 billion yen in the previous year, this pushed figures for the previous year downward, making the figures for this year appear worse. Furthermore, the weakening of the yen compared to last year also had a detrimental effect on incurred losses, amounting to approximately 7.0 billion yen. Considering the detrimental impact of these special factors, totaling around 15.0 billion yen, and the increase in earned premiums, we cannot say that incurred losses have deteriorated.

Q14: To what extent have earnings in the domestic life insurance business exceeded targets?  
What is the outlook for the full year?

A14: The effects of the market have resulted in valuation gains, primarily at MSI Primary Life, and its income exceeded our target by around 7.0 billion yen in the third quarter. MSI Primary Life also plan to provide 10.0 billion yen for contingency reserves toward the end of the fiscal year, but we believe the income will exceed targets even when this is taken into account. Income may decrease if there is a reversal of market trends in the fourth quarter.

Q15: Assuming that Group Core Profit increases, do you plan to add to shareholder returns?

A15: Shareholder returns are determined based upon the Group's basic policy on capital management and shareholder returns, and management will make any decision regarding those returns based also on comprehensive consideration of such factors as the Group's financial base and corporate value.

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