MS&AD Insurance Group Holdings
FY 2012 First Information Meeting (Held June 1, 2012)
Q&A Summary

Below is a summary of the Q & A session from the Information Meeting held on June 1, 2012

Q1. In your revised Group Core Profit target for FY2013, the target for the domestic non-life insurance business has been revised from ¥100 billion to ¥60 billion. Can you provide a breakdown of this figure?

Also, you indicate the ROE target of 7.0% will not change. Does this mean that both the numerator (Group Core Profit) and denominator (consolidated total net assets) have both fallen?

A1. Forgive me, but let me refrain from disclosing the breakdowns by business segment. Regarding ROE, your understanding is correct; the denominator (consolidated total net assets) has fallen due to the impact of market conditions.

Q2. The difference between net asset value and total risk exposure as of the end of March, 2012 was approximately ¥850 billion, but what is the situation more recently? Are you approaching the alarm point you've set at ¥500 billion? How will you respond if, for example, it falls below ¥500 billion?

A2. Most recently, the difference between net asset value and total risk exposure has fallen due to sluggish stock prices, but remains at a level where there is still plenty of room before reaching the alarm point.

If it were to fall below ¥500 billion, we would consider such moves as funding by notes with equity-like characteristics, and reducing risk, etc.

Q2-2. The combined ratio under the projection for FY2013 is 98%, up one percentage point from the initial target of 97%. Should this also be considered part of the revision to numerical targets?

A2-2. That is correct.

Q3. Were the numbers used in calculating net asset value and total risk exposure pre-tax or after-tax numbers?

A3. Partly because the after-tax concept does not fit well when measuring risk volume, both net asset value and total risk exposure are essentially based on pre-tax figures. However, while the net income, etc. included in net asset value is based on after-tax figures, catastrophe loss reserves and losses on devaluation of securities, etc. are calculated based on pre-tax figures.

Q4. I understand that you plan to sell strategic shareholdings of over ¥100 billion in FY2013. While considering the fact that FY2012 results are somewhat pushed upward by the reversal of catastrophe loss reserves corresponding to payment of claims resulting from the flooding in Thailand, doesn't this mean you will have to post significant gains from sales of shareholdings to achieve the profit targets set for FY2013?

A4. The plan for sales of shareholdings calls for ¥300 billion in the three years from FY2011, with sales of more than ¥100 billion in FY2012.

(Supplemental) Of the ¥80 billion in the net income forecast for FY2012, ¥33.4 billion is expected to come from gains on sales of securities by MSI, and ¥11.1 billion (before purchase adjustments) on sales by ADI.

Note that in FY2012, in order to restore the catastrophe loss reserves that dropped due to the Thai flooding, we will be setting an extra reserve for catastrophe losses equivalent to approximately ¥70.0 billion (after-tax), and the forecast net income of ¥80.0 billion takes that into account.

Q5. Among the factors listed in your revision of numerical targets was ¥33.0 billion for measures resulting from multiple natural disasters. Can you provide more detail on this amount?

A5. The ¥33.0 billion is a total of increased purchases of reinsurance coverage and rate increases, continued increase in provisions for catastrophe loss reserves, and the cost of interest on hybrid notes.

Q6. Regarding moves to strengthen and enhance risk management for natural disasters overseas, have you already begun implementing steps such as adding additional reinsurance and applying new underwriting policies, and if not, do you plan to implement such steps going forward?

A6. Following the flooding in Thailand, we have already moved to implement exclusion of flood risk in Thailand and to increase purchases of reinsurance coverage, and we believe we have completed all contingency measures at this point. Aside from this emergency response, going forward we will naturally be looking at reviewing our underwriting policies and considering stricter underwriting terms, as we work to establish a firm mid- to long-term risk management policy, which is so critical to the growth of our business in Asia.

Q6-2. Will the strengthening and enhancement of risk management for natural disasters overseas that is currently underway continue in the next fiscal year?

A6-2. We hope to achieve those measures within the current fiscal year.

Q7. Of the ¥2,100 billion in total risk exposure as of the end of March, 2012, what are the specific figures for insurance risk and asset management risk? Also, to what extent would the figure for total risk exposure change if you were to set VaR higher than 99.5%?

A7. Again, forgive me for not disclosing the detailed breakdown. For the Group, we have determined that a VaR of 99.5% is sufficient for management decision-making, considering the reliability of the fundamental data, etc. While we have made pro forma calculations using figures aside from this level of 99.5%, they are just reference figures for internal use, and are not appropriate for disclosure.

Q8. The difference between net asset value and total risk exposure as of the end of March, 2012 was approximately ¥850.0 billion, a level which seems sufficient, but why are you taking steps such as increasing purchases of reinsurance coverage and issuing hybrid notes? Also, why haven't you applied this capital buffer to insurance underwriting risk? Please explain your thinking.

A8. While it's true that as of the end of March, 2012, the difference between net asset value and total risk exposure was approximately ¥850.0 billion, during FY2011 we also came close to our alarm point, so we implemented moves to fund-raising by notes with equity-like characteristics and reduce risk-weighted assets in order to ensure a buffer against contingencies. This is how we arrived at the ¥850.0 billion difference between net asset value and total risk exposure indicated here.

Q9. As I understand, business expenses for FY2015 are projected to be about 35%, unchanged from current levels. To ensure a profit, don't you not only have to shift these costs to insurance prices, but also reduce costs?

A9. We are hoping to achieve (an underwriting balance ratio of) 5% by working comprehensively to bring down costs, including business expenses, agency commissions, and loss adjustment expenses, which, combined with a reduction in the net loss ratio, will bring the combined ratio below 100%.

Q10. If the Group Core Profit for FY2012 should result in ¥80.0 billion as forecast, and your ratio of return to shareholders is 50%, that amounts to approximately ¥40.0 billion. Since actual dividends have been ¥30.0 billion plus something, wouldn't that conclude there is room to reconsider your dividend levels?

A10. There is no change in our shareholder return policy, including aiming for steady increase in dividends, as well as buying back shares opportunistically and continuously.

Q11. Could you give any guidance for timetable or standards as to when you will get rid of extra cost resulting from purchase of additional reinsurance coverage and issuance of hybrid notes?

A11. While it is uncertain whether additional reinsurance costs last for some time, the approximately ¥5.0 billion in annual costs for hybrid notes will continue for the time being.

Q11-2. Aside from the rise in reinsurance costs, about how much in other costs do you expect to arise over the next few years?

A11-2. They are likely to be in excess of ¥10.0 billion.

Q11-3. If your capital buffer expands, and your credit ratings recover, will you begin reducing your additional purchases of reinsurance coverage, and will this result in a drop in reinsurance costs?

A11-3. That’s correct. We believe the management benefits of holding the risk ourselves are greater than from increasing reinsurance coverage.

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