MS&AD Holdings Conference Call (August 8, 2014)
FY2014 1Q Results Briefing Q & A Session Summary

Below is a summary of the Q & A session from the IR conference call held on August 8, 2014.

Q1: In regard to the EI loss ratio of Mitsui Sumitomo Insurance, please tell us about the status of voluntary automobile insurance and other lines of business.

A1: In the case of Mitsui Sumitomo Insurance, with respect to 1Q business results, based on the EI loss ratio in the past, we adopted the simplified method to estimate incurred losses after factoring in to a certain extent the impact of exchange rates, the impact of natural catastrophes, and large claims. As a result, the EI loss ratio including loss adjustment expenses improved by 0.8 points year-on-year for all lines and by 2.5 points for automobile insurance.

Q (follow-up): In 1Q business results, was there no impact from prominent major losses in lines other than automobile insurance?

A: In lines other than automobile insurance, it is actually not the case that there were no major losses at all, but there were none that pushed up the loss ratio substantially.

Q (follow-up): Were there no special adjustments in this 1Q for automobile insurance?

A: Concerning automobile insurance, as in the case of the 1Q of last fiscal year, we used incurred losses estimated based on the previous loss ratio, and we believe that the year-on-year improvement in 1Q reflected previous improvement in the loss ratio.

<Supplementary explanation>

Regarding the EI loss ratio, during the telephone conference we replied with figures on the basis of excluding loss adjustment expenses, but after taking into account consistency with the materials, we have integrated and stated the figures on the basis of including loss adjustment expenses.

Q2: Concerning domestic automobile insurance, you explained that the number of accidents had trended at a low level, owing partly to a decline in automobile use caused by the impact of a rise in gasoline prices and the reduction of ETC discounts, but what is your outlook for the number of accidents going forward?

A2: It is very difficult to estimate the number of accidents going forward due in part to the impact of fuel costs and ETC discounts. Our basic view, however, is that as two years have already passed since the introduction of the new class system, from around September 2014, the number of accidents will probably converge with the previous year’s level.

Q3: **I would like to ask about your outlook for automobile insurance premiums. In line with the revision to reference loss cost rates announced in July, what is your outlook regarding how you will revise premiums for automobile insurance? In addition, amendments to the Civil Code relating to statutory interest rates and the calculation of lost profit were debated in the Legislative Council, but what impact do you think this will have?**

A3: Concerning automobile insurance, reference loss cost rates were raised, but there is a clean slate regarding premium revisions for next fiscal year onward. Furthermore, in regard to amendments to the Civil Code, if statutory interest rates change, the results of the calculation of compensation for damages will also change. As the interest rates and the timing of enforcement, however, have not been specifically decided, we are not in a position to decide our response going forward.

Q4: **Regarding the domestic non-life companies, expense ratios have risen on this occasion but what is the background to this and what changes do you expect going forward?**

A4: In regard to expenses at Mitsui Sumitomo Insurance, personnel expenses increased by 3.5 billion yen year-on-year and non-personnel expenses rose by 3.7 billion yen. Within personnel expenses, the impact of incorporating a loss adjustment subsidiary in the parent company was just over 2 billion yen, and the amount that was previously recorded as insurance claims was transferred to personnel expenses. In addition, an increase in retirement benefit expenses also had an impact. In the case of non-personnel expenses, the increase was mostly due to system expenses such as depreciation of integrated systems. At Aioi Nissay Dowa Insurance as well, non-personnel expenses increased by 4.3 billion yen, but this was mostly due to an increase in system-related expenses.

Q5: **Among the factors behind the increase in personnel expenses at Mitsui Sumitomo Insurance, you explained that there was an impact of just over 2 billion yen due to the integration of the loss adjustment subsidiary, but I believe this portion will be deducted from incurred losses. Based on this, what impact was there on the EI loss ratio for automobile insurance stated in Slide 14?**

A5: As the portion of increase in personnel expenses associated with the integration of the loss adjustment subsidiary at Mitsui Sumitomo Insurance represents personnel costs for people engaged in loss assessment, it is treated as a loss adjustment expense.

As Slide 14 shows the EI loss ratio on the basis of including loss adjustment expenses, there is no impact as the total amount of incurred losses is unchanged, even though the method of posting has changed from insurance claims to loss adjustment expenses.

Q6: **Regarding non-personnel expenses at the domestic non-life companies, as depreciation of integrated systems started from July last year, is it correct to understand that the depreciation burden will run its course on a year-on-year basis from 2Q onwards?**

A6: Integrated systems came into operation progressively from July last year and at the same time depreciation also commenced. Therefore, the depreciation burden associated with integrated systems will not run its course in 2Q in comparison with the previous year; rather, we expect it to run its course in 3Q.

Q7: **In 1Q, the reversal of catastrophe reserves due to payments for snowfall damage occurred and it appears that progress in terms of profit was rather high. What trend of progress, however, in the reversal of catastrophe reserves do you expect going forward?**

A7: In 1Q, payments for snowfall damage progressed smoothly, but outstanding claims still remain. Also, with regard to outstanding claims related to the floods in Thailand, we have factored in the payment of most claims of our plan, but it seems there was a slight delay. If the payment of claims progresses as planned, a considerable reversal to the catastrophe reserves will occur. Therefore, after looking at the situation at the end of the fiscal year, when setting our targets we considered a special provision on a scale of 30 billion yen for both companies combined, and our view has not changed at the present time.

Q8: **What is your estimate of the amount of damages related to Typhoon No. 8 (aka Typhoon Neoguri), which occurred in July, and Typhoon No. 12 (aka Typhoon Nakri)?**

A8: At present, this is still a fairly rough estimate, but we believe the amount for Mitsui Sumitomo Insurance and Aioi Nissay Dowa Insurance each will be roughly over 1 billion yen for Typhoon No. 8 (Typhoon Neoguri) and Typhoon No. 12 (Typhoon Nakri), respectively.

Q9: **Investment profit at Aioi Nissay Dowa Insurance seems to be stronger than planned. What is the reason for this? Also, in regard to consolidated earnings, the rate of achievement versus full-year forecasts seems high, but what is your view regarding this, including the revision of consolidated earnings forecasts going forward?**

A9: Regarding investment profit at Aioi Nissay Dowa Insurance, we have incorporated a 5 billion yen loss on devaluation of securities in our full-year estimates. In 1Q, as hardly any losses on devaluation of securities emerged, it appears that things are progressing ahead of schedule compared to full-year estimates, but we expect the result to end up in line with the initial target over the whole fiscal year. We have assumed a certain amount of losses on devaluation of securities for the group in our full-year consolidated earnings forecasts, but there is no need to change our forecasts at the stage of 1Q. Going forward, we will consider whether any revision to our forecasts is required while viewing the situation in 2Q.

Q10: At Mitsui Sumitomo Insurance, it seems that an impairment loss has been booked for capital contributions to overseas life insurance companies, but could you please explain the business conditions at overseas life insurance subsidiaries?

A10: On this occasion, the impairment loss applied to one company in which we made a very minor capital contribution, and it is not a consolidated subsidiary or affiliate. Regarding Asian life insurers that are subject to the equity method, equity-method earnings on a net income basis in 1Q totaled 1.6 billion yen, marking a year-on-year increase of 0.1 billion yen. This represents smooth progress versus the target.

Q11: In regard to net income for the quarter at overseas insurance subsidiaries, could you please explain the impact of new consolidation that has been included in Asia and the state of non-life insurance business in Asia, excluding Asian life insurance operations?

A11: Net income for the quarter in Asia as a whole declined by 0.8 billion yen year-on-year, of which the impact of new consolidation was minus 0.5 billion yen, the Asian life insurers added 0.1 billion yen, and the remainder resulted from the non-life business in Asia. The factors behind the slight decline include the impact of losses in China, but there were no companies that reported a large drop in profit.