

MS&AD Holdings Conference Call (November 18, 2016)

FY2016 2Q Briefing Q&A Summary

Below is a summary of the Q&A session from the IR conference call held on November 18, 2016.

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.

(FY2016 2Q Results)

Q1: Please tell us what caused a worsening of the combined ratio for domestic non-life insurance in the FY2016 2Q year-on-year in page 5, on the basis of both including and excluding natural catastrophes. Please also tell us about why MSI's performance was worse than that of ADI's.

A1: The combined ratio shown here is on a written paid basis. The main cause in the worsening was a substantial reduction in net premiums written for fire insurance.

(FY2016 Forecast: Net income)

Q2: The forecast for net income for FY2016 for the full year is expected to remain on the whole as predicted because the negative effects of a stronger yen will be offset by positive effect of improvement in underwriting results for domestic non-life insurance companies. Market conditions are expected to change in the second half where we now face a weaker yen, high stock prices, high interest rates, and an increase in interest rate in Australian dollars. Please tell us if we should view your revised forecast to be quite conservative if the current market conditions will continue.

A2: We use the average rate for the period for income and expenditure in overseas subsidiaries. Therefore, the exchange rate in recent days will not substantially improve the results of current fiscal year. While the effects of a weaker yen against the Australian dollar and higher interest rate will be positive elements for MSI Primary Life, the current level is within the range of reversals of price fluctuation reserves. It will change if there is further weakening of the yen or a higher interest rate however, it is not a major positive element at present.

SQ (follow up) : May I understand that the current exchange rate situations will not substantially affect performance of this fiscal year because the MS&AD Holdings uses the average exchange rate, but will improve performance in the next fiscal year.

SA: Yes, your understanding is right.

(FY2016 Forecast: Ordinary profit)

Q3: It appears that there is no change in the forecast for ordinary profit on the whole for the full FY2016. Could you please tell us if there are any changes to the forecast for each business including consolidation adjustments, etc.?

A3: The following revisions will be made for each business and company compared to the initial forecast:

Domestic non-life business: MSI: +9.0 billion yen, ADI: +2.0 billion yen, total for 2 companies: +11.0 billion yen

Domestic life insurance business: MSI Aioi Life: -2.0 billion yen, MSI Primary Life: -6.1 billion yen, total for 2 companies: -8.1 billion yen

Overseas subsidiaries: -9.5 billion yen

Consolidation adjustments etc.: +6.5 billion yen

(FY2016 Forecast: EI loss ratio of domestic non-life)

Q4: MSI's EI loss ratio for FY2016 2Q has improved by 2.8 points year-on-year. Please tell us what you are expecting for the full year.

A4: We are expecting the EI loss ratio for MSI excluding natural catastrophes to be 54.8% for the full year. We are expecting an improvement by 1.2 points compared to the initial forecast.

(FY2016 Forecast: Underwriting profit for domestic non-life)

Q5: The underwriting profit forecast for the full FY2016 for MSI has been revised upwards by around 8.0 billion yen compared to the initial forecast, excluding the impact of foreign exchange rates and catastrophe loss reserves. If you ignore the catastrophe loss reserves and the exchange rate fluctuations, it looks as if the underwriting profit forecast for the second half is around 46.0 billion yen. Please tell us the reason for your forecast of a more robust result than the 30.0 billion yen recorded in the previous year, during which there were fewer snow-related losses.

A5: The factor for each item is as follows:

Earned premium: +7.0 billion yen (positive element)

Incurred losses: +10.0 billion yen (negative element)

Net expenses: +5.5 billion yen (negative element)

Other profit/loss: Approximately +10.0 billion yen (positive element)

The main cause in other profit/loss is a decrease in the policy reserve burden for marine insurance where there were substantial losses in the first half.

As a result, we are expecting a +4.0 billion yen increase in profit year-on-year before catastrophe

loss reserves.

SQ (follow up): Not only were there fewer snow-related losses in urban areas last year, but I believe there were also fewer winter snow-related losses in northern Japan, as there was less snowfall there. I believe the increase in incurred losses of around +10.0 billion yen is rather small. Please explain the factors involved here.

SA: During the second half last year, there were many large loss incidents in fire insurance, among others, and this year we are expecting these to be around the same level as usual. In other words, we are not expecting them to be as much as last year. We are currently expecting incurred losses to be around the same as forecast.

(FY2016 Forecast: Net income for domestic non-life)

Q6: The analysis of Group consolidated net income forecast for the full FY2016 shows that the incurred losses will improve by 40.0 billion yen compared to the initial forecast. Please give us a breakdown of the positive factors.

A6: The impact of exchange rate is 23.8 billion yen. The remaining 16.2 billion yen is mainly due to improvement in the loss ratio. We carried out a review by referring to interim status of mainly voluntary automobile and fire insurances.

Q7: Please tell us why you are forecasting a reduction in incurred losses despite expecting an increase in domestic natural catastrophes to 63.6 billion yen, compared to 62.5 billion yen in your initial forecast, as part of your assumptions for the full-year performance forecast for FY2016. Please also tell us about the possibility of deferral of claim payments to the next fiscal year.

A7: The forecast increase in domestic natural catastrophes is slight, and is almost the same as the initial forecast. We have reduced incurred losses other than domestic natural catastrophes, mainly due to expected improvement effects in the loss ratio for voluntary automobile and fire insurance. We foresee a reduction in incurred losses will lead to a reduction in claim payments, and the reversal of catastrophe reserves will decrease accordingly.

(FY2016 Forecast: Net income for overseas subsidiaries)

Q8: You are expecting net income for overseas subsidiaries to be 44.0 billion yen in your full FY2016 forecast. Please tell us the breakdown including comparison with the initial forecast.

A8: The breakdown of 44.0 billion yen (comparison with initial forecast) is as follows. We expect a

total reduction of 11.0 billion yen compared to the initial forecast.

Asia: 14.2 billion yen (-2.7 billion yen), Europe -2.3 billion yen (-2.1 billion yen)

MS Amlin: 21.2 billion yen (-7.6 billion yen), Americas: 2.6 billion yen (-0.3 billion yen),

Reinsurance: 8.2 billion yen (+1.7 billion yen).

The main causes for the fluctuation are -3.5 billion yen for integration costs for MS Amlin, a foreign exchange impact of -3.7 billion, and others of -3.8 billion. The main factor in others is a worsening investment environment for MS Amlin as of the end of June. While it has recovered now to a certain extent, the forecast for the whole year is expected to be lower than the initial forecast. On the other hand, the reason for an increase in Reinsurance compared with the initial forecast is due to a lower than expected number of natural catastrophes in the first half-year, and a reduction was made to account for that.

SQ (Follow up): Please tell us the negative factors for Asia and the reason why the full-year forecast was increased substantially to 21.2 billion yen at MS Amlin, while the interim net income for MS Amlin was only 2.9 billion yen. Please tell us whether this forecast was made after seeing the results for MS Amlin at the end of September .

SA: The main factor in our forecast for net profit in Asia to decline by 2.7 billion yen compared to the initial forecast is the negative impact of exchange rates of 1.1 billion yen. The remaining 1.6 billion yen is the expected reduction in net income from the initial forecast due to the increase in the policy reserve burden for Asian life insurance business as a result of the fall in interest rates. On the other hand, Asia non-life business is in line with the initial forecast, excluding the impact of exchange rates.

MS Amlin's profits did not grow much due to difficult investment conditions throughout the interim period as well as the impact of large losses amounting to around 12.0 billion yen including the Canadian forest fires and the earthquake in Taiwan. However, investment conditions have been improving in the second half. In terms of underwriting, large loss claims have not yet been finalized and it is possible that there will be investment fluctuations due to future conditions. However, we are forecasting a profit of around 21.2 billion yen based on our revised plan in light of conditions at the end of September.

Q9: You explained that investment conditions for MS Amlin were difficult throughout the interim period. Please tell us if impairment losses affected the PL or if losses have already been settled through the actual posting of sales losses.

A9: MS Amlin's investment operations were basically affected by impairment losses, and the causes

of its impairment losses were the fall in stock prices and an increased credit spread as of the end of June.

SQ (Follow up): The pound has been falling since June and I presume it will have a positive effect on the foreign currency-based business of MS Amlin.

Could we say that because MS&AD Holdings uses the average rate it will not substantially affect performance during this fiscal year, but will improve the performance quite significantly in the next fiscal year?

SA: MS Amlin has been formulating its plans bearing in mind the movement of the Pound since June. It is neither conservative nor aggressive, and plans have been drafted from a neutral position.

(FY2016 Forecast: Group Core Profit for International business, Financial Services business)

Q10: The Group Core Profit in the full FY2016 forecast shows a reduction of 4.0 billion yen compared to the beginning of the year for International business. Is it correct to understand that the positive results for Reinsurance business have remained positive? In addition, please tell us the factors involved in MS Amlin's recovery to -6.0 billion yen for the full year compared to the initial results.

Please also tell us the reasons why the Financial Services business is expected to finish at -4.0 billion yen compared to the forecast at the beginning of the year.

A10: The breakdown for the forecast of -4.0 billion for International business's Group Core Profit compared to the initial forecast of the year is as follows:

Overseas subsidiaries: -7.5 billion yen

International business at head offices in Japan: +3.5 billion yen

MS Amlin accounts for approximately -6.0 billion yen of the -7.5 billion yen for the overseas subsidiaries. In Reinsurance business, natural catastrophes are expected to be below the forecast at the beginning of the year, resulting in approximately +2.0 billion yen, and the increased policy reserve burden for Asian Life Insurance business in Asia due to the fall in interest rates is forecast to be -2.7 billion yen.

International business at head office in Japan originally had a negative in profit. However, the impact of the strong yen worked in its favor and resulted in +2.3 billion yen and the remaining +1.2 billion yen reflects the improvement in incurred losses.

The -4.0 billion yen for Financial Services business takes into account the large loss for guarantee insurance to a certain level.

(Issuance of Subordinate Unsecured Bonds)

Q11: You announced you will undertake financing through subordinated unsecured bonds today.

Please tell us how the funds will be used, and if they will be primarily for life insurance subsidiaries. In addition, compared to MSI's procurement, the holding company's procurement would normally result in a bond rating one notch lower. Please tell us about the outlook for the rating.

A11: At the time of this announcement, only the general framework of procurement has been decided and we have not yet resolved on the actual use of funds. Therefore, we cannot say anything definite. In terms of the use of funds, however, as you have mentioned, a capital increase at MSI Aioi Life with lower ESR due to the effects of negative interest rates is one of possible options. In addition, we are considering use of the funds for long-term investments and for share buybacks.

Next, regarding your question on bond rating, as you would be aware, we do not have a rating as a holding company, so we are currently undertaking procedures to obtain one. Because we are currently undergoing assessment, I cannot say anything definite. Nevertheless, I have been told that whether our rating will lower than that of MSI or not will be influenced by the outlook for our future leverage ratio and other factors.

Q12: Please tell us the rough breakdown of the issue of the subordinated unsecured bonds. Please explain if underlying the issue of the debentures are plans to use them for leverage while you mentioned share buybacks is one of the use of funds.

A12: As per the previous answer, we have not decided how much we will appropriate to what. What we have decided on is to proceed with three issues, with 150.0 billion yen as the upper limit, and general possibilities for use of the funds.

As you would understand, we will undertake this procurement as part of our efforts to ensure maintenance of our financial soundness and improvement in capital efficiency. From this perspective, I mentioned share buybacks as an option. Please understand that the funds can possibly be used for share buybacks in the future.

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