

## **MS&AD Insurance Group Holdings Conference Call (May 20, 2013)**

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

Following is a summary of the Q & A session from the IR conference call held on May 20, 2013.

Q1: Overseas subsidiaries recorded net income of 12.6 billion yen in fiscal 2012, but how much was this affected by Hurricane Sandy and the downturn in the market value of investment portfolio in Sinarmas MSIG Life?

A1: The incurred loss from Hurricane Sandy amounted to 6.8 billion yen for the entire group including Mitsui Sumitomo Insurance, Aioi Nissay Dowa Insurance and overseas subsidiaries. Of that, the incurred loss for overseas subsidiaries was 1.8 billion yen. Regarding to the effect of Sinarmas MSIG Life, we will not disclose the figure, but we believe that this is a transient occurrence due to the effects of the market.

Q (follow-up): Are the incurred losses of overseas subsidiaries due to Hurricane Sandy included those of subsidiaries in the Americas or the reinsurance subsidiaries?

A: Of the 1.8 billion yen in incurred losses of overseas subsidiaries, subsidiaries in the Americas accounts for 0.4 billion yen, and the reinsurance subsidiaries accounts for 1.2 billion yen, and the remainder is accounted for under Other.

Q2: The forecast of net income for overseas business in FY2013 is doubled to 25 billion yen, but what are the factors contributing to this?

A2: To explain the contributing factors by region, income is expected to increase by 7.3 billion yen in highly profitable Asian operations (including Asian life insurance), and income in Europe, the Americas and reinsurance are expected to increase by 2.0 billion yen, 1.4 billion yen and 1.6 billion yen respectively, primarily due to improvements in underwriting income.

Q3: The outstanding claims of the floods in Thailand is expected to result in 81 billion yen for Mitsui Sumitomo Insurance and Aioi Nissay Dowa Insurance as of the end of FY2012, but how much payment do you expect to be made by the end of FY2013?

A3: We plan to pay almost the entire amount.

Q (follow-up): If the entire amount is paid, a reversal of the catastrophe reserves totaling approximately 80 billion yen is expected, but under the current plan for

FY2013 the net reversal of the catastrophe reserves is only forecast to be approximately 30 billion yen. Do you plan to make a special provision of 50 million yen?

A: The catastrophe reserves for fire insurance at times is calculated by the fire insurance group, and the amount to be paid for the floods in Thailand will not necessarily be the amount of the reversal.

A reversal of the catastrophe reserves is affected by the payment of insurance claims due to floods in Thailand and other natural disasters not being as anticipated, and insurance premiums fluctuating from expected levels. Because of this, we have adopted a conservative view of the reversal to ensure the overall plan can be achieved even in such cases in the current performance forecast.

Q (follow-up): If the payment of claims for the floods in Thailand is completed in full as planned, is it right to assume that the difference will be realized as profit?

A: We do not believe that the difference will automatically result in an upward movement in performance.

Q4: In FY2013, Mitsui Sumitomo Insurance and Aioi Nissay Dowa Insurance both plan for the net expense ratio to increase. Is it correct to understand that this is a result of IT-system-related expenses added from FY2013 as explained in the past? Furthermore, you have stated that the synergy effects of integration will total 45 billion yen in FY2013. Could you please comment on progress in that regard?

A4: First of all, synergies stemming from business integration are expected to reach 45 billion yen by FY2013. Compared to total corporate expenses in FY2008, cost reductions of approximately 40 billion yen had been achieved at the end of FY2012. This is not all attributable to integration synergies, but we are steadily making progress. We will explain the details in the information meeting to be held on June 4.

Meanwhile, the increase in the net expense ratio in FY 2013 is due to system development expenses, which exceeded the 45 billion yen initially planned by approximately 10 billion yen in total. In addition, we believe that more than 10 billion yen in additional expenses will be required in FY2013, stemming from a increase in costs to update the new system due to a growing number of product revisions on the existing systems which occurred during development of the new system, staff training expenses for use of the system, and the cost of ordering documents and forms required, as a result of bringing forward the timing of product revisions to coincide with the system upgrade. This was one of the major factors in the increase in the net expense ratio.

Q (follow-up): System development expenses will increase from the initial plan of 45 billion yen to 55 billion yen, so is it correct to understand that the depreciation and amortization divided over five years will increase by around 2.0 billion yen for each year compared to the amount initially planned?

A: That is generally correct.

Q5: Please explain the grounds for setting limits on the number of shares acquired and the acquisition amount for the purchase of treasury stock announced today? If you purchase 2.5 million shares at the current share price, this will exceed 5.0 billion yen. Could you explain this?

A5: The limits on the number of shares acquired and the acquisition amount are set using the share price over the past three months and not simply today's share price. We will spend up to 5.0 billion yen and have also set 2.5 million shares as another limit. I think you could see this as providing shareholder returns totaling 5.0 billion yen based on the current share price.

Q6: I would like to ask about the integrated risk management. What was the difference between total risk exposure and net asset value (NAV) at the end of FY2012?

A6: We are currently investigating the total risk exposure and net asset value (NAV). These will be explained at the information meeting scheduled to be held on June 4.

Q7: Could you tell us the level of group core profit for FY2012 and FY2013? Were the decisions to purchase treasury stock and increase dividends based on this?

A7: We are currently investigating group core profit for FY 2012, but the preliminary figures show it to be around 87 billion yen. For FY2013, we are targeting group core profit of around 110 billion yen, and we believe that we can reach this level. We will explain the details in the information meeting to be held on June 4.

Q (follow-up): I would like to confirm your policy to provide shareholder returns equal to half of the group core profit?

A: There is no change to our policy of returning approximately 50% of group core profit to shareholders. However, this does not necessarily mean we will return 50% every year. For example, last year, we maintained a stable dividend despite recording a negative group core profit, and we, as management, plan to determine the amount of shareholder returns each year while monitoring overall conditions as well as conditions in adjacent

years including cases such as this.

Q8: I would like to ask about the capital gain/loss of the domestic core non-life companies. In your plan for FY2013, you state that this will be a gain of 19.3 billion yen. Could you provide a breakdown of this amount? Also, do you have any plans to sell strategic equity holdings this fiscal year?

A8: Compared to FY2012, we expect the loss on devaluation of securities to decrease by 32.3 billion yen and gains on sales of securities to decrease by 13 billion yen in FY2013 (note: after purchase adjustments).

We aim to sell 300 billion yen of strategic equity holdings over the three years from FY2011 until FY2013, and we sold approximately 200 billion yen by FY2012. We plan to sell the remaining 100 billion yen in FY2013.

Q9: You have forecast a decrease in earnings in the domestic life insurance business in FY2013. Why is this?

A9: This is mainly due to that MSI Primary Life has recorded a significant increase in earnings because of the rapid depreciation of the yen during FY2012, but our plan for FY2013 is based on the assumption that the exchange rate will remain at the same level as the end of March 2013. We do not anticipate any gains from depreciation of the yen.

Q10: In the forecast for FY2013 shown in Addendum 17, Mitsui Sumitomo Insurance's incurred losses other than for natural catastrophes are forecast to decrease by 35.4 billion yen, but does this include the decrease due to the absence of the increase in outstanding claims in foreign currency that occurred in FY2012 due to the impact of the depreciation of the yen? What would this be if this factor is excluded?

A10: The increase in incurred losses (excluding natural catastrophes) that occurred in FY2012 includes an increase of 10.3 billion yen in incurred loss stemming from the depreciation of the yen at the end of the fiscal year. The decrease in the incurred losses for FY2013 does take into account the absence of this factor.

Q (follow-up): If that is the case, in which lines do you expect incurred losses to decrease with regard to the decrease in incurred losses other than natural catastrophes in FY2013? Is it correct to assume that this will mainly be automobile insurance, or does this entail a decrease of heavy claims in fire insurance?

A: We anticipate a decrease of approximately 20 billion yen due to a combination of heavy claims in fire and "Other" line insurance being on par

with typical years and the absence of the previous year's effects of foreign exchange. Furthermore, we expect incurred losses in automobile insurance to decrease by approximately 8.0 billion yen. This includes the effects of slightly less than 4.0 billion yen arising from the change in costs previously handled as insurance claims being treated as company expenses (loss adjustment expenses) due to the temporary transfer of employees from a loss adjustment subsidiary.

Q (follow-up): The forecast decrease in incurred losses in automobile insurance seems small. Is this because you have adopted a conservative view of this value?

A: We have not adopted an especially conservative view for automobile insurance compared to other lines.

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