

## **MS&AD Holdings Conference Call (August 7, 2015) FY2015 1Q Results Briefing Q&A Summary**

Below is a summary of the Q&A session from the IR conference held on August 7, 2015.

**Q1: The loss ratio in your domestic non-life insurance business has fallen ignificantly. In regard to the EI loss ratio excluding natural catastrophes, Mitsui Sumitomo Insurance (MSI) was down 6.0 points, while Aioi Nissay Dowa Insurance (ADI) was down 2.2 points. What is your analysis of the factors behind this decline?**

A1: As you know, MSI calculates the EI loss ratios using the loss ratio method, which uses the average of the loss ratio for the previous three years in principle. The downward trend in loss ratios in the past affects the drop in the fiscal first quarter in most classes of insurance.

The EI loss ratio in automobile insurance has also fallen 9 points year-on-year which includes the impact of alternation of calculation method. Even calculating the loss ratio in the same way of the previous year which is using the loss ratio for one-year period from April to March of the previous fiscal year, EI loss ratio would yield an approximate 5-point drop, reflecting the improving trend in FY2014. In addition, we have changed the method for calculating both vehicle damage and property liability coverage loss ratios, it is based not on the previous fiscal year but on the loss ratio for the actual result of the period of April through June. Seasonally, the first quarter's loss ratio tends to be somewhat lower than that for the full year. The effect of modification of the calculating methods resulted in lowering the incurred loss by approximately 6.0 billion yen. To date, we have taken a somewhat conservative approach, particularly in the years when loss ratios are declining, and figures in the new calculating methods more closely reflected calculating declines in loss ratios, and these figures more closely reflect the actual situation.

With regards to ADI, the EI loss ratio excluding natural catastrophes continues to drop. This is primarily due to a decline in the number of accidents in automobile insurance, as well as fewer major accidents in fire insurance, etc.

**Q2: Mitsui Sumitomo Primary Life Insurance (MSP Life) has posted 25.6 billion yen in net income, significantly exceeding the 12.5 billion yen provided in its full-year earnings forecast. In the past, when income has moved significantly upward as of the end of the fiscal year, we would expect to see an adjustment made in the form of additional provisions to price fluctuation or contingency reserves. Do you plan to make this kind of adjustment for this fiscal year?**

A2: Our rough estimate is that 20.0 billion yen of that 25.6 billion yen reflects the impact of a rise in Australian dollar interest rates. It has not been our practice to incorporate interest rate or exchange rate fluctuations in our full-year earnings forecast. Excluding the impact of interest and exchange rates, MSP Life's results are almost as initially planned. We are assuming that sales of the new product launched this fiscal year will continue to grow, but because commissions for this product are heavily weighted in the first year of sales, it is possible that profits will decline for a time as sales grow. Further, interest rates may fluctuate significantly, and it is not clear what interest rate levels will be like at fiscal year-end. In the event the impact of interest rates results in a significant increase in net income, we will consider setting a certain portion of the increased net income aside in preparation for future fluctuations.

Q3: **Tell us about your outlook for underwriting profit in domestic non-life insurance for both Q2 and the full fiscal year. Will the EI loss ratio continue to improve, as was assumed at the beginning of the fiscal year, and will that be a factor in boosting net income?**

A3: With regards to incurred loss and EI loss ratio, the numbers shown in the Q1 results do not indicate a significant drop below our initial assumptions at the beginning of the fiscal year. I explained earlier that the approximately 6.0 billion yen decline in the incurred loss for automobile insurance at MSI was due to the modification of the calculating methods in the loss ratio method, and that includes the impact of using actual result for the April through June period, when historically there have been relatively fewer accidents. While the number of automobile insurance accidents in the near term was better than initially assumed, we are approaching typhoon season, and we believe things are too unpredictable for us to say that the EI loss ratio for the interim and full-year periods will improve over our initial forecast.

Q (follow-up): Typhoons 11 and 12 occurred in July. What was the extent of the damages?

A: For the Group as a whole, we believe damages will be at the 2.0-3.0 billion yen level.

Q4: **Excluding exchange rate impact, net income at your overseas subsidiaries totaled 8.9 billion yen. Is it safe to say that income is performing above your initial forecast of 29.0 billion yen for the full fiscal year?**

A4: It has been pointed out that the rate of progress at our overseas subsidiaries is high, but note that this varies somewhat from region to region. In Asia, Q1 net income was 5.2 billion yen against 19.3 billion yen in the full-year plan. Since the loss ratio has improved

across almost all regions, and is trending at levels better than originally expected, it is possible that net income will move upward for the full year as well. In Europe, Q1 returned 1.2 billion yen in net income against a full-year plan calling for a 0.9 billion yen loss. The new acquisition of BIG is expected to generate about 3.0 billion yen in initial costs, the impact of which, while originally anticipated, is forecast to result in a small loss. The Americas are currently performing more or less on track.

In reinsurance business, net income in Q1 was 2.8 billion yen against a full-year plan of 7.3 billion yen. There were no major natural catastrophes in Q1, but results may vary depending on whether any major catastrophes occur over the remainder of the fiscal year.

**Q5: We understand that ADI has brought a claims related subsidiary in-house. Does this mean we can expect to see non-personnel expenses drop significantly in Q2 and beyond?**

A5: We expect progress will continue as per the initial plan.

**Q6: What can you tell us about the number of accidents under automobile insurance in July?**

A6: This is a preliminary figure, but the number is up 0.6% at MSI, which, combined with AD, puts it at about the same level year-on-year.

**Q7: Can you tell us why the incurred loss for fire insurance at MSI has declined compared to Q1 last year?**

A7: This is partly due to the fact that the three-year average EI loss ratio declined compared to the previous year. Other than that, while this incorporates certain major incurred losses that arose in Q1, payments for a major outstanding claim pending concluded at a lower amount than expected, and the resulting negative incurred loss amounting to several billion yen was also a factor.

**Q8: The Indian government has raised the limit on foreign ownership. Are you considering increasing your stake in companies in which you have invested in India? Or are you considering selling that stake via an IPO or other means?**

A8: We are currently considering whether to increase our ownership percentage.

**Q9: You mentioned that about 20.0 billion yen in net income at MSP Life reflects the impact of interest rates, and that by the end of the fiscal year you may apply some portion of that amount to internal reserves, etc. Can you tell us whether, as of Q1, this 20.0 billion yen interest rate impact has been incorporated in Group Core**

**Profit, which is subject to shareholder returns? Also, if this amount is to go into internal reserves at fiscal year-end, will it be left a part of group core profit at that point, or be excluded?**

A9: This interest rate-related portion is also included in Q1 Group Core Profit. Also, in the event an additional provision is made for price fluctuation reserves at MSP Life, this will also be included in Group Core Profit. (Group Core Profit will decline in the event MSP Life makes an additional provision for price fluctuation reserves.)

Note that when a non-life insurance subsidiary makes an additional provision to price fluctuation reserves, this will typically not be included in Group Core Profit. In part, this is because the provision is largely intended to cover future losses on devaluation of strategic equity holdings, and is thus not included in Group Core Profit, and also because gains and losses on the sale of strategic equity holdings are also not included in Group Core Profit. (Even if a non-life subsidiary makes an additional provision for price fluctuation reserves, Group Core Profit does not decline.)

**Q10: There seem to have been few sales of strategic equity holdings in Q1. Does this mean we can expect to see a sizeable level of gains from sales in Q2? In addition, can you tell us about your forecast for gains on sales in the current fiscal year, and the amount sold off in Q1 last year?**

A10: As you note, with Q1 also coinciding with the timing of the general meeting of shareholders, accelerating this activity is difficult, but heading into Q2, reports are that in the near term, sales are moving steadily forward. As for accelerating those sales, as CEO Karasawa explained in the briefing, we expect to move ahead at a pace that exceeds last fiscal year's 91.0 billion yen.

Note that sales in Q1 of the previous fiscal year totaled 21.2 billion yen. For the current fiscal year, we are planning on gains on sales of strategic equity holdings amounting to 45.2 billion yen at MSI, and 8.8 billion yen at ADI.

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