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Business Update Call - First Information Meeting

Company Participants

- Yasuyoshi Karasawa, President, Chief Executive Officer & Representative Director

Other Participants

- Futoshi Sasaki, Analyst
- Kazuki Watanabe, Analyst
- Koichi Niwa, Analyst
- Koki Sato, Analyst
- Masao Muraki, Analyst
- Natsumu Tsujino, Analyst
- Tatsuo Majima, Analyst

MANAGEMENT DISCUSSION SECTION

Yasuyoshi Karasawa {BIO 7391405 <GO>}

Hello, everyone. My name is Yasuyoshi Karasawa, President and the CEO of MS&AD Insurance Group Holdings. Thank you for joining us at our Information Meeting today.

The Wall Street Journal described last year as the year in which everything that couldn't, shouldn't and wouldn't happen happened. With Britain's departure from the EU, the election of Donald Trump as President of the United States, the removal of Brazil's President from office and the impeachment of South Korea's President. Underlying these events are the same fundamental challenges of growing inequality, social division and injustice. And the global economic and the political landscape seems to reflect the situation, leading to an even greater sense of uncertainty.

Last fiscal year was a year in which the world experienced the highest number of natural disasters since 2011. Japan was hit by the Kumamoto earthquakes in April and six typhoons over the course of the year. Overseas, there were wildfires in Alberta, Canada in May, a hurricane in the United States in October, and an earthquake in New Zealand in November. It is precisely in times like these that management utilizing diversity, which is a strength the MS&AD Insurance Group comes into its own. And I believe it is important to further increase management transparency and to make steady progress toward our vision.

Now, please turn to page 1 of the handout. This page shows the main points of today's presentation. I'll begin by talking about the promotion of management utilizing diversity, which is seen as a strength of the MS&AD Insurance Group, from the three perspectives

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of establishment of the business portfolio to be achieved, digital strategy for sustainable growth, and contribution towards sustainable development of society.

Next, I'll outline progress on Next Challenge 2017, which is now in its final year, starting with progress toward numerical management targets and then moving on to the status of each business domain. After that, I'll discuss promotion of ERM and strengthening corporate governance, which the Group is focusing on as driver initiatives and our Next Challenge 2017. Finally, I will talk about shareholder returns.

Please turn to page 2 the handout. As of the end of fiscal year 2016, domestic non-life insurance business accounted for approximately 70% of the Group core profit as its profitability has improved. Meanwhile, in the domestic life insurance business, MS Primary Life became a business that can be expected to generate stable earnings with policies in force exceeding ¥5 trillion.

Also in international business, although earnings were less than expected due to a combination of factors such as the occurrence of a large number of natural catastrophes and the impact of exchange rates fluctuations, the inclusion of MS Amlin laid the foundations for steady growth in the future. Moving forward, the Group aims to achieve a ratio of domestic non-life insurance business to other business of 50:50, while maintaining earnings from domestic non-life insurance business at the same level. Furthermore, in the future, we intend to increase the share of international business to 50%.

Please turn to page 3 of the handout. The first step of management utilizing diversity, which is positioned as a Group strength, is achievement of further growth and efficiency in domestic business through reorganization by function. The reorganization initially planned at the time of formulation of Next Challenge 2017 has gone ahead more or less to plan.

Firstly, we have made steady progress reducing costs, and now expect to be able to just about achieve the fiscal year 2017 target cost reduction from the fiscal year 2011 level, which we raised to ¥60 billion. In addition, the standardization of products and operational procedure and the reorganization of claims services currently under way will drive the Group's further growth and efficiency in the next stage.

Please turn to page 4 of the handout. In the international business, with the inclusion of MS Amlin from fiscal year 2016, we now have a global management structure under which international businesses will utilize each other's diverse strength. The merger of Amlin with MSI's Lloyd's business and MSI's reinsurance business was completed in fiscal year 2016. And cost synergy of business integration of approximately ¥8 billion is expected from fiscal year 2017. Through our networks in Asia and the United States where we have previously provided traditional insurance products, we will supply (06:12) products under the world-leading (06:15) brand and carefully develop new markets. We also plan to pursue sophistication of ERM through increased personnel exchanges with MS Amlin.

Next, I would like to talk about our digital strategy for sustainable growth. Please turn to page 5. In the insurance industry, as in other industries, advances in digital technologies

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such as IoT, robotics, and AI are likely to bring about the kind of reforms never experienced before in product and service development and marketing and office operations. We see these reforms brought about by innovation not as a threat, but as an opportunity for business development.

As announced last fiscal year, we are making business investments of more than ¥100 billion over four years, starting from fiscal year 2016. Last fiscal year, we set up specialist teams at Group companies in Japan, Asia and Europe to examine digital strategy. Starting this fiscal year, we are assigning staff in charge of digital strategy to a wide range of business units and are conducting demonstration experiments for the application of digital ICT in various insurance operations, including product development, underwriting, sales and solicitation, office administration, premium collection and claim services.

We are also promoting worldwide the use of digital technology such as BIG's advanced telematics technology and MS Amlin's marine insurance block chain technology. We are also promoting global ICT innovation by dispatching representative, as well as investing in a strategic fund of funds at Silicon Valley and researching and gathering information about cutting-edge ICT.

Please turn to page 6 of the handout. In telematics business, the Group acquired the advanced telematics technology of BIG Group including Insure The Box Limited, a leading telematics car insurance company in the UK in 2015 to demonstrate its superiority in this field and expand its business globally. In April 2004, the Group joined forces with Toyota to launch Japan's first mileage-linked car insurance PAYD.

In April 2016, following the acquisition of BIG, the Group teamed up with Toyota to establish a company for providing telematics car insurance services in the U.S. The rollout of telematics insurance services in the U.S. market is now in sight. Also, only and after the second half of fiscal year 2017, the Group plans to launch Japan's first Pay How You Drive or PHYD-type telematics car insurance.

Please turn to page 7 of the handout. The MS&AD Insurance Group conducts business activities in-line with MS&AD's story of value creation. We have received recognition from external bodies for our efforts to develop and provide products and services that contribute to resolving social issues, namely frequent accidents and disasters, extensive natural disasters caused by climate change, mounting burden of nursing and medical care due to demographic aging, and decreasing vitality of local communities. Through such activities, we contribute to communities' sustainable development and achieve sustainable growth. For further details on MS&AD's story of value creation, please refer to page 71 later on.

Next, please turn to page 8. I believe that for the MS&AD Insurance Group, it is human resources that hold the key to enhancing our corporate value. The creation of a challenging working environment and the development of diverse professional human resources will increase the Group's vitality and provide the basis for sustainable growth. We will push ahead with work style reform across the entire Group, promoting flexible and

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diverse ways of working, encouraging human resources to work in various environments and demonstrate their full potential.

I will explain our progress of Next Challenge 2017. Please turn to page 9. In fiscal year 2016, Group core profit amounted to ¥213.7 billion, up ¥66.1 billion year on year, exceeding the revised forecast by ¥19.3 billion. Overall, we are making steady progress. In fiscal year 2017, we expect consolidated net premiums written to fall short of the target, amounting to ¥3,450 billion, largely due to the impact of the difference in exchange rates compared to when the targets were set. However, I think it is highly probable that we'll achieve the main numerical targets for the final fiscal year of the medium-term management plan, with Group core profit of ¥230 billion and Group ROE of 8.4%.

Next, I'll outline the status of each business segment. Please turn to page 14 of the handout. In domestic non-life insurance business, net premium written decreased, albeit slightly, due to the (13:07) to an events spike before the fire insurance premium rate hike in fiscal year 2015. However, earned premiums increased by ¥66.1 billion due to increased premium from fire, voluntary automobile and other insurance lines. Meanwhile, profitability improved further, with the combined ratio reaching 91.4% on an E/I basis, down 2 points year on year.

Please turn to page 17 of the handout. Growth in the casualty market can be identified as one of the drivers of improvement in the profitability of the domestic non-life insurance business. In particular, the SME market shows steady growth and it is a market where there is still much room for development in the future. We will also anticipate social changes and advances in technology and will provide products necessary for new business and new risks in a timely manner; thus, meeting new customer needs and translating this into increased income.

I will now move on to the domestic life insurance business. Please turn to page 22 of the handout. At MSI Aioi Life, annualized new business premiums in the third sector insurance for fiscal year 2016 increased by 12.7% year on year due to strong sales of New Medical Insurance Ace Plus, launched in May 2016.

Policy is to increase core capital through ¥100 billion net capital boost in March 2017 and to expand sales to cross-selling markets, focusing on protection-type products that capture customer needs to increase earning power.

Please turn to page 24 of the handout. At MSI Primary Life, premium income has exceeded ¥1 trillion for three consecutive years through initiatives such as a launch of a new currency option type fixed special whole life insurance that incorporates customers' gift and succession needs and as a customer-oriented business operation. Also, in terms of Group core profit, MSI Primary Life has stably generated premium income of between ¥12 billion and ¥12 billion, and the company is a major strength of the Group.

Please turn to page 26 of the handout. I will now talk about the international business. Group core profit in fiscal year 2016 was ¥34.6 billion, falling short of the target by ¥14.1 billion as a positive effect on the consolidation of MS Amlin was offset by the negative

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impact of natural catastrophes, et cetera. In fiscal year 2017, Group core profit is expected to rise sharply to ¥64 billion, reflecting the special factor of a gain on stock exchange of ¥21 billion associated with the merger of Max Life and Asian Life Insurance Business, in addition to the recovery in the performance of MS Amlin.

From fiscal year 2017, the business of MS Frontier Reinsurance, which previously came under the reinsurance business, will be integrated into MS Amlin. And inward reinsurance business, previously underwritten by ADI head office, was reclassified into international business, then has earnings management by location of risk.

Please turn to page 27 of the handout. MSI Amlin, which was newly included in the scope of consolidation from fiscal year 2016, achieved increased income despite a soft market, reporting net premiums written of £2,654 million, an increase of £262 million from the previous year. Net income declined £183 million year-on-year to £27 million as a result of special factors such as a higher than usual number of large scale natural disasters and the lowering of the UK statutory interest rate in fiscal year 2016.

In fiscal year 2017, net income is expected to increase by £132 million from the previous year to £250 million on integration basis, reflecting the absence of the special factors that occurred in fiscal year 2016 and the cost synergies as a result of the integration of MSI's Lloyd's business and MSI's reinsurance business.

If we compare MS Amlin with MS&AD Insurance, which underwrite traditional insurance products and adopts a conservative investment strategy, MS Amlin is characterized by its preference for relatively high-risk return through a flexible underwriting, specializing in commercial lines and an active investment strategy. As shown by the graph on the right titled Trends in ROE, although MS Amlin's ROE has fluctuated significantly under sophisticated ERM, the average ROE in the past 10 years has been 15.4%.

Next, I'd like to explain the status of a promotion of ERM, which is one of the drivers for Next Challenge 2017. Please turn to page 36 of the handout. The improvement in ROR of domestic non-life insurance business has driven the improvement in the ROR of the entire group to 8%, increased by 2.5 points. The Group will accelerate efforts to achieve its medium-term target of ROE on the 10% level by implementing the PDCA cycle on ROR and VA, and developing ERM's front line penetration measures.

Please turn to page 41 of the handout. Internal reserves after shareholder returns will be invested for internal growth that seeks to improve the competitiveness and efficiency of existing businesses and for research development aimed at future environmental changes, and will be used to invest in external growth that will contribute to strengthening true competitiveness under stringent selection criteria.

In particular, investment in international business will be conditional upon the identification of an affinity with acquisition candidates in terms of corporate culture, and investment projects must be projects that will contribute to sustainable improvement in the Group's capital efficiency by creating synergies with existing business and diversifying risks.

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Through these measures, we aim to accelerate competitiveness and efficiency and achieve sustainable growth.

Please turn to page 42 of the handout. I would now like to talk about strengthening of corporate governance. This fiscal year, we plan to appoint one more outside director, bringing the total number of outside directors to five. As a result, the ratio of outside directors will increase to just over 40%. The Group is also working to improve the objectivity of the process of determining executive personnel affairs and officer remuneration. The nomination committee and the remuneration committee deliberate the policy for selecting candidates for directors and corporate auditors and the policy for remuneration of directors and executive officers, aiming for a more transparent and appropriate governance system.

Lastly, I will talk about shareholder returns. Please turn to page 43 of the handout. There is no change to our shareholder returns policy of making returns through a combination of dividends and share buybacks, aiming to return approximately 50% of Group core profit to shareholders in the medium run. This fiscal year, we announced share buybacks totaling ¥30 billion, and we repurchased our own shares flexibly with due consideration to market conditions in accordance with this policy.

In fiscal year 2016, the annual dividend is planned to rise ¥30 from the previous year to ¥120. In fiscal year 2017, the annual dividend is expected to rise a further ¥10 from the previous year to ¥130. In addition, 40 million treasury shares with 6.3% of total shares outstanding will be cancelled.

I would like to touch upon our decision to offer shareholder returns in the form of increased dividends instead of the repurchase our shares, about which we have received questions. As you can see from the records of our dividends, that have never decreased to-date. We have been conducting business while keeping in mind the high value of continuing to pay dividends stably.

Therefore, I hope that you will understand that increasing the dividend to ¥130 in the current fiscal year from ¥120 a year ago represents our confidence that such an increase will be continued from the perspective of the revenue structure. That said, there has been no change in our position that our current stock price is below a satisfactory level. We'll also continue to buy back our shares as flexibly as ever.

In fiscal year 2016, we welcomed MS Amlin to the MS&AD Insurance Group, and succeeded in developing growing markets based on our business model which utilizes diversity. In fiscal year 2017, which is a final year under the current medium-term management plan, we'll work to steadily achieve the targets set out in the plan. We'll also push ahead with reorganization by function and seek improvement in capital efficiency through the promotion of ERM to create a world-leading insurance and financial services group from the next medium-term management plan.

We ask for your ongoing support as we continue to make efforts to live up to the expectation of investors and other stakeholders.

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Q&A

Q - Natsumu Tsujino {BIO 2234779 <GO>}

I am Tsujino from JPMorgan. My first question is about the automobile insurance. MS&AD's E/I loss ratio, excluding natural disasters for this year, is at lower level compared to other peers. I assume the company makes efforts such as claims adjustments. Probably on average, MS&AD's premium rates for automobile seems relatively higher in the industry. Typically, when advisory rates are revised, every player would revise their own rates. So, we tend to wonder what really happen in such occasions. Given that you revised rates last year, you could have revised down in January this year if the company wished to lower its average rates as your premium level was higher than the others. So, I assume you do not have strong intention to lower premium as it is running high. What is your current stance on this?

Secondly, I appreciate that MS&AD increased dividend once again, and valuation gains of Max Life Insurance was included in the Group core profit in 2017. However, from top-down perspective, when looking at your market capitalization and adjusted net assets, and calculating the ratio of the company's strategic equity holding to these figures, the ratio is higher than those of the other two non-life groups. Even though the amount of disposal of such strategic equity holdings has been on the increase for past three to four years, but it peaked about two years ago and then it has leveled off.

Capital gains from these strategic equity holdings are not included in Group core profit. If these equity holdings are fully leveraged, your market capitalization can be further enhanced. For example, they can be disposed in order to return to shareholders or to make investments in other areas. There are other potential ways to utilize them. However, currently, the ratio of strategic equity holding to market cap and net asset stays high compared with your peers. I understand that the management has other strategic priorities, such as reorganization by function. What are your thoughts on those other potentials?

A - Yasuyoshi Karasawa {BIO 7391405 <GO>}

Regarding your first question about automobile insurance, I totally agree with you. Our loss ratio level is steadier in comparison to other companies. In light of a competitive edge, this is a very important point. How to lead this to the gross of topline is an extremely important strategic question for us. However, some business magazine articles discussed that our premium is higher than the others, but it is only a partial comparison. Our premium levels are not high for all products; if so, our top-line would not grow. But last fiscal year, we achieved growth in automobile insurance. It means that each player has its own customer target group and set premium to match such customer target.

In case of our Group, we made efforts in the areas of underwriting and removal of fraudulent claims. As a result of those efforts, we enjoy high profits today. So pricing based on such competitiveness, we enjoyed quite a flexible position. But looking at the automobile insurance, the business has been making losses for five years. Finally, for past two to three years, the business turned around.

In 2019, consumption tax hike is expected. And in fiscal 2020, statutory interest rate is likely to be lowered, and unit costs for repair expenses is gradually on the rise. Given such environment, we would like to make appropriate judgment about possible decrease in automobile premium in light of how much competitive dividends is needed for us.

You are right about your points on the strategic equity holding. In our Group, our strategic equity holding accounts for about 12.5% to consolidated total assets. In comparison to other global insurance players, it is necessary for us to reduce the percentage below 10%. Our current market cap is about ¥2.6 trillion. So it is possible to calculate how much reduction in strategic holding is necessary. We would like to actively continue to dispose within that range.

Amongst three non-life insurance groups, we are most behind in terms of the pace of the disposal of strategic holding. In other words, we have the highest potential for future disposals. Of course, we need to talk and negotiate with our clients very carefully in selling those strategic holdings.

Our current plan initially estimated ¥400 billion, but we made an upward revision to ¥500 billion. This fiscal year, we plan to dispose about ¥120 billion.

So regarding how much disposal we are going to aim in the next mid-term management plan, we would like to be as close as possible to achieve within 10% to consolidated total assets. As a result, we would like to reduce risk and thus spend the surplus to improve the capital efficiency, and we are going to actively invest in businesses. We consider this as a very top priority for the company.

Q - Masao Muraki {BIO 3318668 <GO>}

I am Muraki from Deutsche Bank Securities. I have a few questions regarding international business. On page 27, status of MS Amlin is described; and on page 61, result of Asia, et cetera. First of all, compared to the past, profit levels of Europe and Asia seem to be lowered, part of which may be due to foreign exchange. I wonder what is going on in international business?

Secondly, page 2 describes the target images of a profit split in the future. In current forecast for fiscal year 2017, overseas ratio, excluding Max Life Insurance, accounts for about 20%. Peers' figures also dropped slightly, where Tokio Marine being about 40%, Sompo Japan below 30%. Are you going to raise the ratio before next mid-term management plan starts pursuing next acquisitions? That diagram here shows that the ratio will be slightly below 40% over mid-term and then about 50% in the longer-term. What is a timeline to achieve expansion of international business?

In relation to that, my third question is on how much you can spend. As described in page 39, ESR has risen close to the upper end of the range. By accelerating disposals of strategic equities, making some adjustments for shareholder returns, issuing as many subordinated debts as possible, how much money could be made use of mainly for international business?

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A - Yasuyoshi Karasawa {BIO 7391405 <GO>}

With respect to the slow trend in Asia and Europe, this was due to natural disasters that took place and the impact by major losses and also impact by foreign exchange. Overall, international business accounts for approximately 20% of the profit, excluding profit from India's Max Life Insurance, in fiscal year 2017. We have presented that our target for overseas ratio is 50%. So I agree that our pace is rather slow.

In terms of our business portfolio, when I talked about outlook for fiscal year 2017, domestic non-life business accounts for 70%. This is because of a significant improvement in profit of domestic automobile business. We welcome this very much. And we would like to maintain such high profit level of domestic business. But thinking about the future in light of the diversification of business portfolio, it is important that the weight of domestic non-life business should be about 50%. In the business portfolio that we presented, in order to have domestic non-life business to be below 50%, in the first step, life insurance and international business together should account for 50%. Then in the next step over, international business is going to account for 50%.

Our domestic non-life business was too high in weight in light of diversification of business portfolio. Now, the profit level of domestic non-life business is at the level we wanted to achieve. So we would like to maintain the current level and focus on the other half of the businesses.

In terms of our prospect for international business, in terms of organic growth, starting from Asia, there is a table in page 61. In Asia, the standard level of profit is about ¥20 billion. If life business in Asia is added, current level is approximately ¥25 billion. We expand our business in Asia because we expect growth bonus of Asia. As a result of internal reorganization in Asia, we anticipate organic growth in Asia at the level of about ¥40 billion.

Regarding Amlin, originally, our reinsurance business was about ¥10 billion in size; and by integrating Amlin, the forecast is about ¥30 billion. By investing capital more for reinsurance business and taking more active risks and enjoining full synergy with Amlin, we anticipate ¥40 billion level of organic growth is possible.

In addition, in Aioi Nissay Dowa's international business, which are mainly BIG and Toyota Retail business, in fiscal year 2016, we had losses of about ¥7.5 billion. In fiscal year 2017, we anticipate some improvement in BIG. And for Toyota Retail business, we are going to attain ¥2 billion level of profit after negative factor in 2016 is gone, and we anticipate BIG business to become profitable in 2018. So, we anticipate about ¥10 billion or so of profit. Organically, in international business, we anticipate ¥100 billion or so of growth.

In the next step, in order to bring the level higher from current ¥230 billion in core profit, it is necessary to grow international business by about ¥30 billion to ¥50 billion by way of M&A or participation in equity in some deals. We are going to be selective in choosing deals in light of corporate synergy and harmonization in our business and the management team, but also timing is very important for M&A. So, in a speedy manner, we are going to make judgment about M&A opportunities.

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Q - Masao Muraki {BIO 3318668 <GO>}

Also, how much can you spend on international business at the maximum?

A - Yasuyoshi Karasawa {BIO 7391405 <GO>}

We have never mentioned how much we are able to spend in the past, but our current capital buffer stands at about ¥2.7 trillion. After deducting ¥900 billion on early warning level, the capital buffer is about ¥1.7 trillion. This capital buffer could fluctuate. But based on the criteria that we have mentioned, within that range we have room to be active in M&A opportunities at present.

ESR may be declined as a result of M&A, which might not be favored by the investors, but our capital buffer is high enough to afford recoverable M&A. Also, we have a wide range of options in terms of capital financing.

Q - Kazuki Watanabe {BIO 15948747 <GO>}

I am Watanabe from Daiwa Securities. I have two questions. First, regarding a decrease on premium rate automobile insurance, let me assume here that combined ratio over mid-term is about 95%, and currently it is about 90%. Then, if advisory rate is decreased by 8% as reported by mid-year, the combined ratio is likely to rise by about 5 points all at once. As you presented, in light of a consumption tax rate hike and a review of statutory interest rate, if advisory rate is indeed lowered by 8%, how much rate reduction would be realized?

Secondly, on shareholder returns, you mentioned the importance of a stable dividend. In the future, we do continue to increase DPS from ¥130 level or will it start leveling off?

A - Yasuyoshi Karasawa {BIO 7391405 <GO>}

Regarding your first question on automobile insurance, at present, the combined ratio is about 92.6% on written basis. On E/I base, the combined ratio is going to be a little lower. In my view, in the past, the combined ratio was over 100% over a few years. But as for non-life business, combined ratio should stay at a 95% level. It could be below 90% or it could be close to 100%, but in principle, 95% of combined ratio should be a reference for the management of the company.

8% reduction on advisory rate by rating bureau has not been officially announced and it is not approved either. If advisory rate is decreased by 8%, the applied rate will be down by about 5% because applied rate includes other rates than risk rates. Even though advisory rate is presented, we have certain allowance to change the rate, even though advisory rate is presented. Therefore, if there are factors for rate increase in the future or any other factors, we are able to reflect such factors.

As I mentioned before, if the consumption tax rate is increased, full-year impact on automobile insurance rate is around 1%. If statutory interest rate is decreased from 5% to 3%, that would mean an around 1% impact on the applied rate of automobile insurance. Unit cost for repair expense is gradually on the rise as well. So, taking these factors into account, I think each player will compete so that combined ratio will roughly be around at 95%.

Your second question was about dividend. As I mentioned before, we have never decreased our dividend in the past. That does not mean that we will never decrease in the future. But in principle, our policy is to increase our dividend. Therefore, once we paid out a certain dividend, we make sure that that level will be sustained over few years.

Our Group core profit target for fiscal year 2017 is ¥230 billion. 50% of that, ¥115 billion, are distributable. In the case of DPS of ¥130, that would mean it would be around ¥80 billion. So, there is a room for increase in dividend.

However, it is forecasted that we are going to have a very hot summer this year, with a number of typhoons. Therefore, there may be some natural catastrophe losses. Because of those factors, it is not possible to make a commitment today. But our intention is to achieve dividend increase as much as possible and take a flexible stance on share buyback. So, I think that ¥130 is going to be the bottom to achieve stable dividend payment.

Q - Koki Sato {BIO 19983862 <GO>}

I am Sato from Mizuho Securities. My question is about fire insurance business on page 16. Even though it is obviously affected by natural disaster losses, fire business, shown in green bars, makes almost no contribution to underwriting profit over this year shown in the chart. As a commentary about rates, efforts will be made to improve profitability of fire and allied insurance. Fire business is perhaps one of the challenges in the domestic non-life business. What makes you think that the environment is different today compared to the past so that you are able to improve the profitability of fire business from now on? Together, will this effort have anything to do with disposal of strategic equity holdings or not anymore?

A - Yasuyoshi Karasawa {BIO 7391405 <GO>}

Excluding the flooding in Thailand and great earthquake in East Japan, fire has been loss-making businesses since 2013. Main reason for this is that with large enterprises, there was excessive rate competition due to broker interference, and also the industry was not robust enough on ERM management, including ROI (sic) [ROR] management by insurance line. It was not sufficient for insurance company to manage rating and underwriting guideline on expected earnings basis.

Now, each company is focused on improved ERM management and ROI (sic) [ROR] management by insurance line. With that, now we are negotiating with our clients to normalize the rate. This effort will not bear fruit over next one to two years; but over next three years, we are going to make progress in ROI (sic) [ROR] management by risk category and ERM management. And our peers are going to make same efforts. As a result, rate for fire insurance is gradually becoming normalized, and this is the intention of the management of insurance companies. There is no relation at all with the strategic equity holdings.

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Q - Koki Sato {BIO 19983862 <GO>}

So the point is that penetration of thorough ROI (sic) [ROR] management has finally started in your company, as well as your competitors.

Q - Tatsuo Majima {BIO 15338044 <GO>}

I am Majima from Tokyo Tokai Research Institute (sic) [Tokai Tokyo Research Institute]. My question is regarding the mass media coverage of large manufacturer incurring significant losses and this manufacturer seems to have business with your company. Even though I am not able to confirm impairment or bad debt allowance, what is the outstanding balance of investment and loans with this manufacturer, if any? Also, generally speaking, is D&O insurance coverage available to the management of large enterprises?

A - Yasuyoshi Karasawa {BIO 7391405 <GO>}

I would like to refrain from commenting on a specific client. In the event of impairment or non-performing debt, we manage them appropriately and they will not cause significant impact on the management of the company.

Generally speaking, I think the participation rate of D&O insurance, which covers liability of directors and officers, is quite high among major Japanese enterprises in Japan. And how much coverage is given is different depending on each policy, so it is not possible to give you a general answer.

Q - Tatsuo Majima {BIO 15338044 <GO>}

Page 23 shows that MS Primary Life's forecast premium income for fiscal year 2017 is ¥800 billion, 20% decline compared to the actual of fiscal year 2016. The peer company, Dai-ichi Frontier Life, also forecast a decrease in premium income. Is it correct to understand that bancassurance for savings-type insurance products is now in adverse environment because of guarantee rate decrease for yen currency products and also impact of the disclosure of sales commission fee for foreign currency products?

A - Yasuyoshi Karasawa {BIO 7391405 <GO>}

Because the mainstay product of MS Primary Life is foreign currency products, impact by lowered interest rate is very small. Regarding the disclosure of sales commission fee, we take necessary action together with each financial institutions. Its impact on overall top-line is not significant.

As for the Australian dollar-based products, which is a mainstay products for MS Primary Life, the foreign exchange rate and interest rate fluctuation is significant; therefore, depending on the level of the market, the customer's appetite for purchase changes. Therefore, in the past years, when we set a forecast in the beginning of the fiscal year, we take a conservative stance.

Q - Koichi Niwa {BIO 5032649 <GO>}

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I'm Niwa from Citigroup Securities. My questions are on expense ratio and M&A. According to page 18, slight increase in expense ratio is forecasted this fiscal year. I understand the commentaries below explaining why. Last year, in this meeting, I heard you aim to be below 30% in the future. Knowing that the commission rate will be raised this fiscal year, I'd like to know how fast I should expect you to achieve sub-30%?

Secondly on M&A, in your early comment, I understood that you will not exclude M&A centering on overseas. Upon post-merger harmonization of Amlin into the Group, are you becoming confident that you are capable of conducting M&A first under ¥1 trillion every few or so years? Can you share what changes you experienced internally within the Group in a qualitative sense?

A - Yasuyoshi Karasawa {BIO 7391405 <GO>}

As a result of the impact by agency commission fee driven by decrease in CALI and as a result of system investment, expense ratio is at 32.5%. But excluding these factors, Group-wide, I think we achieved around 31%. Our Group company, Aioi Nissay Dowa, centers on retail in its business model. Therefore, their expense ratio tends to be high because of the commission fee. However, its combined ratio is better than the other companies because of high profitability of retail business.

In order for our Group to become the world's leading insurance and financial services group, in order to compete against the global players, it is necessary to achieve expense ratio below 30%. On the other hand, if we do not make necessary investments for new business model such as fintech and insurtech, or if we do not make investments to avoid risks such cyber risk, as we stick too much on expense ratio, we would probably suffer from significant losses.

So, at this moment, it's necessary for us to continue to invest in system over next few years, including some advanced investments. And we need to look at our expense ratio, excluding those investments. In our next mid-term management plan, we would like to present our milestones to reach to expense ratio below 30%. So, now, we are examining what investments are needed to make in what scale.

As for M&A, I mentioned previously affinity in terms of corporate culture. In the case of MS Amlin, it was a very good partner in that sense, their management team and their employees had a very good affinity, and as a result synergy was achieved very smoothly. And also our global meetings are participated by the top management of our Asian operation and also management team of Amlin, together with executive officers of Mitsui Sumitomo Marine. Therefore, we think that affinity in terms of corporate culture is extremely important. In that sense, I think we have been making very good progress in creating synergy with Amlin.

Q - Futoshi Sasaki {BIO 17564798 <GO>}

I'm Sasaki from Merrill Lynch Securities. I have two questions. First of all, on telematics, you plan to launch first PHYD-type telematics product in Japan after second half of this fiscal year. What is going to be your marketing approach on this product? Who are the

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customers? Which distribution channel? What will be the sales methodology? Let me know as much as you could disclose.

Secondly, on governance, your company does not seem to discuss introduction of the committee system. In light of global standards, company with committee system appears more common. What are your thoughts on changing the governance structure?

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A - Yasuyoshi Karasawa {BIO 7391405 <GO>}

As for the governance structure, together with outside directors, we have been discussing different possibilities. As for now, the most important point is that outside directors can fully exercise their check and balance capability under any governance structure. And we think that under the current governance structure, we are able to achieve such check and balance by outside directors. Therefore, at this moment, it is not necessary to make changes in the current structure.

The pros and the cons with the governance structures are not clear today, but we do not mean to stick to the current structure. Every year, we exchange opinion with the outside directors and outside stakeholders to capture different views. Therefore, our stance is flexible about governance structure. Every year, we examine different possibilities and if we judge that change on the structure as necessary, we are going to redesign very quickly.

Regarding telematics, at present, it is not possible for me to discuss details about this telematics product. But as described on the top of page 8, Aioi Nissay Dowa and Toyota Motors (sic) [Toyota Motor] together developed PAYD. In extension to this development, a new product is now being developed. I am not able to tell you any more information today, but in principle, this development is in linkage with Toyota's Connected Car strategy. [Abrupt End]

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