

ESG Information

The following is a supplement to the MS & AD Insurance Group's sustainability approach.

Subject period:

FY2022 (April 1, 2022 - March 31, 2023)

[> ESG Data Click here](#)

Corporate Governance

Supplement to the performance-based remuneration for directors

See "[Corporate Governance](#)" for an overview of the system.

1.Share of the CEO's short-term incentive

- Performance-linked remuneration shall be linked with the business performance of the company and determined based on financial(*1) and non-financial(*2) indicators.The standard ratio between financial and non-financial indicators used in the calculation of performance-linked remuneration shall be"50:50."
- The stock-based remuneration components of performance-linked remuneration shall be calculated as follows, based on standard amounts for each position
 Standard amount per position × business performance coefficient
 (financial indicators × 20% + non-financial indicators × 80%)
- The standard ratios of the components of compensation for the President and Director are as follows:

[Fixed remuneration] 50%	[Performance-linked remuneration] Monetary remuneration 25%	[Performance-linked remuneration] Stock-based remuneration 25%
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<Breakdown of 25% of Stock-based remuneration>

The ratio of financial indicators (indicators reflecting single fiscal year performance) is

$25\% \times 20\% = 5\%$.

The ratio of non-financial indicators (indicators to reflect medium- to long-term performance

contributions) is $25\% \times 80\% = 20\%$.

(*1)Financial indicators are indicators that are used to reflect business performance in a single fiscal year in officer remuneration.

(*2)Non-financial indicators are indicators that are used to reflect initiatives contributing to medium- to long-term business performance in officer remuneration.

2. Performance Period for Variable CEO Compensation

- Performance-linked remuneration shall be linked with the business performance of the company and determined based on financial and non-financial indicators.
- Financial and non-financial indicators have been selected after taking into consideration the Group's Medium-Term Management Plan (FY2022-2025) , which began in fiscal 2022 and will end in fiscal 2025 for a period of 4 years.

3.Claw back Clause

- We have a claw back clause in place. (click [here](#))

Management Ownership

Ratio of the amount converted into the fair value of shares to the amount of consolidated fixed remuneration of a person whose total amount of consolidated remuneration in fiscal 2022 is 100 million yen or more.

Name(s)	Position	Fixed remuneration (million yen)	Shares of the Company owned(*)		Value equivalent to Market Value of the shares held / fixed compensation
			Number of shares of the Company owned	Fair value(*) (million yen)	
Yasuyoshi Karasawa	Director	55	53,460	220	4.14
Yasuzo Kanasugi	Director	58	60,611	249	
Noriyuki Hara	Director, President&CEO	66	54,537	224	3.39

(*) March 31, 2023 end-of-day basis

Risk Management

Impact of Material Risks and Mitigation Measures

Changes in the environment surrounding human resources

Our Group recognizes changes in the environment surrounding human resources as one of the important risks in light of the following:

- A gap between management strategies and the human resources portfolio, as well as a shortage in securing or developing human resources to eliminate the gap due to external changes in the human resources market, labor supply-demand, and changes in the skills and expertise necessary for implementing strategies such as DX promotion.
- A decline in employee engagement and an outflow of human resources due to a lack of employee support program that accurately captures changes in employees' attitudes toward autonomous career opportunities, flexible / diverse work styles, and respect for diversity.

Impact	<ul style="list-style-type: none"> · Our Group's medium-term management plan calls for the value creation through the global expansion of CSV×DX and the transformation of the business by reforming the structure of the business and adapting to changes in the business environment, including the creation of new businesses. · The greatest asset of the Group pursuing this strategy is human resources, and each employee is responsible for the concrete implementation of the strategy. In particular, "digital human resources" and "overseas human resources" are the cornerstones of the strategy, as they are responsible for the global expansion of CSV×DX and the transformation of business and risk portfolios. In order to realize changing structure of the business and creation of new businesses in adapting to business environment, it is important to elicit and utilize the opinions and ideas of various employees. <p>If there is a shortage of such human resources or if employees are unable to demonstrate their abilities, skills, and motivation, it will be impossible to execute the strategy and the achievement of the goals set forth in the medium-term management plan.</p>
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<p style="text-align: center;">Mitigation measure</p>	<p>Promote digital human resources development programs which all employees acquire basic digital skills with the aim of fostering human resources leading the CSV×DX strategy. Based on our in-house certification system and education programs, we are systematically improving our skills in both business and digital fields. We are implementing our Group's unique Digital Human Resources Development Program in cooperation with universities and other institutions.</p> <ul style="list-style-type: none"> · We are implementing the initiatives for management personnel and "Professional human resources (Accounting, Finance, IT, Risk Management, etc.)" necessary for overseas businesses, including nomination-based training, overseas dispatch training, and the global trainee system, to develop in a multifaceted and planned manner. · For digital and overseas personnel, we set KPIs and focus on the development of human resources while confirming the progress of their development. · In order to improve employee engagement, it is important to develop a work environment that includes opportunities for autonomous career development, flexible, efficient, and effective working styles, and a corporate culture that supports individual's endeavours. We are promoting the provision of opportunities for autonomous career development and diverse and flexible working styles. At the same time, we are working to pursue diversity, equity, and inclusion (DE&I) by promoting women and young personnel to decision-making positions, and by developing management know-how that actively draws on opinions and ideas.
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Please refer to [ERM and Risk Management](#) for other important risks.

Impact of Emerging Risks and Mitigation Measures

■ Damage to natural capital

Our Group recognize that damage to natural capital is an emerging risk that may affect our group's management in the medium to long term. There is a possibility of an impact on insurance underwriting and investment / financing in our Group due to the following;

- depletion of water and other natural resources
- man-made pollution and accidents that cause significant damage to the environment
- ecological degradation and crises

<p style="text-align: center;">Impact</p>	<ul style="list-style-type: none"> · Our Group provides a number of insurance policies and loans to corporate clients in a variety of industries. For example, we underwrite and invest in natural rubber industries in Indonesia's tropical forest region, which is estimated to have a very high biodiversity. The production of natural rubber is highly dependent on nature, and depending on the degradation of the nature on which it depends (such as the occurrence of pests and diseases or water shortages), the supply chain will be disrupted, and this will greatly affect corporate performance in related industries. · In addition, if the national or local governments enforce strict laws and regulations to prevent deforestation in tropical forest areas, or if the reputation is severely damaged by human-caused acts that cause extensive damage to the area due to severe deforestation, corporate performance in related industries will also be greatly affected. If we were to invest in such company, the decline in corporate profits and growth potential would have a financial impact, such as a decline in investment returns. In addition, as an insurance underwriter, a downturn in the industry could lead to a decline in premiums earned by related companies.
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Mitigation Measures

- Natural capital losses will have a negative impact on business activities in a variety of industries, but there are still many challenges in the methodology of how to assess and analyze these risks.
- Accordingly, our group is increasing its knowledge of natural capital losses by sending out our employee to the TNFD Task Force, which aims to establish a framework for assessing, managing, and disclosing nature-related risks and opportunities.
- In order to mitigate company's risks, many companies need to be aware of the risks of natural capital losses and take appropriate action. We have established the TNFD Japan Council to promote awareness of nature-related risks and their disclosure.
- MS&AD InterRisk Research & Consulting, a think tank division of the Group, provides nature-related consulting services and supports specific responses to individual company risks. In addition, four financial institutions including MS&AD Group have established alliances to strengthen support systems for these companies' initiatives. By reducing nature-related risks and supporting initiatives for nature positive, financial institutions aim to reduce nature-related risks and acquire new business opportunities.

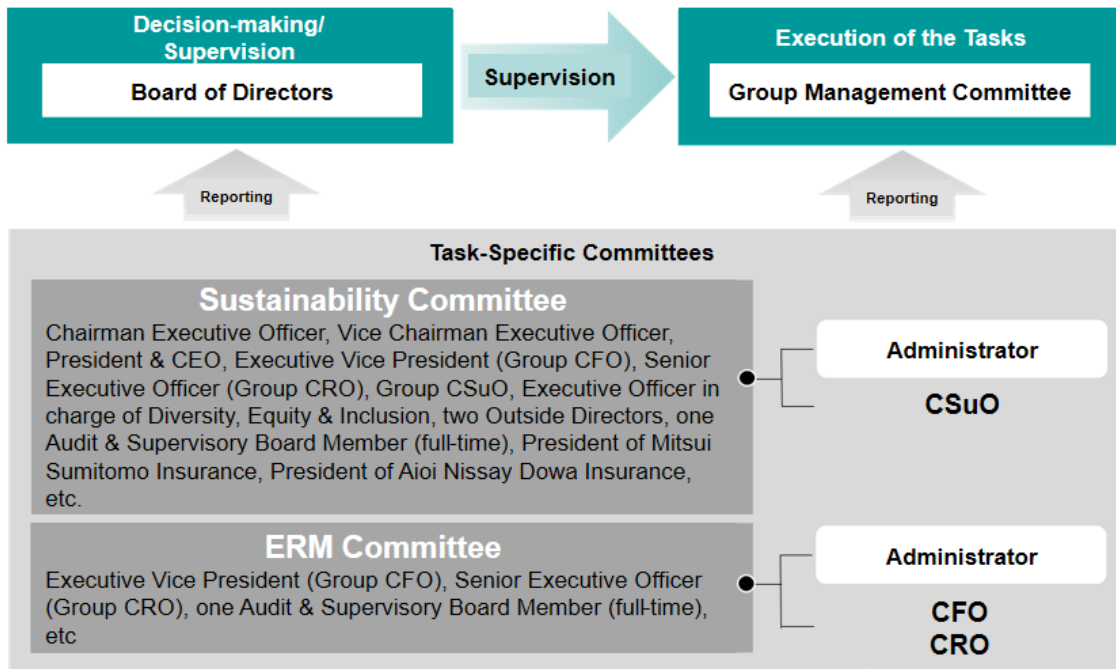
Please refer to [ERM and Risk Management](#) for other emerging risks.

Contribute to Climate Change Mitigation and Adaptation

Governance change from previous year

We maintain a climate-related governance structure composed of the Board of Directors, the Group Management Committee, and Task-Specific Committees such as Sustainability Committee.

CSuO (Group Chief Sustainability Officer) has been newly assigned this fiscal year and administrates Sustainability.



Remuneration in Relation to Climate Issues –Incentives

As part of the initiatives contributing to medium- to long-term performance, we have non-financial indicators reflected in the performance-linked remuneration for directors and officers excluding external directors. Initiatives toward climate change mitigation are included in the evaluation of these indicators. The standard ratio of performance-linked remuneration to total remuneration is 50% for President & CEO and 30 -40% for other directors and officers.

Other employees are also incentivized through annual appraisal where achievement of climate-related KPI in his charge is considered.

Portfolio scope of Business Activities with Consideration for Sustainability

Business Coverage for our fossil fuel-related policies in “Business Activities with Consideration for Sustainability” is all of active, passive and third-party managed investment and all direct and re-insurance excluding treaty-re-insurance.

Climate Activities through initiatives and Trade Associations

Our memberships of industry associations and outside initiatives will promote "Initiatives to Achieve Net Zero By 2050".

While ascertaining the decarbonization pathways that these organizations are pursuing, the status of their membership and activities are managed by the line of control, and important information is reported to the director in charge. After management of the status of membership and activities by the line of control, material matters are reported to the officer in charge. We will respond through discussions with the organizations when found necessary to confirm consistency with our policy.

TCFD Scenario Analysis

Scenario Analysis has been updated in August 2022 in our TCFD disclosure (link below).

[> Climate-related Financial Disclosure](#)

■Scenario Analysis excerpt

	Business area	Contents	Result Examples	Scenario used
Physical Risk	Insurance Underwriting	Fluctuation in loss paid by typhoon and storm surge in Japan	Typhoon 2050 Effects of change +5 to +50% Effects of changing frequency of occurrence -30 to +28%	RCP4.5 RCP8.5
Transition Risk	Investment	Impact on investee companies by carbon costs	EBIT at Risk Equity 2030 Low Carbon Price Scenario: 4.2% Medium Carbon Price Scenario: 8.9% High Carbon Price Scenario: 18.5%	Developed by Trucost referring to Nationally determined contributions (NDCs), OECD and IEA.