

ESG integration and sustainability approach (practical process)

MS & AD Insurance Holdings

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Contents

1. Approach to Business Activities with Consideration for Sustainability	1
2. Process/Definition for Identifying Materiality	2
(1) Underwriting.....	2
(2) Investments.....	3
3. Practical Process	4
(1) Underwriting.....	5
(2) Investments.....	8

Update

July, 2022	First edition
July, 2023	Added revision history of " Business Activities with Consideration for Sustainability Updated explanation of ESG investments
July, 2024	Added process/definition for identifying materiality Added number of ESG-related examinations (including high-risk cases) Added description of underwriting dialogue
December, 2024	Added the project to the scope of environmental and social assessment.

1 . Approach to Business Activities with Consideration for Sustainability

The MS&AD Insurance Group, as insurance and financial services group which provides safety and peace of mind conduct business activities with consideration for sustainability. We aim to enhance corporate value by contributing to solutions for sustainability issues (also known as environmental, social and governance (ESG) issues) with profound understanding through stakeholder engagement.

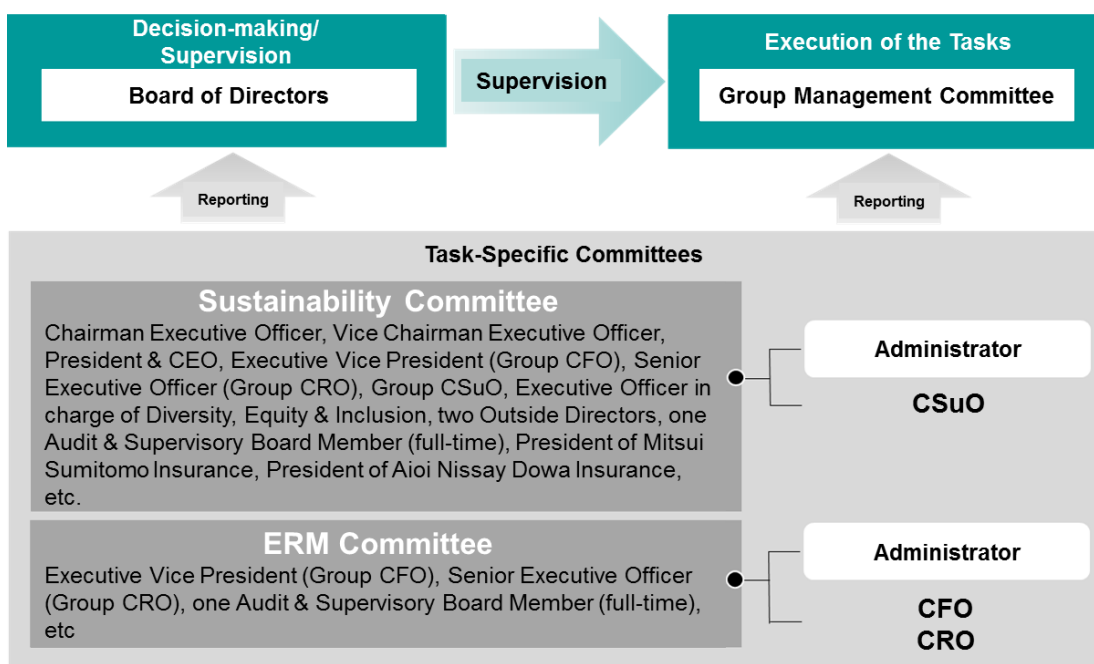
Our underwriting considers issues and risks that would have a negative impact on society and the global environment. In addition, we provide products and services that respond to the demand of society.

Our investments consider ESG factors in pursuit of long-term returns and contribution to solutions for sustainability issues.

Our group's approach to ESG issues is to conduct business activities that take into account environmental, social, and governance issues. We publish an overview of our approach to ESG issues on our official website and integrate it to our insurance underwriting and investment and financing operations.

- [Our Sustainability Approach](#)
- [ESG integration and sustainability approach](#)

The Group Sustainability Committee discusses and reports on the formulation of policies on ESG risks and decisions on responses to high-risk projects. While we respond to such ESG-related risks to ourselves, we have been discovering business opportunities in addressing ESG concerns, e.g. offering automotive insurance with driving protection services to support safe driving, and thereby, reduce accidents, and using Big Data to present preventative measures against natural disaster. Members of various divisions work together through various ESG-themed task forces and working groups established by operating companies.



2. Process/Definition for Identifying Materiality

MS&AD Insurance Group selects social issues that need to be resolved, taking into account common global goals and international guidelines and frameworks. It then evaluates the impact on stakeholder's decision-making and the impact on our Group's business, and identifies those that are of greater importance to both parties as our materiality. (For further information, refer "[Identifying Materiality](#)" of our [Sustainability Report](#).)

"Happiness of diverse people" is supported by "Safe and secure society" and "Safe and secure society" are dependent on "Symbiosis with the global environment," as indicated by the Wedding Cake Model, in which 17 SDGs are organized into three layers: "Nature," "Society," and "People."

As the three goals are closely related, we need to work on them in an integrated manner.

We believe that there is still much that insurance companies, including ours, can do in cooperation with the various parties concerned, such as establishing a nature-positive, safe and secure society that is conscious of coexistence with the global environment and the happiness of people that is generated from such a society.



(1) Underwriting

Our underwriting considers issues and risks that would have a negative impact on society and the global environment. In addition, we provide products and services that respond to the demand of society.

These three priority issues are recognized as our challenges for CSV (Creating Shared Value) in order to clarify our intention to address them as initiatives that create value for both society and the Group. Main initiatives are as follows. Furthermore, the goals that we aim to achieve through solving these issues are aligned with SDGs

(2) Investments

Our investments consider ESG factors in pursuit of long-term returns and contribution to solutions for sustainability issues.

In terms of evaluating corporate sustainability, we have prioritized the following priority sustainability issues in addition to governance, which has been a fundamental initiative: "action on climate change," "improvement of the sustainability of natural capital," and "activities that respect human rights," all of which require urgent action.

Materiality /Fundamental Initiative		Priority Issues	Priority Items
Materiality	E	Action on climate change	Coal power generation, CO2 emissions
		Improvement of sustainability of natural capital	Deforestation, Water resources depletion
	S	Activities that respect human rights	Manufacturing controversial weapons, Human rights abuse
Fundamental Initiative	G		Compliance, Composition of the Board of Directors, Transparency of corporate management, etc.

3. Practical Process

In May 2019, MS&AD Insurance Group announced "Business Activities with Consideration for Sustainability" (group policy) that we consider sustainability in all our business activities. In September 2020, we started the operation that we make it sure that transaction is carried out in line with Group Policy before proceeding. The Policy has been regularly revised as shown in the table below.

	Revision history of "Business Activities with Consideration for Sustainability"
June, 2019	•Announcement of "Business Activities with Consideration for Sustainability" started the process that we consider sustainability in all our business activities.
September, 2020	•We will not provide insurance for, nor make investments in new coal-fired power plants nor manufacturers of cluster munitions.
June, 2022	<ul style="list-style-type: none"> •We will not newly provide insurance for, nor make investments in coal-fired power plants or thermal coal mines^{*1}. •We started environmental and social risk assessment and will carefully determine whether or not to provide insurance or make investments in the following businesses that may have negative impacts on the environment and local communities. <ul style="list-style-type: none"> – oil sand mining – oil and gas extraction projects in the Arctic – Projects that could destroy natural and cultural heritage sites protected under the UNESCO Convention for the Protection of World Heritage Sites and wetlands protected under the Ramsar Convention – businesses which may violate human rights of indigenous people or local communities •In addition to cluster munitions manufacturer, we will not provide insurance for, nor make investments in biological and chemical weapons, and anti-personnel mines.
May, 2023	<ul style="list-style-type: none"> •We will not newly provide insurance for oil and gas extraction and coal-mining projects^{*3} by companies whose primary business is coal.^{*2} •We will not newly provide insurance for, nor make investments in oil sands mining and oil and gas extraction projects in the Arctic^{*3} •We added the following project to the scope of environmental and social assessment. <ul style="list-style-type: none"> – New construction of coal-fired power plants and coal mines, oil-fired power plants and oil fields, and gas fields – New construction of hydroelectric power plants – New agriculture, forestry and fisheries projects involving large-scale development in unexplored areas
December, 2024	<ul style="list-style-type: none"> •We added the following project to the scope of environmental and social assessment. <ul style="list-style-type: none"> – New construction of solar power plants in Japan – New construction of onshore wind power plants in Japan – New construction of biomass power plants in Japan

*1 Existing coal fired power plants and thermal coal mines with technologies and techniques aiming to achieve the goals of the Paris Agreement might be handled after careful consideration.

*2 Companies that derive at least 25% of their revenues from coal-fired power generation, thermal coal mines or companies that generate at least 25% of their energy from coal.

*3 Projects and companies planning to decarbonize to achieve the goals of the Paris Agreement are exempted.

Since June 2022, we have assessed environmental and social risk before proceeding transactions. For all transactions which may be applied exclusion policy or required careful judgment, we have conducted environmental and social risk assessment in line with international guidelines or standards.

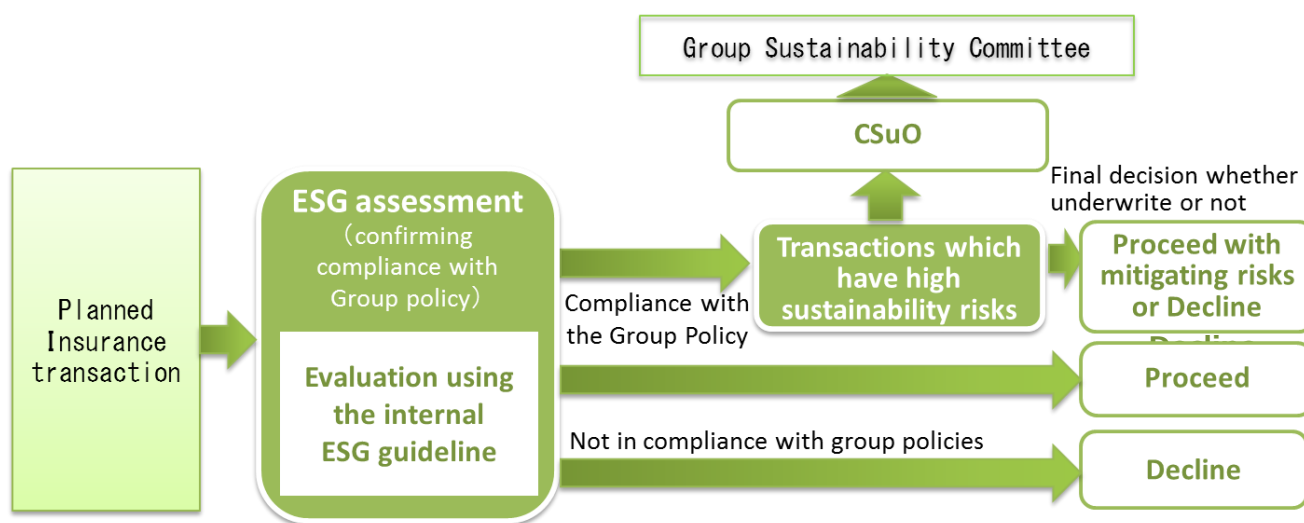
The table below shows the number of requests for review regarding conformity with the Group policy and, of those, the number of projects with high ESG risk that went through the escalation process on whether to be underwritten or not.

Item	FY2022	FY2023
Number of requests for ESG assessment	38	41
Number for High-risk case ESG assessment	1	0

(1) Underwriting

For insurance underwriting, we make it sure that transaction is carried out in line with Group Policy. Such transactions have been reported to the Group Sustainability Committee by the senior management in charge since September 2020.

①Assessment Process



②Sector guideline for underwriting

Sector	Classification	Guideline
Coal	To be excluded	Coal fired power plant, Coal mine(Mainly producing thermal coal) ^{*1}
	To be excluded	oil and gas extraction and coal-mining projects ^{*3} by companies whose primary business is coal ^{*2}
Oil·Gas	To be excluded	Oil sand mining, Oil & Gas extraction in the Arctic region ^{*3}
	To be reviewed	Oil fired power plants and oil fields, Oil sand mining, and gas fields
Controversial weapons	To be excluded	Controversial weapon manufacturer(cluster munitions, anti-personnel mines and chemical weapons)
Agriculture,	To be reviewed	New agriculture, forestry and fisheries project involving large-

Forestry and Fisheries		scale development in unexplored areas
Hydroelectric power	To be reviewed	Construction of new hydroelectric power plants
Solar power	To be reviewed	Construction of new solar power plants
Onshore wind power	To be reviewed	Construction of new onshore wind power plants
Biomass power	To be reviewed	Construction of new biomass power plants
Nature conservation area	To be reviewed	Project with negative impact on UNESCO World Heritage Sites or Ramsar-listed wetlands that may have negative impact on the environment and local communities
Human rights	To be reviewed	Businesses which may violate human rights of indigenous people or local communities

- *1 Existing coal fired power plants and thermal coal mines with technologies and techniques aiming to achieve the goals of the Paris Agreement might be handled after careful consideration.
- *2 Companies that derive at least 25% of their revenues from coal-fired power generation, thermal coal mines or companies that generate at least 25% of their energy from coal.
- *3 Projects and companies planning to decarbonize to achieve the goals of the Paris Agreement are exempted.

③Engagement

We have set interim targets for GHG emissions from insurance underwriting and investments to facilitate the transition to net zero in November, 2023. (Refer to "[Transition to 2050 Net zero](#)" for details.) Through engagements with our clients, we will share challenges they have in reducing GHG emissions and work together to resolve them.

Interim Targets		FY2022 result
Newly Set Target GHG emission reduction rate associated with our business with key Japanese domestic corporate clients * 1	<p>Target ▲37%*2 by FY2030 (Base year: FY2019)</p> <p>Action We, through engagement with clients, share challenges they have in reducing GHG emissions. We work together with them towards reduction of GHG emissions with solution proposals.</p>	<p>[Reference Information]</p> <ul style="list-style-type: none"> ● GHG emissions of domestic investment (Scope 1 and 2 / kt-CO2e) *3 [Stocks] 2,124 [Corporate bonds] 1,589 [Business loans] 247 ● Investee companies engaged 361 (July 2022 to June 2023)
Premium growth rate of products which contribute to decarbonization and circular economy	FY2025 Annual average of 18%	17.9%
GHG emissions reduction rate (Scope 1+2)	▲ 50% by FY2030 (Base year: FY2019)	▲26.8%
GHG emissions reduction rate (Scope 3)	▲ 50% by FY2030 (Base year: FY2019) Category: 1, 3, 5, 6, 7, 13	▲26.9%
Renewable energy usage rate	FY2030 60%	21.1%

*1 GHG emissions associated with our insurance underwriting and investments with key Japanese domestic corporate clients (approximately 3,300 companies) selected based on insurance premiums
*2 Calculated from Japan NDC's GHG emission target 2030 and actual result of FY2019.
*3 Calculated in FY2022 based on the balance at the end of FY2021

To achieve the target, we have enforced our initiatives of engagement with clients on sustainability issues, including the reduction of greenhouse gas emissions. As part of our CSV(Creating Shared Value) initiatives, we have continued to provide products and services to our clients to help them resolve their sustainability issues, but from FY2023, we have newly started dialogue activities focusing entirely on sustainability issues. Through dialogue, we are

working to understand the sustainability issues of our clients and propose solutions to resolve these issues. In promoting the initiative, we have also started dialogue with agents and brokers regarding solution proposals to solve sustainability issues.

Item	FY2023
Number of sustainability engagement	10

(2) Investments

① ESG Investment Initiatives

Method	Description	Assets
Integuration		
Incorporating the Group's sustainability Considerations	Review or exclude specific funding proposals, industry sectors, etc. from the perspective of climate change, natural capital, human rights.	all of asset
Integrating the Group's ESG issues into research.	Coal-fired power, CO2 emissions, Deforestation, depletion and pollution of water resources, inhumane weapons, human rights violations.	Equities, Corporate Bonds, Lending
Engagement		
Engagement	Dialogue and communication on ESG topics	Equities
Positive Impact		
Sustainable-thematic investment	Invest in themes such as ESG issues, renewable energy (solar, wind, hydrogen, etc.), green and transition finance (GHG reduction), regional development.	Equities, Corporate Bonds, Lending, Private Equity
Impact Investment	Invest in themes such as climate change, healthcare, education, etc.,	Private Equity

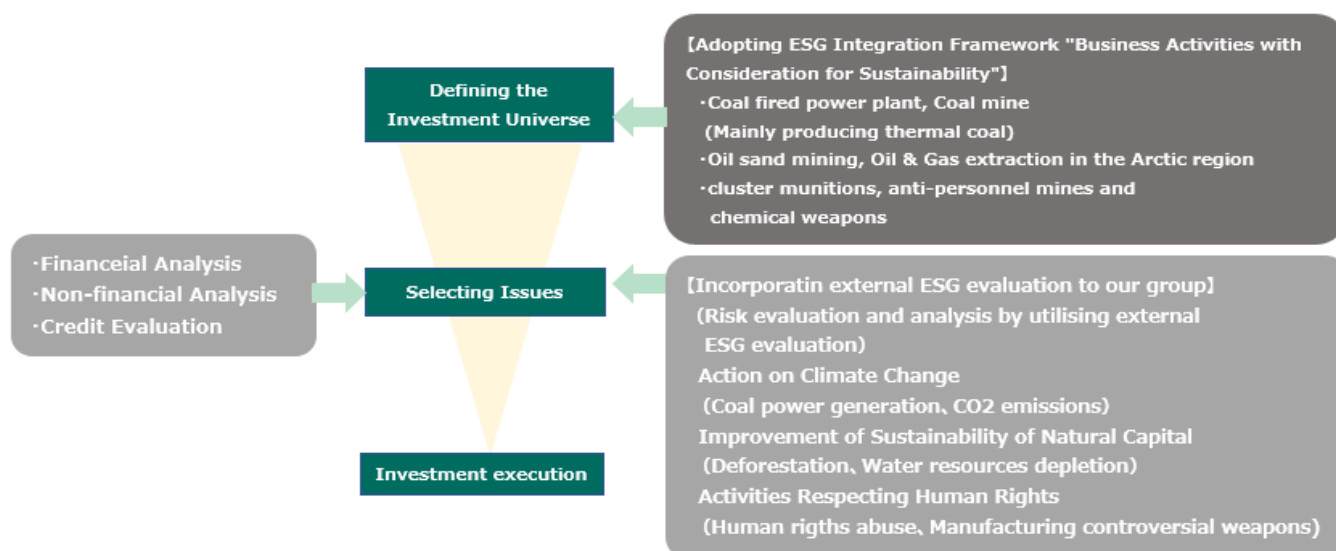
The Group's sustainability considerations apply to active and passive, direct and third-party managed investment

② Integrating ESG factors to Investment Process

We incorporate ESG risk assessment and analysis into our investment decisions for our in-house assets such as stocks, bonds, loans and private assets, in addition to financial and non-financial analysis, taking into account our Group policy, "Business Activities with Consideration for Sustainability" and utilizing external evaluation to our group.

We incorporate ESG risk assessment and analysis into our investment decisions for our in-house assets such as stocks, bonds, loans and private assets, in addition to financial and non-financial analysis, taking into account the sustainability of the Group's business activities and utilizing external assessment organizations.

In addition, we have sent questionnaires on an annual basis to the asset management companies to confirm their ESG initiatives.



The Group's sustainability considerations apply to active and passive, direct and third-party managed investment

③Investment Guideline for Each Asset Class

Asset class	Conventional assessment methods	+	Content
Stocks	Financial and non-financial analysis, Credit evaluation		Regarding ESG (Action on climate change, improvement of sustainability of natural capital, activities respecting human rights) , we incorporate external evaluation result, disclosed information, and facts which we know through the engagement with our investees in addition to our conventional evaluation method.
Bonds			
Corporate loans			

③Sector guideline for investment

Sector	Classification	Guideline
Coal	To be excluded	Coal fired power plant, Coal mine(Mainly producing thermal coal) ^{*1}
Oil・Gas	To be excluded	Oil sand mining, Oil & Gas extraction in the Arctic region ^{*2}
	To be reviewed	Oil fired power plants and oil fields, Oil sand mining, and gas fields
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Agriculture, Forestry and Fisheries	To be reviewed	New agriculture, forestry and fisheries project involving large-scale development in unexplored areas
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⑤Basic Policy for engagement (Guideline)

We engage in constructive dialogue and share perceptions with investee companies on topics such as management issues, shareholder return policies and sustainability (medium- to long-term sustainability, including ESG factors) in order to improve their corporate value and prevent damage over the medium to long term and promote sustainable growth.

When we need to request for improvements to our investee companies, we try to solve the problem by sharing our views as a shareholder. The themes of the dialogue and the status of its implementation are shown on the table below. After explaining our policy on the stewardship code,

we focused our dialogue on investee companies with the highest market value of shares held and on investee companies whose response to climate change is considered to be of high importance.

Through constructive dialogue and engagement on natural capital, biodiversity and human rights, we will promote initiatives to improve the sustainability of natural capital and respect human rights.

Theme of the dialog	Specific contents
ESG (Environmental · Social · Governance)	<ul style="list-style-type: none"> • Impact of climate change on business and countermeasures • Relationship between social issues and business • Appointment status and expected roles of outside officers • Attendance of outside officers at Board of Directors meetings etc. • Compliance with the Corporate Governance Code
Closing status	<ul style="list-style-type: none"> • Results for the current fiscal year, outlook for the next fiscal year and beyond measures to improve profitability and growth • Short-term risk factors
Management strategy	<ul style="list-style-type: none"> • Expectations and progress of management plans, medium- and long-term investment policies • Sustainability considerations in business strategies
Capital management	<ul style="list-style-type: none"> • Shareholder return and internal reserve policies • Views on dividends, and indicator
Business risk	<ul style="list-style-type: none"> • Response to risk factors in business • Establishment of a BCP (business continuity plan)

⑥ Identification and measurement of our progress

We have set our target of reducing Group greenhouse gas emissions to net zero in FY2050 and the interim target of a 37% reduction in greenhouse gas emissions of our underwriting and investment portfolio by FY2030, compared to the base year (FY 2019) for our main domestic clients.

We measure the GHG emission reductions in our investment portfolio to achieve our medium- and long-term targets. We also aim to conduct engagements with investees representing 70% of the GHG emissions (Scope 1+2) in our stock portfolio.