

MS&AD Holdings Conference Call (February 12, 2021)
FY2020 3Q Briefing Q&A Summary

The following abbreviations of company names are used in this document.

MSI : Mitsui Sumitomo Insurance Co., Ltd.

ADI : Aioi Nissay Dowa Insurance Co., Ltd.

MSI Primary Life : Mitsui Sumitomo Primary Life Insurance Co., Ltd.

MS Amlin : Sum of business segments including AUL (MS Amlin Underwriting Limited), AAG (MS Amlin AG), AISE (MS Amlin Insurance SE), ACS (MS Amlin Corporate Services Limited)

Q1: For domestic automobile insurance, if the number of accidents continues to be lower than expected, what impact will it have on the net income and Group Adjusted Profit for the full year? Please tell us about the movement of the catastrophe reserve and the first year underwriting balance.

A1: Although the number of automobile accidents was expected to decline to a certain extent in the plan, the number of accidents has fallen even further, and this is a positive factor for the profit.

On the other hand, the Group Adjusted Profit is affected by the first year underwriting balance (policy reserve). For the end of the fiscal year, the first year balance of ADI will exceed the unearned premiums which will offset the decrease in losses.

In addition, the reduction of the catastrophe reserve reversal is included in the financial accounting profit. Although MSI does not plan the catastrophe reserve reversal for automobile insurance, ADI estimates a reversal of 5.3 billion yen, so it can offset the decrease in losses up to 5.3 billion yen.

<Correction>

In the conference call, we mentioned the reversal amount of ADI's catastrophe reserve of 5.6 billion yen, but the correct amount is 5.3 billion yen, so we corrected the figures.

Q2: It seems that the incurred losses of fire insurance are a little higher than planned. Could you explain the reason? Also, it seems that the snow damage in January is a little higher than usual. What will be the effect on 4Q?

A2: The increase in incurred losses for fire insurance is due to the greater impact of large losses and the increase in losses in the personal sector, although natural catastrophe losses decreased compared to the previous year. As for the damage caused by snow in January, we do not expect that there will be a major impact because of the reinsurance

cover, but we believe that this will also become a burden along with the overall movement of fire insurance losses.

Q3: Would you explain the factors behind the decline in MS Amlin's underwriting profit, excluding the impact of losses caused by COVID-19, from £110 million at the end of 2Q to £39 million? Also, what is the prospect from now?

A3: Major natural catastrophes such as hurricanes and storms in the United States are the main cause. The strong pound against the dollar also had a negative impact on foreign exchange gains and losses.

For the full fiscal year, we expect earnings to be somewhat lower than those forecast at the time of announcement of half-year results, due to factors such as COVID-19, natural catastrophes, and the impact of foreign exchange rates.

Q4: Does MS Amlin have more natural catastrophe losses in 4Q?

A4: It is not natural catastrophes that occurred in 4Q, but rather an increase in losses from natural catastrophes that occurred up to 3Q.

Q5: What is the state of the loss ratio at MS Amlin if we exclude losses from COVID-19 and natural catastrophes?

A5: At the end of 3Q, it was 56.9%, a steady improvement from 58.5% at the end of 2Q. At the end of the 3Q of the previous fiscal year, it was 63.8%.

Q6: MS Amlin's COVID-19 incurred loss for the 3Q reached 38.3 billion yen, up from the plan announced in November at 37.5 billion yen. What are the factors behind this increase by category? Also, what is your risk exposure to COVID-19 at present, if we say that 1 year ago it was 100?

A6: The increase was mainly due to the business interruption insurance in the United Kingdom. As there is a possibility of an upturn in other regions, we are reviewing the results in 4Q. However, the fluctuation range is assumed to be about 10% of the total COVID-19 losses.

In the UK, we withdrew from the business interruption insurance at the end of January last year, so the risk is almost gone. In addition, for lines directly affected by COVID-19, we are working on clauses clarification and exemptions. However, about 1/5 of the COVID-19 losses are covered by credit guarantee insurance, and the risk of this portion remains.

- SQ1: Is it correct to understand that even though the infection has been spreading recently, business interruption insurance or event cancellation will not cause the losses to exceed the forecast?
- SA1: That is correct.
- Q7: On the COVID-19 effect, in January, the British Supreme Court ruled more strictly than the High Court, for example, on the business interruption trend clause. Is it expected that the COVID-19 effect on MS Amlin will be larger in the future? Also, from January, is there a possibility that losses expected from trade credit insurance and others will be added to the consolidated settlement of accounts for fiscal 2020?
- A7: The Supreme Court ruling was slightly more favorable to the policyholder than the High Court ruling. The impact of the ruling, including the trend clause, is under examination. We expect that the impact of the ruling on the incurred losses of direct insurance in the United Kingdom will not be significant, although we expect that the incurred losses at the end of the fiscal year will increase as a result of more careful examination of individual losses and collection of reinsurance.
- As of this date, no large losses have been recognized for trade credit insurance.
- Q8: Group Adjusted Profit for domestic life insurance of 49.9 billion yen in the 3Q has significantly exceeded the full-year forecast of 31 billion yen. Is there any significant negative factor in the 4Q? Is it correct to understand that there is a possibility of an excess of nearly 20 billion yen if there are no special factors?
- A8: As MSI Primary Life has a conventional policy of systematically setting aside reserves for price fluctuations, there is a possibility that an accumulation may occur in 4Q, but the amount has not yet been determined.
- In light of the business results in 3Q, we expect that profits will be higher than forecast, but we cannot give a sense of scale because it depends on the movements of foreign exchange and interest rates.
- Q9: I assume that at the end of 3Q, MSI Primary Life was affected by the reversals of MVA policy reserves due to the rise in interest rates in the U.S. and the continued appreciation of the Australian dollar. Could you explain whether all of these will be eliminated by the provision for price fluctuation reserves at the end of the fiscal year, or is the realized amount likely to exceed the current full-year forecast?
- A9: This fiscal year, many contracts at MSI Primary Life reached the investment targets set by customers. As a result, MSI Primary Life received a profit from the difference between the gains on the sale of bonds to be used for the payment for these contracts

and the cancellation refund when the policy reserve was reversed.

The company uses a price fluctuation reserve to manage the impact of fluctuations in interest rates and foreign exchange rates. We believe that most of the current profits will remain in the form of profits, as the burden of policy reserves has been reduced due to reversal and the burden of solicitation costs has been reduced due to the reduction of new contracts (As described in Q8 above, the portion to be added to the price fluctuation reserve in accordance with the previous policy incurs costs.).

Q10: Regarding the sale of strategic equity holdings, I have the impression that, with the sales of 63 billion yen by the end of 3Q, the progress is behind the full-year target of 100 billion yen. Are you going to sell up to 100 billion yen by 4Q, or are you going to hold down the sales because of the upward trend of profit.

A10: As you pointed out, with the sales of 63 billion yen by 3Q, the progress may seem slow. Due to the impact of COVID-19, we held down the sales in 1Q and have had a plan to continue the sales in 2Q and afterwards, and it is progressing in accordance with that plan. In 4Q, we are steadily carrying out the sale to reach 100 billion yen.

Q11: Looking at all the explanations so far, it seems that the results for this fiscal year will be higher than the forecast. Could you tell us about the upward and downward factors and the directions expected in the 4Q?

A11: By business segment, the domestic life insurance is expected to record strong earnings, while the international business is expected to fall below the forecast. The domestic non-life insurance is still subject to a number of variable factors, and we do not necessarily see a positive overall performance as it moves toward the forecast line.

The domestic non-life insurance has some downward factors such as fire losses in underwriting profit. The environment for investment profit is better than that at the time of the results forecast, we basically regard this as a positive factor. However, since gains on sales of strategic equity holdings and impairment losses are related to the movements of individual stocks held by our company, we do not think there will necessarily be a link with overall market movements.