

MS&AD Holdings Conference Call (November 19, 2024)

FY2024 2nd Quarter Year Results 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.

MSA Life: Mitsui Sumitomo Aioi Life Co., Ltd.

MSP Life: Mitsui Sumitomo Primary Life Co., Ltd.

AUL: MS Amlin Underwriting Limited

MS Re: MS Reinsurance*

*Brand name launched by MS Amlin AG in September 2022

- Q1: The forecast for the FY2024 group adjusted profit in the domestic non-life Insurance was revised by JPY 25bil upward from the initial forecast. Is this revision mainly due to the lower natural catastrophe losses?
- A1: The upward revision of JPY 25bil in the domestic non-life Insurance reflects the fact that losses from natural catastrophes in the first half of the year were smaller than the initial forecast, but also factored in a recent increase in non-Cat losses. These include an increase in losses in domestic automobile insurance due to an increase in the unit cost for vehicle and property damage, an increase in small losses from natural catastrophes and other losses in domestic fire insurance, and an increase in losses in personal accidents in group insurance and overseas travel insurance.
Regarding the asset management area, profits increased due to an increase in interests and dividends.
- Q2: Regarding the international business, why did you revise downward the full-year forecast for the insurance services profits of AUL and MS Re in local currency?
- A2: The insurance services profits of AUL were reduced by GBP 4mil from the initial forecast, which were not changed largely.
Reduction of USD 47mil for the insurance services profits of MS Re from the initial forecast was due to an increase of 2.9 points on non-Cat loss ratio from the initial forecast to 61.8%. This includes the additional provision of reserves for previous underwriting years.
Meanwhile, the top-line has been performing well, and we evaluate that the fundamental profitability itself has been improving and stabilizing compared to before.
- SQ1: The trial regarding the aircraft taken over by Russia has begun recently in the UK. Also, we hear that an agreement was reached between an airline in Dubai and insurers. Is there any progress about the aircraft-related cases?
- SA1: Claims related to individual policies are not disclosed.
- Q3: Can we hear the reason for the significant increase of average payout in automobile insurance claims in a short period of time since Q1, and to what extent this trend is reflected in the full-year forecast?

- A3: As described on page 12, unit price of vehicle loss at MSI and property damage at ADI have increased significantly. From Q1 to Q2, the increase in vehicle loss at MSI from +5.3% to +9.4% was mainly due to the impact of the individual policy. This was the withdrawal of large reserves for outstanding claims in the previous year.
The increase of +8.0% in unit price of property loss at ADI was mainly due to the increase of the initial reserve table. On booking initial reserve, average payout per claim was recognized higher than before. But it converges to the actual unit price until the timing of the payout.
The rate of increase in unit price of vehicle and property loss, which are the assumptions for full-year outlook, has been raised to around +8% from +5% of the initial forecast.
- Q4: Regarding Lloyd's and reinsurance businesses, how much have you factored the losses of U.S. hurricanes in the full-year forecast?
- A4: At Lloyd's and reinsurance businesses, we estimated approximately JPY 6bil for Hurricane Helene. Impact of Hurricane Milton is under examination but estimated losses will be over JPY 10bil level. We have revised downward the annual forecast of overseas natural catastrophe losses. Even if there is a slight upward deviation, it is expected to remain within the revised forecast.
- Q5: What is the background of upward revision of AUL's and MS Re's investment profit?
- A5: In the first half of the year, AUL and MS Re had losses on bonds due to the rise in interest rates, but bond funds and deposits have been positive due to the favorable interest rate environment. The revised forecast incorporates a positive impact on bonds based on the downward trend in interest rates in the second half of the year.
- Q6: The revised forecast for the gain on the sale of strategic equity holdings seems to show little change compared to the initial forecast. Do you plan to accelerate the sale of strategic equity holdings in the second half?
- A6: As described on page 34, the sales amount of strategic equity holdings for FY2024 is expected to be JPY 690bil, and the gain on the sales on a consolidated basis is expected to be JPY 524.1bil. The gain on the sales of stocks will be greatly affected by fluctuations in stock prices. But we did not revise the forecast because the sales of large issuers have proceeded at a rapid pace in the first half of the year. We will proceed the sales to target based on the current full-year forecast.
- Q7: How did you calculate JPY 60bil share buybacks announced today?
- A7: The share buybacks of maximum JPY 60bil is implemented as part of the basic shareholder return policy. The policy is to return 50% of the group adjusted profit through dividends and share buybacks. Likewise, for the accelerated sales of strategic equity holdings, around 50% of the profit will be returned through dividends and share buybacks.
- Q8: MSP Life's interim net income is expected to be JPY 33.7bil and JPY 23bil for full-year forecast. What is the negative factor for the second half?
- A8: MSP Life's profit level was higher than the previous year due to the effect of a decrease in policy reserve provision caused by a large number of contracts that reached the investment target in the first half. As described in page 39, the additional provision of price fluctuation reserve is factored in for the second half and that is the reason of negative figure of second half. Last fiscal year, we withdrew much price fluctuation reserve, so we have a

policy to increase the provision of the reserve.

Q9: Is there any progress for restructuring business structure of MSI and ADI?

A9: Management will explain at the information meeting next week.

Q10: Regarding the shareholder returns, the basic return for FY2024 was announced today. Can I expect that additional returns will be announced next May due to the high ESR, etc.?

A10: The share buybacks of maximum JPY60 bil will be implemented as a basic return. The additional returns (if any) will be explained at the time of the full-year financial results announcement, depending on the status of ESR at the end of March 2025, the business environment and business investment at that time, and the needs of capital efficiency improvement.

Q11: EI loss ratio excluding natural catastrophe in voluntary automobile insurance at MSI increased by 2.4 points, year on year in the interim period. On the other hand, an increase of 1.1 points year on year in the full-year period will be expected. Is this 1.1 points increase sufficient?

A11: The main reason for the increase in EI loss ratio's forecast is the change in average payout per claim's property and vehicle damage from +5% to +8%. The accident frequency is almost the same as the initial forecast. Currently, the accident frequency tends to decrease slightly, while average payout per claim is increasing. To determine whether the rate increase in January 2025 is sufficient, we will continue to closely monitor and consider revising product and rates as necessary.

Q12: Please explain the reasons for the increase in group adjusted profit excluding gain on sale of strategic equity holdings from the initial forecast.

A12: This revision is due to a decrease in natural catastrophes compared to the initial forecast, and interest and dividend income in investment exceeded the outlook.

Q13: The full-year forecast for international business's group adjusted profit is revised upward JPY 13bil. What is the reason for this upward revision including the impact of foreign exchange rate?

A13: Please see page 41 for financial results forecast of overseas subsidiaries. On a group-adjusted profit basis, the strong performance of investment has led to results exceeding the initial forecasts at Lloyd's and Reinsurance, Asia, other regions, and international life insurance entities. The impact of foreign exchange is about JPY +1.2 bil.

Q14: Will share buybacks of JPY 60bil be implemented as basic return based on the revised group adjusted profit of JPY 670bil? Have you already decided the method for share buybacks?

A14: It is based on the basic return. We refrain from disclosing the method of share buybacks.

Q15: In the interim consolidated financial statements, JPY 380.9bil was recorded as gain on sales of securities, but cash and deposits on the balance sheet have not increased in the same way. Please provide the context behind this.

A15: The cash generated from the sales is used for short period investment, shareholder returns, and redemption of corporate bonds.

Q16: In the revised forecast, net income is revised upward by JPY 20bil and group adjusted profit is revised upward by JPY 40 bil from the initial forecast. Regarding the difference of JPY 20 bil, I think there is an effect of catastrophe reserve and reserve for price fluctuation in the domestic business, but what is the reason for the difference in the international business (net income: +JPY 5bil, group adjusted profit: +JPY 13bil)? Is it due to any technical factors?

A16: Regarding the international business, net income is based on the overseas subsidiaries only. However, group adjusted profit includes the business results of the international business of MSI and ADI themselves, in addition to the overseas subsidiaries. It should be also noted that if large extraordinary profit/loss is identified, they will be adjusted in group adjusted profit.

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