

MS&AD Insurance Group Holdings

The 2nd Information Meeting of FY2024 (Held on November 26, 2024)

Q&A Session Summary

The Q&A Session Summary at the Information Meeting held on November 26, 2024 was summarized as follows.

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

MSI: Mitsui Sumitomo Insurance Co., Ltd.

ADI: Aioi Nissay Dowa Insurance Co., Ltd.

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

- Q1: The profit forecast for FY2025 has been revised downward, with a decrease in post-tax gains from the sale of strategic equity holdings amounting to approximately JPY 70bil. From capital policy point of view, how should we anticipate the additional returns for capital level adjustment mentioned on page 7 for FY2024 and FY2025?
- A1: Basically, we forecast profits based on market conditions and implement returns in accordance with the shareholder return policy. Additional returns for capital level adjustment will be considered in a timely manner while observing the status of ESR and other factors.
- I understand your intention is to enhance the predictability of additional returns. Additional returns will be considered based on the level of ESR, trends in business investment, liquidity, etc. This time, we have provided the profit forecast for FY2025 based on certain assumptions, but I hope you understand that if the assumptions change, the revised profit forecast may also change. Among the consideration factors mentioned earlier, the fact that the ESR is close to the upper limit of 250% is a relatively important factor. Additionally, we plan to sell strategic equity holdings over six years starting FY2024, and the funds obtained from the sale will be used not only for shareholder returns but also, as early as possible, for growth investments to accelerate future growth. These points are also important considerations.
- Q2: Regarding the investment policy for stocks and credit bonds after the sale of strategic equity holdings, could you provide information on the risk assessment of the current credit portfolio, including CRE loans, and future investment targets and methods? Previously, you explained the investment policy for listed stocks. If there is additional information on how they will be acquired or whether they will be transferred from strategic equity holdings, please give us supplement explanation.
- A2: The balance of CRE (Commercial Real Estate) loans is slightly over JPY 300 bil. Among them, the loans for office spaces that are becoming a cause for concern account for about 20%. Compared to the asset size of our group, the amount is not significant, and the number of cases is less than 10 through outsourced asset management companies. Thus, we are able to monitor each case individually, and currently no issues have arisen. Some outsourcers (funds) have made provisions of JPY several hundred million, but we recognize that there are no issues leading to significant losses. Since the overall market, especially the office real estate market, is not in a good situation, we are carefully monitoring each case individually.

I would like to highlight two points regarding the expansion of credit investment. First, regarding ALM asset, which mainly manage JPY interest rate assets, we are increasing our holdings of medium-to-short-term bonds that have a certain level of credit spreads. Additionally, we are experimenting with treating hedged foreign bonds as JPY interest rate assets to capture credit spreads. However, as of now, the hedging costs have not decreased as much as expected, and comparing the balances at the end of March and September, the balance of hedged foreign bonds may not have increased significantly.

Another point is investment in credit, namely the asset class known as private debt or private credit. We are actively seeking various investment opportunities in this area, but there hasn't been a significant increase at this moment. The private debt market, which many institutional investors are expanding into, shows signs of overheating, so we are addressing carefully and cautiously.

Another private asset is private equity, where we have been investing at roughly the same pace each year. Due to an increase in market valuation and a sense of market overheating that emerged about 2-3 years ago, we have slowed our investment pace since around two years ago. Last year, we attempted to sell in the secondary market and have been adjusting risks for a while. This year, we were considering selling more private equity. However, due to the significant sale of strategic equity holdings, the overall risk assets have decreased, and therefore, we currently do not plan to proceed with further selling. We are considering resuming sales in FY2025, and in any case, we will consider this from a risk adjustment perspective.

Regarding our approach to investing in listed stocks, as stated on page 17, "Aim to increase fair value's net assets over the long term, assuming period profit/loss." this policy is defined in the group's basic regulations on asset management. Therefore, even for pure investment, we do not follow short-term market price fluctuations, but rather focus on the fundamental value of companies, similar to private equity. We believe this bottom-up investment approach aligns well with our asset management style, and we are working on securing personnel and establishing systems to implement it.

Finally, let me reiterate that CRE is a part of MSP Life's asset management, and it is not significant in scale and involves a small number of cases, all of which can be checked individually. Please understand that we generally take a conservative approach to asset management.

Q3: Please provide an update on the restructuring of the business structure of MSI and ADI.

A3: There is no additional information at this moment.

Q4: While it has been stated that the ordinary dividends will continue to increase, does the management also intend to maintain an overall increase in total amount of dividends, including special dividends?

A4: Regarding ordinary dividends, we have clearly stated as a basic policy that we are committed to a progressive dividend increase policy. Special dividends are sourced from profits generated by the accelerated sales of strategic equity holdings. Since we have accelerated the sales of strategic equity holdings, the dividend payout ratio related to these profits is kept relatively low for FY2024. Going forward, we aim to maintain an overall trend of increasing dividends by adjusting the payout ratio, despite the impact on stock price fluctuations.

Q5: Regarding the use of profits from the sales of strategic equity holdings, it was explained in May that JPY 2.1 trillion would be allocated to growth investments, JPY 0.8 trillion to shareholder returns, JPY0.7 trillion to corporate taxes, and JPY 800 bil would be retained as pure investment to listed stocks. In the current situation where the market value of strategic equity holdings is decreasing, please allow me to check whether these actual amounts will remain unchanged, or whether the actual amounts for each will change while the allocation ratios remain the same.

A5: The use of proceeds from the sale of policy stocks is as per the allocation image described on P.11. The weights for growth investments, shareholder returns, and corporate taxes remain unchanged.

If there is no change in stock price, growth investments were originally planned to be JPY2.1 trillion, but as stated on P.11, it is expected to be JPY2 trillion, with shareholder returns decreasing by JPY180 bil and corporate taxes also decreasing by JPY220 bil. Please understand that these numbers will fluctuate based on future stock price trends.

Q6: Regarding the improvement of the profitability of voluntary automobile insurance, will the price increase in January 2025 be sufficient? Could you please provide an update on additional efforts for profitability improvement, considering capital efficiency and inflation outlook?

A6: We plan to revise the rates in January 2025, and we believe that carefully assessing the effects of the revision will lead to the next steps. The frequency of accidents is not expected to change significantly based on demographics and traffic volume. Nonetheless, we have decided the rate revision this time, anticipating that the unit price of parts and repair labor costs will continue to be affected by inflation. In the future as well, we will consider product revisions or rate revisions by observing the gap with the market trend.

Q7: Regarding the FY2024 full-year forecast for the domestic non-life insurance business, what are the reasons for downward revision of the underwriting profit from the initial forecast?

A7: The assumption for natural catastrophes in the second half is the same as the initial forecast. On the other hand, non-cat losses are expected to worsen, mainly in automobile insurance. For example, regarding automobile insurance, while the accident frequency is stabilizing, the unit price of vehicle and property damage claims has been raised from about +5% YOY to about +8% YOY from the initial forecast.

Q8: I believe you want to avoid a significant reduction in dividends after the sales of all strategic equity holdings. In that case, should we expect the dividend payout ratio to be at a considerably higher level than before?

A8: To raise the profit level, we will use the funds obtained from the sale of strategic equity holdings for business investment, investment in human resources, system optimization, etc., to strengthen the business structure. By doing so, we aim to create a virtuous cycle that generates stable profits even after the completion of the sales of strategic equity holdings and leads to increase dividends.

Regarding dividends for the FY2030 after the completion of the sales of strategic equity holdings, we would like to minimize any reduction in dividends. It depends on future profit trends, but a certain decline in profits due to the absence of gains from the sale of strategic

equity holdings is unavoidable. Therefore, we consider raising the dividend payout ratio to a level that does not result in a reduction of dividends as one of the options, but nothing has been decided at this moment.

Q9: In the changing business environment, such as the sale of strategic equity holdings, acquisition of in-house corporate agencies by international brokers, and discussions on the abolition of the territory system, please give us your views about the recent changes in the domestic non-life insurance business, especially in the sales channel.

A9: Our group is highly motivated to expand corporate value through the transformation of business styles. We are also closely monitoring the direction of discussions on regulatory and rule changes surrounding the industry, as well as the trends of brokers and corporate agents, to prepare for future changes. Keeping customer-focus in mind, no matter what the environment is, we will deliver the highest value.

Q10: Despite the occurrence of the major hurricanes, Helene and Milton, there is no significant impact on the international business forecast for FY2024, and a stable outlook is expected for FY2025 as well. Even in such circumstances, are there any downside risks such as the progression of market softening or the development of reserves from past years?

A10: As a result of efforts to strengthen the international business structure over the past few years, we are now in a position to foresee stable performance even when events like this occur. Additionally, we will thoroughly prepare for the transition from a hard market to a soft market. Downside risks include the development of reserves from past years, the outflow of management talents, social inflation, intensification of natural catastrophes, and the manifestation of geopolitical risks. We are taking thorough measures to address each risks. In the Lloyd's business, we are taking measures to curb the deterioration of past reserves by transferring past portfolios externally. In addition to regularly updating the succession policy for management talent, we are also working to secure current management talent and acquire the next generation of management talent through frequent dialogue with the management of overseas subsidiaries. Regarding social inflation, we are encouraging the accumulation of sufficient reserves, and over the past few years, we have focused on reducing natural catastrophe risks. We evaluate that our efforts have been successful, as we can now foresee stable performance even when large hurricanes occur. Additionally, concerning geopolitical risks, we are taking measures such as quickly changing our underwriting appetite when risks materialize and preemptively curbing exposure.

Q11: Considering the outlook for the group's adjusted profit for FY2024, we see the possibility of share buybacks of around JPY100 bil. Should we be concerned about a deterioration in supply and demand if a large amount of MS&AD stock is sold as a result of the dissolution of cross-shareholdings?

Also, if corporate shareholders were to sell a large number of MS&AD stock, could that lead to additional returns?

A11: We consider the deterioration in the supply and demand of our shares to be a matter to be noted. As you say, share buybacks is one method of additional return, but we consider the deterioration in supply-demand balance and the execution of additional returns as separate

issues.

- Q12: There is a discussion about regulating the recommendation of specific insurance company products by insurance agencies. MSI and ADI seem to have a close relationship with certain automobile manufacturers, but will this affect your business?
- A12: We believe that what we should be focusing now is solely providing value to our customers. We will proceed with strengthening and improving our products and business processes from the perspective of advancing customer orientation.
- I think this point is being discussed in the working group of the Financial System Council. We need to closely observe whether it will lead to legal amendments, and after analyzing and reviewing the opinions expressed there, we are already devising concrete support measures for agencies, assuming what could happen in dealer channels, for example, while having dialogues with agencies. We will further enhance these efforts.
- Q13: It seems that the profit from the sale of strategic equity holdings was significantly influenced by Toyota's share buybacks through TOB. Will the future profits from the sale of strategic equity holdings also be greatly influenced by the sale trends of Toyota's share?
- A13: We are proceeding with sales while having individual discussions with all issuers and gaining sufficient understanding. We aim to sell strategic equity holdings smoothly and in a way that minimizes fluctuations year to year.
- Q14: The penalty by the Fair Trade Commission related to this price fixing was around JPY1.3 bil. Aside from penalty, what additional costs are expected in response to the price fixing, Big Motor, information leakage issues, etc.?
- A14: We are strengthening our management system in response to a series of issues, but we do not recognize any significant direct additional costs such as a large increase in personnel or the introduction of new systems.
- If the environmental changes which we originally anticipated accelerate as a result of a series of issues, there may be an acceleration of initiatives that we had previously considered, such as advancing full digitalization.
- Q15: Have the review of the international business (such as the downsizing or withdrawal of unprofitable businesses) been working well?
- A15: Within our group, we are engaging in in-depth discussions and making choices regarding the replacement of capital, focusing on international businesses. For example, we have reorganized business partnerships where the acquisition of know-how through MSI has been completed, improved the profitability of Brazilian business, and reviewed and reorganized international businesses at ADI. These efforts are being diligently pursued and are progressing smoothly.
- We regularly monitor the investment returns of all businesses within the group. We identify businesses that are not achieving a certain level of return and monitor them as watching list cases, verifying their strategic significance, and monitoring the progress of improvement measures. Businesses that cannot achieve the required returns and do not have high strategic

significance are monitored as strong candidates for exit.

The replacement of the business portfolio is being discussed under the leadership of the holding company, and we are in a position to take action as necessary.

Q16: I would like to know the long-term outlook for profit growth. The profit in FY2024 or FY2025 may be the peak and will decline thereafter. Is further profit growth possible from FY2026 onwards?

A16: We are envisioning growth prospects through business investments, mainly in North America and overseas. We are exploring the way to ensure stable profits regardless of the trend of selling strategic equity holdings.

Q17: How do you evaluate the environment for overseas M&A, considering factors such as foreign exchange rate trends?

A17: We believe that identifying the right investment target is most important factor. We will then monitor FX movements and other factors to decide on the optimal timing.

Q18: Please explain the impact of IFRS application on the adjusted net assets in ROE calculation at MS&AD. Other companies have explained that after applying IFRS, OCI is not included in net assets, resulting in an increase in ROE.

A18: We are currently considering which management indicators to present. We hope to offer an explanation within FY2025, if at all possible. Under IFRS, price fluctuation reserves and catastrophic reserves are counted as capital, so the ROE decreases. On the other hand, we recognized that many European insurance companies adopting IFRS exclude OCI from adjusted net assets. Using adjusted net assets that deduct OCI when calculating ROE has a certain rationality, as it aligns the numerator and denominator in ROE calculation, given that OCI assets are not recognized as profits even if they are sold. This is a separate discussion from accounting concepts about what we consider as net assets. Excluding OCI from adjusted net assets is one of the options under consideration.

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