

## MS&AD Holdings Conference Call (August 5, 2022)

### FY2022 1Q 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.

MSI Aioi Life: Mitsui Sumitomo Aioi Life 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)

MSIG Mingtai: MSIG Mingtai Insurance Co., Ltd.

Q1: On page 20 of the handouts, the EI loss ratio of the domestic voluntary auto insurance for the first quarter is 5.6 percentage points higher than in the previous year, even excluding hail damage. How do you see the 1Q results, while you expect a 3.2 percentage point increase in your full-year plan? Also, is it correct to say that the deterioration in the loss ratio of the domestic voluntary auto insurance in the first quarter was due to an increase in traffic volume and that there were no other incidental factors?

A1: The EI loss ratio of the domestic voluntary auto insurance was higher than the full-year forecast due to the higher-than-expected accident frequency in the first quarter. On the other hand, the average payout per claim increase was lower than expected. The EI loss ratio has exceeded our plan, but it has only been three months, so we will closely monitor the situation going forward. We attribute the worsening loss ratio to an increase in the frequency of accidents due to increased traffic volume.

Q2: The number of accidents during the period from April to June published by the National Police Agency has only increased by about 2% compared to last year. What is the reason behind the large increase in incurred losses in auto insurance? I don't think there is an increase in thefts, since the average payout per claim has not increased, so please tell us what the situation is.

A2: I think there may be some inconsistencies with the National Police Agency's data on the number of accidents, but the rate of increase in our number of accidents is 5.6%. I don't think there are any incidental factors. The reason seems to be the increasing number of accidents and the rising average payout per claim.

Q3: Is the slow growth in the top line of voluntary auto insurance due to the slow sales of new vehicles in Japan?

A3: The slowdown in sales of new vehicles has had an impact. ADI's top line has increased, partly due to growth in overseas inward reinsurance.

Q4: You were selling COVID-19 insurance in Taiwan. Could you tell us about the loss prospects and risk management?

A4: MSIG Mingtai, a subsidiary of MS&AD, started selling COVID-19 insurance in April, but it

stopped in about two weeks after its launch because it reached the sales limit set for risk management. For this reason, the underwriting scale is not large, and the current estimate of losses is in the range of several billions of yen. Since the number of infections seems to have increased sharply since May, the estimate may increase slightly, but I think it will be around 10 billion yen.

Q5: You mentioned that the insurance claims payments for the COVID-19 insurance in Taiwan is in the range of several billions of yen. What assumptions is this figure based on? And how many policies are there?

A5: This figure is based on the assumption that the infection rate is around 20%. If the infection rate reaches 30%, we expect the scale to exceed 10 billion yen. The number of policies is about 130,000.

<Correction>

We explained during the conference call that the number of policies was about 100,000, but we corrected that to about 130,000 in this Q&A summary.

Q6: With regard to the impact of COVID-19 in Taiwan, is it possible that if the infection rate rises to about 30% by the end of September, the several billion yen you mentioned earlier will reach about 10 billion yen that will hit the P/L? Or even if it goes up 30% by the end of September, will the P/L impact only show up in subsequent quarters?

A6: At the end of the second quarter, I think we will have a several billion-yen figure. Depending on the infection rate, it could expand to around 10 billion yen, but we don't know at this point whether it will be in the third or fourth quarter.

Q7: I heard that the non-cat EI loss ratio for MS Amlin in the first quarter increased to 59.6% from 56.3% in the previous year. What are the factors behind this?

A7: MS Amlin calculates earned premiums according to the trend of losses occurring during the year, rather than simply according to the period expiry. For that reason, earned premiums, which are the denominator for calculating loss ratios, are lower in the first and second quarters relative to the second half of the year. With respect to these earned premiums, the loss ratio is slightly higher due to the impact of natural catastrophes that are not large-scale and medium-sized losses.

Q8: Regarding the inflationary reserve of 8 billion yen at MS Amlin (factored into earnings forecasts), do you see the need to further raise the balance?

A8: About half of the 8 billion yen inflationary impact is for MS Amlin, and the rest is for other overseas subsidiaries. At MS Amlin, we built up sufficient reserves at the end of last fiscal year to prepare for worsening inflation, and we do not believe there is any need to build up additional reserves at this time.

- Q9: You had planned to set aside 28 billion yen in reserves budget related to Russia and Ukraine at the beginning of this fiscal year and reserved 15 billion yen in the first quarter. Will the remaining amount be recorded from the second quarter? Also, please tell us if the reserve amount is sufficient or insufficient.
- A9: I think the 28 billion yen figure includes about 8 billion yen that we told you about as an inflationary impact. The inflationary impact is separate from the expected losses related to Russia and Ukraine that we have factored into MS Amlin's plan. The impact of incurred losses related to Russia and Ukraine factored into MS Amlin's earnings forecast is approximately 20 billion yen. In the first quarter, we recorded approximately 15 billion yen. This includes IBNR, which incorporates in our forecasts the losses of property and cargo in regions where an insured event is expected to occur, and reserves that we have accumulated preliminarily for events, including those related to aircrafts, that may occur but cannot be included in IBNR yet. The remaining approximately 5 billion yen has not been recorded as of 1Q. The full-year loss impact is expected to be within the plan.
- Q10: Please tell us how likely it is that MS Amlin will achieve the Group Adjusted Profit of 24 million pounds, which is the full-year plan. As for variables, I believe that the negative factors will be a rather high loss ratio related to Russia and Ukraine in 1Q and continued investment losses throughout the first half of the year.
- A10: Regarding Russia and Ukraine, we believe at this point that the impact of losses, including credit risk, is unlikely to exceed the plan. The non-cat risks appear to have a slightly high loss ratio in the first quarter, but with the relatively small ratio of earned premiums, we think that it will converge to the full-year plan going forward. On the other hand, asset management has been in a quite difficult situation going into the second quarter in the market environment as of the end of June. However, MS Amlin has been flexibly rebalancing its portfolio by narrowing down risky assets, which has led to relatively better results in asset management compared to other Lloyd's syndicates.
- Q11: Regarding the overseas inflationary impact that you expected at the beginning of this year, please tell us if there is any change from the initial assumption given the current situation.
- A11: There has been no significant inflationary impact as of the first quarter. There may be a further impact of inflation going forward in the second quarter and beyond, but we don't see any significant impact at this point in time because MS Amlin has already recorded a reserve for inflation by the end of last fiscal year, and the premium rate increase is progressing faster than planned this fiscal year.
- Q12: Why do you think your hail losses, 38.5 billion yen, are higher than for other insurance groups? Also, please tell us if you expect recovery from reinsurance.
- A12: Our view is that our Group's losses are bigger because of our market share. I don't know if there is any impact due to differences in the way losses are estimated. Also, I do not think that this scale of losses will have a large reinsurance recovery.

Q13: Incurred losses of fire insurance excluding natural catastrophes are getting worse. What are the reasons?

A13: The EI loss ratio of fire insurance, excluding natural catastrophes, is affected by the same major overseas accidents, both at MSI and ADI. In this quarter, loss ratios in each line were inflated due to the impact of foreign exchange rates. The foreign exchange impact on EI loss ratio is about 6 points for MSI and about 10 points for ADI.

Q14: Net written premiums in the domestic fire insurance were down 2.6% in the first quarter. As you have a 4% increase in premiums in your full-year plan, do you expect an increase in the second quarter and beyond, or do you anticipate a smaller increase than planned due to the impact of ceded reinsurance premiums?

A14: Net premiums appear to be in decline as ceded reinsurance premiums increased during the quarter due to an increase in restoration premiums associated with the payment of large claims. Direct premiums written are performing well against our full-year 4% growth plan.

Q15: Regarding the impact of interest rates and foreign exchange at MSI Primary Life shown on page 17 of the handout, the interest rate impact was -27.7 billion yen and the foreign exchange impact was +11.9 billion yen, both showing significant changes. Please tell us the factors.

A15: The interest rate impact of -27.7 billion yen is due to the provision of the regular policy reserve for foreign currency denominated insurance, a system introduced in the current fiscal year against the backdrop of rising overseas interest rates. In addition, there are negative factors on the asset side due to rising interest rates, such as losses on the sale of bonds and impairment losses. On the liability side, rising interest rates have a positive effect, so the figure obtained by adding or subtracting them was -27.7 billion yen. The foreign exchange effect is positive on the asset side and negative on the liability side if the yen is weak. In addition, there is a structure in which the burden of provision for policy reserves is reduced due to the weak yen against the strong U.S. dollar during the quarter, resulting in +11.9 billion yen.

SQ1: The net effect of interest rates and foreign exchange rates in the first quarter was -15.7 billion yen. Does this mean that if a negative impact of some magnitude remains in the full-year results, the price fluctuation reserve will be reversed and the negative impact will disappear?

SA1: We set aside additional reserves for price fluctuations in case of accounting losses, but the reversal is to the extent permitted by the Insurance Business Act. This time, as the asset side has been positive due to the weak yen, the price fluctuation reserve has not been reversed, and the impact of interest rates and foreign exchange rates has had a negative impact on earnings. On the other hand, the negative impact of interest rates and foreign exchange rates was offset by an increase in profit margins due to the depreciation of the yen and a gain from the reversal of policy reserves caused by a certain number of foreign currency-denominated policies reaching investment targets.

Although MSI Primary Life's first quarter earnings were affected by a variety of factors, including interest rates and foreign exchange, the results are not far from expectations.

Q16: Regarding MSI Primary Life, with the current structure of assets and liabilities, if the yen gets even weaker, and if interest rates, especially overseas interest rates, rise from what they were in the first quarter, or vice versa, what would be the impact on P/L?

A16: I will explain it on a basis excluding the elements of accumulation and reversal of price fluctuation reserves.

The asset side is mainly affected by the interest rates on government bonds and the liability side is mainly affected by the interest rates on public and corporate bonds, and the rise and fall of the interest rates affect the profit. In addition, under the regular policy reserve system for foreign currency denominated insurance, which was introduced in the current fiscal year, the provision increases when the difference between the assumed interest rate of the product sold and the standard interest rate applicable to the policy reserve accumulation, so a higher interest rate would increase the burden. However, since this regular policy reserve is an additional burden on the policy reserve, it is gradually reversed by the expiration of the policy term. Since this fiscal year is the first year, and considering the recent rise in interest rates, the burden of provision is large.

As for the foreign exchange impact, the amount of US dollar liabilities reflected in P/L exceeds the amount of assets, and the appreciation of the yen has a positive effect on the bottom in terms of balance, while the depreciation of the yen has a negative effect. The Australian dollar is in the opposite position. The foreign exchange impact was positive during this quarter due to a structure in which the burden of provision for policy reserves was reduced due to the weak yen against the strong US dollar.

Q17: Regarding the burden of the regular policy reserve for foreign currency denominated products introduced by MSI Primary Life this fiscal year, was the figure factored into the plan? You previously said that the product sold and the difference in the standard rate affects P/L. Is it correct to say that the standard rate is fixed in the first place, and the rate of the product sold changes when the interest rate moves, which affects P/L?

A17: The impact of the new system had been factored into the plan, but the subsequent rise in interest rates has caused the burden to increase more than planned. The assumed interest rate is determined according to market conditions because the interest rate on the product being sold is reviewed every two weeks. On the other hand, the standard rate is determined from the past overseas interest rates. When interest rates rise, the burden rises because the assumed interest rate of the product being sold rises to reflect the current interest rate, while the standard rate is still low.

SQ1: Does that mean that when the policy expires, the impact is neutral in the end?

SA1: That is correct. Since the extra amount from the regular policy reserve system is added to the traditional method of calculating policy reserves, the burden will gradually become

lighter. It does not affect the aggregate cash flow.

SQ2: Am I correct in understanding that the standard rate will catch up?

SA2: The standard rate is fixed from the beginning, so the burden of the first year increases and it is gradually released.

Q18: What are MSI Aioi Life's 1Q results and full-year outlook for COVID-19 payments? Also, I would like you to comment on the qualitative information about what kind of insurance policies those payments come from, such as term insurance, whole life insurance, and age conditions. There are concerns about moral hazards occurring. What do you think about that?

A18: In the first quarter, MSI Aioi Life's COVID-19-related payments, including death and hospitalization benefits, totaled 3.1 billion yen (including accounts payable), slightly over the first quarter plan. With the recent outbreak and continuing claims, we expect the figure to exceed our plan for the full year. There has not been much of an impact on the bottom line in 1Q, partly due to lower-than-expected non-COVID-19 payments, but there could be an impact from future claims expansion.

SQ1: Please let us know if there are any features of the policies where the payments have already been made or claims have been made.

SA1: A large percentage of the claims are for benefits related to deemed hospitalization. At present, it is difficult to be hospitalized, and many people are being treated at home, so they account for more than 90% of the total.

Q19: Is the worsening personal accident insurance loss ratio caused by COVID-19 losses, or is it because of the worsening overseas travel accident insurance loss ratio? Also, please tell us why the situation at MSI is worse than at ADI.

A19: The loss ratio for personal accident insurance at MSI has risen by 12 percentage points, and it is almost entirely due to the impact of COVID-19. MSI underwrites a lot of group accident insurance, so the impact of COVID-19 is significant.

Q20: The Group Adjusted Profit of 55 billion yen for the first quarter seems to be a slightly slow start, as this is the progress of around 18% against the full-year target of 300 billion yen. How do you see this? As for individual business domains, the domestic non-life insurance business is generally on-track at 49.2 billion yen against the target of 194 billion yen, while the international business seems to be lagging due to the influence of Russia and other factors. How do you also assess this?

A20: Progress in the first quarter was affected by the fact that domestic natural catastrophes occurred earlier in the year than usual (approximately +24 billion yen versus the plan on an after-tax basis due to the impact of the June hail damage).

By business domain, in the domestic non-life insurance business, the insurance underwriting profit was below the plan even excluding the impact of the June hail damage, but this was offset

by an increase in interest and dividends income in asset management, and the negative impact of the hail damage remained overall. The domestic life insurance business is largely in line with the plan, despite both positive and negative factors. MSI Primary Life experienced an increase in the burden of its foreign currency-denominated regular policy reserve due to rising interest rates, offset by the positive effects of the weaker yen. In our international business, we have included the impact of losses related to Russia and Ukraine in our plans for the first quarter, and the deviation from our plans is not significant, partly because for many of our overseas subsidiaries the fiscal year ends in December.

Q21: The progress of net interest and dividend income is very high. What are the factors behind this?

A21: Net interest income increased by 6.7 billion yen for MSI and 3.3 billion yen for ADI year on year. This was mainly due to an increase in dividends from domestic stocks, with MSI having an increase of 6.5 billion yen and ADI having an increase of 2 billion yen. Interest and dividend income from foreign securities has also increased due to the weaker yen: 0.5 billion yen for MSI and 1.6 billion yen for ADI.

Q22: ESR was flat in the first quarter. Could you give us a breakdown of market factors (foreign exchange and interest rate factors) and profit impact in gross terms? Also, could you explain why ESR on a UFR basis has declined?

A22: While the ESR is positively affected by the accumulation of profits, it is offset by negative factors such as the decline in the market value of domestic and foreign stocks. In terms of scale, the increase and decrease of each factor is only about 1-2 percentage points. The reasons for the decline in the UFR-based ESR will be confirmed and answered separately.

<Supplementary information> Answer to the question above

When domestic interest rates rise, the net asset value increases and ESR rises. After the UFR application, the net asset value increases compared to before the UFR application. Domestic interest rates at the end of June were higher than at the end of March, but the UFR (ultimate forward rate) itself remains unchanged from the end of March. Therefore, the increase in net asset value associated with higher domestic interest rates is smaller after the UFR application than before the UFR application. The net asset value at the end of June was almost at the same level (slightly increased) before the UFR application, with positive and negative factors from the end of March largely offset. On the other hand, after the UFR application, the net asset value decreased and the ESR decreased because the positive factors fell below the negative factors as a result of the effects described above.

Q23: In addition to the unprecedented scale of natural catastrophe losses in the first quarter, factors that are not factored into the plan, such as the possibility that COVID-19 losses will expand in the domestic life insurance and Taiwan, will add up to a considerable amount. Is it possible that these items will fall under the losses due to large-scale natural disasters, etc. that are stipulated in your company's shareholder return policy as requirements for an additional return?

A23: Although natural catastrophes occurred on an unprecedented scale in the first quarter of a typical year, they are still within the annual natural catastrophe budget. The outlook for the year will depend on the situation of natural catastrophes such as typhoons going forward, so we will examine the situation by looking at the occurrence of natural catastrophes at the end of the first half of the year, rather than the current situation, which does not immediately apply to this case.

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