

MS&AD Holdings Conference Call (August 6, 2021)
FY2021 1Q 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)

Q1: Progress rate of Group Adjusted Profit for the first quarter against the full-year earnings forecast was very high at 59% for domestic non-life insurance, 51% for domestic life insurance, 27% for international business, and 48% for the entire business. Group Adjusted Profit for the first quarter was 144.4 billion yen, which is about 70 billion yen higher than 75 billion yen, a quarter of the full-year forecast of 300 billion yen. I assume there are some seasonal factors and year-end reserve provisions, etc., but how much of that excess is more than expected?

A1: Our assessment is that domestic non-life insurance, domestic life insurance, and overseas subsidiaries are all tracking well to our plan.

Domestic non-life insurance is exceeding our plan both for underwriting and asset management. Although incurred losses of fire insurance were slightly higher than our plan, those of auto insurance remained low, and thus the overall results were generally in line with our plan. Progress rate is usually high for the first quarter due to seasonal factors such as the timing of receiving stock dividends, several front-loaded special factors such as gains on sales from areas other than strategic equity holdings, and reversal of underwriting result for the first year.

In domestic life insurance, both MSI Aioi Life and MSI Primary Life are trending above plan. At MSI Primary Life, as shown on page 17 of the material, interest rates and foreign exchange rates fluctuations resulted in positive earnings that had not been factored into the plan and that thus contributed to the increase against the plan. However, this will move according to future fluctuations in interest rates and exchange rates.

Overseas subsidiaries also exceeded their plan in each region.

Overall, Group Adjusted Profit was approximately 30 billion yen higher than the company plan as of the first quarter. However, they also include profits that came in ahead of schedule in the first quarter.

- Q2: Can you provide a breakdown of the portions of the 20.2 billion yen reversal of underwriting result for the first year on page 9 of the material that are attributable to each of the two domestic non-life insurance companies?
- A2: The breakdown is 16.3 billion yen for MSI and 3.9 billion yen for ADI. 10.7 billion yen of the 16.3 billion yen for MSI was from personal accident insurance, and 2.8 billion yen of the 3.9 billion yen for ADI was from voluntary automobile insurance.
- Q3: The reversal of underwriting result for the first year was particularly large for MSI personal accident insurance. Will this be an upside factor in profits for your full-year financial results?
- A3: The unearned premium balance for MSI personal accident insurance is typically large every year, and since the amount of balance of underwriting result for the first year also increased this fiscal year, we reversed the entire amount added as an adjustment via balance of underwriting result for the first year at the end of last year. Although this takes the form of a temporary reversal due to technical factors, I don't think it will be an upside factor in our full-year financial results because the actual balance did not deviate significantly from our expectations.
- Q4: ESR was 246%, which is far above the upper limit of your target range of 220%. What is your policy for shareholder returns from the second quarter onwards?
- A4: We believe that, in addition to the increase in profits, elements in the market environment such as exchange rates such as depreciating yen and appreciating pound and increasing domestic interest rates, also contributed to ESR reaching the high level of 246% at the end of June. Accordingly, we do not intend to immediately change our capital policies, which include our shareholder returns policy. However, we are aware that the level exceeds our target range and will direct the excess portion toward growth investments. When no appropriate projects exist, we believe expanding shareholder returns is also an option, after we have given consideration to market trends and whether it is possible to secure sufficient liquidity. We will continue to buy back shares in a flexible manner, taking stock price levels into consideration.
- Q5: ESR is quite high, what is your policy for taking risks? Before, you explained that inward reinsurance from overseas resulted in an increase in sales, I surmise this comes from ADI. Will you expand risk-taking by increasing such inward reinsurance going forward? Furthermore, with the improvement in MS Amlin's underwriting results, will it be possible to use currently occurring surplus capital by increasing insurance underwriting risk at MS Amlin?
- A5: This increase in inward reinsurance from overseas didn't come from the ADI head office reinsurance business. It came from changes in group internal reinsurance and also came

from business investments. Risk taking in the ADI head office reinsurance business is not increasing.

We have also cleaned up poorly performing MS Amlin portfolios, and so, with the arrival of our new CUO, we are currently working on expanding the portfolios of selected areas and taking risks while focusing on profitability.

Q6: Why did fire insurance incurred losses increase 13.7 billion yen over last year? Also, why did provisions for Catastrophe Reserves increase despite the fact that incurred losses increased?

A6: With respect to fire insurance incurred losses, not only did the number of large losses increase over the same period last year, losses due to snow and wind disasters also increased. There has also been an increase in overseas natural disaster losses in previous fiscal years.

A decrease of 17.2 billion yen reversal was the main reason the movement in catastrophe reserves on page 9 of the material increased our burden by 19.6 billion yen compared to last year. The reversal was smaller than last year's very large reversal, which was caused by differences in the timing of payments of last year's natural disasters and large insurance claims.

Q7: Did losses due to the increased defacement and dilapidation of condominiums, which caused last year's fire insurance EI loss ratio to deteriorate, occur less frequently in the first quarter?

A7: There has been no significant increase in defacements so far. The loss ratios for condominium management associations is still high, but we will continue to work hard to improve income and expenditures.

Q8: Your automobile EI loss ratio for domestic non-life insurance has deteriorated little over the same period last year and is better than at other companies, how are you assessing and analyzing that internally?

A8: Although the increase in automobile EI loss ratio was somewhat lower than we expected, we haven't analyzed it compared to other companies. We see no special factors in MSI and ADI movements.

Q9: Why is the EI loss ratio (excluding natural catastrophes) for casualty insurance so high?

A9: The MSI EI loss ratio (excluding natural catastrophes) was about the same as for the same period last year at minus 0.6% compared to the same period last year, for ADI it increased by 3.5%. The ADI increase is due to a slight increase in liability insurance losses but was about what we expected compared to plan. There were no special factors.

Q10: It looks like net interest is progressing well against your plan. Is there any upside to this, such as seasonal factors for example? Planned net interest for ADI is low. What is the status at MSI and ADI?

A10: Net interest for MS increased 10.3 billion yen compared to the previous period. About half of this came from an increase in dividends from subsidiaries. The rest came from increases in foreign stocks and increased dividends on strategic equity holdings. These trended slightly higher, even compared to plan.

ADI net interest is also at the level of around several hundred million to one billion yen, which is higher than planned.

Q11: Group Adjusted Profit from overseas business was 21.4 billion yen in the first quarter against the full-year forecast of 80 billion yen. Given that there were almost no natural catastrophe losses in the first quarter but many large natural catastrophe losses in the second and third quarters, isn't your profit progress rate too slow? For MS Amlin in particular, the £ 20 million in actual profits from April through June against its annual goal of £ 156 million seems fairly low. May I assume that you will catch that up?

A11: Both MS Amlin and non-MS Amlin are generally doing well, and are on pace to slightly exceed plan.

It may appear that the £ 20 million in MS Amlin first quarter Group Adjusted Profit is lagging behind the annual plan of £ 156 million, but this was affected from the outset by the bias in profits for each quarter due to the fact that insurance premiums are not earned according to the period. Although there is a potential for on-going changes due to asset management and natural disasters, profits are, at this point, progressing according to plan.

Q12: With respect to MS Amlin, what is the status on natural catastrophe losses occurring since April from, for example, the floods in Germany?

A12: With regard to the floods in Europe, since MS Amlin's underwriting is mainly on reinsurance (information is limited since little time has passed since the floods occurred), there's little I can tell you at the moment about how big the losses will be. However, we believe they will be at a level that is within the range of what we budgeted for natural catastrophe losses at the beginning of the year.

Q13: There are reports of a profit insurance lawsuit being brought by the UK's leading pub group. I understand that you have estimated and booked reserves for COVID-19 losses conservatively last year, but is it possible that these reserves will end up being significantly insufficient due to issues like this lawsuit?

- A13: I must refrain from commenting on the lawsuit since it is presently being disputed. I hope you understand. There are no major changes to reserves at this time.
- Q14: If memory serves, your current annual plan for MS Amlin non-cat loss ratio is 54%, but you state on page 22 of the material that the ratio for the first quarter is 56.3%, excluding losses from the North American cold wave. What is your assessment for the first quarter?
- A14: The non-cat loss ratio for the first quarter is above the full-year plan, but is currently in line with plan. Although the UK P&C contracts, etc. accepted through the end of January last year were still effective in the first quarter, we will eliminate them after the second quarter, and then the loss ratio will gradually improve.
- Q15: My sense is that MS Amlin's natural catastrophe risk and payments are quite large. What is your underwriting policy for future natural catastrophe risk?
- A15: We have been reducing the amount of MS Amlin natural catastrophe risk since 2017, and have been making efforts to reduce volatility by reducing overall underwriting risk and simultaneously shifting to higher underwriting layers (ones with longer reproduction periods). We would like to consider ways to show the status of this risk reduction in more numerical terms going forward.
- Q16: Regarding the impact of the flooding in Henan Province, China, I think ceding regulations are the reason why Japanese insurance companies do not hold risk. Is that correct? How about MS Amlin?
- A16: We have a subsidiary in China, so I don't think the impact is zero, but I don't think it's significant either. I also don't believe there will be any impact for MS Amlin.
- Q17: What degree of losses do you expect from domestic landslides and flooding in July and August?
- A17: We are still accepting claims now, but, on a direct insurance basis, we forecast a maximum of around 6 billion yen.
- Q18: There were reports in June that the Ministry of Land, Infrastructure, Transport and Tourism is going to make the installation of back cameras mandatory for all auto manufacturers. If new vehicles are equipped with back cameras as standard equipment in the future, will that reduce the demand for insuring vehicles with dashcams?
- A18: Back cameras alone do not replace dashcams. We have products that provide enhanced support by enabling us to obtain driving data and provide driving safety reports, or to make "safety confirmation calls" from dedicated call centers when large impacts are detected for

customers who purchase our dashcam special clause and install dedicated dashcams, so I don't think back cameras becoming standard equipment will reduce the allure of such products.

Q19: The latest wave of COVID-19 infections due to the Delta variant is raising concerns that the US economy will stagnate and the situation in Asian countries will worsen. What is your outlook, and how will this affect your bottom line?

A19: If the economic recovery is delayed, this will likely have an impact on corporate profit insurance due to reduced profits, marine cargo insurance due to reduced logistics, and overseas travel insurance due to travel restrictions and other factors.

One the other hand, as we took measures such as suspending underwriting and clearly stating exemptions for reinsurance policies for profit insurance in the UK, we don't believe that there will be new significant impacts due to COVID-19 overseas. However, if corporate bankruptcies increase due to an economic downturn in the future, we may suffer increased credit insurance losses. Therefore, this will depend on the impact on the economy as a whole.

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