

MS&AD Holdings Conference Call (November 19, 2021)
FY2021 2Q 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.

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)

Hippo : Hippo Enterprises Inc.

Q1: As a factor in the revision of the full-year net income forecast on page 27 of the materials, an increase of 20.1 billion yen in the burden of provision for catastrophe reserves was included. In light of this, on a Group Adjusted Profit basis, what negative factors are expected that differ from the catastrophe reserve?

On page 28, the Group Adjusted Profit for the international business was reduced by 30 billion yen, while financial accounting profit was reduced by only 16 billion yen. What is this difference of 14 billion yen?

A1: The domestic non-life insurance business has increased by 28 billion yen from the previous forecast. As shown on page 27, the amount of domestic non-life insurance accounts has been increased by 12 billion yen on a financial accounting basis. If the catastrophe reserve of 20.1 billion yen is deducted from this amount, the Group Adjusted Profit will be 28 billion yen.

The 14 billion yen difference between the 16 billion yen of the overseas insurance subsidiaries on page 27 and the 30 billion yen of the Group Adjusted Profit in the international business represents an increase in overseas natural catastrophe incurred losses included in the domestic non-life insurance subsidiary.

SQ: If the burden of provision for the catastrophe reserve was not included in the Group Adjusted Profit, could you not revise the Group Adjusted Profit upward by 20 billion yen?

SA: We will answer this later.

< Answer to the above question >

With regard to the revised Group Adjusted Profit forecast, a buffer of approximately 15 billion yen was allocated to the domestic non-life insurance business.

Q2: The forecast for the full-year EI loss ratio (excluding natural catastrophe) for MSI fire insurance has increased from 53.8% at the beginning of the year to 58.0%. This increase is

quite large. What is the reason?

A2: In terms of results up to the first half of the fiscal year for both MSI and ADI, large losses, which were frequent in the previous fiscal year, decreased. However, in MSI's full-year forecast, losses from natural catastrophe and large losses overseas are included, and it is assumed that large losses, which were small in the first half of the fiscal year, will occur to some extent in the year.

In addition, while large losses decreased in the first half of the year, small losses have increased due to snowfalls and other factors in the previous fiscal year.

Q3: Regarding the point that the underwriting result for the first year is a negative 1.6 billion yen in the profit breakdown of the full-year forecast on page 27 of the material, please tell me the reason why your company is moving in the opposite direction and making a slight correction, although other companies are largely looking at the amount of the reversal in the underwriting result for the first year. Is it related to the insurance lines?

A3: The figure of a negative 1.6 billion yen in the underwriting result for the first fiscal year is the change from the beginning of the year, and the effect of the change in the balance in the first fiscal year is 38.2 billion yen. This is mainly due to the effects of the return of ADI's automobile insurance and MSI's personal accident insurance, which were accumulated last year.

For automobile insurance, a certain increase in the loss ratio for the current fiscal year will result in a full recovery of the accumulated balance for the first year of the previous fiscal year. There may be differences in the assumption of how to place the return, but I don't know the situation of other companies. In addition, there may be differences in the impact at different companies in other lines.

Q4: I think MS Amlin seems to be benefiting from the impact of hardening, but could you tell me why you are reducing your premium income forecast?

A4: The main factor was the impact of foreign exchange rates. In particular, the dollar/pound exchange rate was stronger than at the beginning of the year. In addition to this, we have been able to increase insurance premium rates for underwriting policies due to the market hardening, but we have suspended underwriting policies that do not meet the premium level required by MS Amlin.

Q5: Regarding MS Amlin's investment profit, I think it is small although there is a profit from FVTPL (accounting method where the market value is reflected in PL). Please tell me how much FVTPL is included.

A5: Since most of MS Amlin's assets under management are FVTPL, which is accounted for at market value, price fluctuations are directly reflected in impairment gains and losses. The

decline in the full-year forecast for investment profit compared to the previous fiscal year was due to particularly favorable levels in the previous fiscal year.

As for the first half of the fiscal year, the profit reached the lowest level in March last year (the end of the first quarter on the local basis), and we started from a bad place, so we are up from the same period of the previous fiscal year. On the other hand, the second half of the current fiscal year is expected to be lower than the same period of the previous fiscal year, as the second half of the current fiscal year is viewed in a natural manner.

Q6: Which lines at MS Amlin include COVID-19-related losses of 46 million pounds that are mentioned on page 37? From the second half of the year onward, are there any downside factors, such as the risk of litigation?

A6: The status of direct underwriting policies has not changed significantly from the past, but reserves have been increased mainly for reinsurance ceded by major European insurance companies, taking into account payments and litigation status of direct insurers. The figure of 46 million pounds, including reserves for outstanding claims, is based on the recent court proceedings. Looking ahead to the second half of the fiscal year, we believe that there will be positive and negative factors and that there may be slight fluctuations, but we do not expect any significant changes.

Q7: On page 37, MS Amlin's net premiums written for the current fiscal year is almost flat compared to the same period last year, while its earned premiums are significantly lower. This decrease in earned premiums in fiscal 2021 may be a result of the decrease in net premiums written until last fiscal year. Does this mean that from the next fiscal year onwards, if net premiums written increase, then earned premiums will also increase?

A7: As you can see, the decrease in net premiums written to date has resulted in a significant decrease in earned premiums year-on-year. From this fiscal year, net premiums written have finally increased, and from next fiscal year onward, earned premiums are expected to increase gradually.

Q8: When I look at the reports of insurance brokers, I feel that they are divided into those who say that the pace of rate hardening will not change and those who say it will slow down. To the extent possible, please let us know what your current outlook is for the revision of MS Amlin's premium rates from January next year.

A8: While the hard market environment will continue in the next fiscal year, the pace of hardening is expected to slow somewhat. However, the trend of insurance premium rates will change significantly depending on the product line, region, and occurrence of losses. For example, I think that while the rate increase for the policies that had payments for Hurricane Ida is

expected in the next fiscal year, the rate increase of the policies without insurance payment in this fiscal year will be moderate. In our Group's plan for the next fiscal year, we assume that the rate increase will be gradual, and we have been able to raise the rate by about 10% this fiscal year, but I think we will set the rate at about 4% to 5% next fiscal year.

Q9: Has the reinsurance payment amount for Hurricane Ida and European flood been finalized? Or is there a possibility of additional reinsurance claims from now on?

A9: For reinsurance payments for overseas natural catastrophes, we hold hearings with direct insurance companies and others, and accumulate reserves at best estimates. There is a possibility of future fluctuations, but we do not expect any major fluctuations.

Q10: What is the reason for raising the dividend while the Group Adjusted Profit is unchanged from the forecast at the beginning of the year, or conversely, for holding the share buy-back at 25 billion yen while the ESR continues to rise?

A10: As November has passed this fiscal year, the status of natural catastrophes and other factors has become clear, and we have determined that the probability of achieving the initial Group Adjusted Profit forecast of 300 billion yen has become considerably higher, and we announced an increase in dividends. As expected at the beginning of the year, we believe that if we achieve our target of 300 billion yen, we will have sufficient capacity to increase the dividend.

Regarding the share buy-back, the 25 billion yen share buy-back is based on the return of 40 - 60% of the Group Adjusted Profit. Stock returns resulting from ESR exceeding the appropriate level of 180% to 220% are not included here. With regard to the utilization of capital that exceeds the appropriate level, we will give priority to the investment for future growth, and if there is no such investment, we will consider the return from stock.

Q11: As for the impairment loss on securities at MSI, I think it was 19.4 billion yen in the first half and 20.7 billion yen in the full-year forecast. Hippo's stock price has been falling since October. What do you make of the additional risk of loss? Also, I understand that the business alliance itself is very important, but is it necessary for the business alliance to continue to hold this stock after the IPO?

A11: As you pointed out, the stock price of Hippo is still weak, and the amount of impairment loss will change depending on the stock price at the end of March.

With regard to our relationship with Hippo, as we develop new products for before and after insurance coverage under the CSV × DX strategy, we believe that Hippo's approach is very consistent with our Group's direction and that our underwriting know-how and product design will be beneficial. There may be a view that it is possible to form a business alliance without

capital ties, but we are deepening our relationship through capital ties and the dispatch of human resources. In particular, we believe that having such a firm commitment with Silicon Valley startups is an important part of our partnership.

The valuation of our investment in Hippo will be evaluated in terms of how we can make use of our investment in the company as our Group develops new products and grows.

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