

MS&AD Insurance Group Holdings
2nd Information Meeting of FY2022 (Held on November 22, 2022)
Q&A Session Summary

The Q&A Session Summary at the Information Meeting held on November 22, 2022 was summarized as follows.

The following is a summary of the Q & A session held on November 22, 2022.

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

MS: Mitsui Sumitomo Insurance Co., Ltd.

AD: Aioi Nissay Dowa Insurance Co., Ltd.

MS Amlin: Total of AUL, AAG, AISE, ACS and other businesses

AUL (MS Amlin Underwriting Limited), AAG (MS Amlin AG),

AISE (MS Amlin Insurance SE), ACS (MS Amlin Corporate Services Limited)

Transverse: Transverse Insurance Group, LLC

Q1: What are the possibility of achieving the group adjusted profit target of 400 billion yen for fiscal 2023 and what are the risks involved? From this fiscal year's adjusted profit of 329 billion yen excluding incidental factors, an increase of approximately 70 billion yen is required to achieve the target. Based on the disclosure materials, we estimate about 15 billion yen for the improvement in fire insurance, about 11 billion yen for the increase in profits of casualty insurance, about 12 billion yen for the reduction of operating expenses, and about 28 billion yen for the increase in international business profit. Is it correct understanding? Also, I think there are some items that could be negative, such as reinsurance costs, and it continues to be difficult for international businesses to achieve the initial plan. What are the risks and challenges to achieving the target?

A1: The main factors and the amount of figure needed to achieve the 400 billion yen target in fiscal 2023 are as you pointed out.

As for the risks involved in achieving the target, I believe we must carefully watch and deal with the trends in reinsurance and international business that you raised.

First of all, regarding the trends in the reinsurance market, our company has arranged reinsurance thoroughly, and there is a possibility that the reinsurance premiums will increase next fiscal year as the recovery from reinsurance of losses due to natural catastrophes occurs again this fiscal year. In future negotiations, we hope to arrange effective reinsurance coverage while minimizing the impact of the increase in reinsurance premiums as much as possible.

As for our international business, MS Amlin has been able to improve the profitability of non

catastrophe risk through portfolio reforms, and we have also been able to reduce the risk amount of natural catastrophe, so we have been able to control the losses of Hurricane Ian considerably compared to Ida last year in terms of market losses. Our efforts have been solid, and we believe it is important to steadily produce results going forward.

We will respond flexibly to fluctuations in financial markets by hedging against foreign exchange fluctuations. We will also accelerate the sale of strategic equity holdings to reduce equity risk. Regarding insurance underwriting, we will deal with underwriting discipline, incidentally with underwriting conditions and rates for domestic corporate properties, with firm discipline.

To supplement our international business, we believe that we can expect profit growth from MS Amlin's AUL and AAG by increasing underwriting of profitable non catastrophe risks while controlling natural catastrophe risks, given the tight capacity of the reinsurance market, on the assumption that incidental factors such as the Russia-Ukraine issue in this fiscal year and COVID19 in Taiwan will be eliminated in the next fiscal year. In Asia, we will pursue growth that captures the economic recovery after the end of the COVID19 outbreak, and in the United States, we expect Transverse to contribute to profits and use Transverse to expand the MGA business. Following to those factors, we expect to achieve profit growth in FY2023.

AUL has entered a stage where it can further increase its earning power, as evidenced by the fact that its efforts to improve profitability were recognized by Lloyd's headquarters, and the underwriting volume increased by 15% in 2023, excluding the impact of foreign exchange. The hardening of the reinsurance market will also proceed, particularly with regard to natural catastrophe risk, and I have heard from the management of the local subsidiaries that it may become as hard as it was after the 911 terrorist attacks. In this environment, we are looking to further improve earnings while controlling the amount of natural catastrophe risk in North America.

Q2: Can you give us some background on how you raised the revised ROE target for fiscal 2025 from 11% to 12%, which you announced at the information meeting in May?

A2: That's due to refined calculation process.

Q3: What is the structure for achieving group adjusted profit in the domestic non-life insurance business, which is expected to increase from 139 billion yen in the current fiscal year to 235 billion yen in the next fiscal year?

A3: Rebound from the negative impact of incidental factors in the current fiscal year is the biggest factor. Compared to the forecast at the beginning of the year, the negative effects of domestic natural catastrophes and COVID19 losses are higher by 23 billion yen respectively. In

addition, we have increased rates for fire insurance, reduced operating expenses, the rebound from large losses this fiscal year, and increased profits for casualty insurance. From these factors, we have some prospects for achieving profits of 235 billion yen in the next fiscal year. However, there are also some downward factors, such as trends in the reinsurance market, so we will carefully scrutinize them.

SQ1: We envision the impact of the increase in large losses to be about 20 billion yen after taxes, but is it larger?

SA1: Our perception is also about 20 billion yen.

(Note)We expect profit growth of about 100 billion yen due to rebound from negative impact of 50 billion yen, fire rate increase of 13 billion yen, improvement of operating expenses of 13 billion yen, rebound from large loss of 20 billion yen and increase of casualty insurance of 4 billion yen.

Q4: How do you assess the first-half performance of the domestic non-life insurance business by category? While the top line of fire insurance was higher than planned, the performance of casualty insurance was flat despite your plan to increase sales. Do you think that voluntary automobile insurance rates need to be increased given the current increase in accident frequency and unit price?

A4: Fire insurance sales increased year on year and compared to planned, due to the greater than expected impact of last-minute demand before the October 2022 product revisions. Casualty insurance sales were flat year on year, due to the impact of increased reinsurance outward, despite strong sales of packaged insurance for small and medium businesses. For voluntary automobile insurance rates was revised in last fiscal year following to the reference loss cost previous revision, and the rate revision in January 2023 is expected to be almost flat. There is a possibility of an increase in the loss ratio due to the return from reduced traffic caused by COVID19 outbreak and the impact of inflation, and we will keep a close eye on the situation.

Q5: In order to achieve the group's adjusted profit excluding incidental factors, we believe that improvement in operating expenses beyond expectations and acceleration in the sale of strategic equity holdings will be as the upside factors, but what can be considered on the downside factors?

A5: We believe that a slight upward trend in losses for marine insurance, an increase in losses for small and medium-sized losses that do not reach large volumes for fire insurance, and an upward trend in unit repair costs for voluntary automobile insurance, where the

frequency of accidents due to the recovery of traffic volume, which has been reduced due to the impact of the COVID19, has returned to fiscal 2019 levels.

Q6: With the surge in the reinsurance market, are you now in a situation where you have no choice but to increase your retention of natural catastrophe risks rather than cede them? Also, what is the situation regarding the arrangement of annual aggregate reinsurance?

A6: We will continue to respond to the market condition in a way to reduce the retention of the risk. Inflationary conditions are also different in Japan and other countries, and we will respond to it with closely examining the necessary costs. We have built a long-term relationship of trust with international reinsurers. The foreign reinsurers expect domestic fire insurance earnings to improve in the future, and we will continue to build a relationship that leads to stable profits for both parties.

Q7: Please explain the positive response of the additional portion of the operating expense reduction.

A7: Each of the operating expense reduction initiatives is proceeding as planned. We are making significant progress in improving the efficiency of our one-platform strategies, including those that are not described in the materials. Large-scale system investments are also generally progressing as planned. As for the top-up, we will consider it as we move forward with these initiatives. As for the one-platform strategy, we have not included it in the figures because there are some effects in the current plan and others in the next plan, and we have not yet been able to scrutinize it, so the effect of this part will be added.

Q8: You have increased the target of selling strategic equity holdings to 150 billion yen this fiscal year, but what is the background and issues?

A8: From the perspective of risk reduction, we believe it is important to continue our efforts to reduce strategic equity holdings. We have raised our target due to the growing public scrutiny of strategic equity holdings and the recognition that the amount of strategic equity holdings in our company's asset management portfolio is a bit large.

Q9: MS Amlin's full-year forecast for the non catastrophe risk loss ratio excluding the impact related to Russia-Ukraine issue is 55%. How about this forecast compared with its initial forecast?

A9: The initial forecast for the non catastrophe risk loss ratio was 53%. Therefore, if that will be at 55%, it would be slightly higher, but this is because we increased reserves in the AUL during the period in response to inflation and large claims, and overall progress is generally as expected. Although large natural catastrophes are excluded from the non catastrophe

loss ratio, natural catastrophes of \$20 million or less are included in the non catastrophe risk.

Q10: On page 16 of the material, the AUL's natural catastrophe risk amount is listed as having a "Return period 10 year," but is this an industry average scale or is it set in your company? I believe it is managed at 99.5% VAR for your company group as a whole, but please tell me why there is a divergence and if there are other things besides 99.5% VAR management.

A10: We use a combination of 90% VAR with a return period 10 year and 99.5% VAR (with a return period 200 year), and 90% VAR has been used internally for natural catastrophes and non catastrophe insurance to monitor profit stability. We believe that other major groups and international players probably use similar indicators. We use the 99.5% VAR as a MELKMAAR of required capital in monitoring our financial soundness.

Q11: Is it correct in understanding that the portion of AD's head office reinsurance business is included in international business out of the 50 billion yen we recognize as an incidental factor in this fiscal year in natural catastrophes?

A11: Your understanding is correct.

Q12: Through business investment, you expect to make a profit contribution of 18 billion yen during the Mid-term Management Plan. Please tell us what you think about the investment environment.

A12: In North America, where we do not have large entities we are thinking of making a business investment in specialty insurance companies and insurance companies like Transverse that take small retention. In Asia, we are considering bolt-on business investment to capture market growth. While stock prices are weak globally, target valuations have not declined, and exchange rate is weak, then we believe that it is not easy to make large investments and that timing is important, and we want to take risks focusing on those that are strategically important.

Q13: Despite dividends are equivalent to 63% of the Group's adjusted full-year profit forecast of 170 billion yen, would you consider additional shareholder returns taking into account the total shareholder return based on the initial forecast of 300 billion yen?

A13: The base of shareholder returns is group adjusted profit, so we will first focus on the amount of group adjusted profit. Although we have already exceeded 50% of our basic shareholder returns compared to our earnings forecasts, our policy is to implement additional shareholder returns flexibly and tactically. Depending on stock price, capital and liquidity, and market conditions, we will consider additional shareholder returns positively.

Q14: What is the concept of stability in shareholder returns? Regarding implementation flexibly and tactically, could you tell us why the timing of share buyback is not 2Q or 3Q, but the end of fiscal year?

A14: As for stability, the basic idea is that dividends should be steadily increasing. As for timely manner, we announce "Share buyback should be done flexibly," and as you pointed out, it is not necessarily announced at the end of the period. On the other hand, there have been years in the past when we had heavy snow near the end of a fiscal year that affected our profits, and regarding natural catastrophes in Japan, although we have secured a certain amount of funds, there are elements like heavy snow that won't become clear until the end of fiscal year.

Q15: What is your management's view on the stability of total shareholder returns? Please tell me whether total shareholders returns should be 50% of group adjusted profit of 300 billion yen excluding incidental factors or just over 50% of the full-year forecast of 170 billion yen.

A15: We are conscious of the stability of total shareholder returns. The total return is set at 50% of Group Adjusted Profit, so basically it depends on the final amount of Group Adjusted Profit. I hope you understand that Group Adjusted Profit excluding incidental factors is included in this as a factor to consider additional shareholder return.

SQ1: An upside of natural catastrophes such as heavy snow in winter is an upside from the revised plan, so I think it will be included in the incidental factors, but do you mean to think about handling it each time?

SA1: If a snow disaster will occur, the natural catastrophe factors will increase, so it will be a temporary factor against 170 billion yen. Each non-life insurance company has different ways of putting in natural catastrophe funds for snow disaster. In the case of our company, heavy snowfall, such as that which occurred in fiscal year 2014, is included in the natural catastrophe funds, but we do not include in the natural catastrophe funds those that are not so large per incident, such as the increase in traffic accidents and the gradual emergence of snow catastrophes after the thaw from April. A certain amount of these is factored into the IBNR of the interim results of fire insurance, but I would like you to understand that there are differences in ways of putting in natural catastrophe funds.

Q16: Please tell us about your efforts to sophisticating your business management to achieve the ROE target. How many companies do not meet the ROE standards described on page 25 of the materials? Also, when does the absorption of excess capital described on page 26 of the

materials begin? Or how long does it take to execute the withdrawal of business?

A16: In order to enhance the sophistication of business management, we started with international entities. The cost of capital ratio is one of the criteria, but we will continue to make improvements by picking up entities whose ROE is less than the cost of capital ratio and confirming the current status of those entities, why they are in such a situation, how to address it, and what we will do in the future. The initiative is to check the required solvency ratio for each international entity, recover capital as surplus capital from entities that exceed that limit, and invest capital in businesses that are more capital efficient. The entities where ROE is less than the cost of capital ratio are around 5, and we are in the process of checking the initiatives described earlier. In addition, recovery of surplus capital has already started. As for the criteria for withdrawing, we have not decided uniformly how many years or how many terms, but each decision is made individually, but some bases have already decided to withdraw. In the case of withdrawing, the basis is the sale of the business, but there are negotiations with the buyer, so we can not decide by when. Although we have around 5 entities where ROE is less than the cost of capital ratio, we expect to exceed the cost of capital ratio during the mid-term period to fiscal 2025. We have only one entity with a poor outlook and we have started all sorts of considerations, including withdrawal. Also, regarding the recovery of surplus capital, we have already carried out recovery through dividends for the current fiscal year, and received additional dividends totaling just over 5 billion yen from 2 entities.

Q17: ESR's sensitivity to credit spreads seems to be increasing, but has there been any change in calculation?

A17: Unrealized gains have the effect of reducing the amount of integrated risk due to the tax effect, but as a result of the decrease in unrealized gains due to recent developments in interest rates and foreign exchange rates and other factors, our sensitivity to various indicators has increased, including our sensitivity to credit risk.

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