

MS&AD Insurance Group Holdings
ESG Meeting (held on January 23, 2023)
Q & A Session Summary

The following is a summary of the Q & A session of ESG Meeting held on January 23, 2023.

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: 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)

<Respondents>:

Representative Director, Vice President, Group CFO

Tetsuji Higuchi

Outside Director (Independent Director)

Junichi Tobimatsu

Q1: What are your sustainability priorities and what are the risks and opportunities of overseas insurance underwriting? How will you respond to the global natural catastrophe risks in the medium to long term? Do you have any ideas for initiatives at overseas businesses?

A1: (Higuchi)

The increasing frequency and severity of natural catastrophes in recent years are both risks and an opportunities. In Japan, our mission is to provide coverage for natural catastrophes, and we hope to continue this stance in the future. Providing coverage for natural catastrophe risks at overseas entities is an important role in our mission, and while we will continue to insure, we believe that our company's ability to control risks, including how it assumes natural catastrophe risks, must be greatly enhanced. In addition, we believe that, from the perspective of risk diversification, this will contribute to the improvement of capital efficiency because there is basically a small correlation between domestic and overseas natural catastrophe risks.

Q2: Do you have any products and services to contribute for "respect for human rights" as your opportunity? And what are the human rights risks that you are currently focusing on?

A2: (Higuchi)

Respect for human rights and promotion of D&I are described in the integrated report, and as an example of services, InterRisk Research & Consulting has started a consulting service on how to use human capital. We are also examining a product mix that is LGBTQ-friendly, and many of our insurance application procedures are starting to use the web, but

for customers who are not good at handling such things, such as elderly people, we are implementing initiatives that take time to handle them in person or by phone. On the other hand, in terms of direct products and services, we believe there is still much room for innovation.

Human rights due diligence is handled in categories such as business partners and clients, but because there are differences in the way people think about human rights in different countries and overseas regions, we need to promote various initiatives, and we set specific issues for each region and check whether there are any issues. There are no current issue, but we need to continue to implement them carefully.

Q3: It seems that MS&AD group companies maintain a strong independence, so that I have the impression that governance and integrated management are not easy to be controlled. Given the unique structure of the group, what are you doing to enhance the effectiveness of governance?

Also, Mr. Tobimatsu has been working as an outside director for five years, and please tell us if there have been any changes during this period, or if there are any points or issues that need to be changed in the future.

A3: (Tobimatsu)

I joined the management with an interest in how MSI and ADI work, but when I actually joined the management, it works more integrally than I imagined initially. At least, we do not be aware MSI and ADI separately from the holding company. At the level of the operating companies, they are managed independently, but they communicate with each other to a considerable extent, for example, by holding meetings with outside directors of each operating company and the holding company. Through such ingenuity, I think the level of integrated management is gradually improving.

Q4: The level of achievement of governance indicators is generally high, but in the short term, I feel that your business performance and stock prices were less than the expectations. Which do you think as the reason, the formality of the governance is well established but have not worked well, or many incidents such as natural catastrophes have occurred and it has taken time to show the performance?

A4: (Tobimatsu)

From the standpoint of an outside director, as ESG perspective, I believe MS&AD has shown good performance. There are many discussions and analysis overseas about how improved governance leads to corporate value, but we understand that this is not something that will be reflected on the corporate value in the short term. There may be an aspect that business performance has not improved as much as expected, but this should not be evaluated from

ESG point of view, but the main factor is that unexpected incidents occurred in the international business, etc., and I believe this will be resolved in going initiatives.

(Higuchi)

I will supplement this from the standpoint of the operational side. I believe that the formality of governance are getting in order as you appreciate, but performance and stock prices are still being discussed as issues to be improved in the Board of Directors. Each director, including those outside the company, has a high awareness of issues regarding the international business performance, especially MS Amlin's performance, and we are constantly receiving feedback on the situation. We have created opportunities for dialogue between outside directors and MS Amlin directors, and we have also received very harsh opinions directly from the MS Amlin management. I believe that we have advanced our efforts to the point where we can achieve stable results in 2023. As for the operational side, we have an awareness of the issue of how to achieve the performance, rather than the formality of governance, so I hope that you will pay close attention to the results of this fiscal year.

Q5: I would like to ask Director Tobimatsu. Regarding the CEO's succession plan, is there any discussion about hiring people from outside the company?

A5: (Tobimatsu)

There has been no discussion so far about directly selecting the CEO from outside the company, but we are looking at a wide range of executive talent, including executive officers and directors, as candidates. Given the large size of the group and the number of people who have built up a variety of careers within the company, we believe that we should consider bringing people from outside the company, considering both the positive and negative impacts.

Q6: Regarding the CEO's succession plan, is there any discussion about the CEO's tenure? Also, how many candidates are there at the moment, and are women included?

A6: (Tobimatsu)

The tenure will be discussed in the Nomination Committee. I will refrain from answering how many candidates there are at this moment.

Q7: Regarding the executive remuneration plan,, it is disclosed that the standards for priority sustainability issues have been achieved, but what are these standards?

A7: (Higuchi)

In the previous fiscal year, there were seven priority issues for which action plans were established for each of them, and the extent to which they were achieved during the planning period was evaluated individually. Those that were achieved as planned are the standard,

and those that exceeded them receive high scores. On the other hand, those that were not achieved or left with problems are given a low rating, and when these were averaged, they were generally close to the standard in the previous year, so we gave them a "standard" rating. The results of the operation side's efforts are shown to the Remuneration Committee, which reviews and modifies the results to make an overall evaluation.

Q8: In determining executive remunerations, have new issues been set this fiscal year? Also, is the evaluation a single year?

A8: (Higuchi)

This fiscal year, we have set three priority issues, and we will go through a process of evaluating the specific plans after the fiscal year ends. We have also set KPI for each initiative, so we will also consider the quantitative aspects.

SQ1: What will be discussed in the Remuneration Committee?

SA1: (Tobimatsu)

The results of the evaluation of non-financial indicators in the integrated report are presented as a qualitative summary, but the Remuneration Committee reports the results of each priority issue and evaluates them individually.

Q9: MS&AD announced that the strategic equity holdings will be halved on a market value basis, but is there an alternative investment asset in terms of risk and return? Also, what is the time frame for halving?

A9: (Higuchi)

The risk of strategic equity holdings is now less than 30% of the group's integrated risk, and although we have already achieved our previous target, it remains our top risk and we will continue to reduce it from a risk management perspective.

The fund from the sale of strategic equity holdings will be directed to business investments for growth and assets with high returns, but shareholder returns are also an option. The time frame will be thoroughly discussed by the Board of Directors, but if we assume that we will continue with the reduction target of 150 billion yen for this fiscal year, it will take 8 years to halve the market value of about 2.5 trillion yen held at the end of September to about 1.2 trillion yen.

SQ1: What is Director Tobimatsu's view on strategic equity holdings? How will you discuss this from the perspective of accelerating the reduction of strategic equity holdings? Does the reduction plan match the implementation, including the possibility of implementation?

SA1: (Tobimatsu)

As an insurance group, risks should be taken in the insurance business, and the amount of risk at the current 30% level is a little higher than that of other companies. I think the reduction in the amount of risk in strategic equity holdings will accelerate in the future, but we need to balance the reduction in strategic equity holdings so that it does not affect the insurance related profit. As for the current reduction target, we consider it is optimal, but we also believe that it needs to be reviewed if circumstances will change from now on.

Q10: You mentioned that there was a meeting between the management of MS Amlin and the outside directors. Could you tell us about the background and issues that made such a dialogue necessary?

A10: (Tobimatsu)

In the past, governance was through regional intermediate holding companies, so management was indirect from domestic entities, but the elimination of intermediate holding companies allowed direct communication with the management that actually operates the business. As we share issues with outside directors, we set up opportunities for dialogue to further strengthen communication.

In the meeting with MS Amlin's management, outside directors asked many questions, but outside directors were not the only ones with an awareness of the problem, and I suppose that the operation side also tackled with same awareness of the problem. At MS Amlin, we have made major changes in the structure and reshuffled the staff, including the management team, so we expect things to turn around.

Q11: Do you have any comments or advice from Director Tobimatsu on the current structure of MS Amlin and what to do about the management staff and level of personnel to manage overseas operations?

A11: (Tobimatsu)

Regarding hiring the staff on MS Amlin, I have the perception that we have made considerable progress in hiring people with the necessary skills. On the other hand, I believe that one of the problems that the traditional control through an intermediate holding company did not always work as a result was that the skills and attitude of the Japanese side of control structure and method were not sufficient. Now, the person in charge of overseas operations in Japan is communicating with MS Amlin with a very strong commitment, and I expect them to improve further.

Q12: What is the debate about the appropriateness of the cost of capital? 7% is the start point for

debate as a guide for strategic equity holdings and business investment, while 7% is the same as other companies and has been using this number for a long time, but in a situation where there is a significant gap in the valuation of stock prices, can we continue to assume this?

A12: (Higuchi)

On the operation side, we lead 7% from CAPM to present and explain to the board. On the other hand, as you pointed out, the cost of capital ratio implied by the stock price is over 10%. We believe that this partly reflects the market's assessment of risk, and we explain this to the board and base our discussions on it, including the need to control the stability and volatility of earnings.

(Tobimatsu)

The discussion in the Board of Directors is focused more on improving business performance than on the numbers themselves.

Q13: Although the adoption of IFRS is being considered, there are differences between Group Adjusted Profit which is the current shareholder return profit, and IFRS Profit, such as the profit calculation in life insurance companies. Please advise how to define shareholder return profit?

A13: (Higuchi)

Regarding the concept of shareholder returns, there has been a lot of discussion in the Board of Directors, including the opinion that the Group's current adjusted profit is close to a cash basis, but that profits under IFRS should be used if the Group moves to IFRS. In conclusion, in the current medium-term management plan, it is difficult to gain understanding from the market if we make a significant change in the calculation method of the shareholder return base capital in the middle of the medium term period, so we have decided to adopt a policy of "shareholder return base profit" that maintains consistency during the medium term period. On the other hand, under IFRS net income, the profit calculation method in life insurance companies is considerably different from Japanese GAAP, and there are also considerable differences in other categories about profit calculation method. We believe that it is important to deepen discussions toward the next Medium-Term Plan on what to return to shareholders on a basis. We believe that a change in accounting standards should not cause a retreat in our shareholder return policy, so we will continue to consider what shareholder return policy we should adopt while maintaining our basic positive shareholder return policy.

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