

MS&AD Holdings Conference Call (February 14, 2023)

FY2022 3Q 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)

Q1: You mentioned that the 3Q result was affected by hurricanes in the international business and rising interest rates in the domestic life insurance business. Could you tell us about the progress of your results for this fiscal year?

A1: As of the 3Q, group adjusted profit has been generally on track and slightly better than company forecast. There are factors such as snow damages, large losses and fluctuations in financial markets toward the end of the fiscal year, but overall, we believe our earnings forecasts are achievable.

By business domain, domestic nonlife insurance companies are making progress in both underwriting profits and investment and better than company forecast. As for Domestic life insurance companies, MSI Aioi life insurance is making progress almost as planned. MSI Primary Life's result was not good as expected due to the policy reserve provision increase by strong yen relative to the plan at the end of the 3Q, and the rise in interest rates. Although MSI Primary Life's year-end results will be affected by financial market fluctuations, we believe that the full year target of 15 billion yen will be achievable at this moment, due to the recent calming of overseas interest rates and the accumulation of core profit. Although the profit progress at our overseas subsidiaries appears to be low as of the 3Q, we believe we will be able to achieve our full-year plan from two factors: First, for MS Amlin, we expect an improvement in underwriting and a recovery in asset management in the 4Q. Second, although MSIG Mingtai ,subsidiary in Taiwan suffered Covid19 losses, which worsened our progress, we believe that we can largely cover this by selling our owned properties and improving the profitability in underwriting, particularly for automobiles, and reducing costs, which we have pursued for the purpose of reducing risks.

Q2: In light of the financial results through the 3Q, what are your results for the next fiscal year?

A2: Our target for the next fiscal year is 400 billion yen on a group adjusted profit basis, and we hope to achieve this target. MS Amlin, in particular, is becoming able to make solid

underwriting profits. In the current fiscal year, we have the impact of Russia and Ukraine, the impact of Hurricane Ian, etc., but we expect to be able to have underwriting profits even after taking them into account, and we believe that we are at the stage where we can make profits in the next fiscal year if the special factors of this fiscal year are eliminated. In the domestic non-life insurance business, we are currently in negotiations to renew our reinsurance coverage in April, but we also plan to adjust schemes and other measures to keep reinsurance premiums from rising. In addition, we hope to achieve the target of 400 billion yen by increasing the gain on sale by accelerating the sale of strategic stocks.

Q3: What is the status of MS Amlin's losses related to Russia and Ukraine?

A3: Losses related to Russia and Ukraine appear to have increased from 97 million pounds to 101 million pounds, but this is due to foreign exchange and has not substantially changed. In particular, many of the political risks insurance of AUL are in US dollar basis, so the pound base figure was increased compared to 2Q due to the impact of the dollar/pound exchange rate. Although the number of claim notices has increased to several dozen, but those claims have not been settled and there is no change in the situation. Currently most are booked as reserve (IBNR).

Q4: The progress rate of MS Amlin's incurred losses is high, but what is your outlook for the 4Q?

A4: Although MS Amlin's underwriting result has not been finalized and is under scrutiny, loss ratio non Catastrophe have generally been going well. There were no large losses of more than \$20 million in the 4Q for natural catastrophes, so we believe the full-year will be achievable.

Q5: How is the increase in MS Amlin's reinsurance rate relative to the plan?

A5: The rate increase in January exceeded the plan. The market has also significantly increased rates even for contracts with no reinsurance payment, with rates for natural catastrophe risk increasing by approximately 30% to 60% in North America and 20% to 40% in Europe. Meanwhile, the retro cover has also been hardened, so MS Amlin's strategy is that they reduce the exposure to natural catastrophe risk, while they are making profit by conducting rate-up in line with the insurance market.

Q6: We heard that MS Amlin is able to achieve an underwriting profit of 11 million pounds for the current fiscal year, so please tell us about the Non Cat loss ratio excluding the Russia-Ukraine related losses.

A6: Of the EI loss ratio, the Non Cat loss ratio at the end of the third quarter was 56.8%, excluding losses related to Russia and Ukraine. It is slightly higher than 55% as the full-year forecast, but it has been becoming to the level of expecting stable profits.

SQ1: What is the loss ratio excluding Nat-Cat and Russia-Ukraine related loss, and the prior year reserve from 56.8%?

SA1: Dividing 56.8% of the Non-Cat loss ratio, 56.0% is of the current year and 0.8% is of the prior year.

Q7: Please tell us about the reinsurance renewal status in April and the impact of reinsurance costs in the next fiscal year.

A7: We expect to recover from reinsurance in the current fiscal year, and believe that reinsurance is working effectively. Looking at renewals in Europe and the Americas in January, we can see about 20%-60% rate rising even for contracts with no claim payment and the overall market capacity is tightening. As for the status of reinsurance renewal in April, we are just in negotiations with the reinsurers so that we are unable to provide details. But we will make effort to keep coverage for ensuring the financial soundness and the stability of periodic profits and losses. We hope to arrange efficient scheme including reinsurance conditions in terms of ROR by considering profitability relative to risk. While it isn't easy to obtain the same size of reinsurance coverage as of this fiscal year due to the tightening of the capacity, we will proceed to negotiate with reinsurance companies, considering conditions and taking advantage of the long-standing relationships with them.

SQ1: We estimate the reinsurance cost for fire insurance to be around 170 billion yen, but is it correct to say that this 20% to 60% will not increase?

SA1: We would like to devise various ways to avoid having a big impact.

Q8: Please tell us how the loss of voluntary automobile insurance is compared to the company's forecast. Also, what is your forecast for next fiscal year and beyond?

A8: In both MSI/ADI, domestic voluntary automobile insurance losses are slightly below our plan. Though the figure of ADI looks slightly different because it includes inward reinsurance from overseas subsidiaries, it is generally proceeding according to our plan as a whole. For the next fiscal year, the outlook will be based on the recovery of traffic volume and the current situation of the unit claim cost of vehicle and property damage liability insurance.

Q9: Fire insurance seems to be getting worse even excluding natural catastrophes because of large losses, but will it be continued for the whole fiscal year?

A9: As you know, the situation is difficult, but we will work to achieve the plan. In particular, the loss ratio of ADI was affected by large losses.

Q10: The interest rate and foreign exchange rate impact of MSI Primary Life has significantly increased from -31.2 billion yen in Q2 to -74.0 billion yen in Q3. On the other hand, the accounting profit and loss has not had such an impact, but please tell us what this is offset by.

A10: The interest rate and foreign exchange rate impact is described on page 19 of the material, and this is included in ordinary profit. The excluded portion is the core profit generated from the flow excluding the interest rate and foreign exchange rate impact. MSI Primary Life's products include both fixed-rate and variable-rate products, which are currently mainly fixed-rate products, but the core profit margin of the fixed-rate products is strong due to the foreign exchange rate impact in addition to the increase in income on a foreign currency basis.

SQ1: In other words, the core performance is quite strong, but is it fair to say that the margin portion is not transient and will remain after the next fiscal year, which means the core business is becoming stronger?

SA1: Margin is the main factor, but this also includes what the company calls target hits, such as the profit accrued on refunds of policy whose performance has reached the customer's target level, so the difference is not all margin.

Q11: What is the shareholder return for this fiscal year based on the results through the 3Q?

A11: There are no major changes from the 2Q. Looking ahead to the 4Q, we expect to achieve our plan relatively steadily, and we hope to arrange shareholder return in light of that. In the current fiscal year, dividends alone have already exceeded 50% of the Group's adjusted profit, but we hope to consider additional returns, including flexible share buybacks.

Q12: Regarding the impact of the earthquake in Turkey, could you tell us about the exposure of Japanese companies and the impact on MS Amlin's reinsurance business? And if the impact is significant, can you book in FY2022 results?

A12: We do not expect any significant losses on Japanese companies at this moment. We also believe that MS Amlin's reinsurance business has limited exposure. However, the local area is not yet in a situation where claims can be made, and there is a possibility of certain impacts. It is not expected to be on a scale which will be necessary to be booked within this fiscal year.

SQ1: Based on the current estimation, it will not reach 10 billion yen. Is my understanding correct?

SA1: We do not expect it to reach 10 billion yen and we expect it to be several billion yen at the most.

End