

MS&AD Holdings Conference Call (February 14, 2022)
FY2021 3Q Briefing Q&A Summary

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

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)

Hippo : Hippo Enterprises Inc.

- Q1: MS Amlin lost more than £200 million in underwriting profit in Q3. You said that there was an increase in loss reserves in the U.S. liability insurance. Why was it increased at this time? I don't think there was an explanation at the Information Meeting in November, but when did you recognize the risk and why did you add up in the third quarter? Also, what are some of the perceived risks of future loss for MS Amlin?
- A1: In the reinsurance business of MS Amlin, loss reserves for past U.S. liability and engineering were reviewed in the third quarter, taking into account current trend of inflation and the impact of social inflation in the United States. In the reinsurance business, the impact comes out later than in the direct insurance, so there is a delay in reflecting the impact of social inflation and so on. This was factored into the loss revised forecast announced to some extent in November, but the loss reserve estimate was further revised upward at the end of the third quarter. We didn't explain it at the November Information Meeting because some factors were expected to recover in the fourth quarter. As we approach the end of the fiscal year, we are currently scrutinizing loss reserve estimates. We believe it is necessary to build up loss reserves appropriately in light of the current inflationary trend. Therefore, we expect to revise our reserve estimate higher than we expected in the revised forecast announced in November, and we expect MS Amlin's profit at the end of the fiscal year to be lower than the revised forecast. However, we expect a certain recovery from loss resulted at the end of the third quarter.
- Q2: As for the risk of MS Amlin in 2022, should we assume that it is highly sensitive to inflation? With respect to exposures related to the United Kingdom, which has a high inflation rate similar to that of the United States, I believe that there are certain existing contracts, although the direct insurance contracts in the United Kingdom have been withdrawn. What kind of risks should we look at in fiscal 2022?
- A2: At the end of the fiscal year, MS Amlin's Reserving Committee will look at trends, including current inflation, and reflect those trends in reserve estimates. The current trends will be factored in, but further review may be necessary if inflation exceeds them.

SQ1: Based on the future forecast, we will make an allowance in the fourth quarter, but in the third month of the fourth quarter, is MS Amlin expected to be profitable?

SA1: That is correct.

Q3: Are there any downside risks other than the increase in reserves of MS Amlin in the fourth quarter as a factor for the decision not to make an upward revision in the midst of the high progress rate of 92% against the full-year forecast of the Group Adjusted Profit?

A3: In the past, the rate of progress in the third quarter tended to be higher due to factors such as the timing of dividends received for the shares held. We are making steady progress with respect to the Group's overall bottom line and believe that we can achieve our full-year net income forecast of ¥230 billion.

As in previous years, domestic non-life insurance may be affected by snowfall and large losses. In addition, the amount of impairment loss on Hippo shares in the current fiscal year will depend on the stock price situation. Domestic life insurance companies are making steady progress with a high rate of progress, and we expect them to move up. In the international business, we expect that MS Amlin in particular will have a lower progress.

SQ1: In the fourth quarter, does MSI Primary Life plan to carry out a provision for the price fluctuation reserve?

SA1: MSI Primary Life's price fluctuation reserve is currently accumulated to the legal limit. The upper limit of the price fluctuation reserve depends on changes in assets due to inflows and outflows, and in the case of MSI Primary Life, the upper limit also depends on the exchange rate. Therefore, the amount to be transferred depends on the situation at the end of the period.

SQ2: What is the impact of tornadoes in the U.S. in December and snowfall in Japan in January and February?

SA2: We have received reports that tornadoes in the U.S. fall into the category of major natural disasters in MS Amlin, but We don't have any number to answer today. We don't think the impact of domestic snowfall will have a big impact yet.

Q4: You said that MS Amlin factors the cost increase into reserves. Is it correct to understand that the insurance rate has been going up since January? Could you tell us whether the recent cost increase is a factor that will lead to the expansion of the top line in the future?

A4: The rate increase in January was at or above the market level, especially in the form of more than 10% for claim paid contracts and more than 5% for non-paid contracts. If there is

an increase in insurance payments due to inflation and other factors in the future, we will take that into account and increase the rate. We will continue our efforts while maintaining our underwriting discipline.

Q5: Given the overall performance of the consolidated financial statements, you have reviewed the MS Amlin reserve model at this time and built up reserves conservatively, taking into account inflation and other factors. Is my understanding correct?

A5: As for the view of reserve fluctuation risk, we are thoroughly reviewing it in consultation with local authorities, etc., and we have accumulated the necessary reserve including the conservative part including future inflation.

It does not take into account upward revisions in the performance of the Group as a whole, but takes into account the current state of payment for each contract and trends from the past.

SQ1: Is it correct to think that IBNR has been reviewed as well as general reserves?

SA1: You're right.

Q6: MS Amlin's non-cat risk EI loss ratio was 54.0% at the end of Q2. What was it at the end of Q3?

A6: 59.2%.

SQ1: Why was the timing at the end of the third quarter when you built up a large reserve for outstanding claims on prior year contracts? What kind of organizational changes affected that? Also, you explained that you are consulting with the supervisory authorities about how to deposit the reserve for outstanding claims. Do you mean that you have fallen into the situation where you must consult with the authorities?

SA1: In terms of liability insurance in the United States, we have been looking at historical data on a regular basis, and we have seen a trend in which the tail length is becoming longer, so we have increased the balance of the reserve for outstanding claims since the third quarter. The review was also based on the fact that material prices are rising and unit prices are rising due to the impact of current inflation. It is not that we have to consult with the supervisory authorities, but that we are discussing with the authorities when making changes to the model and so on in terms of the risk of reserve fluctuation.

Q7: When the Group Adjusted Profit was left unchanged in the first half, I think the Q&A summary said there was a buffer of 15 billion yen. What happens to that buffer this time? Does it mean

that the expected value of upward movement has decreased considering the situation of MS Amlin, although it is still possible to achieve the Group Adjusted Profit of 300 billion yen? Or does it mean that the expected value of upward movement has not changed significantly because the bottom line including life insurance companies is favorable?

- A7: We mentioned earlier that we believe our financial accounting net income forecasts are achievable. Because the relationship with the Group Adjusted Profit is the same structure as in the interim period explanation, it means that there are some factors left that positively contribute to the profit.
- Q8: What prompted you to review your internal risk model for reserving?
- A8: In the current situation, the loss ratio of the latest new risks is very good and is improving, but the loss ratio of the risks assumed in the past is worsening due to the situation of inflation. A more conservative assessment of reserve risk had a certain effect on the upward revision of reserve estimates.
- Q9: Regarding the inflationary response of the reserves of MS Amlin, please tell us at what point the inflationary outlook has been factored in this fiscal year's results. Inflation is higher after the start of the new year, but is it possible to factor in subsequent events until the end of the year or February or March in the consolidation adjustment?
- A9: As for reserves by product line, basically they are accumulated by looking at data up to the end of December and trends from the past. In addition, there are also reserves across lines that are built conservatively, so that is a little buffer. There is basically no adjustment on consolidation.
- Q10: You have maintained a high level of ESR of 254%. Could you tell us about the possibility of additional shareholder return during this fiscal year?
- A10: We are now steadily implementing the share buyback program announced in November. Additional share buybacks will continue to be made flexibly, and may be made at any time in light of stock prices, capital conditions, and liquidity.

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