

MS&AD Holdings Conference Call (November 19, 2019)

FY2019 2Q Briefing Q&A Summary

Below is a summary of the Q&A session from the IR conference call held on November 19, 2019.

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 : MS Amlin plc

Q1: The EI loss ratio of MS Amlin's general lines improved from 76.4% at the end of FY 2017 to 65.8% at the end of FY 2018. What is it for the interim period of FY 2019?

A1: The EI loss ratio of general lines (loss ratio calculated using total earned premiums as the denominator and the loss on general lines as the numerator) in the interim period of FY 2019 improved by 4.5 points to 63%.

Q2: You have made a slight upward revision to the earnings forecast for MS Amlin compared to the forecast made at the beginning of the year. Was the upward revision due to natural catastrophes, net investment income, or other factors?

A2: We have raised the earnings forecast for MS Amlin by 10 million pounds from the forecast made at the beginning of the year.

Net investment income was strong in the first half of the fiscal year, but we have adopted a cautious approach for the second half partially because we utilize mark-to-market accounting. In addition, the budget for natural catastrophes for the full year was lowered by 60 million pounds. This was lowered by the amount budgeted for the first half because no major losses by natural catastrophes occurred in the first half. With regard to general lines, although there was no major impact on reserves for the previous fiscal year, there were more major losses (mainly fire insurance) on the policies issued in the current fiscal year than other years. Based on the present situation, the forecast for underwriting income has been lowered.

Q3: What impact will UK-based Ogden raising its rates have on MS Amlin's plan for the full year?

A3: The increase in the rates of UK-based Ogden was smaller than expected. Some ceding companies have notified us of the increase in reserves for reinsurance transaction. In consideration of these factors, we expected to have a negative impact of approximately 10 million pounds on the profits for the full year forecasts.

Q4: You have explained that the reason for the impairment of goodwill, etc. is due to "profitability decreasing more than anticipated at the time of acquisition." Could you explain the specific details of the decrease in profitability? Also, if the high acquisition price was a factor in the reduction of

profitability, what kind of impact will this have on your acquisition strategy in the future?

A4: Factors leading to the decline in MS Amlin's profitability included a deterioration of underwriting profitability due to losses on general lines, in addition to the impact of natural catastrophes such as hurricanes and wildfires. As we have explained in earnings briefings until now, we have implemented measures to improve earnings in response to these.

We are also continuing with efforts to improve earnings in MS Amlin's business itself. We performed impairment in accounting this time based on the most recent performance.

MS Amlin is a company with many very talented employees, and we believe that the Company's platform for world-class insurance and financial group was solidified through the acquisition.

The recent reorganization of our international business will actually be carried out to globally utilize MS Amlin's talented personnel acquired in this way.

Following our M&A policy, we will continue to carefully consider ROI, and believe that it is important to pursue synergies by fully utilizing the strengths of acquired companies within the Group. We conducted this business reorganization to provide a platform for further increasing this effect.

Q5: What is the period of undiscounted future cash flow in the impairment loss of MS Amlin? Also, did you record the impairment loss because you do not expect the future cash flow initially anticipated due to a structural deterioration of profitability?

A5: The period of undiscounted future cash flow is 16.5 years, which is the remaining period of goodwill. Future cash flow is estimated based on current performance, and future cash flow deteriorates if current performance is not strong. Furthermore, stress has been applied in the calculation of this forecast because a reliable forecast is difficult for a long period of 16.5 years.

SQ5: Does this mean that current performance has deteriorated to the point that it cannot be recouped even over 16.5 years?

SA5: It means that the forecast of future cash flow has declined more than initially expected.

We expect the efforts to improve earnings currently being implemented and the reversal of reserves for previous year's policies that have reached a certain level to have some effect, but this cash flow forecast does not necessarily include all of these, and that portion is the stress being applied.

Q6: Please provide MS Amlin's balances of goodwill, etc. for the Europe primary insurance business, the Lloyd's business, and the reinsurance business after the impairment of goodwill, etc. that was implemented.

A6: The entire amount of goodwill and intangible fixed assets in the Europe primary insurance business and the Lloyd's business was eliminated through impairment. The balance of goodwill and intangible fixed assets in the reinsurance business is approximately 50 billion yen.

- Q7: How much will the burden of amortization of goodwill decrease from the current fiscal year onwards due to this impairment of goodwill and intangible fixed assets?
- A7: After taxes, this will decrease by 5.5 billion yen in FY 2019 and by 11 billion yen in FY 2020, and after that, we envisage that it will decrease by 9 billion yen due to the reduction in intangible fixed assets.
- Q8: How much of an impact has reorganization of international business had on Group adjusted profit in your earnings forecast?
- A8: As in the past, the reserve for price fluctuation and impairment of goodwill, etc. are excluded from Group adjusted profit. With regard to the 170.5 billion yen decrease in tax expenses, the 30 billion yen excluding the 140.5 billion yen equivalent to deferred tax assets has been included in Group adjusted profit this fiscal year.
- Q9: Do you intend to include the portion of the 170.5 billion yen decrease in tax expenses caused by the reorganization other than the 30 billion yen included in Group adjusted profit this fiscal year in future Group adjusted profit?
- A9: We do not intend to make any adjustments from FY2020 onwards.
- Q10: Did you perform impairment decision based on changes in grouping in regions other than Europe?
- A10: No impairment testing was applicable in other regions. Although the reorganization has also had an impact on regions other than Europe, the amounts are small and not material.
- Q11: I think the current reorganization has also had an impact, but what are the factors that led to ESR decreasing by 14 points over three months?
- A11: Three factors have contributed to the decline in ESR. The first is the reorganization of international business. The second is the increase in capital of overseas life insurance companies. The third is heightened market volatility. With regard to the impact of reorganization of international business, net asset value will increase due to an increase in deferred tax assets, but risk also increases because deferred tax assets present a greater risk of not being realized than ordinary assets. This is also a factor in lowering ESR because deferred tax assets are added to both the denominator and the numerator for ESR. As a result of these factors, ESR fell by 14 points compared to the end of June.
- Q12: With regard to the impact of reorganization of international business on ESR, am I correct in my understanding that only deferred tax assets had an effect because goodwill was deducted from net asset value? Also, is it correct to assume that ESR will return to a normal level in a comparatively short period if MS makes a profit and the deferred tax assets can be fully used?

A12: That is correct. Goodwill has no effect, and ESR will gradually improve if deferred tax assets are realized.

Q13: With regard to shareholder returns, what are the aims and intentions of the announcement of buying back 20 billion yen this time?

A13: Although large-scale natural catastrophes exceeding our planning have occurred for two consecutive years, I think we will be able to clearly show capital adequacy and stability of earnings without changing our net income forecast because sound risk management has paid off.

Meanwhile, we believe that the acquisition of shares is one appropriate means of capital distribution because the Company's share price continues to be relatively undervalued compared to other companies.

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