

MS&AD

Advancing with you

MS&AD

INSURANCE GROUP

MS&AD's Story of Value Creation and Integrated Thinking Management

December 25, 2017

Today's Agenda

I. MS&AD's Story of Value Creation

II. Integrated Thinking Management

Thank you for taking time from your busy schedules to join us today.

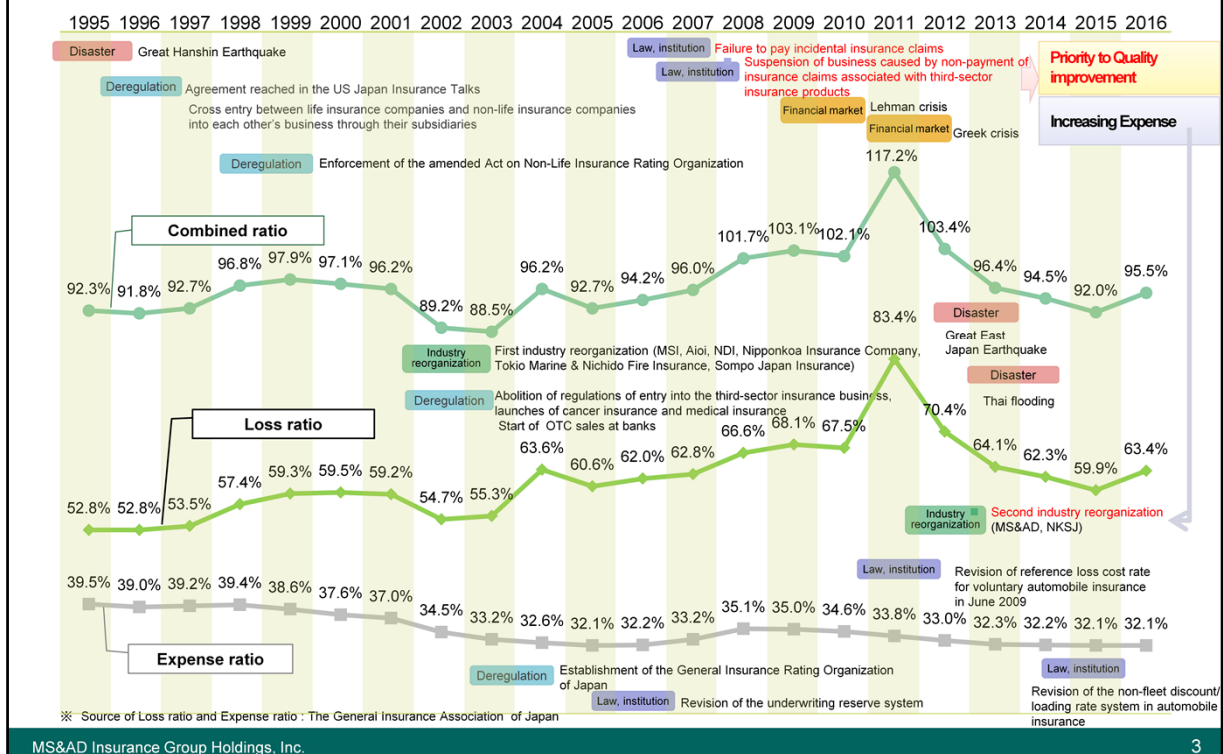
This is the first time the MS&AD Group has held a briefing about the Integrated Report. Today, I am not going to explain the actual Integrated Report itself, but will rather talk about the background to the MS&AD Group's Integrated Report and what we aim to do in the future.

I . MS&AD's Story of Value Creation



Background of MS&AD's Value Creation Story

<Trends in Combined Ratio (W/P) in the Domestic Non-Life Insurance Industry>



Let me start with the background to MS&AD's Story of Value Creation.

The non-life insurance business approach used to be the so-called “convoy-system” approach, whereby companies moved forward at the pace of the slowest. However, in 1996, agreement was reached in the US-Japan Insurance Talks and the liberalization of premium rates began. Until this point, the combined ratio was good, ranging between 91% and 92%. However, in 1998 and 1999, after liberalization, the combined ratio was above 95%. As a result, the first industry reorganization took place, and in 2001, MSI, Aioi, Nipponkoa Insurance Company, among others, were established.

From FY2002, the combined ratio was again at a good level, but price competition began again. While the expense ratio was low thanks to rationalization, the loss ratio rose, companies competed to develop special policy coverages and products, and all this culminated in the failure to pay insurance claims in 2006. Due to action taken to address this issue, from 2007 both the expense ratio and the loss ratio rose, and then came the Lehman crisis in 2008, which led to the second industry reorganization.

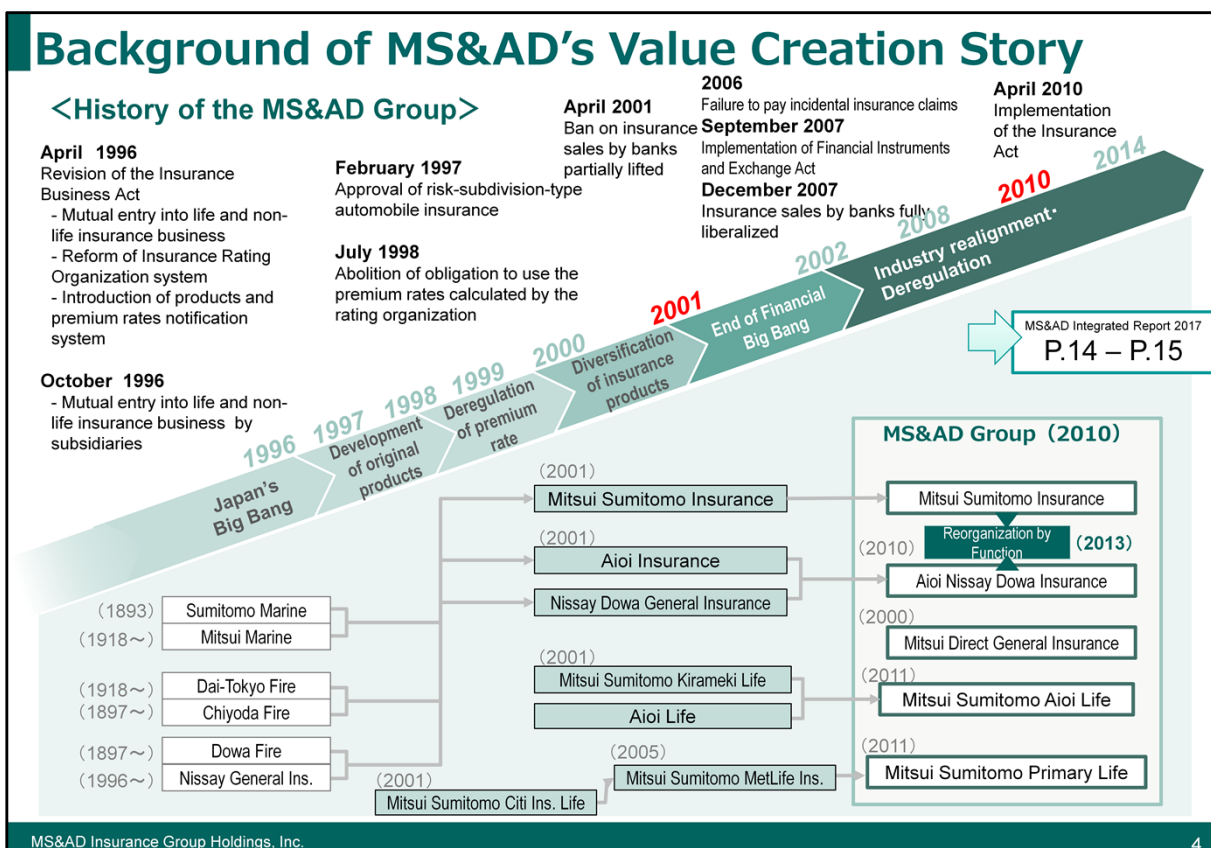
The second industry reorganization resulted in the establishment of the MS&AD Insurance Group and the NKSJ Group, now Sampo Group, in 2010. Along with the Tokio Marine Group, the industry thus consolidated into three mega non-life insurance groups.

However, the following year, 2011, saw numerous large-scale disasters with the Great East Japan Earthquake on March 11 and Thai flooding in the fall, and the combined ratio was above 100%.

To improve this situation, the industry as a whole implemented various initiatives including raising premium rates for voluntary automobile insurance and revising the non-fleet discount/loading rate system, and as a result the combined ratio has now returned to a good level, ranging between 92% and 95.5%.

Throughout its history, the non-life insurance industry has been battered by such waves and, while it is now in a comparatively stable and good condition, five years ago conditions were extremely challenging. I hope you can see that it was from 2010 that we began thinking about

what we should do within this historical context.



As you can see from this slide, the MS&AD Group developed into its current form as a result of changes undergone by six non-life insurance companies.

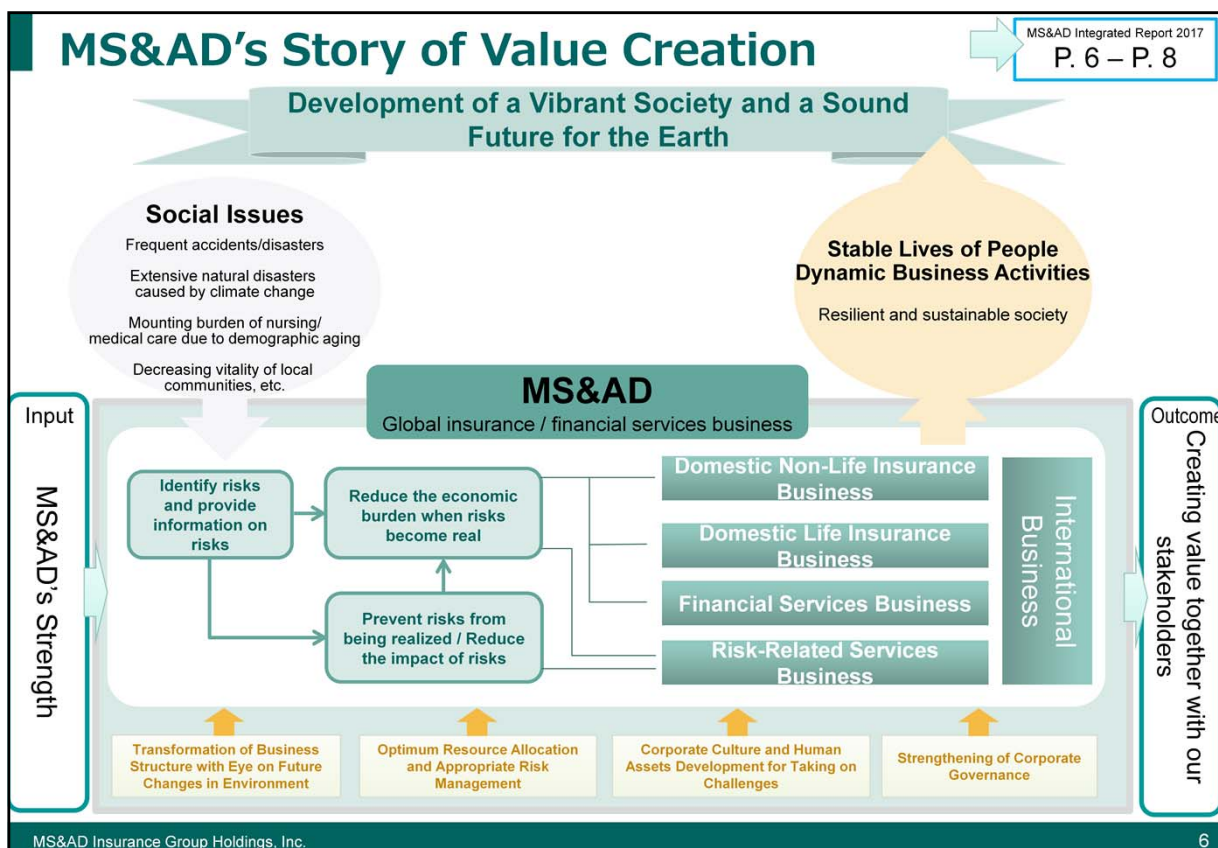
As I mentioned earlier, 2006 was also a challenging time for the industry as a whole, with companies receiving business suspension or business improvement orders because of the failure to pay insurance claims. In particular, Mitsui Sumitomo Insurance, together with Sampo Japan, was ordered to suspend business operations and this bitter experience prompted us to think about the kind of company we should be, and the MS&AD Group made a fresh start. Our thoughts at the time were that we needed to change our approach to the question of quality and that we had to earn trust. In other words, we resolved to achieve growth by making improvement of quality our top priority and gaining customers' trust. We had talked about this kind of spiral growth before but it was at this time that it began to make more sense and the entire Group strengthened its resolve to work on this together, and this is now one of the basic precepts of the MS&AD Group's mission.

Our Mission, Vision, & Value



On its formation in 2010, the MS&AD Group set out its mission as “To contribute to the development of a vibrant society and help secure a sound future for the earth, by bringing security and safety through the global insurance and financial services business.” This corporate mission actually reflects the background explained thus far.

We then considered how to link this corporate mission to our Story of Value Creation, how to make this a story that is easy to understand, and how to gain the understanding of our stakeholders including our employees and this resulted in the production and distribution of this Integrated Report.



This is the fourth year that I have been in charge of my current work. When I was first put in charge of it in 2014, there had been talk about wanting to issue an “Integrated Report” among the staff and preparations were almost complete. However, issuance of the report was stopped because it was felt that the report did not merit being called an “Integrated Report.” On the suggestion that we should postpone issuance of the report for a year and work on it a bit more to make it into something that everyone understands completely, we have spent a further year considering various aspects, and the result was this Story of Value Creation.

This does not mean that what we have said to date has changed because of the issuance of the Integrated Report. We value what we have done in the past and what we want to continue to put into practice in the times ahead and consider it important to ensure that stakeholders can understand these things, and this slide represents our Story of Value Creation in a diagram.

Firstly, “Identify risks and provide information on risks.” People tend to think that insurance rests on the premise that insurance companies pay claims, but this is not the case. What we want to do is create a society in which customers do not meet with accidents. The first step in stopping customers from meeting with accidents is to “Identify risks and provide information on risks.” We also think that it is important to prevent risks from being realized and to reduce their impact if they do. If a risk becomes real, then “Reduce the economic burden.” We propose that it is our job to do this kind of thing.

When we explain things in this way, people sometimes say “if there were no accidents, insurance companies would also have to lower their premium rates and wouldn’t be

able to make any profit.” In response to this, we reply that that would be fine. That’s because we aim to realize a society which develops alongside us enabling everyone to live safely with peace of mind without accidents and we therefore believe that it would be great if there were no accidents.

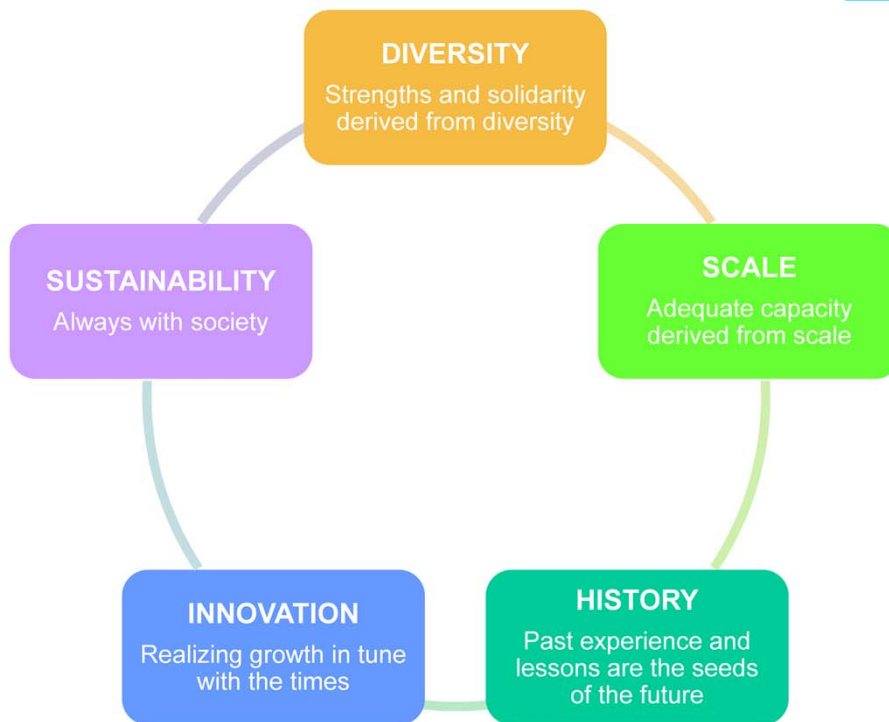
For example, if you are injured in a car accident that was your fault, you will receive an insurance payout, but you will have to experience pain because of your injury and the unpleasant situation in settlement negotiations with the other party (though the insurance company will help). The things that insurance can do are limited. It can only reduce the economic burden and emotional stress. However, having no accident in the first place would make the customer happier. Therefore, if there were no accidents, we as an insurance company would also be happy. This is the basis of our value creation and we plan to put business models with these three steps as basic principles into practice in our five businesses.

In face of social issues that prevent the stable lives of people and dynamic business activities, we will use our strengths as input and, through our business activities in our five business domains, we will help solve social issues and create an outcome. This is linked to our mission of supporting the stable lives of people and dynamic business activities.

It has taken much discussion and examination by management to shape this story of value creation. Some wondered whether such pretty words were okay, but we decided to put this idea at the heart of our business strategies, thinking that we cannot conduct business without some kind of vision as a basis.

MS&AD's Strengths

MS&AD Integrated Report 2017
P.6, P.9



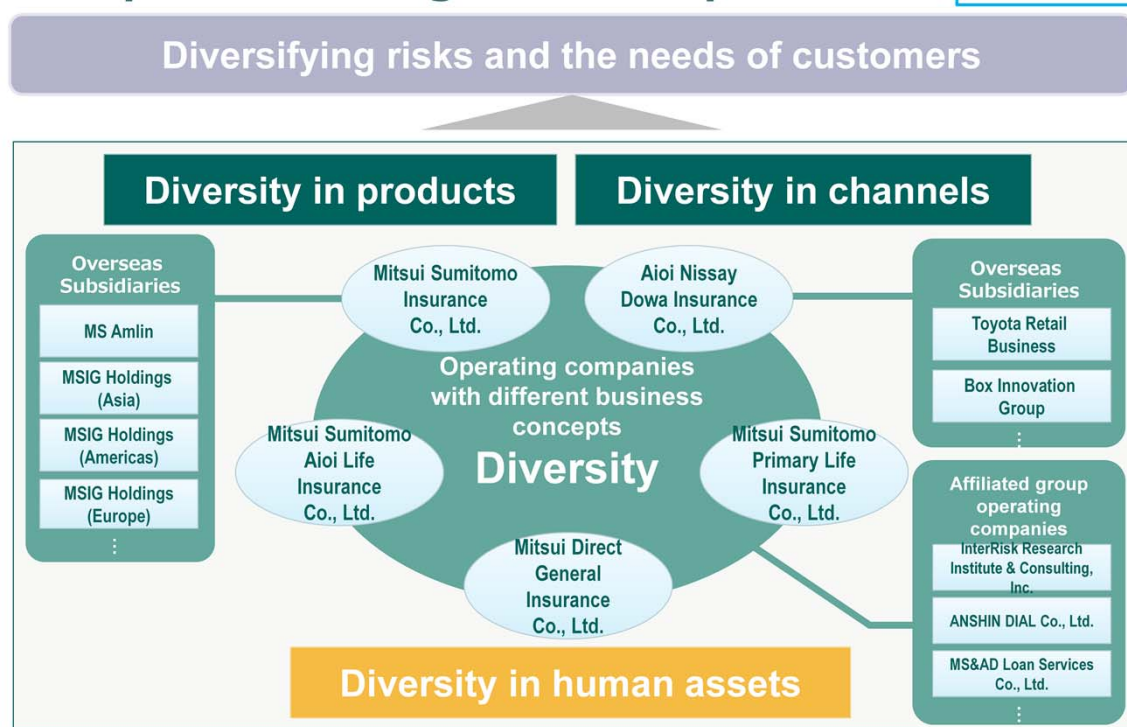
The strengths that are our input are summed up by the five words Diversity, Scale, History, Innovation and Sustainability.

For example, from the viewpoint of History, the MS&AD Group is a member of the Mitsui Group and the Sumitomo Group, which has a history of more than 400 years and operated the Besshi copper mine.

Also, when it comes to Innovation, if you look back at the history of the Mitsui Group, the Mitsui Echigoya store conducted business by developing innovative retail methods such as over-the counter sales which replaced door-to-door sales and “ready money and one price.” The MS&AD Group also has this ethos of creating innovation at its basis and I believe that we have built on this tradition and constantly explored innovative ways of doing business.

Group that Leverages Diversity

MS&AD Integrated Report 2017
P.9



And then we come to the diversity, which is both a strength and a feature of the MS&AD Group. We are often asked by investors “why do you do reorganization by function instead of merging the two non-life insurance companies Mitsui Sumitomo Insurance and Aioi Nissay Dowa Insurance?” Merger is of course an option and is not something that we would rule out in the future but, from the viewpoint of utilizing our strengths, we would like to harness our diversity in products, diversity in sales channels and diversity in human assets.

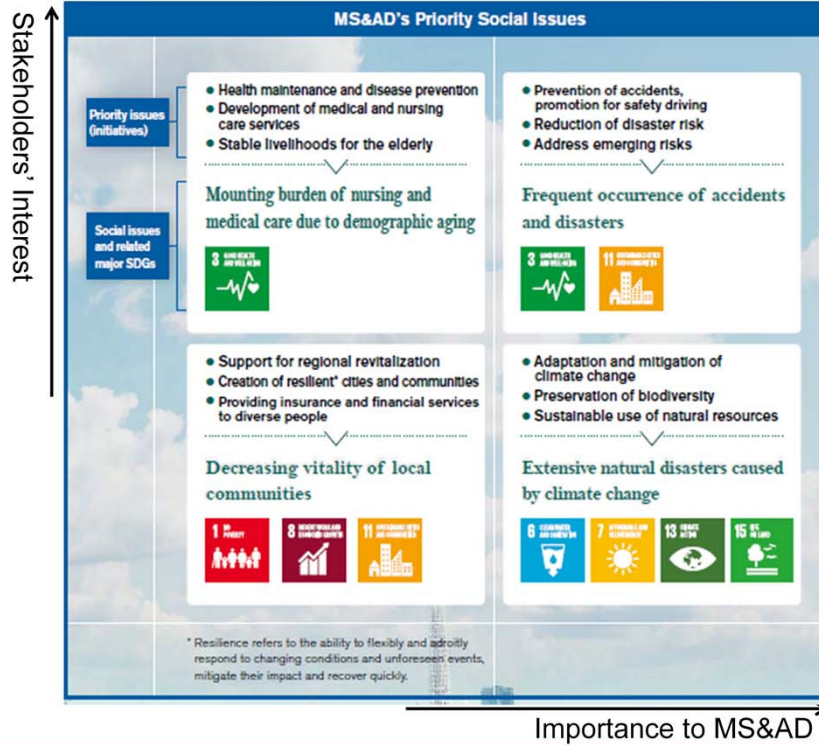
Regarding diversity, Professor Katsuhiko Shimizu of Keio University wrote in his book that diversity is troublesome. Why is that? Well, when you are among your nearest and dearest, you can usually make yourself understood even if you don’t talk much. You can get by with conversations like “How did it go?” “It went like that.” But bring diversity into the equation and matters cannot be explained in this way and you are forced to be accountable. In other words, things have to be organized in such a way that anyone can understand them.

To put it another way, the good thing about diversity is not simply that there are different people with different ideas. For example, during Group Management Committee meetings, it is necessary to discuss whether something that is right for Mitsui Sumitomo Insurance is right for the Group and whether something that is right for Aioi Nissay Dowa Insurance is right for the Group. Each company’s situation is different, and we make revisions if things look different from a whole group perspective. I believe that thinking about such things together is diversity. Through such discussions, management decisions become more logical and thus enable us to achieve accountability.

We are currently working to create a framework that will allow us to harness such diversity even further. But it is true that in the sense that diversity requires such discussions, “diversity is troublesome.” We believe that this diversity will become our strength.

Four Social Issues We Address

MS&AD Integrated Report 2017
P. 5, P. 33



Turning to the four social issues we plan to address, these were selected by classifying and evaluating various social issues on the two axes of importance of MS&AD and stakeholders' interest and judging materiality. We take up four social issues based on this materiality analysis in our 2017 Integrated Report and highlight specific initiatives through our businesses aimed at helping solve these issues.

Special Feature

Creating Value Helping to Solve Social Issues

MS&AD Integrated Report 2017

P. 52 – P. 61

P. 28 — Global Round Table
MS&AD's Story of Value Creation and Our Roles

P. 30 — Our Story of Value Creation

P. 30 Protecting people's lives and businesses from accidents and disasters

P. 31 Confronting climate change and the deterioration of the natural capital

P. 31 Ensuring a healthy and affluent lifestyle

P. 31 Supporting the development of local communities

P. 32 — World Map of Major Disasters in 2016

Employees from around the world talk about the importance of their work and aspirations

- Ms. Diane Macandog (Non-Life Ins., Philippines)
- Mr. Guoliang Luo (Non-Life Ins., Singapore)
- Ms. Kathy Zdravevski (Non-Life Ins., Australia)
- Mr. Jack May (Non-Life Ins., UK)
- Mr. Yoshimitsu So (Life Ins., Japan)
- Mr. Norio Furuhashi (Financial Services, USA)
- Ms. Nannicha Pattara-akarapan (Risk-Related Services, Thailand)

Introduction of our activities to solve 4 social issues in the world

- ① Protecting people's lives and business from accidents and disasters
 - Providing safety and security with the telematics technology
 - Helping coastal vessels stay safe with a smartphone
 - Comprehensive assistance for dealing with cyber security
- ② Controlling climate change and the deterioration of the natural capital
 - Rapid support through our global network
 - Supporting the sustainable use of natural capital
- ③ Ensuring a healthy and affluent lifestyle
 - Helping people live long healthy lives
- ④ Supporting the development of local communities
 - Valuing our interaction with local communities

MS&AD's contribution against the 8 most costly market insured losses in 2016:

Through the claims payments, helping our customers mitigate losses caused by the disasters enlarged by the climate change

The part that introduces details of specific initiatives in special features is shown in this slide.

The first special feature is “Global Round Table,” which we planned and implemented to get employees conducting business around the world to talk to each other about their own stories of value creation.

The person who planned this is Ms. Katsiaryna from Belarus, who is sitting behind. She took the lead in contacting members from around the world and getting them to come to Japan or take part in the round table by conference call. This kind of initiative may also have been difficult through the way of thinking of Japanese members alone.

1. Protecting people's lives and businesses from accidents and disasters

Using telematics technology, we will provide advanced services that enhance the safety and security of our customers.



The second feature "Our Story of Value Creation" highlights specific initiatives of individual employees around the world to tackle the four social issues.

For example, this slide highlights the story of Emma who is helping address the issue of "Protecting people's lives and businesses from accidents and disasters." Emma works in a call center of ITB, a UK-based company specializing in telematics-based auto insurance. Telematics-based auto insurance gathers data about the driving behaviors and distances travelled of policyholders and determines premiums accordingly. I think it is often explained as something that enables insurers to refine their risk classification and enables safe drivers to purchase insurance at more advantageous premiums, but it is not just that. The g-forces on a car are measured via a device called a black box, and when a car experiences high g-forces, it is likely to have met with a serious accident and the call center contacts the driver by mobile. However, if it is unable to make contact, there is the possibility that the driver cannot be contacted because he or she is alone and has had a serious accident. In this case, Emma contacted the police and requested assistance, and this customer managed to escape death.

If you think about this kind of thing, I think that telematics-based auto insurance is a type of insurance that makes a significant contribution to protecting customers from accidents.

Some of you may have seen this in TV commercials, but from this January, Mitsui Sumitomo Insurance and Aioi Nissay Dowa Insurance launched a jointly developed auto insurance product called "Mimamoru" auto insurance. The commercial focuses on a son who is worried about his father, who lives far away and is still driving. For a premium of 300 yen a month, a special terminal is fitted to the car and the son is kept up-to-date

about his father's driving. For example, if the father drives the wrong way up an expressway, the father himself is sent an alert and the family is also contacted. This product alleviates concerns about something happening to family members. This also motivates the father to try to drive safely. In fact, I think that this might be the biggest benefit of all.

Aioi Nissay Dowa Insurance will also start offering telematics-based auto insurance in Japan from this April. The difference in premiums can be as much as 9%, but we believe that more significant than the advantageous premiums is the connection formed between us and our customers in the provision of this service. In other words, we are now promoting telematics-based auto insurance in the belief that its value lies in the provision of added value as an instrument for customer-oriented services.

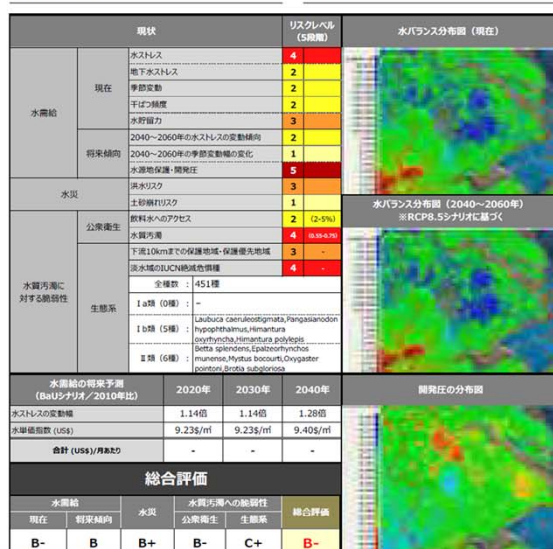
Special Feature : Our Value Creation Story

2. Controlling Climate Change and the Deterioration of Natural Capital

MS&AD Integrated Report 2017
P. 52 – P. 61

Supporting the sustainable use of natural capital

【サイト名】 拠点A 【水使用量】 XXXXXm³/年



InterRisk Research Institute & Consulting, Inc.
Risk Management Department Third
CSR & Environment Section

Kousuke Terasaki



Water Risk Assessment Sheet

This slide highlights an example of initiatives for “Controlling Climate Change and the Deterioration of Natural Capital.” This is a service provided by a risk management consulting company that belongs to the MS&AD Group called InterRisk Research Institute & Consulting, Inc.

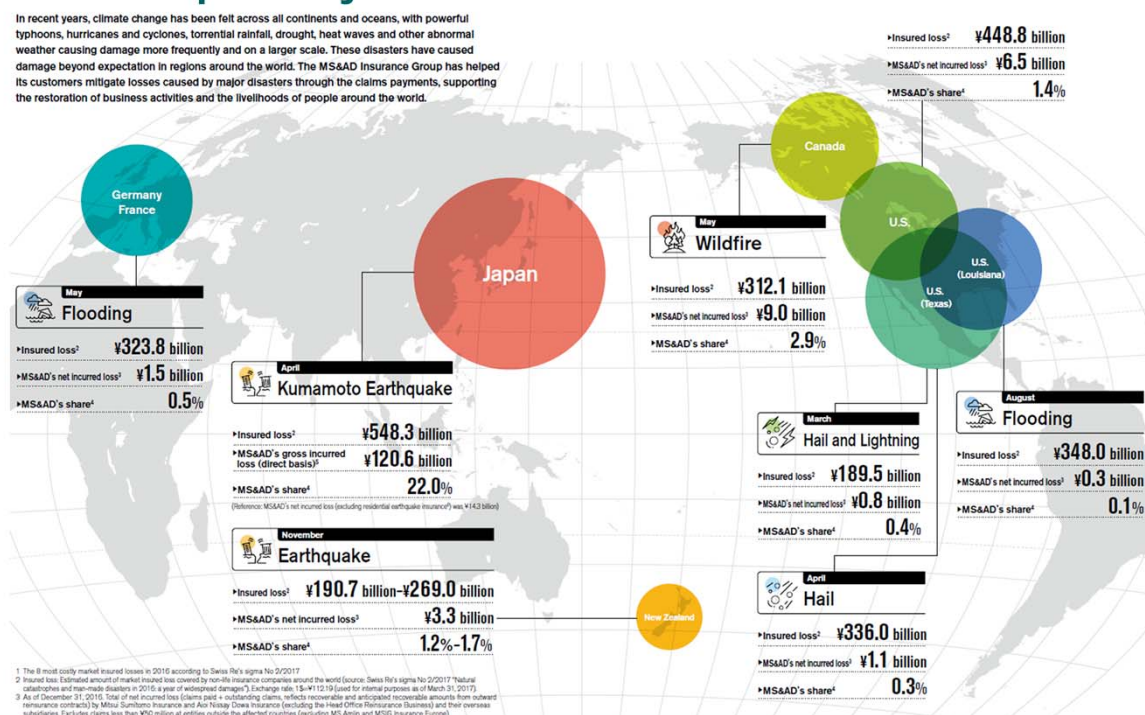
Today, climate change is causing large-scale flooding on the one hand while at the same time there are regions experiencing severe water shortages all around the globe. Such water risk assessment service has become extremely important for companies planning to move their operations overseas in the future. The service introduced here provides analysis and evaluation to enable companies to understand this risk easily.

Thus, the MS&AD Group not only pays insurance claims to compensate damage caused by natural disaster but also uses data about natural capital which is being depleted by climate change as a basis for risk analysis and relays these analysis results to companies, thereby contributing to stable business activities.

Special Feature : World Map of Major Disasters in 2016

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In recent years, climate change has been felt across all continents and oceans, with powerful typhoons, hurricanes and cyclones, torrential rainfall, drought, heat waves and other abnormal weather causing damage more frequently and on a larger scale. These disasters have caused damage beyond expectation in regions around the world. The MS&AD Insurance Group has helped its customers mitigate losses caused by major disasters through the claims payments, supporting the restoration of business activities and the livelihoods of people around the world.



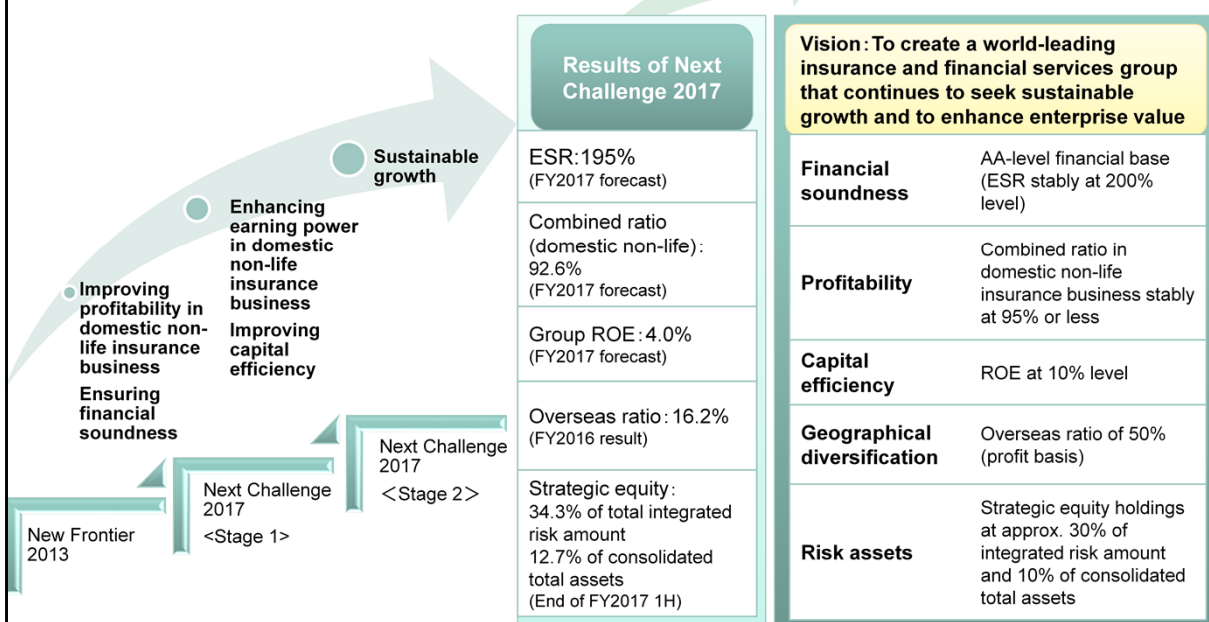
The third special feature is World Map of Major Disasters.

Various large-scale disasters and accidents happen around the world. When we pay insurance claims, this has a negative impact on our earnings, but this helps the customers who receive this money to rebuild their lives and businesses. We also present a map like this in our report as a means of showing this.

Progress Towards Goals to be Achieved

Next Mid-Term Management Plan

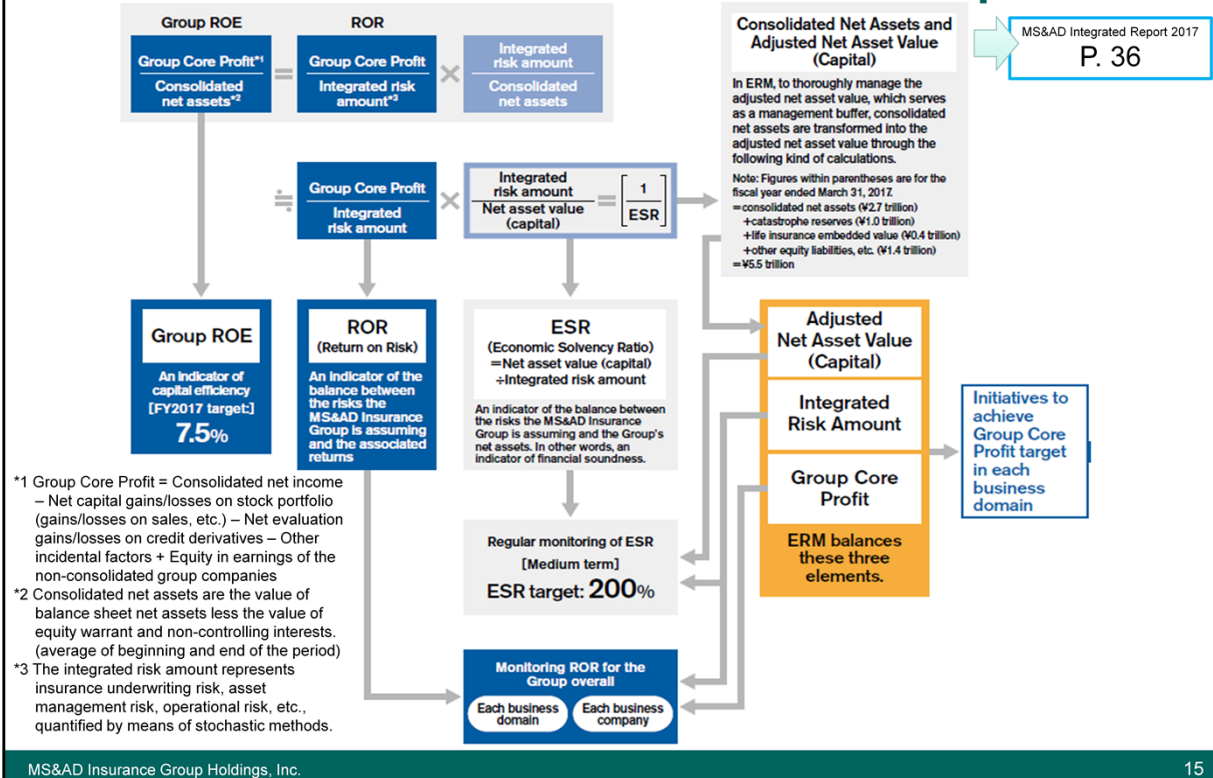
MS&AD Vision 2021



We have indicated five areas as indicators for our vision, which is “To create a world-leading insurance and financial services group,” and this slide shows our level of achievement as of the interim period of FY2017.

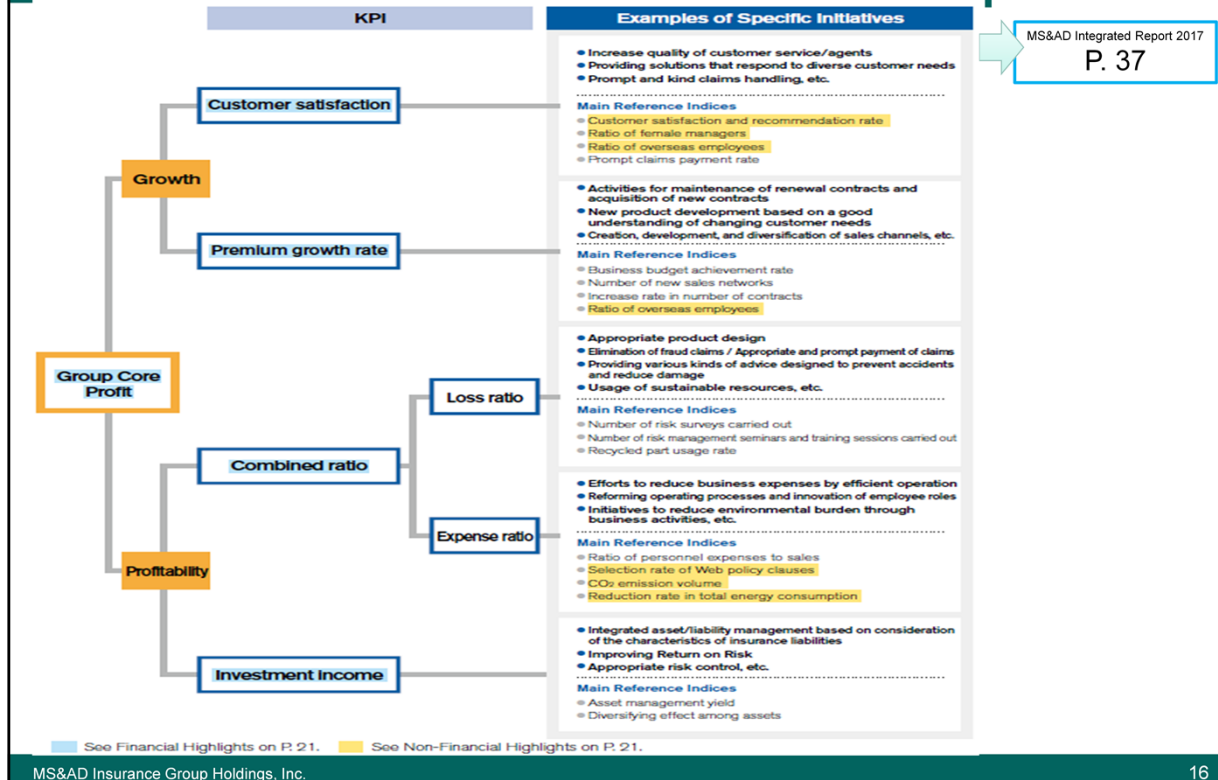
Regarding this fiscal year, we announced the other day that unfortunately it will be difficult to achieve our expected earnings because of the impact of natural disasters such as the hurricanes in North America and others. While this is a great shame, I believe that the foundations for conducting business have been firmly established in the years up to and during this medium-term management plan and during the period of the next medium-term management plan I would like us to build on these foundations and turn them into developing business.

KPIs-Linked Activities of the Whole Group



To clearly show how the story of value creation that I have explained thus far is actually linked with the work of individual employees, we have tried to link management targets and workplace initiatives through KPIs. This page shows a breakdown of Group ROE and Group Core Profit, which are our numerical management targets. Since the structure is quite difficult to understand, we produced this graph to give our stakeholders including our employees a better understanding.

KPIs-Linked Activities of the Whole Group



Group Core Profit is split into Growth and Profitability and one of the elements supporting Growth is Customer Satisfaction. We produced materials like these to help our employees understand that (to employees) “Your daily efforts to deal with accidents constitute such initiatives to increase Customer Satisfaction and this pushes up earnings and leads to growth. Similarly, keeping the loss ratio at a reasonable level contributes to company profitability. And reducing the expense ratio also leads to improvement in profitability.”

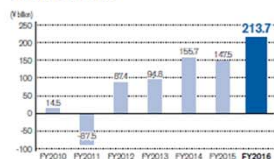
We are linking not only financial information but also non-financial information with KPIs, hoping to give stakeholders including employees a better understanding of the links between initiatives being conducted in each workplace and management targets.

KPIs-Linked Activities of the Whole Group

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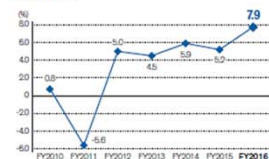
Financial Highlights

Group Core Profit



Group Core Profit is a representation of underlying Group profits for external stakeholders, including shareholders and investors. It is included in the numerical management targets in the current medium-term management plan. Group Core Profit is calculated by deducting non-recurring profits (i.e., net capital gains, other incidental factors) from accounting profits. (See the "Glossary of Insurance Terminology" section (P.52) for details.)

Group ROE



Group ROE is the ratio of Group Core Profit to consolidated net assets. It is a numerical management target in the current medium-term management plan. (See the "Glossary of Insurance Terminology" section (P.52) for details.)

Non-Financial Highlights

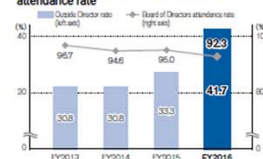
A checkmark (✓) indicates that FY2016 figures have been assured by KPMG AZSA Sustainability Co., Ltd.

Customer satisfaction and customer recommendation rate¹



Our growth potential depends on improving customer satisfaction and customer recommendation rates. Along with these indicators, customer opinions are helpful in improving quality.

Outside Director ratio and the Board of Directors attendance rate



Outside directors independent from management strengthen monitoring and oversight functions for highly transparent management. More than one-third of the Board of Directors are independent Outside Directors.

Consolidated net premiums written² and premium growth rate (non-life insurance business)



Consolidated net premiums written is a numerical management target in the current medium-term management plan. A premium growth rate indicates growth potential in premium income in Domestic Non-Life Insurance Business and International Non-Life Insurance Business.

Combined ratio (Domestic Non-Life Insurance Business)



The combined ratio is a key indicator of profitability in underwriting in the non-life insurance business. It is a numerical management target in the current medium-term management plan. (See the "Glossary of Insurance Terminology" section (P.52) for details.)

Selection rate of web policy clauses³



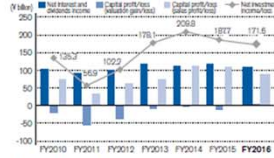
We actively recommend to select web policy clauses because such access is easier than with policy booklets, is more convenient for customers and promotes a decrease in the environmental load related to the use of paper and postal mail.

✓ Number and ratio of female managers⁴



We believe diversity in the manager position and above leads to greater customer satisfaction and growth potential by enabling strategies, product development and organizational management from diverse viewpoints and sense of value. We began laying this data on a Group consolidated basis, including overseas, in FY2016.

Net investment income (Domestic Non-Life Insurance Business)⁵



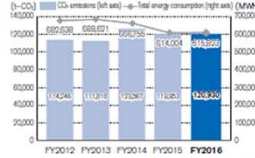
Net investment income is a major source of earnings, used to underwriting income, for non-life insurance companies, consisting of interest and dividend income as well as gains/losses on the sale of securities.

Policies in force⁶ (Domestic Life Insurance Business)



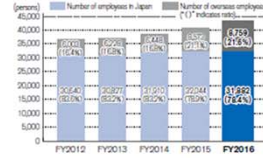
Policies in force is a basic performance indicator for the insurance companies that are a proxy for the total amount of coverage extended to policyholders with in-force policies as of the end of the fiscal year. (See the "Glossary of Insurance Terminology" section (P.53) for details.)

✓ CO₂ emissions⁷ and total energy consumption



Reducing CO₂ emissions helps mitigate climate change, a risk for non-life insurance business. It also reduces energy-related business expenses.

✓ Number and ratio of global employees



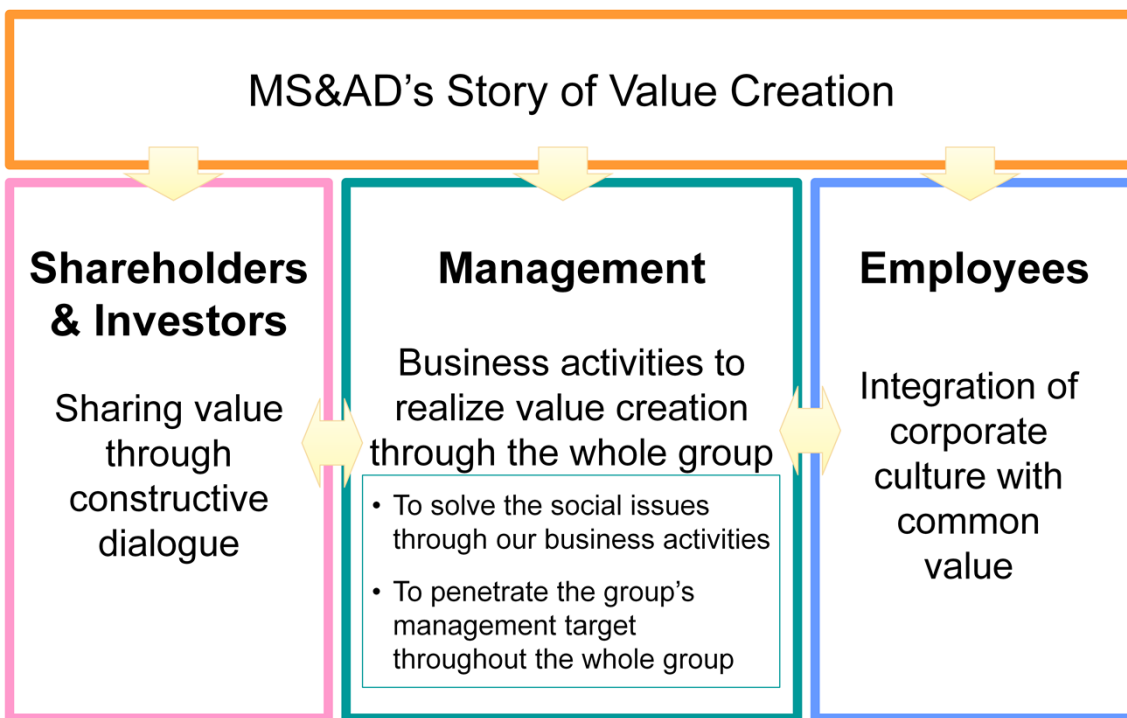
Increasing the number of employees from different cultures and with diverse sense of value, and deepening mutual understanding among employees, leads to a stronger organizational capacity for the Group and is a driving force in international business development in particular.

We also show trends of a number of important financial and non-financial KPIs in graphs like these. Please refer to the handout for further details.

II. Integrated Thinking Management



Group Integration by Integrated Thinking Management



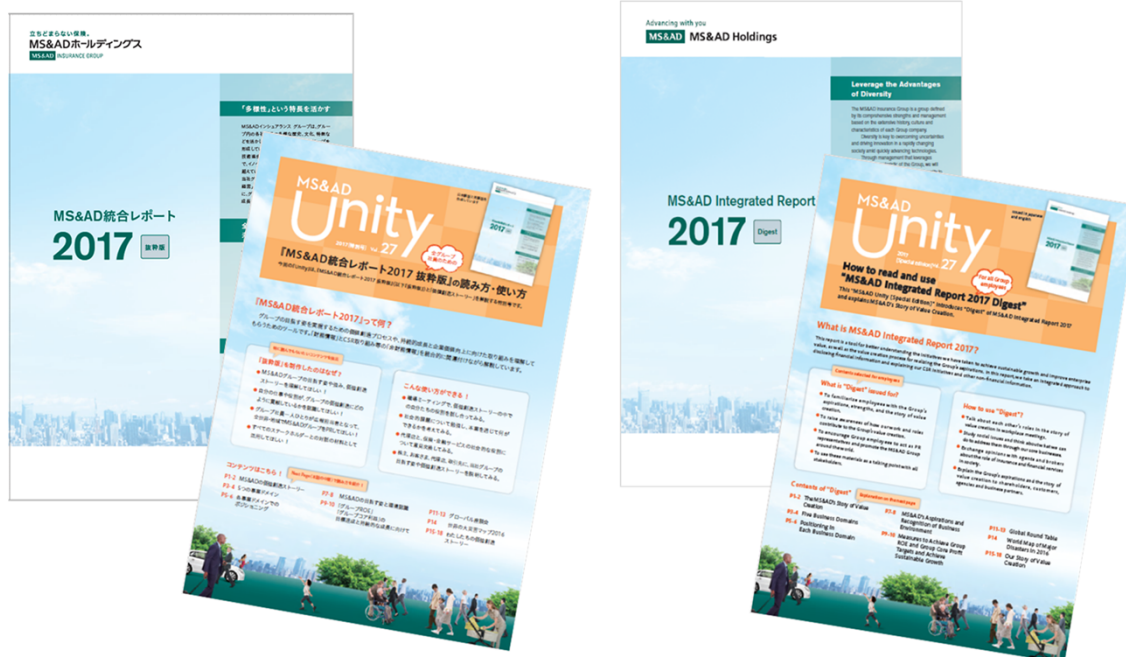
Next, I would like to talk about the Group unification through Integrated Thinking Management.

I am not saying that I think we have achieved this fully yet, but while it is natural that the Story of Value Creation is understood and promoted by management, it is individual employees who will actually realize it. I believe it is important that these individuals have and put into practice a corporate culture (e.g. way of working) based on common values.

I also think it is important to share our values with shareholders and investors through constructive dialogue, in other words, to have them understand and invest in the fact that this is our vision. Since our goal is to develop stable sustainable business over the long term, we would like to engage in more meaningful dialogue with investors who understand this.

For Corporate Culture Based on the Same Values

Digest & Group's Communication Paper "Unity" in Japanese and English



MS&AD Insurance Group Holdings, Inc.

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I would like to explain in a little more detail the point about building a corporate culture based on shared values among Group employees.

You have been given two booklets. One is a digest version of the MS&AD Integrated Report 2017, which was prepared as a booklet to make it easier to distribute to all employees. The other is *Unity*, which is the Group's communication paper. We wondered how we should give our employees an understanding of the Story of Value Creation and decided to explain it in a communication paper. We produced a Japanese version and an English version and plan to distribute it or make it available to all our employees around the world.

I do not think that this alone will instill common values across the entire Group, but we began gradually implementing initiatives like these to instill our corporate culture from last year and are creating a framework to transform the entire Group.

In April last year, we distributed the digest version at a meeting of department and branch managers at each operating company (meeting of general managers from all over Japan and all over the world) and the President gave a talk. Doing this promotes understanding among the officers and department managers of each operating company, who then take the booklets back to their places of work and explain them there.

At Group training for new employees (joint training for all new employees at each Group company in Japan), I ask the question "What is your job?" and talk about the Story of Value Creation.

Also, at the meeting of all branches of MSA Life, for example, the President of MSA Life explained the Story of Value Creation and talked about doing certain things to realize the mission, while at the Global Executive Conference of Mitsui Sumitomo Insurance, the General Manager of the CSR section gave a similar talk, and though activities like these, we are trying to achieve the sharing of values.

We also try to do things like including explanations of the Story of Value Creation in e-learning

for all employees and texts for workplace meetings and introducing the Integrated Report via the Intranet of overseas bases or the websites of overseas operating companies, in an attempt to gradually broaden the scope of those who understand. This is not to say that I think all employees have completely got the message, but I do believe that such activities are gradually catching on.



Thank You!

Simply producing the Integrated Report in the form of a booklet is not the end. We believe that the question of how we make use of it is important and we are implementing various types of initiatives. These initiatives have only just begun but we intend to continue working on them in the future.

Today, I have focused on the background of the Story of Value Creation and related initiatives. I also wanted to introduce initiatives to strengthen corporate governance, but I will leave that until the next opportunity.

I hope that you will continue to show an interest in our initiatives.

Thank you for your kind attention.