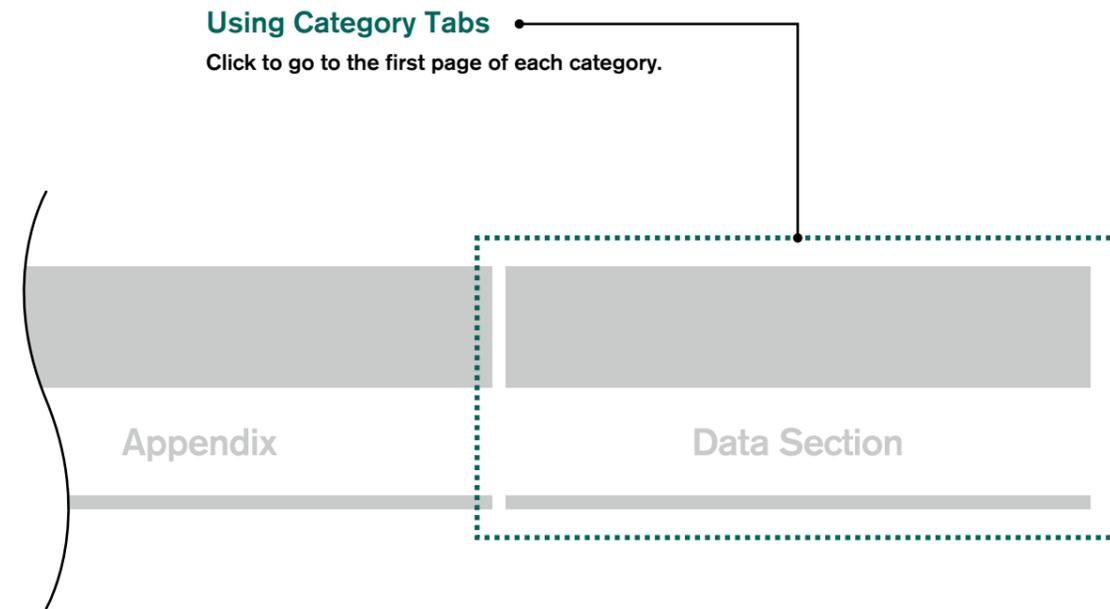


# MS&AD Integrated Report 2017



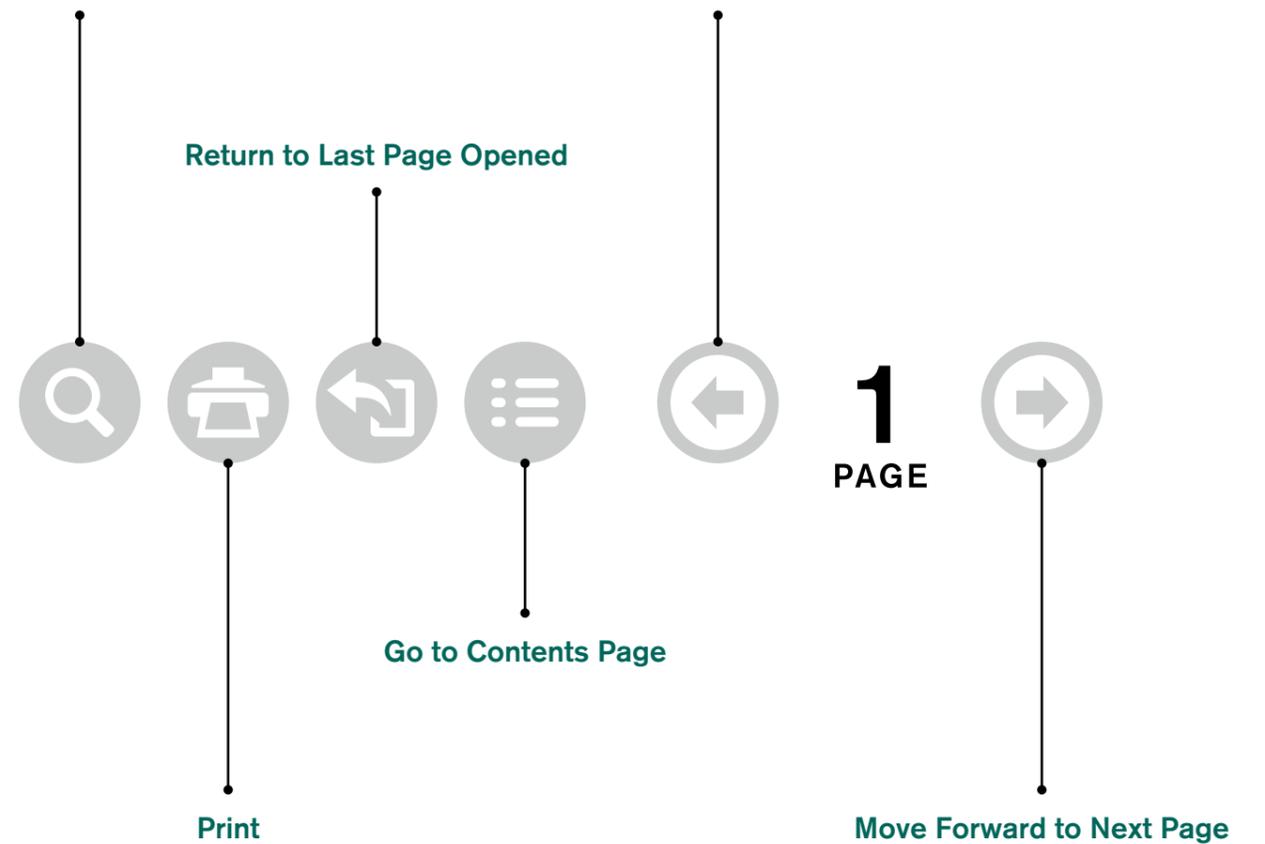
# Guide to Buttons



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**In this report, the following abbreviations appear for company names.**

MS&AD, The Group	MS&AD Insurance Group
MS&AD Holdings, The holding company, or the Company	MS&AD Insurance Group Holdings, Inc.
MSI, Mitsui Sumitomo Insurance	Mitsui Sumitomo Insurance Co., Ltd.
ADI, Aioi Nissay Dowa Insurance	Aioi Nissay Dowa Insurance Co., Ltd.
Mitsui Direct General, Mitsui Direct General Insurance	Mitsui Direct General Insurance Co., Ltd.
MSI Aioi Life	Mitsui Sumitomo Aioi Life Insurance Co., Ltd.

MSI Primary Life	Mitsui Sumitomo Primary Life Insurance Co., Ltd.
MSIG	Mitsui Sumitomo Insurance Group Holdings, Inc.
Aioi, Aioi Insurance	Aioi Insurance Co., Ltd.
NDI, Nissay Dowa General Insurance	Nissay Dowa General Insurance Co., Ltd.
MSI Kirameki Life	Mitsui Sumitomo Kirameki Life Insurance Co., Ltd.
Aioi Life	Aioi Life Insurance Co., Ltd.

## The MS&AD Insurance Group's Mission, Vision & Values

### Our Mission

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.

### Our Vision

To create a world-leading insurance and financial services group that continues to seek sustainable growth and to enhance enterprise value.

### Our Values

#### CUSTOMER FOCUSED

We continuously strive to provide security and achieve customer satisfaction.

#### INTEGRITY

We are sincere, kind, fair, and just in all our dealings with everyone.

#### TEAMWORK

We achieve mutual growth by respecting one another's individuality and opinions, and by sharing knowledge and ideas.

#### INNOVATION

We listen to our stakeholders and continuously seek ways to improve our work and business.

#### PROFESSIONALISM

We make continuous efforts to improve our skills and proficiency to provide high-quality services.

## Three Key Concepts of MS&AD Integrated Report 2017

### Leverage the Advantages of Diversity

The MS&AD Insurance Group is a group defined by its comprehensive strengths and management based on the extensive history, culture and characteristics of each Group company.

Diversity is key to overcoming uncertainties and driving innovation in a rapidly changing society amid quickly advancing technologies.

Through management that leverages diversity, a characteristic of the Group, we will sustain growth by using the Group's diversity to meet increasingly various customer needs.

[The MS&AD's Story of Value Creation \(P. 4~P. 6\)](#)

[CEO Message \(P. 11~P. 14\)](#)

### Using Our Global Network to Support the Future

With the progress of climate change and an aging population, a variety of social issues have emerged, including massive natural disasters around the world, issues arising from an aging society and a decline in regional vitality.

The MS&AD Insurance Group helps to create solutions for these social issues through its business activities across the world, to "Contribute to the Development of a Vibrant Society and to Help Secure a Sound Future for the Earth," leveraging its overseas network spanning 47 countries and regions.

[The MS&AD's Story of Value Creation \(P. 4~P. 6\)](#)

[Special Feature | Creating Value by Helping to Solve Social Issues \(P. 28~P. 32\)](#)

### Growth That Supports Social Development

Since ancient times, non-life insurance has helped people overcome challenges with repeated failures.

Risks will be overcome and advances will be made in such fields as new energy development, AI, robotics and regenerative medicine.

The MS&AD Insurance Group supports a constantly evolving society and will grow alongside people, helping them overcome challenges.

[CEO Message \(P. 11~P. 14\)](#)

[Strategies by Business Domain \(P. 22~P. 27\)](#)

[Our Story of Value Creation \(P. 30~P. 31\)](#)

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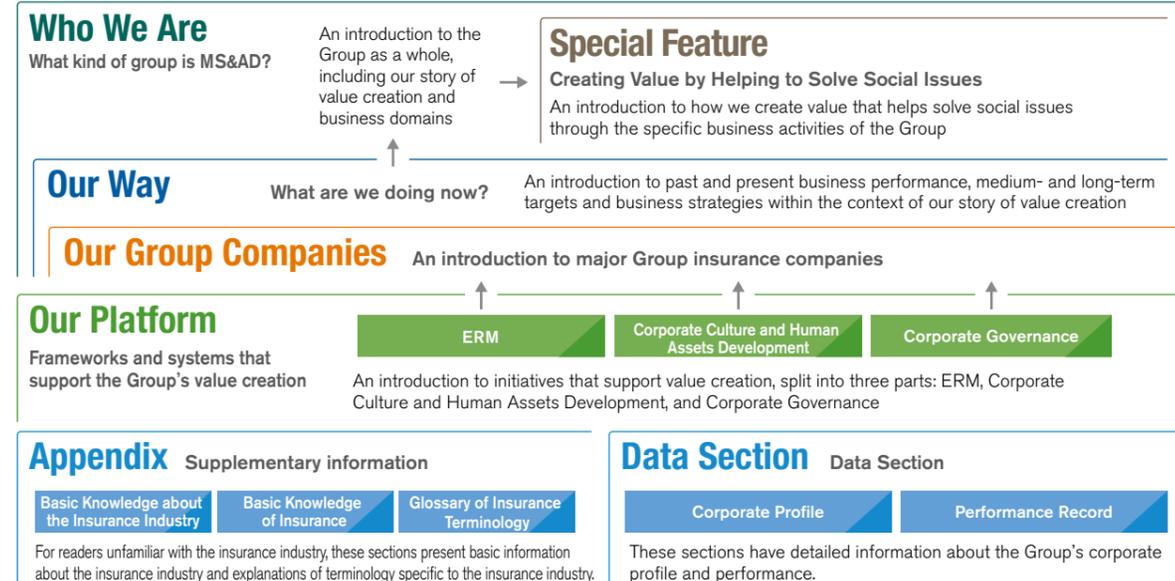
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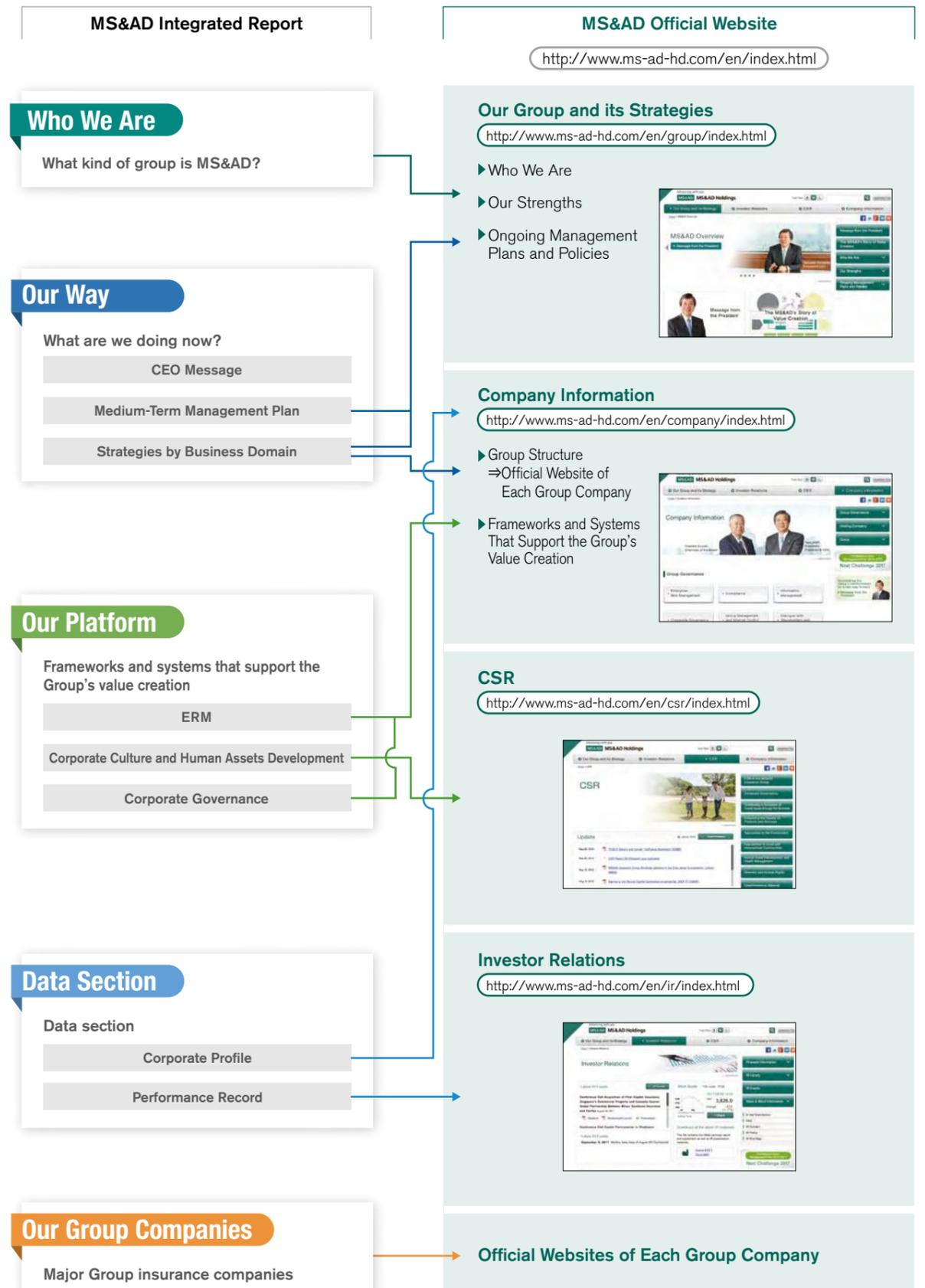
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## Structure of This Report



## MS&AD Disclosure Framework

For further detailed information on the MS&AD Insurance Group, please refer to the information on the Company's official website.



# The MS&AD's Story of Value Creation

“Contribute to the Development of a Vibrant Society and Help Secure a Sound Future for the Earth”

The MS&AD Insurance Group was formed with three groups of insurance companies being integrated with our mission “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.”

To fulfill our aim to contribute to “the development of a vibrant society and help secure a sound future for the earth,” we need to: promptly identify various risks stemming from social issues which could hamper our aim, provide information on these risks, prevent risks from being realized, reduce the impact of these risks, and, through providing a variety of products and services to reduce the economic burden when these risks become real, prepare an environment in which customers around the globe, who make efforts to address and overcome various challenges, can securely live and conduct business. That is our story of value creation.

The MS&AD Insurance Group, together with its stakeholders, will continue to seek sustainable growth and to enhance enterprise value. And, through creating a world-leading insurance and financial services group, we will pursue value creation around the globe.

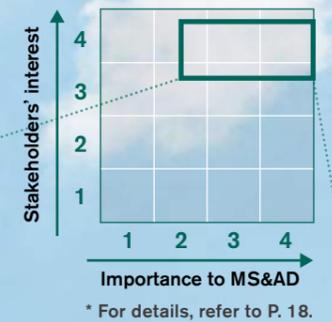
## The Social Issues We Address

From among the many social issues, the MS&AD Insurance Group has selected four social issues where the Group can make a significant contribution, based on an analysis of their importance to the Group and the degree of interest among stakeholders.

Our efforts to solve these issues also align with the Sustainable Development Goals (SDGs)\* and lead to the creation of value.

\* This refers to the Sustainable Development Goals, which include 17 goals and 169 targets related to poverty, health, and climate change, etc., that were stated in the “2030 Agenda for Sustainable Development” adopted at the UN Sustainable Development Summit in September 2015. For details, refer to the “Glossary of Insurance Terminology” on P. 54.

MS&AD's Priority Issues (Group Initiatives)



Enlargement of related issues

### MS&AD's Priority Social Issues

<p><b>Priority issues (initiatives)</b></p> <ul style="list-style-type: none"> <li>● Health maintenance and disease prevention</li> <li>● Development of medical and nursing care services</li> <li>● Stable livelihoods for the elderly</li> </ul>	<ul style="list-style-type: none"> <li>● Prevention of accidents, promotion for safety driving</li> <li>● Reduction of disaster risk</li> <li>● Address emerging risks</li> </ul>
<p><b>Social issues and related major SDGs</b></p> <p><b>Mounting burden of nursing and medical care due to demographic aging</b></p>	<p><b>Frequent occurrence of accidents and disasters</b></p>
<ul style="list-style-type: none"> <li>● Support for regional revitalization</li> <li>● Creation of resilient* cities and communities</li> <li>● Providing insurance and financial services to diverse people</li> </ul> <p><b>Decreasing vitality of local communities</b></p>	<ul style="list-style-type: none"> <li>● Adaptation and mitigation of climate change</li> <li>● Preservation of biodiversity</li> <li>● Sustainable use of natural resources</li> </ul> <p><b>Extensive natural disasters caused by climate change</b></p>

\* Resilience refers to the ability to flexibly and adroitly respond to changing conditions and unforeseen events, mitigate their impact and recover quickly.

## The MS&AD's Story of Value Creation

### Financial Capital

- Sufficient and sound financial base enabling the underwriting of customers' risks

Consolidated net assets (as of March 31, 2017): **¥2,734.4 billion**

### Human Capital

- Global and diverse human assets
- Professional human assets with sophisticated expertise related to insurance, risks, etc.

Consolidated number of employees (as of March 31, 2017): **40,641**

### Intellectual Capital

- Expertise and trustworthiness supported by a lengthy business history and experience
- Most abundant risk data in Japan and the ASEAN region

Number of risk surveys conducted (FY2016): **1,031**

### Social and Relationship Capital

- No. 1 in the scale of its customer base in Japan

Number of individual customers in Japan\*: **Approx. 42 million**

Number of corporate customers in Japan\*: **Approx. 2.4 million**

\*Simple sum of the number of customers of MSI and ADI (As of March 31, 2017)

- No. 1 in gross premiums written in the ASEAN region

- No. 1 in the size of its agent network in Japan

Number of domestic non-life insurance agents\*\*: **94,360**

Domestic marketing bases\*\*\*: **266 branches/1,051 offices**

Domestic claims handling service centers\*\*\*: **435**

- Overseas bases\*\*\*: **47 countries/regions**

\*\*1 Simple sum of the number of agencies at MSI and ADI (as of March 31, 2017)

\*\*2 Simple sum of the number of bases at domestic insurance companies (as of April 1, 2017)

\*\*3 Simple sum of the number of claims handling service centers at domestic non-life insurance companies (as of April 1, 2017)

\*\*4 Includes SLI Cayman Limited (financial services business) in the Cayman Islands (as of April 1, 2017)

- Relationships with leading companies in other sectors, including the Toyota Group, the Nippon Life Group, the Mitsui Group and the Sumitomo Group

### Natural Capital

- Stable global climate system
- Preservation of biodiversity in nature
- Sustainable natural resources

## MS&AD's Strengths

### Diversity

Strengths and solidarity derived from diversity

### Scale

Adequate capacity derived from scale

### History

Past experience and lessons are the seeds of the future

### Innovation

Realizing growth in tune with the times

### Sustainability

Always with society

## DIVERSITY

The collective strengths of the Group as management leverages the history, culture and characteristics of each Group company

Diversity in human resources

Diversity in operating companies with different business concepts

Mitsui Sumitomo Insurance

Aioi Nissay Dowa Insurance

Mitsui Direct General Insurance

MSI Aioi Life

MSI Primary Life

96 overseas consolidated subsidiaries (as of March 31, 2017)

Diversity in products  
Diversity in channels

Diversifying customers' risks and needs

Ratio of overseas employees: **21.6%**

Gender composition of employees: **50.1% male, 49.9% female**

## SCALE

No. 1 in non-life premium income in Japan and the ASEAN region

> P. 8 Positioning in Each Business Domain

Global business development through an overseas network including local partners

Largest agent network and customer base in Japan

No. 8\* in non-life insurance groups in the world

\* According to *Fortune* magazine's Fortune Global 500: 2016 Ranking of Non-Life Insurance Companies by Income (Ordinary income basis for Japanese non-life insurance companies)

## HISTORY

Corporate group with more than 100 years of history

## Accumulation of Big Data related to risks

Knowledge and data gained from experience related to major natural disasters (e.g., earthquakes, wind and water damage, flooding)

## INNOVATION

Provision of innovative products and services with speed in line with social change

Innovative products and services offered quickly and flexibly

- Development of liability insurance for clinical research in regenerative medicine
- Development of products that cover indemnification risks related to the marine transport of hazardous substances globally
- Development of products with alert services that notify drivers, elderly drivers in particular, of reverse driving on highways

Development of business while always being mindful of social change

- Entry into the telematics automobile insurance market via M&A
- Provision of information related to accident and disaster prevention and policy procedures via smartphones
- Improvement of customer services through AI at customer centers

## SUSTAINABILITY

Realization of a sustainable society through business activities

- Provision of services via smartphones that support safe car and ship operations
- Provision of consulting services to adapt to climate change and conserving natural capital
- Provision of products and services that support long and healthy lives
- Regional activities and collaboration with local governments to help revitalize regional industry and prevent disasters

Highly regarded by third parties\*

- Dow Jones Sustainability Index (World/Asia Pacific)
- RobecoSAM Sustainability Awards "Bronze Class" and "Industry Mover"

\*As of July 2017

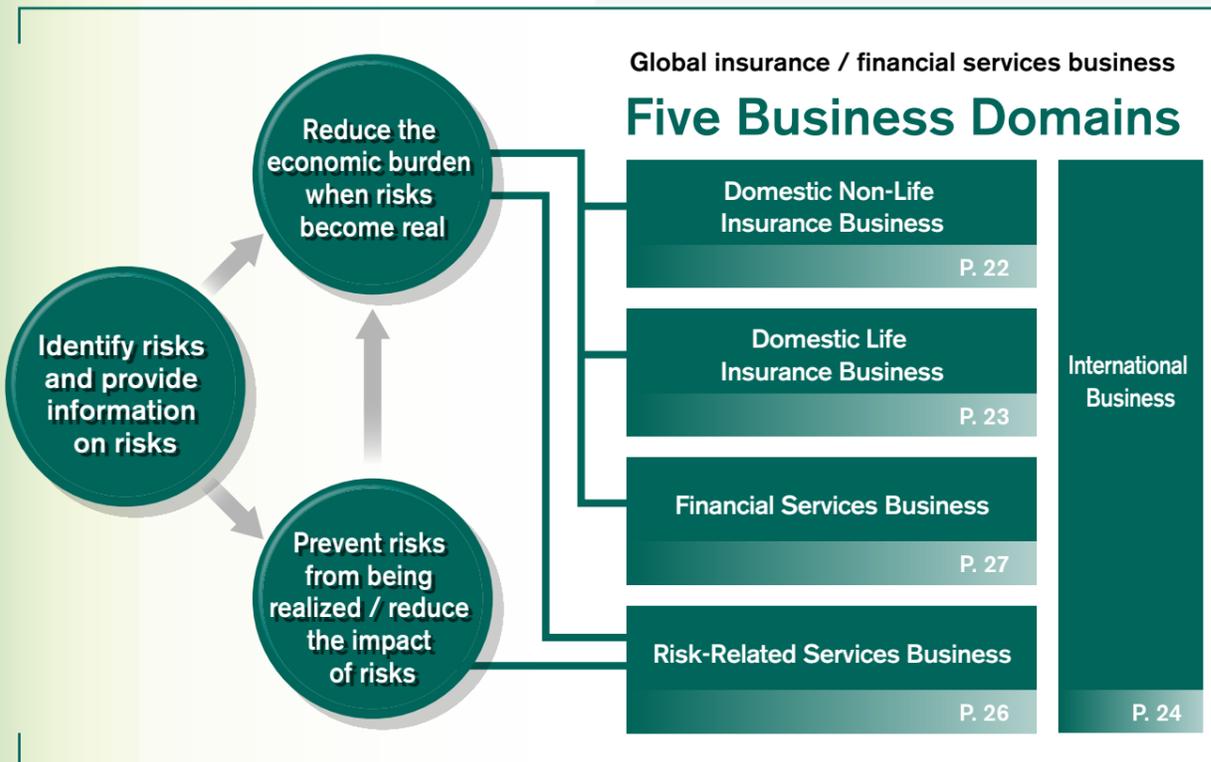
Resources Supporting MS&AD

# Contribute to the Development of a Vibrant Society and Help Secure a Sound Future for the Earth

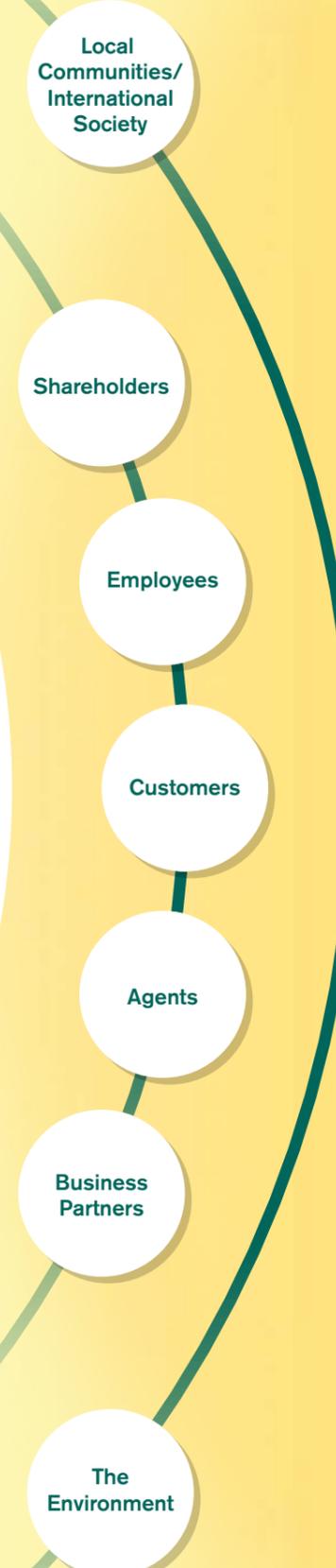
**Social Issues**  
 Diverse risks surrounding society  
 Frequent occurrence of accidents/ disasters  
 Extensive natural disasters caused by climate change  
 Mounting burden of nursing/ medical care due to demographic aging  
 Decreasing vitality of local communities



## MS&AD Business Model



## Systems Supporting Enterprise Value Creation



## Creating Value in Cooperation with Stakeholders (results of FY2016)

### Financial Capital

- Increase capital efficiency
- Increase Group Core Profit
- Returns to shareholders

Group Core Profit:	<b>¥213.7 billion</b>
Group ROE:	<b>7.9%</b>
TSR* of past 5 years:	<b>131%</b>

\* Total Shareholder Return (TSR) is the ratio calculated by dividing the return (dividends and capital gains) on investments in stocks over a specified period by the share price (investment amount).

### Human Capital

- Provide working environments that offer greater amenities and support personal growth
- Provide employment that is stable and gives due consideration to work-life balance

Employee satisfaction level: <sup>1</sup>	<b>4.4 points</b>	Days of paid vacation used per employee/year: <sup>2</sup>	<b>15.7</b>
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1 This measures the level of employees' feeling pride or job satisfaction. (The figure is an average for all employees based on a survey of employees—6 points represents perfect satisfaction.)  
 2 Average number of vacation days acquired by all employees with respect to "regular/carryover vacation days" as well as "special vacation days"

### Intellectual Capital

- Foster the development of employees with high levels of specialized expertise
- Provide products and services that respond to changing and diverse customer needs
- Provide society with risk-related survey and research results

Research reports issued: <sup>1</sup>	<b>84 reports</b>	Number of actuaries: <sup>2</sup>	<b>94</b>
---------------------------------------	-------------------	-----------------------------------	-----------

1 We issued reports on diverse subjects including CSR, corporate risks, BCM, workers' compensation risks, transportation risks, overseas crisis management information, and infectious disease information.  
 2 Number of professional actuaries employed by MS&AD Group with specialized skills for making full use of probability, statistical and other mathematical techniques used in product development, risk management, financial soundness confirmation, and other processes (as of April 1, 2017)

### Social Capital

- Disburse insurance payment of claims and benefits appropriately and speedily
- Provide services to prevent accidents and disasters from occurring
- Provide a high-quality and diverse agent network
- Fulfill corporate social responsibility through cooperative relationships with business partners
- Provide products and services that protect such social capital as social infrastructure, government services, etc.

Insurance claims paid <sup>1</sup>	<b>¥2,162.7 billion</b>	Customer satisfaction: <sup>2</sup>	<b>95.6%</b>
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1 This represents the sum of net claims paid and life insurance claims.  
 2 Ratio of customers satisfied with accident response for automobile insurance (MSI and ADI) (FY2016)

### Natural Capital

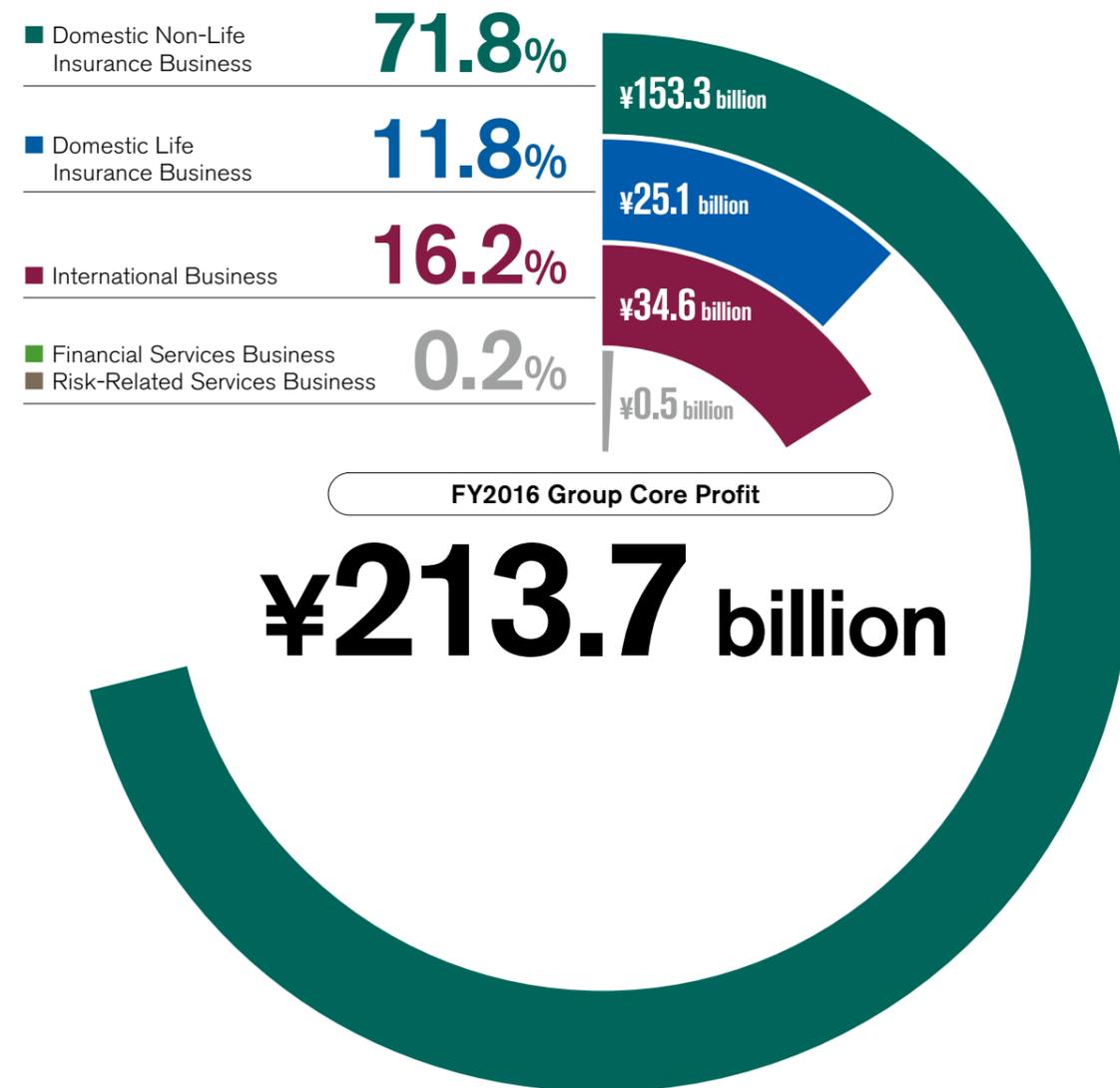
- Reduce CO<sub>2</sub> emissions to slow the pace of climate change
- Contribute to the preservation of biodiversity
- Reduce the load so natural resources can be used sustainably

Amount of paper reduced from web policy clauses <sup>1</sup> and eco insurance policies:	<b>805,438kg</b>	Employees participating in social contribution activities: <sup>2</sup>	<b>19,861</b>
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1 Policy clauses are made available online instead of using printed material, making them environmentally friendly.  
 2 Number of employees who make donations or participate in volunteer activities as an individual or part of the company. (excluding employees overseas)

# Five Business Domains

Providing products and services tailored to match customers' increasingly diverse risks and needs



## Definition of Group Core Profit

Group Core Profit represents consolidated net income after adjustments for net capital gains/losses on stock portfolio and extraordinary income and losses. It is calculated using the formula shown below.

Based on its belief that it should further increase emphasis on profits from its core insurance businesses, MS&AD is using Group Core Profit to define key management performance targets in its medium-term management plan.

$$\text{Group Core Profit} = \text{Consolidated net income} - \text{Net capital gains/losses on stock portfolio (gains/losses on sales, etc.)} - \text{Net evaluation gains/losses on credit derivatives} - \text{Other incidental factors} + \text{Equity in earnings of the non-consolidated Group companies}$$

### Domestic Non-Life Insurance Business

P. 22

**No. 1 Position in the Domestic Non-Life Insurance Market. Making Groupwide Efforts to Comprehensively Meet Diverse Customer Needs**

MS&AD Mitsui Sumitomo Insurance    MS&AD Aioi Nissay Dowa Insurance  
MS&AD Mitsui Direct General Insurance

Main products and services: 三井住友海上の安心 (GK), タフな安心を、あなたに。 (TOUGH), 三井ダイレクト損保の自動車保険 (自動車保険)

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### Domestic Life Insurance Business

P. 23

**Leveraging the Distinctive Strengths of Two Group Companies in Protection-Type and Asset-Building Products**

MS&AD Mitsui Sumitomo Aioi Life Insurance  
MS&AD Mitsui Sumitomo Primary Life Insurance

Main products and services: 人生の「もしも」を「安堵」にかえる。 (& LIFE アンドライフ), 個人年金は、未来への贈りもの。

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### International Business

P. 24

**An Overseas Network Covering 46 Countries and Regions\* – No. 1 in Terms of Non-Life Gross Premiums Written in the ASEAN Region**

A Member of MS&AD INSURANCE GROUP

MSIG, Box Innovation, MS Amlin

\* Excluding the Cayman Islands, where SLI Cayman Limited (Financial Services Business) is located. (As of April 1, 2017)

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### Financial Services Business

P. 27

**Leveraging the Full Range of Its Capabilities as an Insurance and Financial Services Group to Provide New Financial Products and Services**

MS&AD Mitsui Sumitomo Insurance    MS&AD Aioi Nissay Dowa Insurance    Sumitomo Mitsui Asset Management (SMAM)  
MS&AD MS&AD Loan Services Co., Ltd.    MS&AD MITSUI SUMITOMO INSURANCE Venture Capital Co., Ltd.

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### Risk-Related Services Business

P. 26

**Creating Synergies with the Insurance Business by Deploying Global Risk Solution Services**

MS&AD InterRisk Research Institute & Consulting, Inc.    MITSUI SUMITOMO INSURANCE Care Network Co., Ltd.  
ANSHIN DIAL Co., Ltd.    Fureai Do-Life Services Co., Ltd.

## MS&AD Group Companies That Support the Five Business Domains

- MS&AD MS&AD Business Support Co., Ltd.
- MS&AD MS&AD Staffing Service Co., Ltd.
- MS&AD MS&AD Systems Co., Ltd.
- MS&AD MS&AD Business Service Co., Ltd.
- MS&AD MS&AD Research Institute Co., Ltd.

# Positioning in Each Business Domain

## Domestic Non-Life Insurance Business

The MS&AD Insurance Group has **three principal competitive advantages** in the domestic market.

### Advantage 1

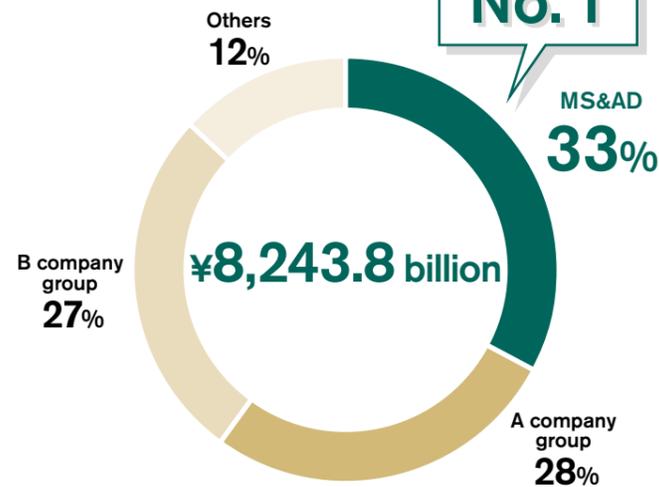
#### The Insurance Group Most Chosen by Customers

The Group has the No. 1 share of all lines of business in the domestic non-life insurance market.

Share of Net Premiums Written\* (FY2016)

Domestic Non-Life Insurance Market Share

**No. 1**



Sources: Prepared by MS&AD based on publicly announced information from each insurance company and data from the General Insurance Association of Japan.

\* MS&AD figures are simple sums of figures for MSI, ADI, Mitsui Direct General, and au Insurance Company.

\* Figures for other insurance groups are simple sums of non-consolidated figures for domestic companies in each group.

\* Figures are presented exclusive of the Good Results Return premiums of Mitsui Sumitomo Insurance's proprietary "ModoRich" automobile insurance product, which contains a special clause for premium adjustment and refund at maturity (same hereinafter).

Market Shares by Line of Business – Net Premiums Written (FY2016)  
(¥ billion)

	No. 1	No. 2	No. 3
Automobile Insurance	MS&AD 1,371.6	A company group 1,162.1	B company group 1,119.2
Compulsory Automobile Liability Insurance	MS&AD 356.0	A company group 302.7	B company group 295.8
Marine Insurance	MS&AD 64.1	A company group 58.9	B company group 43.9
Fire Insurance	MS&AD 336.9	A company group 289.0	B company group 286.0
Personal Accident Insurance	MS&AD 206.6	B company group 184.3	A company group 180.9
Other (liability insurance, etc.)	MS&AD 378.4	A company group 288.1	B company group 282.8

### Advantage 2

#### The Largest Sales / Customer Base in Japan

We are pursuing competitive advantages of scale based on our powerful non-life insurance sales channels covering multiple market segments and our nationwide sales/claims support (service) network.

Domestic net premiums written (FY2016)



Individual clients



Corporate clients



Number of agencies



Domestic sales network (divisions, branches, offices, sales offices)\*



Domestic claims support (service) network\*



Note: The domestic net premiums written value is a non-consolidated, simple sum for Mitsui Sumitomo Insurance, Aioi Nissay Dowa Insurance, and Mitsui Direct General Insurance. Other than that, the figures are simple sums for Mitsui Sumitomo Insurance and Aioi Nissay Dowa Insurance, as of the end of March 2017 (items marked \* are as of April 1, 2017).

### Advantage 3

#### No. 3 in Direct Automobile Insurance Market

Having begun operating in June 2000, Mitsui Direct General has leveraged the data it accumulated in previous business development activities along with the Mitsui brand to offer products that are the choice of many customers and services that feature high levels of dependability.

Direct Insurance / Automobile Insurance  
Ranking in Terms of Net Premiums Written (FY2016)  
(¥ billion)

Rank	Company	Net Premiums Written
No. 1	C company	89.7
No. 2	D company	46.7
No. 3	Mitsui Direct General	37.0

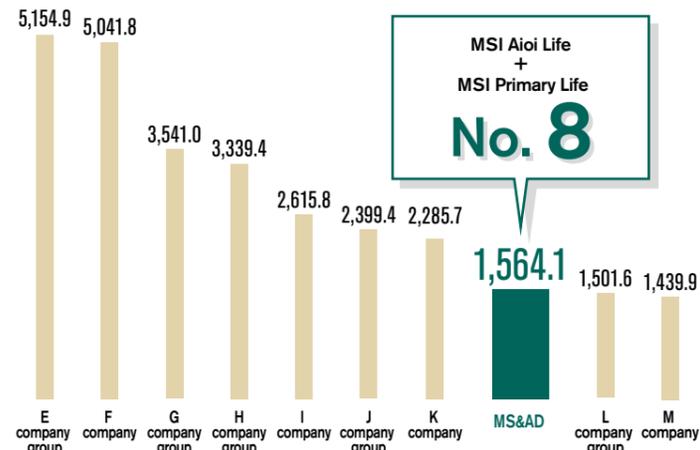
Source: Calculated by MS&AD Holdings based on each company's published financial results for the fiscal year ended March 31, 2017.

## Domestic Life Insurance Business

The two Group life insurance companies have different specialties and they are both growing smoothly. Among domestic life insurance companies and groups, including foreign-based groups, they rank **8th in the industry** in terms of premiums income. They are **No. 1** in terms of premiums income and ordinary profit among the life insurance companies of non-life insurance groups.

### The Top 8 of 30 Domestic Life Insurance Groups

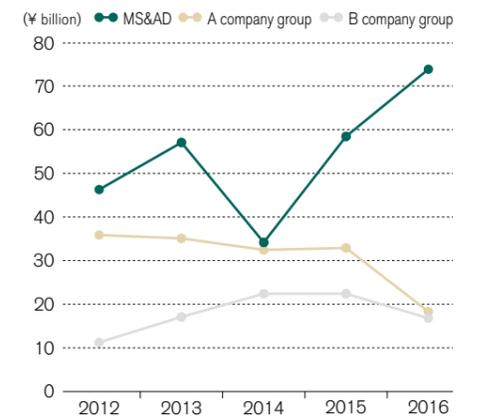
Life Insurance Companies/Groups' Premiums and Others (FY2016) (¥ billion)



For groups, the calculation is based on the non-consolidated simple sums for domestic life insurance subsidiaries.

### Life Insurance Companies of Non-Life Insurance Groups: Top Tier Profitability

Ordinary Profit of Life Insurance Companies of Non-Life Insurance Groups



Source: Calculated by MS&AD Holdings based on each company's published financial results for the fiscal year ended March 31, 2017.

## International Business

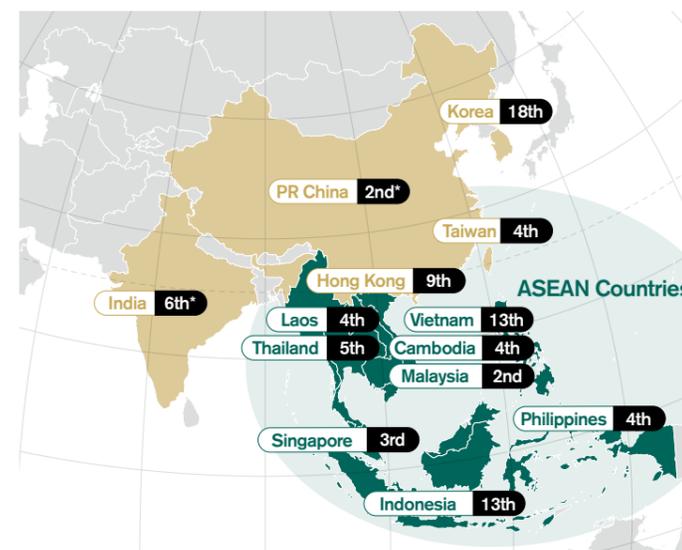
With global business expansion to 46 countries and regions\*, especially in Asia, and as the world's only global non-life insurance group with a presence in all 10 ASEAN countries, the Group maintains the **No. 1 presence for regional gross written premiums**. Through the acquisition of U.K. insurance holding company Amlin, the Group has become a principal player as a Managing Agent with Lloyd's of London<sup>2</sup>, the world's most-influential insurance market, and is **second in size with respect to gross written premiums**.

\*1 Excludes SLI Cayman Limited (financial services business) in the Cayman Islands

\*2 See the "Glossary of Insurance Terminology" on P.53.

### Positioning in Non-Life Insurance Market in Asian Countries

Non-Life Insurance Company Group Gross Written Premiums Ranking (FY2015)

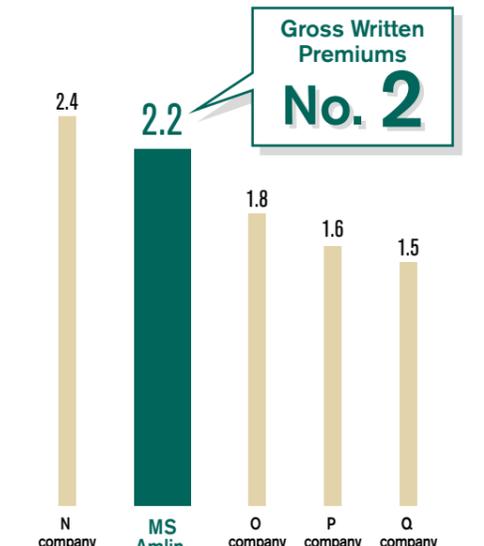


Source: Calculated by MS&AD Holdings based on the published financial results for the fiscal year ended March 31, 2016, for the non-life insurance associations, etc., for each country/region. Based on gross written premiums for FY2015

\* Ranking for foreign-based insurance companies (reinsurance companies excluded)

### Ranks Second (Out of 57 Companies) in Size with respect to Gross Written Premiums as a Managing Agent with Lloyd's of London

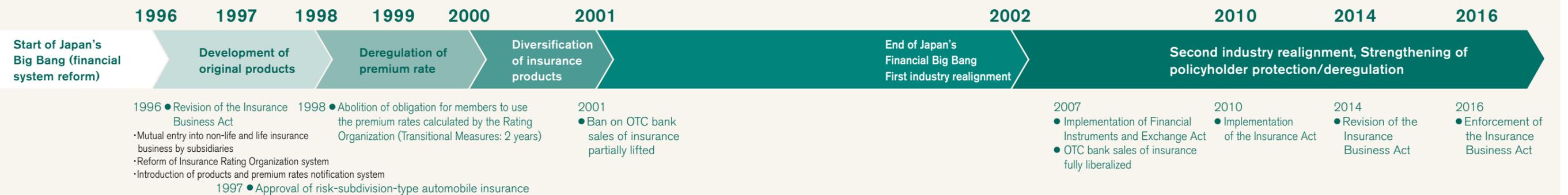
Lloyd's Managing Agent Ranking (£ billion)



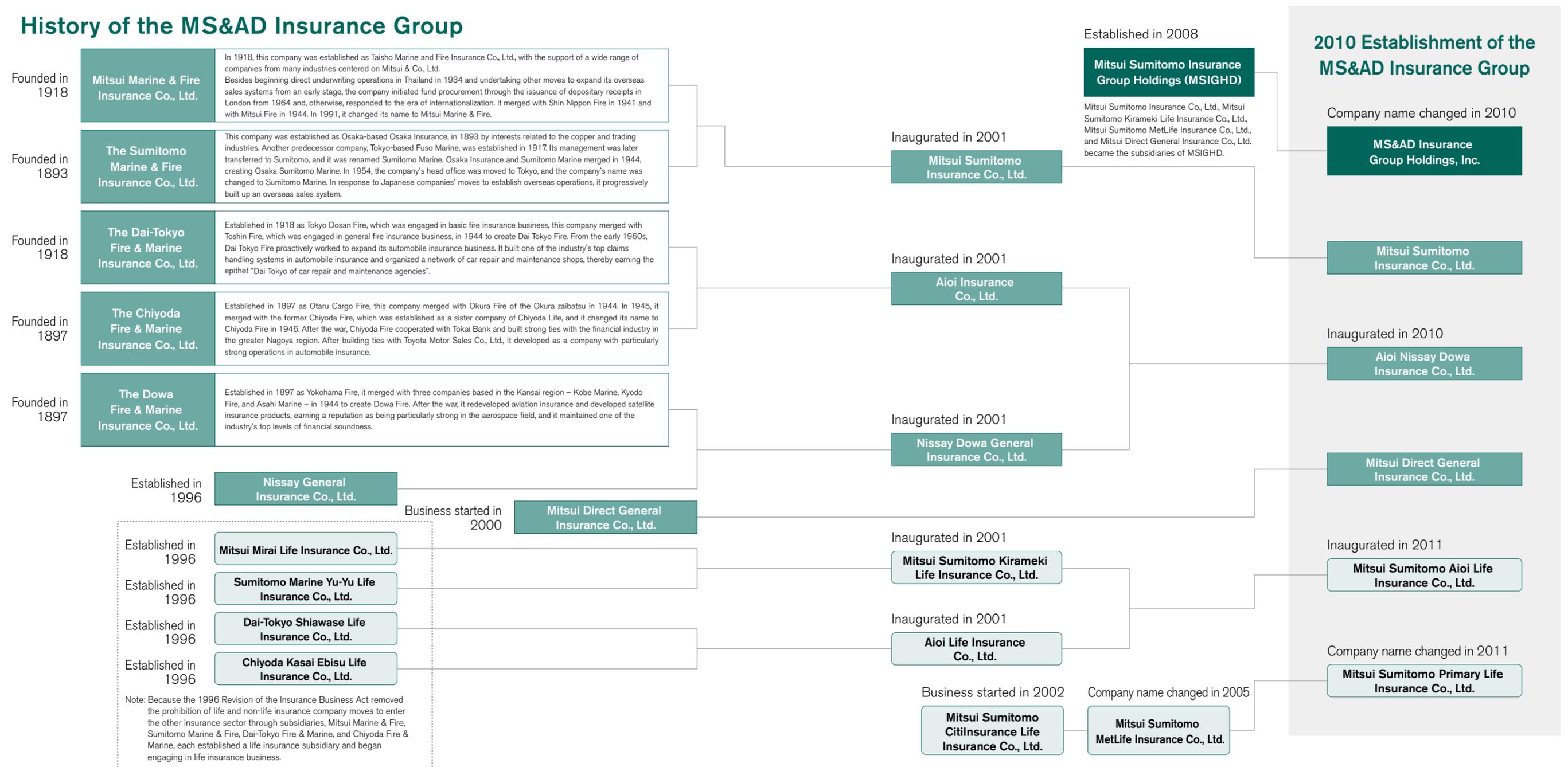
Source: Lloyd's Annual Report 2016  
Based on FY2016 Gross Written Premiums

# History of the MS&AD Insurance Group in Japan

## Major events in the insurance industry



## History of the MS&AD Insurance Group

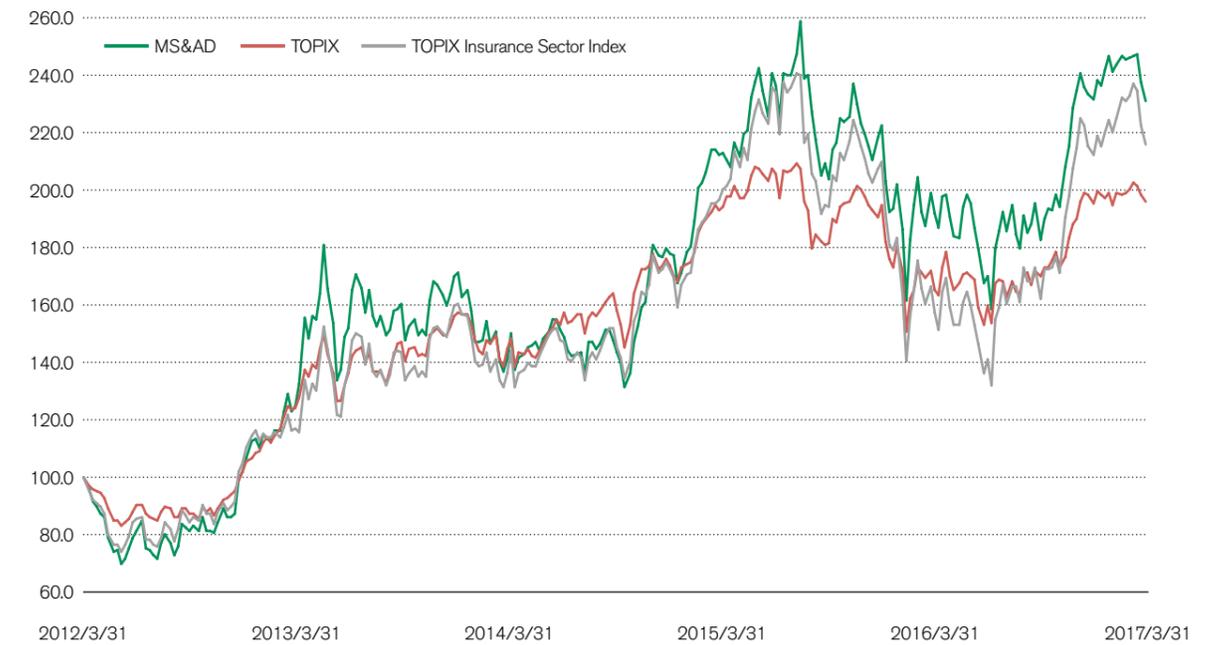


## Key Management Indicators and Total Shareholder Return (TSR)

### Key Management Indicators for the Last Seven Years

	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
<b>Consolidated financial data (¥ millions)</b>							
Ordinary income	3,404,942	3,764,986	4,315,787	4,362,754	4,689,658	5,013,038	5,335,239
Net premiums written	2,543,786	2,555,551	2,639,015	2,811,611	2,939,113	3,078,732	3,407,389
[Net premiums written]*1	[2,541,400]	[2,558,844]	[2,639,419]	[2,809,581]	[2,940,756]	[3,078,995]	[3,406,966]
Ordinary profit/(loss)	21,005	(96,211)	150,300	190,259	287,061	291,578	352,612
Net income/(loss) attributable to owners of the parent	5,420	(169,469)	83,625	93,451	136,247	181,516	210,447
Comprehensive income/(loss)	(189,373)	(88,136)	543,938	322,865	807,972	(233,116)	114,294
Net assets*3	1,663,381	1,512,134	2,021,625	2,285,832	3,036,663	2,725,274	2,734,432
Total assets*3	11,445,003	14,537,204	15,914,663	16,878,148	18,788,046	20,303,649	21,234,300
Consolidated solvency margin ratio*2	—	553.8%	738.8%	772.5%	803.9%	743.3%	872.6%
Equity ratio	14.11%	10.27%	12.56%	13.39%	16.00%	13.29%	12.76%
Return on equity (ROE)	0.37%	(10.91%)	4.79%	4.42%	5.18%	6.36%	7.78%
Combined ratio*3 (domestic non-life insurance)	102.9%	116.4%	105.1%	98.2%	96.0%	91.6%	92.6%
Group Core Profit*4	14,500	(87,500)	87,400	94,800	155,700	147,500	213,700
Group ROE*5	0.8%	(5.6%)	5.0%	4.5%	5.9%	5.2%	7.9%
<b>Per share data (yen)</b>							
Net income/(loss) per share (EPS)	8.68	(272.49)	134.46	150.58	221.34	298.72	350.94
Net income per share (EPS)– Diluted (EPS)*6	—	—	—	—	—	—	350.90
Group Core Profit/(loss) per share	23.27	(140.82)	140.56	152.79	252.99	242.83	356.39
Dividend per share (DPS)	54.00	54.00	54.00	56.00	65.00	90.00	120.00
Net assets per share (BPS)	2,597.19	2,400.48	3,215.33	3,646.22	4,911.40	4,469.58	4,572.82
<b>Stock price-related data</b>							
Year-end market price (closing price) (yen)	1,894	1,699	2,066	2,364	3,370	3,136	3,540
Price earnings ratio (PER)*7 (times)	218.06	—	15.36	15.70	15.23	10.50	10.09
Price book-value ratio (PBR)*7	0.73	0.71	0.64	0.65	0.69	0.70	0.77
Dividend yield*7	2.9%	3.2%	2.6%	2.4%	1.9%	2.9%	3.4%
Annual total shareholder return (TSR)*8	(24.9%)	(7.4%)	24.8%	17.1%	45.3%	(4.9%)	16.7%
Stock price volatility (annual rate)*9	32.3%	26.6%	35.8%	39.0%	25.3%	41.0%	36.9%
<b>Capital management policy data (¥ millions)</b>							
Total dividends	33,583	33,582	33,582	34,715	39,900	54,447	71,489
Dividend payout ratio (consolidated)	622.1%	—	40.2%	37.2%	29.4%	30.1%	34.2%
Aggregate amount of repurchase price	9,999	0	4,996	9,997	29,992	19,996	29,938
[Average repurchase price]	[¥2,012]	—	[¥2,565]	[¥2,523]	[¥3,373]	[¥3,044]	[¥3,738]
Shareholder return ratio*10	300.2%	—	44.1%	47.2%	44.9%	50.4%	47.7%
<b>Non-financial data</b>							
Customer satisfaction (accident response for automobile insurance)*11	—	—	89.3%	89.4%	89.1%	95.5%	95.6%
Customer recommendation rate*12	—	—	88.7%	87.0%	89.3%	91.9%	91.8%
Number of employees [average number of temporary employees]	36,538 [8,060]	36,929 [8,022]	36,643 [7,833]	37,055 [8,746]	38,358 [8,996]	40,617 [10,173]	40,641 [10,150]
(of which consolidated overseas subsidiaries)	5,621	5,772	6,003	6,228	6,448	8,573	8,759
Number of female managers*13	—	—	245	296	377	449	551
Number of employees participating in social contribution activities (domestic)	—	—	16,142	11,373	15,124	16,507	19,861

### TSR for the Last Five Years



	Past 1 Year	Past 2 Years	Past 3 Years	Past 4 Years	Past 5 Years
MS&AD	16.7%	11.3%	[5.5%]	61.4%	[17.3%]
TOPIX	14.7%	2.3%	[1.1%]	33.7%	[10.2%]
TOPIX Insurance Sector Index	31.6%	11.1%	[5.4%]	54.0%	[15.5%]

#### Notes:

- The graph above shows the profit margin where an investment is made at the end of March 2012, taking into consideration dividends and share prices as of the end of March 2017. The MS&AD chart indexes the investment results, with dividends added to the share price (assuming no reinvestment of the dividends), with the investment amount at the end of March 2012 set as 100. Similarly, the indices compared use both the TOPIX and the Tokyo Stock Exchange's industry-specific index (insurance industry), with the data incorporating dividends.
- The table above shows the investment return (including dividends) as of the end of March 2017, for investments from one year earlier (end of March 2016) to five years earlier (end of March 2012).
- The values within parentheses [ ] from two years earlier to five years earlier show the average annual return, annualized by taking the geometric mean of the investment return for the relevant period.

Source: Calculated by MS&AD Holdings based on data from Bloomberg

- Figures are presented exclusive of the Good Results Return premiums of Mitsui Sumitomo Insurance's proprietary automobile insurance product "ModoRich," which contains a special clause for premium adjustment and refund at maturity.
- Consolidated solvency margin ratios have been calculated for years beginning from FY2011 reflecting the revision of the Insurance Business Act, etc.
- Combined ratio figures (domestic non-life insurance) are based on the simple sums of non-consolidated figures for MSI, ADI, and Mitsui Direct General. For FY2010, however, combined ratio figures are based on the simple sums of non-consolidated figures for MSI, Aioi, NDI, and Mitsui Direct General.
- Group Core Profit = Consolidated net income – Net capital gains/losses on stock portfolio (gains/losses on sales, etc.) – Net evaluation gains/losses on credit derivatives – Other incidental factors + Equity in earnings of the non-consolidated Group companies
- Group ROE = Group Core Profit ÷ Consolidated total net assets (average of beginning and ending amounts excluding stock acquisition rights and non-controlling interest)
- Diluted net income/(loss) per share data prior to FY2015 is not disclosed because there was no potential dilution during that period.
- Stock price-related indicators are based on the market price of the stock at the end of the fiscal years.
- Total shareholders' return is calculated as follows: (fiscal year-end stock price – previous fiscal year-end stock price + annual dividends) ÷ previous fiscal year-end stock price
- Stock price volatility is the annualized standard deviation of returns based on daily closing prices.
- The Shareholder return ratio = (dividends applicable to the fiscal year (paid in December of that year and June of the following year) + value of share repurchases during the period through the time of the general shareholders' meeting in the following fiscal year) ÷ Group Core Profit for the fiscal year.
- Ratio of customers satisfied with accident response for automobile insurance (MSI and ADI) From FY2015, the client survey was modified from five stages to four stages.
- Rate of customers who are willing to recommend either MSI or ADI to their friends and acquaintances. From FY2015, the client survey was modified from five stages to four stages.
- Number of female managers in positions of section manager or higher. (Figures are for April 1 of the subsequent fiscal year.)

## CEO Message

We will respond to changes in society and diversifying customer needs through “management that leverages diversity”, thereby realizing sustainable growth.

President &amp; CEO

Yasuyoshi Karasawa



## Progress of “Next Challenge 2017” Management Plan

**Domestic Non-Life Insurance Business profitability has improved, the transformation of business structure has progressed due to growth in International Business and Domestic Life Insurance Business, and Group Core Profit has increased more than anticipated in the medium-term management plan.**

The MS&AD Insurance Group has enjoyed record profits for the five consecutive years to fiscal 2016.

Net premiums written have grown from ¥2,541.4 billion in fiscal 2010, the Group’s first fiscal year, to ¥3,406.9 billion in fiscal 2016, and are expected to be ¥3,570.0 billion in fiscal 2017, which means approaching a 1.5-fold increase in eight years since birth of the Group.

Group Core Profit was ¥94.8 billion in fiscal 2013, prior to the start of the current medium-term “Next Challenge 2017” management plan, and increased two-fold to ¥213.7 billion in fiscal 2016. As for fiscal 2017, the target has been revised upward from the initially anticipated ¥160 billion to ¥220 billion. Such performance evidences that profitability of the Group has steadily strengthened.

Profits of the Domestic Non-Life Insurance Business have increased markedly due to efforts made by Group companies, and “transformation of business structure”, one of the drivers behind implementation of stage 2 of the “Next Challenge 2017” management plan, has progressed smoothly.

Through the transformation of business structure, both the International Business and the Domestic Life Insurance Business have steadily grown and will likely account for about 35% of Group Core Profit in fiscal 2017. Targeting business areas other than the Domestic Non-Life Insurance Business to account for 50% of profits as an interim target, we look for the International Business to account for 50% of profits in the future.

As for the profits of the Domestic Non-Life Insurance Business, the combined ratio was above 100% from the birth of the Group in fiscal 2010 to fiscal 2012, improved to 91.6% in fiscal 2015, 92.6% in fiscal 2016, and is expected to be below 93% (92.9%) in fiscal 2017.

The expense ratio was around 35% when the Group started and declined to 32.2% in fiscal 2016, suggesting that our initiatives, centering on reorganization by function, to utilize the Group’s characteristic of “diversity” have been steadily bearing fruit.

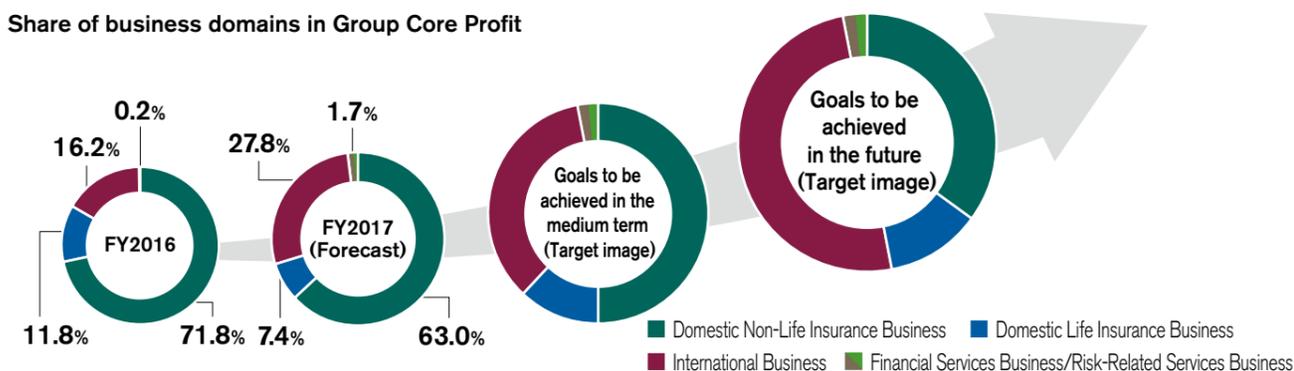
While the target of cost reduction effects through reorganization by function was initially set at ¥50 billion in four years, we were able to revise the target upward to ¥60 billion. This might be attributable to the fact that, amid pursuing reorganization by function, a sense of unity as a group has markedly permeated, new ideas have been born, and significant synergies have been generated.

To further boost synergies, in fiscal 2017, which is the final year of the medium-term management plan, “Next Challenge 2017”, the holding company will exercise leadership, and Mitsui Sumitomo Insurance and Aioi Nissay Dowa Insurance will promote the sharing of products and operating procedures as well as claims service system development and functions, thereby realizing further growth and efficiencies.

➡ See the “Medium-Term Management Plans” section (P. 16) for details.

## Establishment of Business Portfolio to be Achieved

## Share of business domains in Group Core Profit



## Global Situation and Role of Insurance

**In the midst of increasing social and economic uncertainty the role of insurance in terms of being an element of the security and safety infrastructure which underpins society will become increasingly important going forward.**

From last year through this year, Brexit (withdrawal of the United Kingdom from the European Union) and the debut of the Trump administration, which nobody could have imagined six months or one year before they occurred, were seen in succession.

What these events had in common was underlying social problems on a substantial scale, such as increasing income disparities, fragmentation of society, inequality, and unfairness. On the other hand, there was also a sort of antithesis to the existing establishment which we might have somewhat overlooked. As globalization progresses, those who are left behind become increasingly dissatisfied and frustrated in respective countries, resulting in the fragmentation of society. Amid such a situation, the probability that something unexpected might happen heightens.

The more uncertainty becomes rooted in society, the more various risks emerge and mechanisms to protect society from them become necessary. The role of insurance, which can be seen as security, safety, and mutual aid infrastructure, is undoubtedly going to be increasingly important going forward.

Even in a nation's development stage, it is necessary to have insurance as underpinning infrastructure. For example, looking back at Japan's high-growth period, the role of insurance can be said to have been quite important. The middle classes especially wanted a way that would allow them to recover if faced with economic anxiety or risks. Fulfilling this role was non-life insurance and life insurance.

Looking at Asia, on which the Group has been focusing, at the time of the floods in Thailand in 2011, while reinsurance companies in Thailand saw insufficient solvency margins, insurance companies like us that had expanded into the country promptly took measures to meet insurance claims. As the middle classes get bigger in ASEAN and India, the role of insurance will become increasingly important. As mentioned, globalism has brought about the fragmentation of society, which is a negative, but nevertheless globalization of the economy and society is something a country cannot avoid in order to develop. The Group will continue to provide global insurance technology and expertise which can become stable infrastructure, thereby contributing to development of international society.

## Changes in Society from Long-Term Perspective

**We are in an age when capability to cope with changes, rather than to lock in an outlook of the future, is required. "Diversity", the Group's strength, will prove its merits.**

From a long-term perspective, one big issue in Japan is the declining population. Japan's population was said to be about 30 million up to around the Meiji Restoration in 1868, about 60 million entering the Showa era in 1926, and about 70 million after World War II. Demand increased as the population increased and the economy developed.

On the other hand, economist Hiroshi Yoshikawa says that "while what represents the total value (value added to be precise) of goods and services produced in a country in a year is GDP (gross domestic product), its growth rate is not determined only by the growth in the number of wage-workers (labor force)"<sup>\*1</sup>. In other words, a decline in

population does not inevitably restrict economic growth and, looking at the past, an economy can grow supported by rising labor productivity even under a constant (or somewhat declining) labor force.

Then, what are the elements that raise labor productivity? Professor Yoshikawa pointed out that first it is "capital accumulation"<sup>\*2</sup> that pumps new facilities and machines. Recently, that means investment in information systems, especially telecommunications-related investment with an eye toward the future Internet of Things (IoT). Second is "technological progress" in a broad sense, namely, "innovation"<sup>\*3</sup>. Such examples are regenerative medicine, automated driving, and industrialization or adoption of IT in the agricultural sector.

Going forward, in interfacing with society, business models are bound to change. This not merely reflects the advances of technology but changes stemming from using such technology. It is necessary to see Fintech and InsTech (insurance plus technology) as business opportunities.

Assuming the advent of an era of singularity, we need to think about future revolution in business models—what might change and what might not change? How should we capture demand that lies beyond such changes? We need to be increasingly sensitive to changes in society while always cultivating our sensitivity. After all, those who purchase products and services are human beings. Going forward, in the process of raising productivity it will become crucial to accurately gauge changes in customer needs and the magnitude of demand.

We will develop digital strategy with an eye on changes in the surrounding environment as well as offer insurance and financial services that capture changing customer needs. We should endeavor to contribute to reforming economic structure and realize a virtuous economic cycle through addressing structural social problems that affect manufacturing, health and medicine, and infrastructure.

Though we may make assumptions for 10 or 20 years later, in actuality nobody knows what might happen. Hence, rather than look at the future in an overly fixed manner, the power to always be able and willing to make revisions to future plans, that is, the power to correspond to changes, is required, and "diversity", which is the Group's strength, will prove its merits on this score.

<sup>\*1</sup> Page 73 of "Population and the Japanese Economy: Lifespans, Innovation and Economic Growth" by Hiroshi Yoshikawa (2016, Chuokoron Shinsha)

<sup>\*2</sup> <sup>\*3</sup> Page 75 of above-mentioned book by Hiroshi Yoshikawa

## Strength of MS&AD Group: "Diversity"

**We will respond to diversifying customer needs through utilizing characteristics of each company, thereby exerting diversity, while fostering a sense of unity as a group.**

Since its birth in April 2010, the Group, aiming at creating a world-leading insurance and financial services group, has been pursuing management that leverages the Group's strength of "diversity".

We have three non-life insurance and two life insurance companies in Japan and a network that develops business under the MSIG brand name as well as MS Amlin and Box Innovation Group overseas, each of which has been engaged in distinct business areas.

Of the three domestic non-life insurance companies, Mitsui Sumitomo Insurance is exercising its global comprehensive capabilities, Aioi Nissay Dowa Insurance is pursuing business based on close relationships with local communities, and Mitsui Direct General Insurance is specializing in selling insurance directly to customers via the Internet and phone calls.

### Antithesis

Antithesis is a philosophical term that represents a direct opposite or specific claim that negates an affirmative assertion. Under the dialectical method of argument employed by the 18th-19th century German philosopher, Georg Wilhelm Friedrich Hegel, an initial proposition or thesis is put forward to which a contradictory antithesis is applied.

### Establishment

Establishment refers to the long-standing authority that exerts considerable power and dominance over a nation, civil society or organization. This tends to be the wealthy or ruling class. In the recent presidential election in the United States, the anti-establishment Donald Trump was ushered into power by a wave of dissatisfaction toward the affluent establishment.

### InsTech (Insurance + Technology)

InsTech is derived from insurance (Ins) and information technology (Tech). In the healthcare field, InsTech is expected to contribute to the development of new products using healthcare-related Big Data and the provision of services that help prolong healthy life spans. In the underwriting field, the technology is expected to simplify procedures for insurance underwriting while improving convenience. In the marketing field, marketing techniques will likely be optimized by the fusion of internal and external data, Big Data analysis and artificial intelligence (AI). Technology is poised to change the global insurance business in various ways.

### Singularity

Mr. Ray Kurzweil, a director of Google's technology division, predicts that artificial intelligence will become smarter than the entire human race by 2045. He says that at some point advances in AI will no longer be understood by humans and that will make the future unpredictable.



As for domestic life-insurance companies, Mitsui Sumitomo Aioi Life Insurance mainly offers medical and nursing care as well as death benefit and other protection-type life insurance products through cross-selling that utilizes agents of the Group's two core non-life insurance companies, and Mitsui Sumitomo Primary Life Insurance offers asset building-type products that support life in retirement through over-the-counter sales at financial institutions.

In this way, providing products to meet the diverse needs of customers through various channels is a predominant feature of the Group. While realizing efficiency and cost reduction through reorganization by function, we believe we can simultaneously realize growth and efficiency by responding to the increasingly

diversifying needs of customers by taking advantage of the Group's own diversity.

In addition, if Group infrastructure is further improved based on systems integration, in response to customer needs we will be able to flexibly select and develop business models that feature a micro breakdown of functions and even M&A.

In the International Business, a base for steady growth was built with the addition of MS Amlin. In ASEAN, business expansion synergies will be generated by leveraging the network of Mitsui Sumitomo Insurance and know-how of MS Amlin. For example, we started offering project cargo insurance in Singapore and Thailand, racehorse insurance in Hong Kong, yacht insurance in Hong Kong and Korea, P&I (protection and indemnity) insurance in Indonesia and Malaysia, and energy-related insurance in Singapore, Thailand, and Indonesia. Hereafter, we will develop business in China in the area of aviation insurance in cooperation with China Pacific Insurance Company, and also in infrastructure-related insurance in cooperation with local subsidiaries of the Group in India. In the United States, utilizing the direct insurance license Mitsui Sumitomo Insurance has in all 50 states, we will aim at increasing synergies.

For Group companies, it is important to exert individual characteristics while fostering a sense of unity as a group. What is the *raison d'être* of Group companies characterized by diversity? What kind of benefits can the Group as a whole offer customers? How can we foster a sense of unity as a Group? We need to consider these questions carefully and focus on fully addressing them.

What becomes the most significant base for a sense of unity and coordination as a group is the sharing of "mission, vision, and values". MS Amlin, which joined the Group last fiscal year, is also a company that values tradition and utilizes human assets and thus can firmly share the Group's values and corporate culture.

Our mission is "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". To this end, we have a vision "to create a world-leading insurance and financial services group" and take action based on the five values (customer focus, integrity, teamwork, innovation, and professionalism). We always discuss these views and our "value creation story" at general managers' meetings and other occasions and confirm how we should contribute to both "a vibrant society" and "a sound future for the earth" as set in our mission. Based on mission, vision, and values, we believe it important to aim at realizing our "value creation story", which, as a result, leads to achieving management numerical targets.



Chairman Shonaid Jemmett-Page (left) and CEO Charles Philipps (right) at MS Amlin

#### Raison d'être

This French philosophical term means that one finds his/her own reason to exist and live, without allowing these reasons to be defined by others.

➔ See "The MS&AD's Story of Value Creation" section (P. 4) for details.

## Diverse Human Assets of MS&AD Group

**Diverse human assets in terms of nationality, gender, and those with disabilities are the key to increasing the enterprise value of the whole Group, and enhancing such diversity of human assets will become the Group's strength in coping with change.**

In these dramatically changing times, human assets are the key to enhancing enterprise value and it is crucial to leverage their inherent diversity.

Diversity includes nationality, gender, and those with disabilities. At present, there are about 9,000 employees overseas. As the number of employees of the Group as a whole is about 40,000, more than 20% are working abroad. The proportion of female managers is quite high overseas, and we will increase the number of female managers in Japan going forward.

We also believe that to provide a workplace in which those with disabilities can work actively is an important element of diversity. In the Group, there are also many athletes with disabilities in such sports as swimming, judo, and track and field, and the Group provides support for their activities and they will continue to work after retiring from active competition.



Deaf soccer athletes Takumi Matsumoto (left) and Hiroshi Matsumoto (right) (Aioi Nissay Dowa Insurance)

Judo athlete Ayumi Ishii (Mitsui Sumitomo Aioi Life Insurance)

Track and field athlete Misato Michishita (Mitsui Sumitomo Insurance)

#### Athletes with Disabilities

The Group proactively hires athletes with disabilities and supports sports events for people with disabilities. As of June 2017, we had a total of 23 athletes with disabilities on our roster involved in swimming, judo, track and field, deaf basketball, wheelchair deaf basketball, deaf soccer, wheelchair rugby, wheelchair dancing and table tennis. While working, the athletes are training to compete in the 2020 Tokyo Paralympics.

## Work Style Reform and Development of Human Assets

**We aim to create a workplace where employees, through exerting their creativity to the full, can work actively and feel job satisfaction, and to aggressively promote work style and holiday reforms as underlying infrastructure to encourage the development of human assets.**

In March this year, the world's largest asset management company, Blackrock, sent a letter to us and other major firms around the world, which was quite impressive. The letter noted that employee job satisfaction and contentment are critical for a firm's sustainable growth, and thus Blackrock is in search of firms that invest in employee capacity building/initiatives toward improving their living standards in addition to investment in R&D and technological innovation.

With respect to human assets, it is important to have a corporate culture and a mechanism to develop/educate human assets. As part and parcel of infrastructure to promote the development of human assets, our Group as a whole has been powerfully pursuing work style reform.

In work style reform, while it is important to eliminate long working hours, what we should ultimately aim at is to create a workplace in which employees, through exerting their creativity, can work actively and feel job satisfaction. To that end, holiday reform is important as well. I believe it necessary to be away from the company once in a while. According to OECD surveys, labor productivity tends to be low in Japan and high in Western Europe, which values vacations. Be it socializing with those from different industries or simply travelling overseas, if one can take on new challenges by utilizing time generated through

work style reform, one might be able to experience something that could change one's whole attitude on life. It is quite important to be away from the company and look at your company objectively, for example to look at your company straightforwardly as a consumer, which might lead you to exercise creativity. In turn, that might lead to enhancing loyalty to the company or motivation for work.

I believe there are three crucial points in pursuing the development of human assets. First is to share the mission, vision, and values of the Group.

Second is to promote diversity. If society embraces diversity, people will pay attention and respect each other, and the issue of social fragmentation, which has come to the fore in the world lately, can be expected to head toward resolution.

Third is to raise productivity and we should also generate innovation so as to cope with technological innovation. To begin with, we should not be content with the status quo but have the courage to change it. In addition, we should take action based on sensitivity to changes in society, namely, on the assumption that society will change. These two qualities would indeed be the basis for innovation. In our daily operations, it is important to implement changes and reform from small things. It is important to start by questioning something and then change it. Reorganization by function is also based on such an idea and initiatives such as the sharing of claim service systems and products and operating procedures will, through upsetting conventional wisdom, become an important platform for the efficiency of the Group as a whole.

The founder of Panasonic, Konosuke Matsushita, once said "5% or 10% improvement might sometimes be more difficult than 50% drastic reform. That is because while 50% reform starts from denying the status quo, 5% or 10% improvement starts from accepting the status quo". While 1% or 2% improvement is important, a leap forward is required based on an idea that is not an extension of past ones.

## Management Focusing on ESG

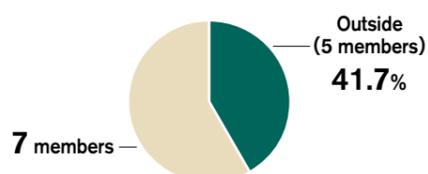
**We will pursue transparent management utilizing outside directors' perspectives and, through core business, contribute to resolving climate change and other social issues.**

"Strengthening of group governance" is critical for sustainable growth of the Group, and I believe outside directors have been fulfilling such role in a very proactive manner.

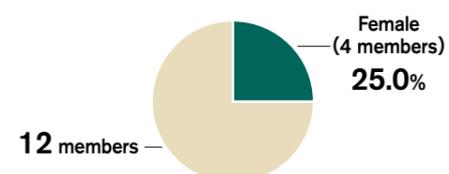
For example, when it comes to agenda items like M&A and system investment, we will be grilled by outside directors with questions like: Are these all the reasons you have? Are there any other options? How did you consider such risks? If a meeting is participated in by in-house executive officers only, as they are familiar with the circumstances, they may not put forward in-depth questions or hesitate to express their views. Pursuing transparent management while utilizing outside directors' perspectives will be a critical element to enhance enterprise value of the Group.

In addition, we have been aggressively diversifying the list of directors, and from June two out of 12 Board members and two out of four Audit & Supervisory Board members are women.

### Ratio of Outside Directors



### Ratio of Female Directors and Audit & Supervisory Board Members



➔ See the "Corporate Governance" section (P. 37) for details.

As sustainable development goals (SDGs) and the Paris Agreement were adopted in 2015 on a worldwide basis, there has been a trend among various enterprises and organizations to take initiatives to solve social issues. We believe that, as our "value creation story" suggests, we can contribute to the resolution of such issues through offering insurance and financial services. To that end, we cannot offer value to our customers unless we are highly sensitive to society's needs. For example, in the health area, we have to be sensitive as to what society requires amid low birth rates and an aging population, and make known specifically how we can assist.

As for the global environment, "diversity" is also an important key word. The Group has long been taking initiatives in "biodiversity". The origins of enterprises' economic activity can be traced back to natural capital, and abundant and diversified natural capital, namely, the blessings of nature offered from biodiversity (ecosystem services) comprise economic activity. There are risks that have already surfaced, such as the depletion of water resources, and, going forward, we need to consider business risks and opportunities through increasingly recognizing that natural capital is finite. Against such a backdrop, how can our group, which offers risk solutions, formulate answers? We must indeed continue to think about these things based on our "value creation story" and our mission and vision.

Recently, in effecting investment, a tendency to focus on non-financial information such as environmental, social, and governance factors in addition to financial information, so-called ESG investment, has been expanding globally.

Through our IR activities, we have been sensing that an increasing number of investors are indeed focusing on ESG factors. Investors seek such indicators because they want to know how sensitive enterprises are to the environment, society, and corporate governance. Enterprises that have a strong interest in the global environment and social changes, which comprise part of the external environment to business activity, will, amid increasing uncertainty, be able to preemptively cope with risks and seize new business opportunities. From such a perspective, investors are examining an enterprise's potential for growth.

Our Group won the Environment Award in the 2016 environmental awards sponsored by the Ministry of the Environment, which well evidences that our accomplishment in developing human assets that are characterized by a high degree of sensitivity has been recognized. Being encouraged by the award, I would like our employees to have more opportunities to think about the environment and society. I believe that the source of our Group's strength is that its diverse human assets, through utilizing their inherent high sensitivity, can cope with changes.



### SDGs (Sustainable Development Goals)

Sustainable Development Goals (SDGs) comprise 17 goals and 169 targets, such as for ending poverty, promoting health and education and addressing climate change, as a part of the 2030 Agenda for Sustainable Development adopted at the U.N. Sustainable Development Summit in September 2015.

### Paris Agreement

The Paris Agreement was reached as a framework for addressing climate change from fiscal 2020 onward at the 21st Conference of Parties (COP21) of the UN Framework Convention on Climate Change held in France during November and December of 2015. One of the main objectives is to hold the increase in the global average temperature to well below 2°C above preindustrial levels and to pursue efforts to limit the temperature increase to 1.5°C above preindustrial levels.

# MS&AD's Aspirations and Recognition of Business Environment

The Group is positioned to make steady progress toward realizing its medium-term aspiration of becoming a world-leading insurance and financial services group that continues to seek sustainable growth and enhance enterprise value.

Despite the increasingly uncertain business environment, the Group has leveraged its strengths in diversity to nimbly develop business while improving its risk responsiveness and seizing growth opportunities.



## VISION

### Medium-Term Goals

To create a world-leading insurance and financial services group that continues to seek sustainable growth and to enhance enterprise value.

### Realization of Sustainable Growth

<b>Stable profitability</b> Combined ratio of Domestic Non-Life Insurance Business: <b>Under 95%</b>	<b>Expansion into growing overseas markets</b> International Business ratio to profits: <b>50%</b>
<b>World-class capital efficiency</b> ROE: <b>10% level</b>	<b>Maintenance of financial soundness</b> Financial foundation with AA rating ESR*: <b>200%</b> <small>* Economic Solvency Ratio (See the "ERM" section (P. 33) for details)</small>
<b>Reduction of strategic equity* risk</b> Strategic equity risk weighting: <b>About 30%</b> <small>* See the "Glossary of Insurance Terminology" section (P. 54) for details.</small>	
Ratio to consolidated total assets: <b>About 10%</b>	

Recognition of the Business Environment	Recognition of Major Risks	Countermeasures (Growth Opportunities)
Global environmental problems and worsening of climate change	<ul style="list-style-type: none"> <li>Domestic Non-Life Insurance</li> <li>International Business</li> </ul> <ul style="list-style-type: none"> <li>• Extensive damage from multiple large-scale natural disasters</li> </ul>	<ul style="list-style-type: none"> <li>Domestic Non-Life Insurance</li> <li>International Business</li> </ul> <ul style="list-style-type: none"> <li>• Realize growth through advancement of risk management</li> <li>• Strengthen responsiveness to natural disasters</li> </ul>
Rapid progress in innovation	<ul style="list-style-type: none"> <li>Shared</li> </ul> <ul style="list-style-type: none"> <li>• Emergence of new risks</li> <li>• Emergence of new business models</li> </ul>	<ul style="list-style-type: none"> <li>Shared</li> </ul> <ul style="list-style-type: none"> <li>• Develop products and services in tune with changes in the social environment and emerging needs</li> </ul>
Change in the regulatory environment (stricter capital adequacy requirements, transition to IFRS)	<ul style="list-style-type: none"> <li>Shared</li> </ul> <ul style="list-style-type: none"> <li>• Stricter assessments of the soundness of financial institutions</li> </ul>	<ul style="list-style-type: none"> <li>Shared</li> <li>International Business</li> </ul> <ul style="list-style-type: none"> <li>• Respond to stronger regulations with ERM</li> <li>• Examine business investments in countries and regions where industry restructuring is likely due to stricter capital adequacy regulations</li> </ul>
Stiffer competition	<ul style="list-style-type: none"> <li>Domestic Non-Life Insurance</li> <li>Domestic Life Insurance</li> <li>International Business</li> </ul> <ul style="list-style-type: none"> <li>• Greater competition on the direct non-life insurance market</li> <li>• Stiffer competition from new entrants, like major life insurers, into over-the-counter market at financial institutions</li> <li>• Worsening in profitability due to the underwriting cycle</li> </ul>	<ul style="list-style-type: none"> <li>Domestic Non-Life Insurance</li> <li>Domestic Life Insurance</li> <li>International Business</li> </ul> <ul style="list-style-type: none"> <li>• Maintain and expand support from customers by providing attractive products and services that leverage the Group's comprehensive strengths</li> <li>MSI Aioi Life • Improve the cross-selling ratio at Group non-life insurance agencies and diversify sales channels</li> <li>MSI Primary Life • Leverage specialized and innovative product development capabilities and the robust nationwide network of agencies affiliated with financial institutions</li> <li>• Diversify the portfolio and improve underwriting capability</li> </ul>
Change in interest rates	<ul style="list-style-type: none"> <li>Domestic Non-Life Insurance</li> <li>Domestic Life Insurance</li> <li>Domestic Life Insurance</li> </ul> <ul style="list-style-type: none"> <li>• Weaker returns on assets under management due to an ultra-low interest rate environment, narrower interest margins on life insurance products</li> <li>• Outflow of funds from emerging countries due to a hike in interest rates in the United States</li> </ul>	<ul style="list-style-type: none"> <li>Domestic Non-Life Insurance</li> <li>Domestic Life Insurance</li> </ul> <ul style="list-style-type: none"> <li>• Improve return on risk (ROR) by advancing asset management</li> <li>MSI Aioi Life • Strengthen earnings potential by providing income guarantee insurance in the first sector and medical insurance in the third sector as core products, while expanding risk assets up to a certain level in assets under management</li> </ul>
Declining birth rate, increasing number of elderly people, shrinking population in Japan	<ul style="list-style-type: none"> <li>Shared</li> </ul> <ul style="list-style-type: none"> <li>• Maturing domestic insurance market (slower growth)</li> </ul>	<ul style="list-style-type: none"> <li>Domestic Non-Life Insurance</li> <li>Domestic Life Insurance</li> <li>MSI Aioi Life</li> <li>MSI Primary Life</li> <li>International Business</li> </ul> <ul style="list-style-type: none"> <li>• Stabilize and expand earnings in the automobile insurance market</li> <li>MSI Aioi Life • Deploy product and sales strategies in tune with changing customer needs, such as the risk of longevity, as well as changes in the social security system and advances in medical technology</li> <li>MSI Primary Life • Offer a wide variety of asset-building products created with its ability to develop specialized and innovative products in tune with the need for passing assets onto the next generation and customer needs arising from the aging of society</li> <li>• Sustain growth through a strong network in the Asian region in accordance with strong growth in Asia</li> </ul>



## “Next Challenge 2017” Stage 2 (FY2016-FY2017)

### Basic Strategy

The MS&AD Insurance Group has positioned stage 2 of “Next Challenge 2017” as a period to establish the business foundation to achieve the aspirations embodied in the management vision. To do so, the Group will develop products and a sales & marketing strategy with an eye on future changes in the environment and will strive to transform business structure.

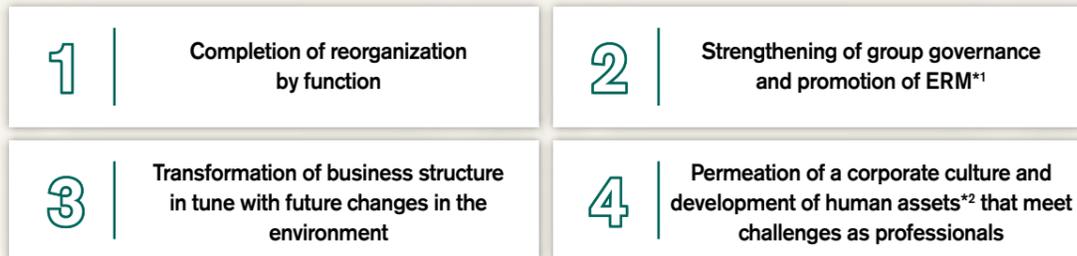
The basic strategy for stage 2 is to increase the enterprise value of

the whole Group with a focus on sustainable growth, enhancing profitability, ensuring financial soundness, and improving capital efficiency. Of the four drivers, the keys to implementing the basic strategy, “transforming business structure to respond to the future changes in the environment” is the pillar of efforts for stage 2, and the Group will steadily build a firm foundation to achieve its aspirations.

### Basic Strategy of Stage 2 of “Next Challenge 2017”

Through our commitment to sustainable growth and enhancing profitability as well as ensuring soundness and improving capital efficiency, we will increase the enterprise value of the Group as a whole.

#### Drivers of implementation



### Emphasized Measures for Individual Group Companies in Line with Those Companies' Roles

#### The Holding Company

Strengthen group governance and lead ERM to increase the enterprise value of the Group as a whole.

#### Group Companies Engaged in Insurance Business

Achieve sustainable growth by responding to future changes in the environment, increasing customer support and promoting efforts to improve profits, adopting initiatives aimed at unceasing quality improvement and promoting growth strategies that leverage our unique characteristics and strengths.

#### Other Group Companies

Support the Group's growth through full-fledged demonstration of integration synergies.

### Groupwide Emphasized Measures

- As a group, implement new investment in business and areas with high capital efficiency and growth potential
- Promote improvement of organization productivity through human assets development and innovation and the upgrading of roles throughout the entire Group
- Earn trust through the improvement of products and services quality based on communication with stakeholders, and contribute to the solution for social issues.

\*1 ERM=Enterprise Risk Management

\*\*2 With the idea that each and every member of the MS&AD Insurance Group is valued, we used the term “human assets” instead of “human resources”

### Promotion of ERM

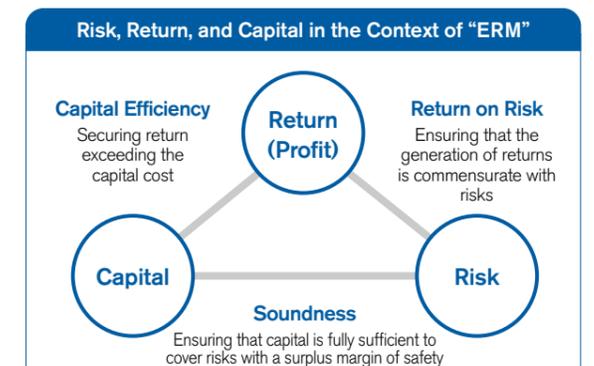
Promotion of ERM is one of the core drivers of implementation.

ERM (Enterprise Risk Management) entails the integrated, comprehensive, and strategic assessment and evaluation of all the risks associated with the execution of corporate business activities to enable integrated risk management designed to maximize enterprise value. The MS&AD Insurance Group has implemented ERM as a core component of its management.

By means of “ERM,” we will quantitatively and qualitatively determine the Group's risks from a company-wide perspective and, bearing in mind the characteristics of risks, we will allocate management resources on the basis of risk appetite that provides balanced control of risk, return, and capital. With a foundation of “soundness,” we aim to realize “sustainable growth” and “enhancement of profitability and capital efficiency” to increase enterprise value.

In stage 1, the Group set a risk appetite policy, undertook various efforts in line with that policy, and promoted efforts to improve ERM in order to simultaneously maintain the Group's financial soundness and improve capital efficiency.

In stage 2, the Group will advance management based on risk & return, and we will further progress in diversifying our business portfolio and our revenue



sources while reducing risk assets. The capital buffer we have built up will be focused on promising growth sectors both in Japan and overseas, enabling us to achieve a sustained cycle that enhances profitability for the Group. (See the “ERM” section (P.33) for details.)

### Completion of Reorganization by Function

Reorganization by function is business restructuring that aligns the strengths of the Group insurance companies. It is an unprecedented business model made possible by the amended Insurance Business Act of 2013. It aims for a seamless integration that does not impair the pace of growth by eliminating one-time costs that seem inevitable in a straightforward merger and avoiding lost time and various

unintended consequences that arise when merging. At the same time, strengths are leveraged to enable gains in efficiency by pursuing greater scale in profits.

The Group is promoting a reorganization by function as a core pillar of Next Challenge 2017 in a bid to seek sustainable growth and higher enterprise value for the entire Group and the aim of achieving the following three objectives.

- 1 ▶ Realize growth and efficiency across the entire Group
- 2 ▶ Fully leverage the advantages of the two core non-life insurance companies (Mitsui Sumitomo Insurance and Aioi Nissay Dowa Insurance) to address customers' diverse needs
- 3 ▶ Strengthen Group governance centered on the holding company

New	Standardization of products and operating procedures	<ul style="list-style-type: none"> <li>• Develop superior competitive products by leveraging the strengths of the two core non-life insurance companies</li> <li>• Reduce costs and improve operating efficiency in systems development in product and administrative areas, reduce printing-related expenses</li> </ul>
	Reorganization of claims services	<ul style="list-style-type: none"> <li>• Share the functionality of claims services by sharing claims service systems and standardizing operations, operational consolidation of claims adjustment operations and back-office administration</li> </ul>
	Reorganization of third-sector insurance	<ul style="list-style-type: none"> <li>• Unify product development functions for long-term third-sector policies at MSI Aioi Life</li> </ul>
	Reorganization of local sales networks	<ul style="list-style-type: none"> <li>• Consolidate sales networks and bases (contracts handled) in each region</li> </ul>
	Reorganization of the International Business	<ul style="list-style-type: none"> <li>• MSI will handle Japanese corporate clients, and ADI will focus on strengthening the Toyota Retail Business</li> </ul>
	Reorganization of motor channels	<ul style="list-style-type: none"> <li>• Insurance contracts handled by MSI's motor channel agencies, which have ADI as the main business partner, will be migrated to ADI</li> </ul>
	Reorganization of the head office functions	<ul style="list-style-type: none"> <li>• Reorganize and consolidate the head office functions of the holding company, MSI, ADI and MSI Aioi Life,* and strengthen group governance (*Started in April 2017)</li> </ul>
	Sharing bases	<ul style="list-style-type: none"> <li>• Consolidate MSI and ADI bases that are in close proximity, joint use of same buildings</li> </ul>
	Reorganization of marine and aviation	<ul style="list-style-type: none"> <li>• Transfer hull, aviation, aerospace, cargo and transportation insurance to MSI</li> </ul>



\*Evolve: Fields where we will pursue further reorganization benefits by taking on new initiatives under Next Challenge 2017 Stage 2 in addition to initial plans  
Continue: Fields where we will pursue greater reorganization benefits by continuing initiatives in line with initial plans  
Complete: Fields where initiatives have finished according to initial plans

## Transformation of Business Structure in Tune with Future Changes in the Environment

Under "Next Challenge 2017" Stage 2, the Group aims to lay a foundation for sustainable growth by aggressively investing in businesses while keeping an eye out for future changes in the business environment. We aim to create new business models for the Group through innovation using IoT, FinTech, AI and other advanced ICT.

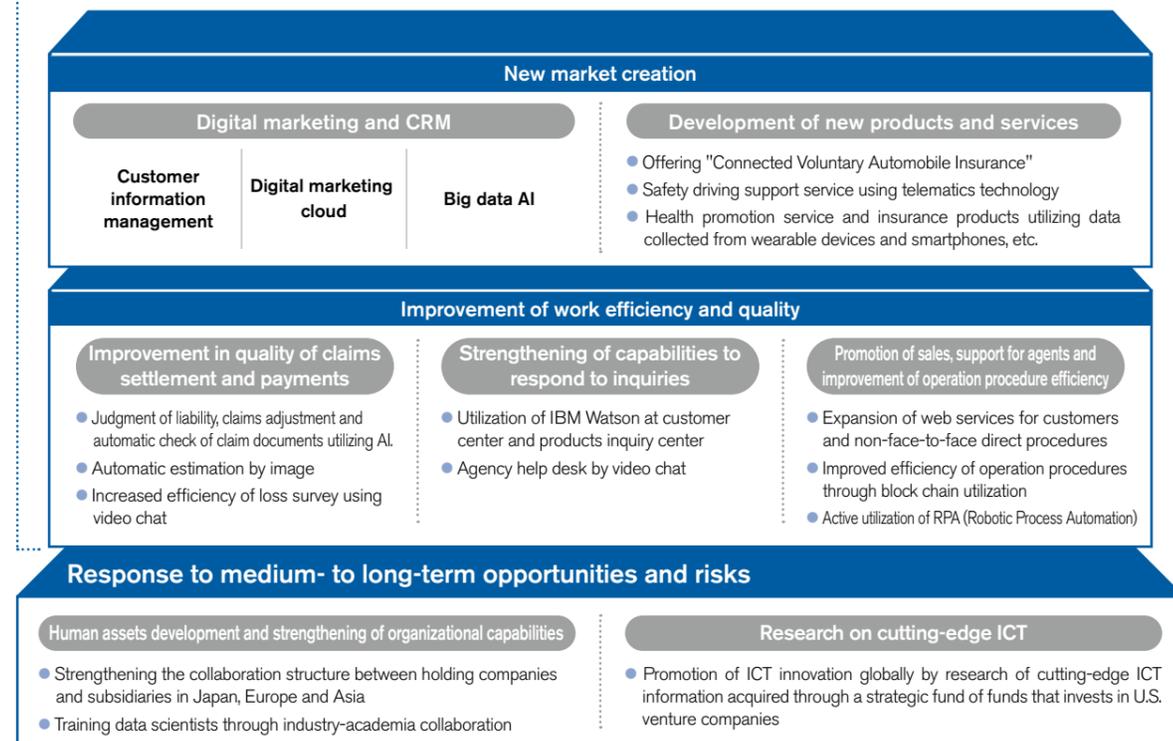
In fiscal 2016, a special department was created to strengthen functions for developing products and services with ICT, and we began to examine the viability of forging alliances in other sectors. In addition, we are developing the telematics business globally with cutting-edge telematics\* technologies.

\*See the "Glossary of Insurance Terminology" section (P. 54) for details.

### Digital Strategy for Sustainable Growth

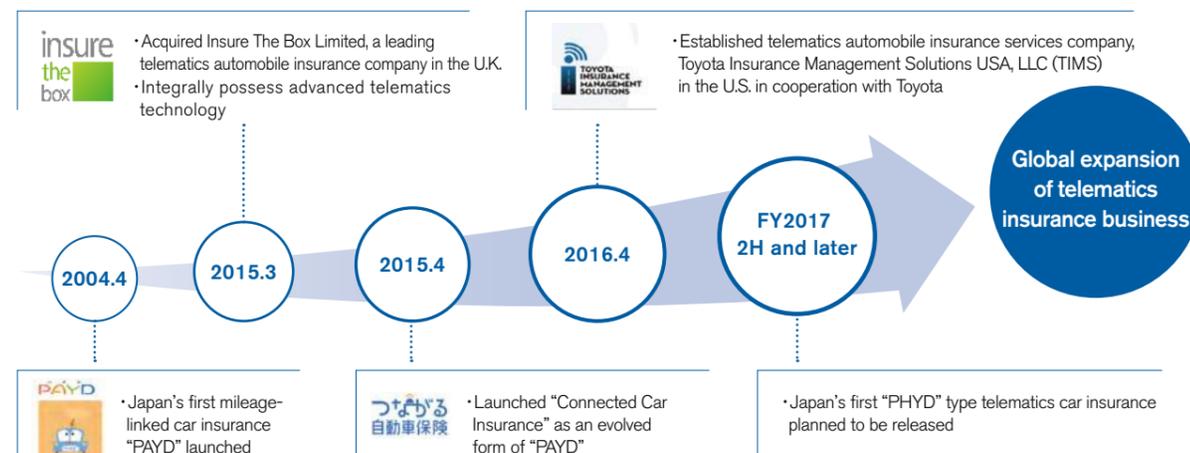
The Group develops demonstration experiments for research on advanced digital ICT and its application to insurance business (product development, underwriting, sales/marketing, office administration/premium collection, claims services, etc.).

#### Utilization in Insurance Business



### Promotion and Development of Telematics Business

The Group acquired the advanced telematics technology of Insure The Box Limited, a leading telematics automobile insurance company in the U.K., to demonstrate its superiority in this field and expand its global business.

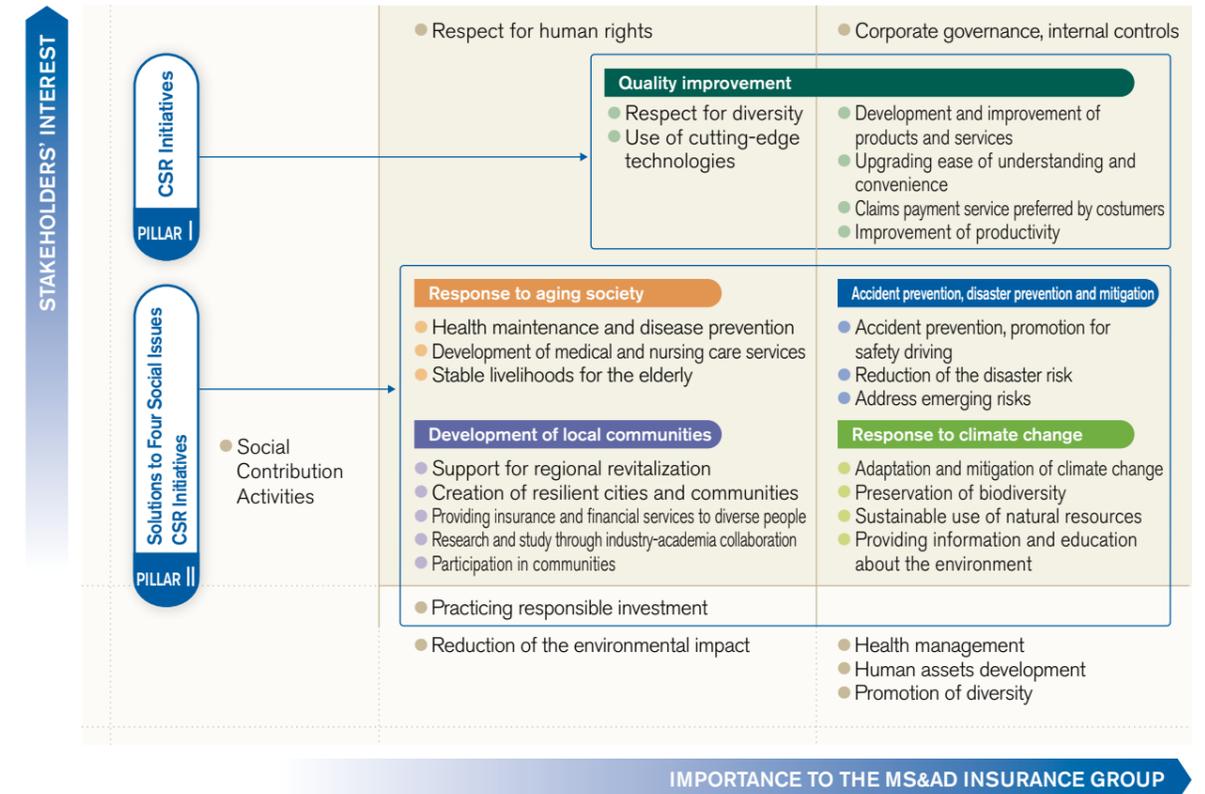


See MS&AD's official website for the details about Next Challenge 2017. [www.ms-ad-hd.com/en/group/strategy/management\\_plan.html](http://www.ms-ad-hd.com/en/group/strategy/management_plan.html)

## CSR Initiatives

### MS&AD's Priority Issues (Materiality)

In identifying priority issues, the MS&AD Insurance Group refers to international guidelines including ISO 26000 and SDGs, and selects issues of particular interest to its stakeholders.



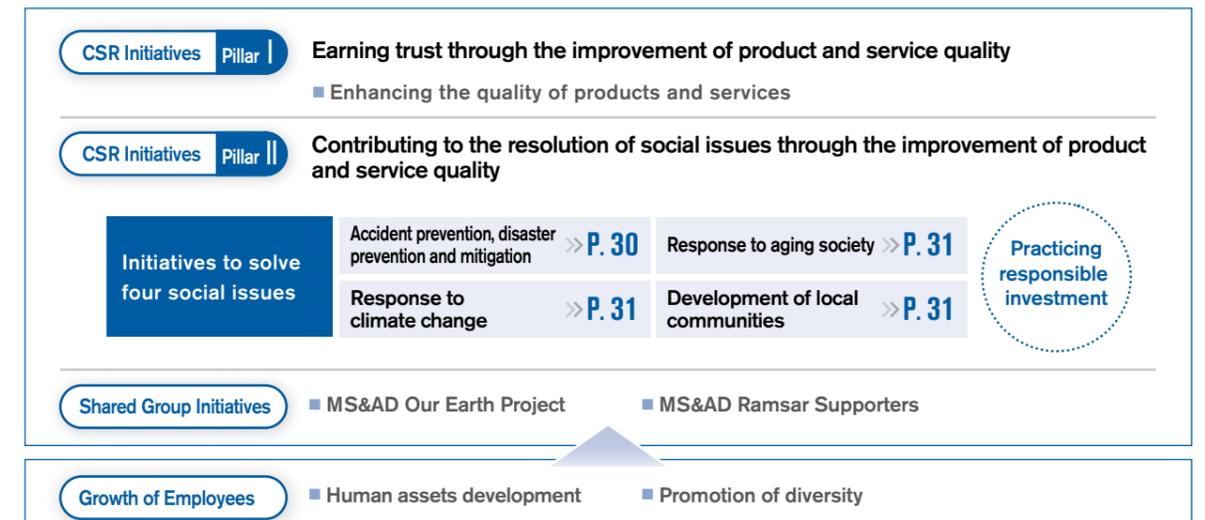
#### <Stakeholders' Interest>

Interest levels are comprehensively evaluated for seven categories of stakeholders (customers, shareholders, agencies, business partners, employees, regional communities and international society, and the environment) while referring to surveys of customers, agencies and employees, as well as international guidelines (e.g., ISO 26000, SDGs) that identify roles that companies are expected to fulfil.

#### <Importance to the MS&AD Insurance Group>

The MS&AD Insurance Group takes into account the impact of measures undertaken in its medium-term management plan "Next Challenge 2017", its medium- and long-term initiatives and changes in the business environment on the environment (E), society (S) and governance (G).

### Pillars of Group CSR Initiatives



# Financial and Capital Strategy



We aim to enhance enterprise value by pursuing an optimal balance among financial soundness, capital efficiency and shareholder returns.

Director, Executive Vice President, CFO

Shiro Fujii

## Financial Position

ESR has recovered to 195% and Group ROE increased to 7.9%.

The MS&AD Insurance Group's basic financial strategy is to create a financial foundation that will sustain growth and improve enterprise value. To realize this strategy, the Group has appropriate capital and financial policies in place for improving capital efficiency while ensuring financial soundness, centered on ERM.

For the fiscal year ended March 31, 2017, the MS&AD Insurance

Group reported net income attributable to owners of the parent of ¥210.4 billion and Group Core Profit of ¥213.7 billion, achieving the targets in Next Challenge 2017 with ROE of 7.8% on financial accounting terms and Group ROE of 7.9%. ESR\*, which had temporarily declined because of the acquisition of Amlin in fiscal 2015, recovered to 195%, within reach of the 200% target for financial soundness.

\*ESR refers to the "economic solvency ratio." (See the "ERM" section (P. 33) for details.)

## Financial Soundness

The Group is aiming to ensure financial soundness equivalent to an AA rating by enhancing capital base and controlling risks.

The Group has set the goal of the financial soundness equivalent to an AA rating as the financial strength that it should strive for as a world-leading insurance and financial services group, and its medium- to long-term objective is to secure an ESR of 200%. (See the "ERM" section (P. 33) for details on actual measures and the "Credit Ratings" section (P. 48) for current crediting ratings.)

Furthermore, a majority of the Group's liabilities are policy liabilities. From the viewpoint of ALM\*, it is desirable to hold the corresponding assets that match the characteristics (currency, discount rate, duration, etc.) of liabilities. Under the ALM, the Group fully considers risk and return through ERM and \* "ALM" refers to asset liability management. (See the "Glossary of Insurance Terminology" section (P. 52) for details.)

makes decisions on actual investments and methods for funding based on the analysis whether the return is appropriate for the risk (ROR\*) and the return is greater than the cost of capital (VA\*).

### Ratings of Domestic Non-Life Insurance Companies (MSI and ADI)

S&P	Moody's	A.M. Best	R&I	JCR
A+ (Stable)	A1 (Stable)	A+ (Stable)	AA- (Positive)	AA+ (Stable)

\*ROR: Return on Risk, VA: Value Added (see the "ERM" section (P. 33) for details.)

## Capital Efficiency

As a world-leading insurance and financial services group, the Group is aiming to achieve an ROE at a 10% level.

The Group ROE, a management numerical target in the medium-term business plan, is a standard that can represent actual earning power. It uses the Group Core Profit, that is, actual profit that excludes capital gains on the sales of stocks, amortization of goodwill, etc., as the numerator. The denominator is equity, which

is the same as that used for the financial accounting ROE. During the period of "New Frontier 2013," the ROE was 5% or lower, but by increasing Group Core Profit, it was raised to the 5%-plus level in Stage 1 of "Next Challenge 2017," and expected to steadily increase to over 7% during Stage 2 and after.

### Note:

Equity changes dramatically depending on the condition of financial market because it includes net unrealized gains on investments in securities. In other words, if the stock price rises, equity increases (see P. 60) and ROE declines. If the stock price falls, however, ROE rises. As reference, Group Core Profit against adjusted equity, which excludes unrealized gains on investments in securities, is given below.

Adjusted Group ROE	FY2012	FY2013	FY2014	FY2015	FY2016
	8.3%	8.3%	12.1%	10.8%	15.7%

	New Frontier 2013		Next Challenge 2017			
	Stage 2		Stage 1		Stage 2	
	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017 (Forecasts)
Group Core Profit (¥ billion)	87.4	94.8	155.7	147.5	213.7	230.0
Group ROE	5.0%	4.5%	5.9%	5.2%	7.9%	8.4%

## Shareholder Return Policy

We will return approximately 50% of Group Core Profit to shareholders in the medium run.

The MS&AD Insurance Group has adopted a policy of aiming to return approximately 50% of Group Core Profit to shareholders through dividends and share buybacks. In other words, the policy is to allocate half of profit to shareholder returns and half to internal reserves to aggressively return value to shareholders and invest internal reserves for future growth and to achieve a steady increase in shareholder value.

As for dividends, the basic goal is to continue to pay a stable dividend while aiming to increase dividend payments through the strengthening of our earning power.

For FY2015, the Group paid an annual dividend of ¥90 per share, ¥25 per share higher than in FY2014, and increased the dividend for FY2016 by ¥30 per share to ¥120 per share.

For FY2017, the Group plans to increase the dividend by ¥10 per share to ¥130 per share. The MS&AD Insurance Group places a high value on maintaining

a stable dividend and has never cut dividend payments in the past. We believe that we will be able to maintain dividends at this level, as these dividend increases are based on the Group's earnings foundation.

For share buybacks, the Group repurchases its own shares flexibly, and as opportunities arise, with due consideration of market conditions and the state of its capital.

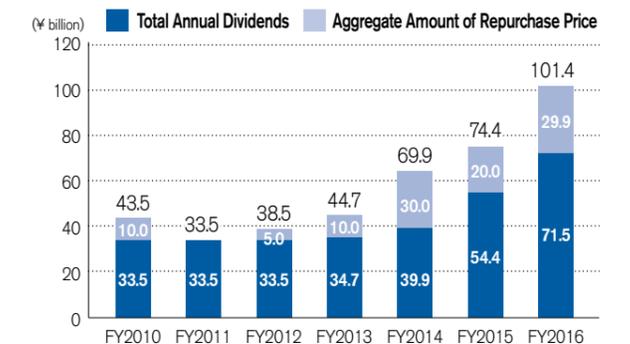
In FY2016, the MS&AD Insurance Group announced a ¥30 billion (maximum) share buyback on October 31, and it was flexibly implemented with due consideration paid to market conditions. In June 2017, the Group cancelled 40 million shares of treasury stock, equivalent to 6.3% of shares outstanding.

The Group remains focused on returning value to shareholders through a stable dividend that increases in the medium run, while enhancing enterprise value through sustainable growth.

### Shareholder Return Performance (by Fiscal Year)

	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	Aggregate total
Group Core Profit (¥ billion)	14.5	(87.5)	87.4	94.8	155.7	147.5	213.7	626.1
Shareholder return (¥ billion)	43.5	33.5	38.5	44.7	69.9	74.4	101.4	406.2
Shareholder return ratio*	300%	-	44%	47%	45%	50%	47%	65%
Dividend per share (¥)	5.4	5.4	5.4	5.6	6.5	9.0	12.0	-
Shareholder return per share (¥)	69.8	54.0	62.0	72.0	113.5	122.5	169.1	-

\* Shareholder return ratio = (dividends for the current fiscal year (to be paid in December of the year and in June of the next year) + value of share buybacks determined by the day of annual shareholders meeting in the next fiscal year) ÷ Group Core Profit for the current fiscal year



## Our Approach to Internal Reserves

We aim for sustainable growth, even in uncertain business environment, by investing for internal growth and investing in businesses for external growth.

Internal reserves after shareholder returns are used for investments that aim to improve the competitiveness and efficiency of existing businesses, and for spending on R&D in tune with changes in the business environment. In addition, our policy is to use internal reserves for external growth investments in businesses that will genuinely help strengthen our competitiveness, contingent on strict screening criteria.

For International Business investments in particular, acquisition candidates are screened for their compatibility with our corporate culture. Through synergies with existing businesses and risk diversification, acquisitions are made with the aim of contributing to the sustained increase in capital efficiency for the Group.

By accelerating advances in competitiveness and efficiency through these investments, we aim to realize sustainable growth.



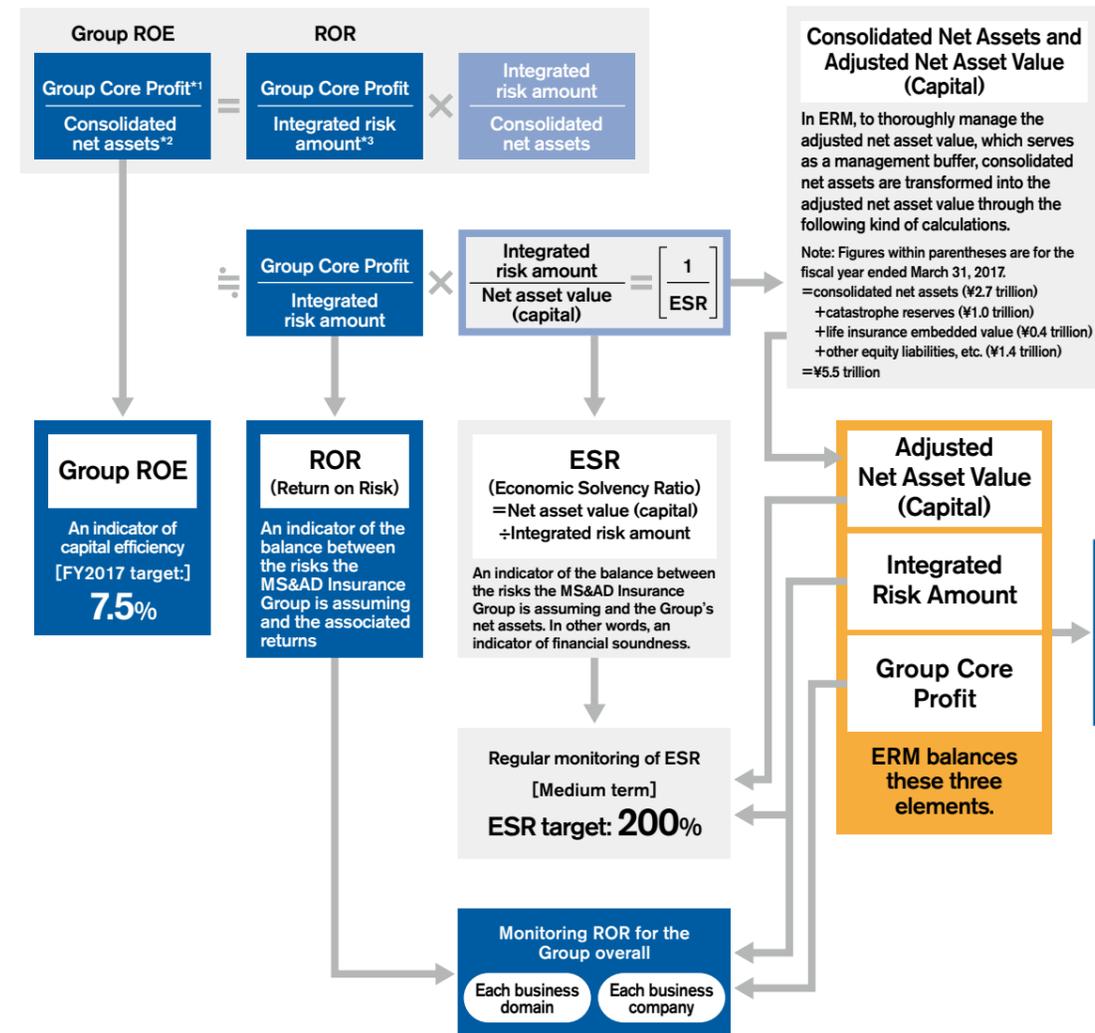
# Measures to Achieve Group ROE and Group Core Profit Targets and Achieve Sustainable Growth

## Components of Group ROE

### Breakdown of Group ROE

The numerical management targets in "Next Challenge 2017" are raised with Group Core Profit of ¥220 billion and Group ROE of 7.5%. In terms of financial soundness, the plan aims to maintain a steady ESR (economic solvency ratio) at the 200% level, equivalent to an AA rating as a financial base.

As you can see in the figures below, our Group ROE can be broken down into two indices: ROR (return on risk), which indicates the balance between risks undertaken by the MS&AD Insurance Group and the return on those risks, and ESR, which indicates financial soundness. These indices also comprise three elements: Group Core Profit, integrated risk amount, and adjusted net asset value (capital).



### Ensuring Balance by ERM Management

In addition to increasing Group Core Profit in our activities in each of the Group's business domains, we employ "ERM" to monitor ROR and ESR, with a focus on the balance among Group Core Profit, integrated risk amount, and adjusted net asset value. (See P. 33 for details on our ERM initiatives.)

**Consolidated Net Assets and Adjusted Net Asset Value (Capital)**

In ERM, to thoroughly manage the adjusted net asset value, which serves as a management buffer, consolidated net assets are transformed into the adjusted net asset value through the following kind of calculations.

Note: Figures within parentheses are for the fiscal year ended March 31, 2017.

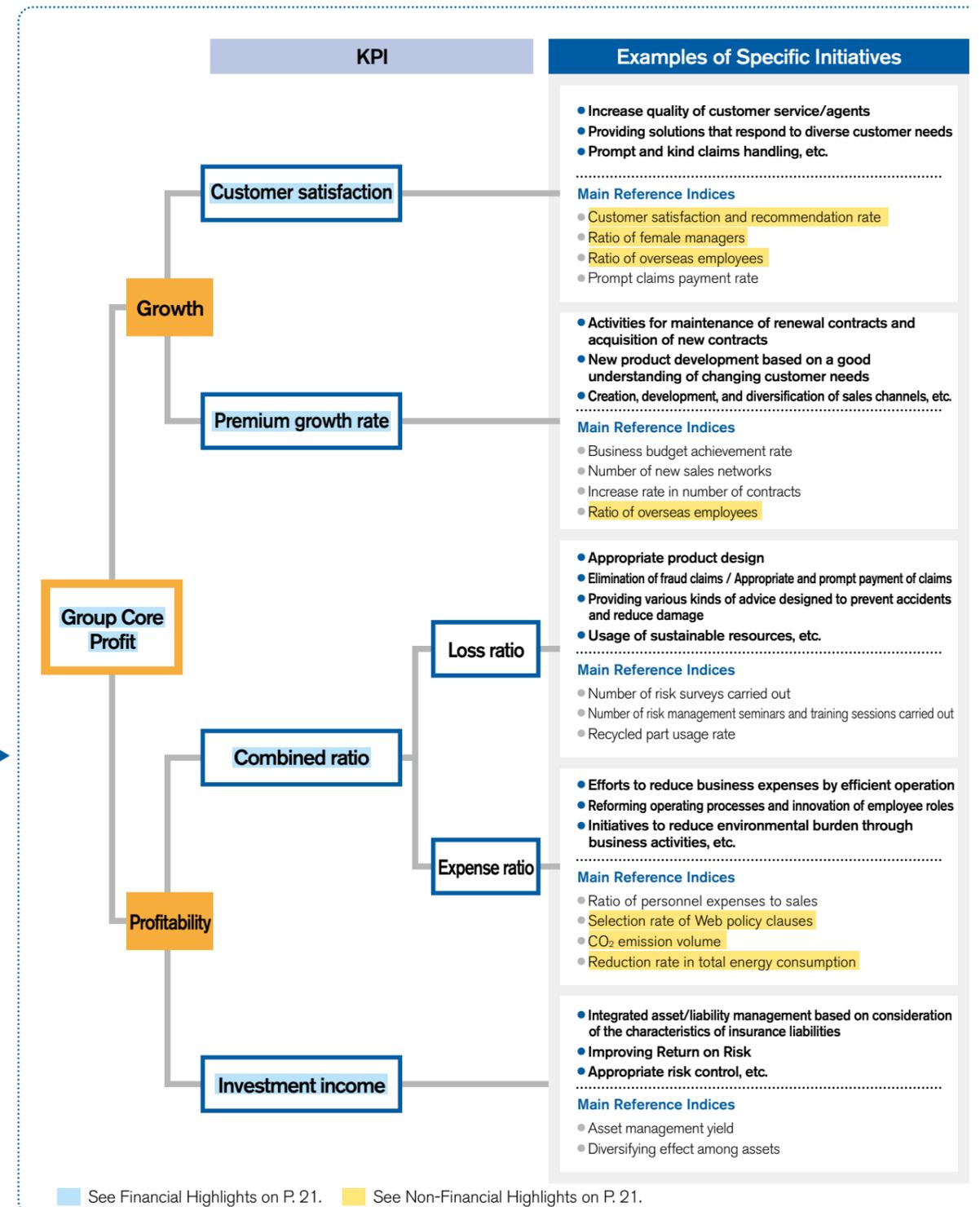
- = consolidated net assets (¥2.7 trillion)
- + catastrophe reserves (¥1.0 trillion)
- + life insurance embedded value (¥0.4 trillion)
- + other equity liabilities, etc. (¥1.4 trillion)
- = ¥5.5 trillion

## KPI and Specific Initiatives to Achieve Group Core Profit Target and Sustainable Growth

We are carrying out various measures in each of our business domains to achieve targets based on Group Core Profit (or EV (embedded value)<sup>\*1</sup> that is a source of future Group Core Profit).

Group Core Profit in the Domestic Non-Life Insurance Business, our core business domain, can be broken down into four KPIs: customer satisfaction, premium growth rate, combined ratio (loss ratio + expense ratio), and investment income. We have set activity targets and evaluation indices in each workplace and are carrying out various initiatives to improve each of these KPIs.

### KPIs<sup>\*2</sup> and Examples of Specific Initiatives to Achieve Group Core Profit Target (Domestic Non-Life Insurance Business)



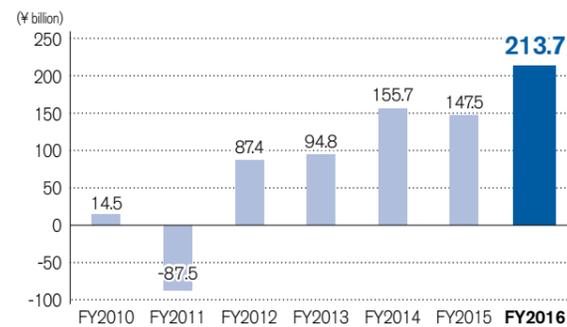
\*1 Group Core Profit = Consolidated net income - Net capital gains/losses on stock portfolio (gains/losses on sales, etc.) - Net evaluation gains/losses on credit derivatives - Other incidental factors + Equity in earnings of the non-consolidated group companies  
 \*2 Consolidated net assets are the value of balance sheet net assets less the value of non-controlling interests. (average of beginning and ending of the period)  
 \*3 The integrated risk amount represents insurance underwriting risk, asset management risk, operational risk, etc., quantified by means of stochastic methods.

\*1 EV = Embedded Value: See the "Glossary of Insurance Terminology" section (P. 52) for details.  
 \*2 KPI = Key Performance Indicator

# Financial and Non-Financial Highlights

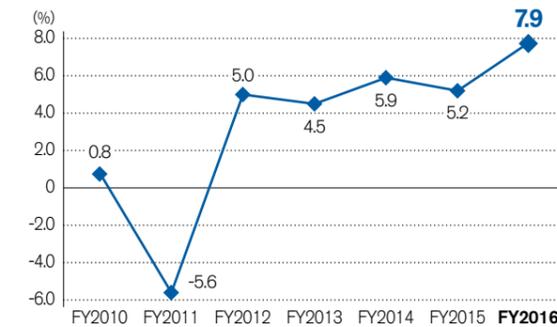
## Financial Highlights

### Group Core Profit



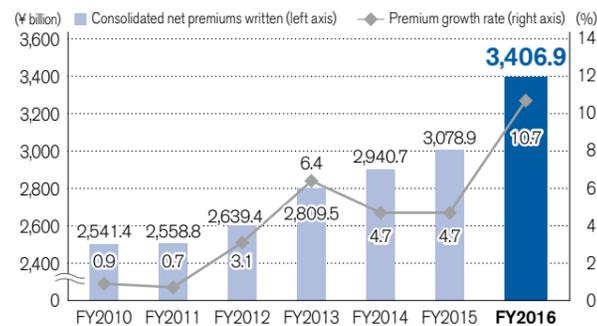
Group Core Profit is a representation of underlying Group profits for external stakeholders, including shareholders and investors. It is included in the numerical management targets in the current medium-term management plan. Group Core Profit is calculated by deducting non-recurring profits (i.e., net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

### Group ROE



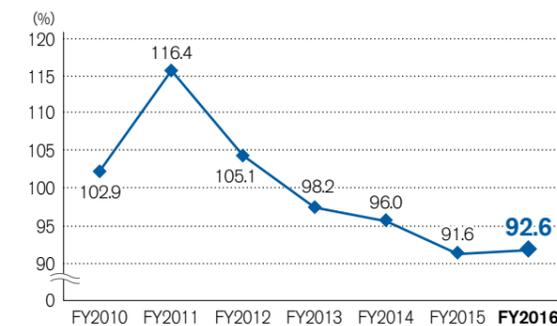
Group ROE is the ratio of Group Core Profit to consolidated net assets. It is a numerical management target in the current medium-term management plan. (See the "Glossary of Insurance Terminology" section (P.52) for details.)

### Consolidated net premiums written<sup>1</sup> and premium growth rate (non-life insurance business)



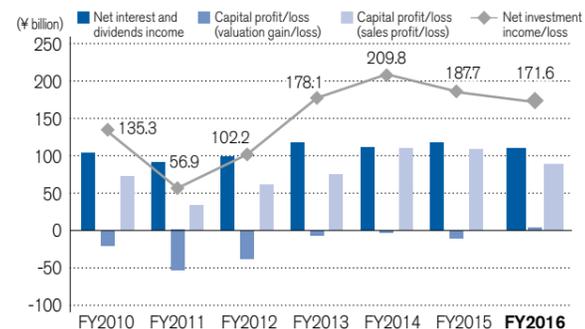
Consolidated net premiums written is a numerical management target in the current medium-term management plan. A premium growth rate indicates growth potential in premium income in Domestic Non-Life Insurance Business and International Non-Life Insurance Business.

### Combined ratio (Domestic Non-Life Insurance Business)



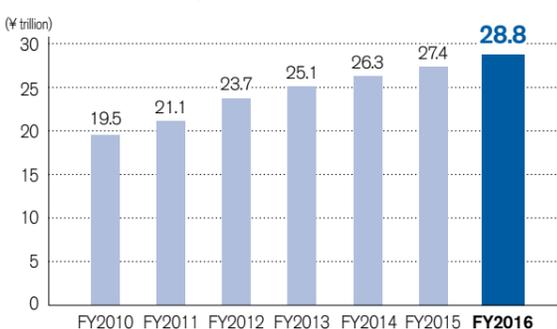
The combined ratio is a key indicator of profitability in underwriting in the non-life insurance business. It is a numerical management target in the current medium-term management plan. (See the "Glossary of Insurance Terminology" section (P.52) for details.)

### Net investment income (Domestic Non-Life Insurance Business)<sup>2</sup>



Net investment income is a major source of earnings, next 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 force<sup>3</sup> (Domestic Life Insurance Business)

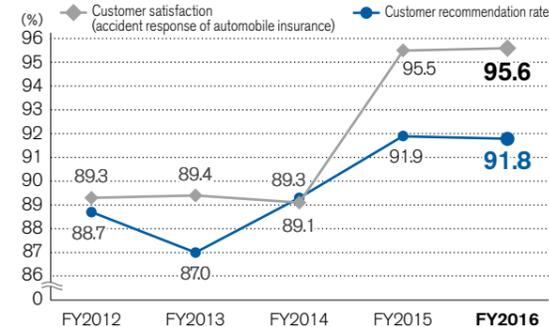


Policies in force is a basic performance indicator for life insurance companies that are a proxy for the total amount of coverage extended to policyholders with in-force policies as of the end of the fiscal year. (See the "Glossary of Insurance Terminology" section (P.53) for details.)

## Non-Financial Highlights

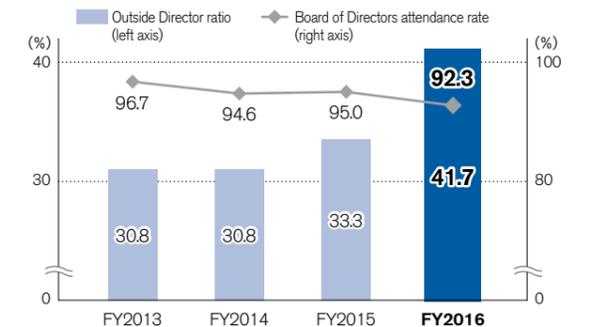
A checkmark (✓) indicates that FY2016 figures have been assured by KPMG AZSA Sustainability Co., Ltd.

### Customer satisfaction and customer recommendation rate<sup>4</sup>



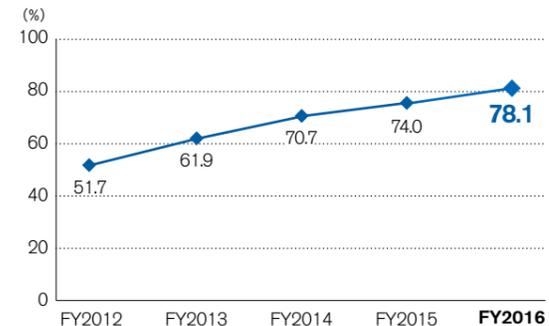
Our growth potential depends on improving customer satisfaction and customer recommendation rates. Along with these indicators, customer opinions are helpful in improving quality.

### Outside Director ratio and the Board of Directors attendance rate



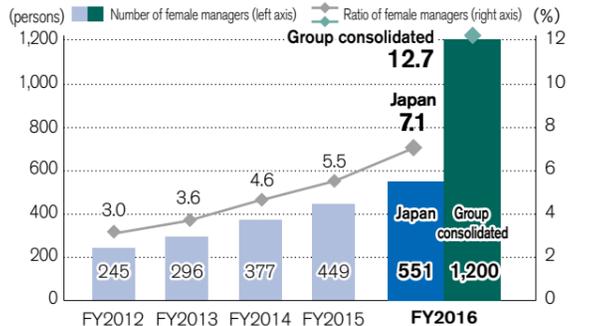
Outside directors independent from management strengthen monitoring and oversight functions for highly transparent management. More than one-third of the Board of Directors are independent Outside Directors.

### Selection rate of web policy clauses<sup>5</sup>



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.

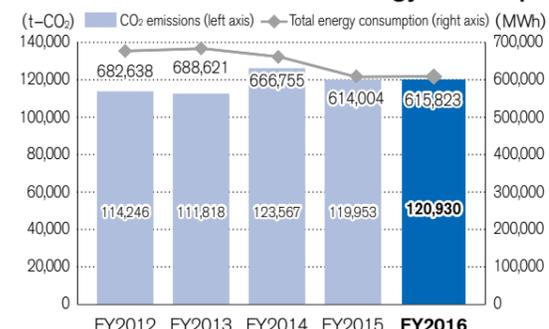
### ✓ Number and ratio of female managers<sup>7</sup>



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.

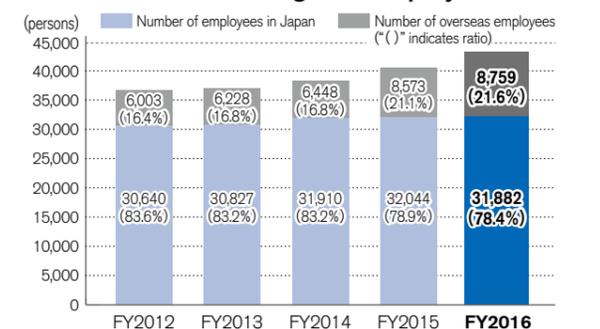
We began tallying this data on a Group consolidated basis, including overseas, in FY2016.

### ✓ CO<sub>2</sub> emissions<sup>6</sup> and total energy consumption



Reducing CO<sub>2</sub> 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.

1. Excludes the Good Results Return premiums of "ModoRich" voluntary auto insurance products

2. Simple sum of non-consolidated figures for MSI and ADI

3. Total amount of policies in force for individual insurance and individual annuity insurance at MSI Aioi Life and MSI Primary Life. MSI Aioi Life was formed from the merger of MSI Kirameki Life and Aioi Life on October 1, 2011, so FY2010 and FY2011 show simple sum for the two companies.

4. Customer survey choices were streamlined from five options to four in FY2015 and unified within the Group. This figure indicates the ratio of customers who chose the top two options.

5. Refers to environmentally friendly policy clauses where the content can be viewed on our web site rather than being written in a booklet.

6. Sum of Scope 1 and Scope 2 for Japan and overseas. Figures restated for FY2012 to FY2015.

7. Results as of April 1 of subsequent fiscal year.

Strategies by Business Domain

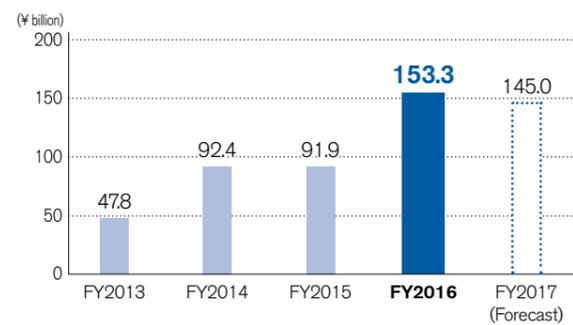
# Domestic Non-Life Insurance Business

The Domestic Non-Life Insurance Business is a core business of the MS&AD Insurance Group, accounting for 70% of Group Core Profit. The Group's three non-life insurance companies have distinctive strengths, and they leverage Japan's largest agency network as they strive to address the diverse new kinds of risks faced by evolving industries in Japan as well as the risks associated with the changing lifestyles of individuals.

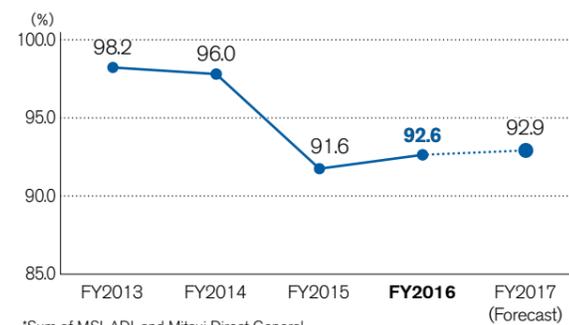


## Group Numerical Management Targets

Group Core Profit (Domestic Non-Life Insurance)



Non-Life Insurance Combined Ratio (Domestic Non-Life Insurance)



## Business Strategies

### 1 Leveraging Diversity

The MS&AD Group leverages diversity, which is one of its strengths, in an effort to ensure its growth potential and increase its profitability by responding to customers' risks and needs as they diversify along with changes in the social environment.

Diversifying Customers' Risks and Needs with Changes in the Social Environment			
	<b>Mitsui Sumitomo Insurance</b> 安心のゴールキーパーでありたい。  クルマの保険	<b>Aioi Nissay Dowa Insurance</b> 	<b>Mitsui Direct General</b> 三井ダイレクト損保の <b>自動車保険</b> 総合自動車保険
<b>Business concepts</b>	<ul style="list-style-type: none"> <li>Leveraging comprehensive strengths</li> <li>Global business development</li> </ul>	<ul style="list-style-type: none"> <li>Strengthening ties with the Toyota Group and Nippon Life Group to leverage special strengths</li> <li>Expanding community-based business development</li> </ul>	<ul style="list-style-type: none"> <li>Direct sales via the Internet and telephone calls</li> <li>Pursuing high-quality and low-cost operations</li> </ul>
<b>Diverse access points</b>	<ul style="list-style-type: none"> <li>Transactions with customers in a broad range of industries and work place occupational field centered on the Mitsui Group and Sumitomo Group</li> </ul> <p><b>Number of sales agents*1</b></p> <p><b>41,305</b></p>	<ul style="list-style-type: none"> <li>Top class motor channels</li> </ul> <p><b>Number of sales agents*1</b></p> <p><b>53,055</b></p>	<ul style="list-style-type: none"> <li>Internet- and telephone-based sales</li> <li>Response to multiple devices (PCs, smartphones, tablets)</li> </ul> <p><b>Number of page views*2</b></p> <p><b>83,146,454</b></p>
<b>Product development leveraging special strengths</b>	<ul style="list-style-type: none"> <li>New product development based on transactions with a wide range of companies, etc. (Example – regenerative medical treatment-related products)</li> </ul>	<ul style="list-style-type: none"> <li>Product development based on the leveraging of ties with the above-mentioned companies (Example – Connected Voluntary Automobile Insurance)</li> </ul>	<ul style="list-style-type: none"> <li>Simple and easy-to-understand products (Example – Internet contract discounts)</li> </ul>

\*1 As of March 31, 2017 \*2 During the year through March 31, 2017

## 2 Realizing Sustainable Growth by Addressing Changes in Business Environment



### Initiatives for top-line growth

- Create new markets by developing new products and services in tune with changing social environment and new risks
- Drive earnings growth by expanding sales of mainly packaged products for the small/medium enterprise market and new risk products, which have significant growth potential
- Strengthen efforts to increase the number of contracted vehicles in voluntary automobile insurance and review coverage option



### Initiatives to further improve profitability (keep the combined ratio of 95% or less stably)

- Step up efforts to strengthen underwriting capability and loss prevention through coordination between sales divisions and the claims service divisions
- Increase efforts to improve profitability with ERM (strengthen initiatives to improve profitability in commercial fire insurance)



### Improve productivity and services by utilizing ICT

- Improve the quality of claims payment and claims handling services (use AI to assess the amount of damages and pictures for estimating repair costs for damaged vehicles)
- Enhance responsiveness in inquiry operations (use IBM Watson at customer centers and products inquiry centers)
- Promote sales, solicitation support and administrative efficiency (increase operational efficiency by using blockchain technology)
- Develop new products and services (safe driving support services using telematics technology)

## 3 Evolution of Reorganization by Function

<b>Reorganization of claims services</b> Joint systems development and function sharing	<ul style="list-style-type: none"> <li>• Jointly develop claims services system "BRIDGE" and gradually shift to new system from fiscal 2019</li> <li>• Continue research on claims assessment using AI and countermeasures against improper claims using Big Data analysis</li> <li>• Promote function sharing initiatives including the establishment of service centers for insurance class-specialized lines and standardization of operations</li> </ul>
<b>Sharing of products and operating procedures*</b>	<ul style="list-style-type: none"> <li>• Develop products with superiority and competitiveness that demonstrate the strengths of the two core companies</li> <li>• Improve efficiency in product and operating procedures areas, reduce printing-related expenses, etc.</li> <li>• Reduce system development costs</li> </ul>

\*There are products that leave differences (uniqueness) between the two companies from the standpoint of strategy to address specific markets and channels.

Toward the achievement of further growth and efficiency

## Strategies by Business Domain

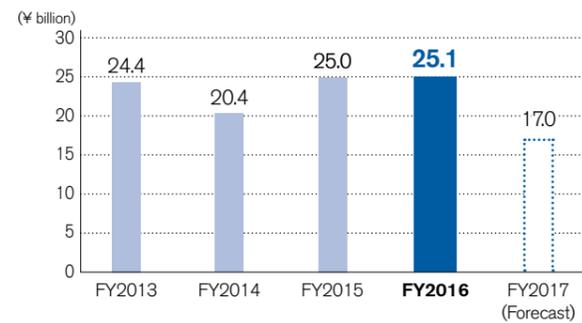
# Domestic Life Insurance Business

The Domestic Life Insurance Business is one of the important growth businesses positioned to support a sustainable increase in the MS&AD Insurance Group's enterprise value.

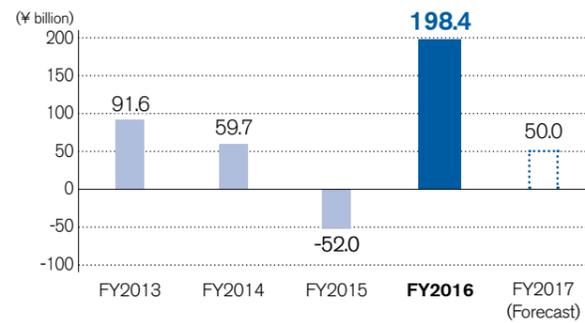
In a super-aging society, needs are rising for medical and nursing care, as well as for the death benefit and other protection-type life insurance products offered by Mitsui Sumitomo Aioi Life Insurance Co., Ltd. in addition to the asset-building-type products designed to support retirement lifestyles that are offered by Mitsui Sumitomo Primary Life Insurance Co., Ltd. Both these companies are realizing growth and profitability levels that are among the highest in the industry.

## Group Numerical Management Targets

### Group Core Profit (Domestic Life Insurance)



### Increase in EV\*1 (MSI Aioi Life)



\*1 EV used by MSI Aioi Life is based on the principles of European Embedded Value.

MSI Aioi Life, which sells protection-type life insurance products, set an increase in EV (Embedded Value) as one of its numerical management targets. Current statutory accounting is in some respects difficult to use for performance evaluation, partly because costs are concentrated at the time of sale but the corresponding profit is realized in later years. However, EV is employed as a useful indicator for evaluating achievements and enterprise value as it evaluates future profits generated by in-force business at the present time, and provides complementary financial information in statutory accounting.

\* See the "Glossary of Insurance Terminology" section (P. 52) for details.

## Business Strategies

### 1 Leveraging Diversity

Customer needs stemming from changes in the social environment can be responded to by two life insurance companies with different business models.

	MSI Aioi Life 人生の「もしも」を「安楽」にかえる。 &LIFE アンドライフ	MSI Primary Life 個人年金は、 未来への贈り物。
<b>Products</b>	<b>Protection-type products</b> Protection-type life insurance products, death benefits as well as medical insurance, nursing care insurance to meet the increasing need for such products in an aging society (Term life insurance, income guarantee insurance, medical insurance, etc.)	<b>Asset-building-type products</b> Amid the rapid aging society, needs are rising for asset-building-type products designed to support retirement lifestyles (Variable and fixed annuity insurance, variable and fixed whole life insurance)
<b>Sales Channels</b>	Development of sales channels centered on cross-selling utilizing the agents of the Group's two core non-life insurance companies and also other diverse sales channels including financial institutions, professional life insurance agents and direct sales employees	Over-the-counter sales at financial institutions (banks, securities companies, etc.)

## 2 Product Strategy

We aim to expand earnings backed by a rich lineup of insurance products by rapidly developing and offering competitive products that meet diverse customer needs and are in tune with changes in the social environment.

MSI Aioi Life	
<ul style="list-style-type: none"> <li>● Rapidly develop and provide competitive products that match diverse customer needs</li> <li>● Expand sales of protection-type products with level premium payments*2 centered on New Medical Insurance A Plus and New Comprehensive Income Guarantee Insurance</li> </ul> <p>*2 A payment method where the premiums paid do not change during the premium payment period.</p>	
Product features	Develop products that match the needs of women and young people while further enhancing the scope of coverage for the risk of becoming unable to work Commenced sales of &LIFE New Comprehensive Income Guarantee Insurance and &LIFE New Income Guarantee Insurance in April 2017
	Provide broad coverage in line with the rising medical needs of an aging society Commenced sales of New Medical Insurance A Plus in May 2016
	Address ultra-low interest rates Conducted a strategic review of sales of some products that are highly exposed to low interest rates (FY2016) Revised assumed interest rates for some products (April 2017)

MSI Primary Life												
<ul style="list-style-type: none"> <li>● Develop a lineup of diverse products to satisfy various customer needs for annuity insurance and death benefit insurance</li> </ul>												
Product features	Create new markets with groundbreaking products that tap into the needs for annuities, gifting and inheritance Commenced sales of currency option-type fixed special whole life insurance in August 2016											
<b>Enhanced product lineup</b>												
	<table border="1"> <thead> <tr> <th></th> <th>Fixed products</th> <th>Variable products</th> </tr> </thead> <tbody> <tr> <td rowspan="2">Whole life insurance</td> <td>Foreign currency denominated fixed whole life insurance Shiawase, Zutto Tanoshimi, Zutto</td> <td>Foreign currency denominated variable whole life insurance Egao, Hirogaru</td> </tr> <tr> <td>Currency option-type fixed special whole life insurance Yasashisa, Tsunagu</td> <td>Variable whole life insurance Kagayaki, Tsuzuku 2</td> </tr> <tr> <td>Annuity insurance</td> <td>Currency option-type fixed individual annuity insurance Mirai, Sodateru</td> <td>Variable individual annuity insurance Todoku Shiawase</td> </tr> </tbody> </table>		Fixed products	Variable products	Whole life insurance	Foreign currency denominated fixed whole life insurance Shiawase, Zutto Tanoshimi, Zutto	Foreign currency denominated variable whole life insurance Egao, Hirogaru	Currency option-type fixed special whole life insurance Yasashisa, Tsunagu	Variable whole life insurance Kagayaki, Tsuzuku 2	Annuity insurance	Currency option-type fixed individual annuity insurance Mirai, Sodateru	Variable individual annuity insurance Todoku Shiawase
	Fixed products	Variable products										
Whole life insurance	Foreign currency denominated fixed whole life insurance Shiawase, Zutto Tanoshimi, Zutto	Foreign currency denominated variable whole life insurance Egao, Hirogaru										
	Currency option-type fixed special whole life insurance Yasashisa, Tsunagu	Variable whole life insurance Kagayaki, Tsuzuku 2										
Annuity insurance	Currency option-type fixed individual annuity insurance Mirai, Sodateru	Variable individual annuity insurance Todoku Shiawase										

## 3 Channel Strategy

We are building a stable sales base by cultivating and diversifying sales channels and augmenting agent training.

MSI Aioi Life
Step up measures for cross-selling (selling life insurance to non-life insurance customers) by leveraging the largest non-life insurance sales network in Japan
Expand sales channels and strengthen operations through financial institution-affiliated agencies, professional life insurance agents and direct sales employees
Create the MSA Life Academy as a training and education center for enhancing the training of agents
MSI Primary Life
Specialize in over-the-counter sales at financial institutions, create a sustainable and stable sales base consisting of roughly 140 financial institutions
Enhance education and training for customer-focused consulting sales
Support quality improvements at agencies based on comprehensive proposals for handling complaints, legal compliance and administrative guidance

## Strategies by Business Domain

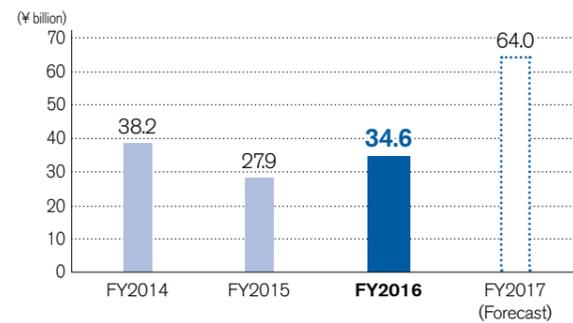
## International Business

Leveraging the expertise and trust it has accumulated during its history of more than 90 years of international operations, the MS&AD Insurance Group has established a global network in 46 countries and regions\*<sup>1</sup> to provide insurance products and services that meet diverse customer needs. In February 2016, the Group welcomed MS Amlin plc, a company with a global insurance business centering on the Lloyd's insurance market in the United Kingdom. As one of the MS&AD Insurance Group's growth businesses, we aim to expand the international business further.

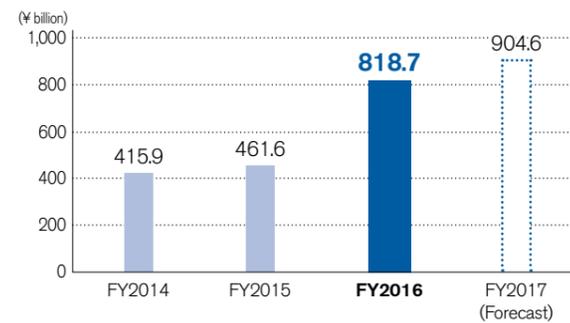
\*<sup>1</sup> Excluding SLI Cayman Limited (financial services business) in the Cayman Islands.

## Group Numerical Management Targets

## Group Core Profit



## Net Premiums Written (Non-Life Insurance)



## Characteristics of the International Business

The MS&AD Insurance Group's international business operations encompass two businesses—the International Non-Life Insurance Business (including the MS Amlin Business, the Toyota Retail Business including BIG Business, and the Head Office Reinsurance Business) and the Asian Life Insurance Business. Since commencing underwriting operations in Thailand in 1934, we have established a position as the largest insurance company in the ASEAN region along with a robust network.

Welcoming MS Amlin to the Group, the MS&AD Insurance Group now has a balanced portfolio spread across Asia, Europe and the Americas. Our balanced portfolio is expected to mitigate the impact of business slowdowns in specific regions and natural disasters.

## 1 International Non-Life Insurance Business

To make decisions and manage operations in accordance with local customs while rigorously complying with the laws, regulations and business conventions of each country and region, regional holding companies have been established in Singapore, the United Kingdom and the United States. Business is conducted based on the idea of being a good corporate citizen in each country and region. Especially in the high-potential Asia region, the Group has a top-level business foundation, having instilled the MSIG brand in the region. Through a variety of efforts including administrative support to the government and sharing of insurance technologies, the Group is contributing to economic growth in each country and region while also undertaking diverse activities to realize growth in its own business operations.

## MS Amlin Business

As of December 31, 2016, we have completed the integration of the Lloyd's and Reinsurance businesses of Mitsui Sumitomo Insurance and MS Amlin, an insurance holding company with three core operations in the Lloyd's Business, the Reinsurance Business and the European Primary Insurance Business. We are seeking various synergies collaborating with existing international businesses in mainly Asia and the Americas in addition to the cost synergies from the business integration.

## Toyota Retail Business (including BIG Business)

We leverage our strong partnership with the Toyota Group to develop the retail insurance business internationally. We currently have insurance underwriting operations in 17 countries and regions, including most European countries, as well as China, Thailand and Australia. In the BIG Business, the Group welcomed Box Innovation Group Limited in the United Kingdom in FY2015 and its core managing general agent Insure The Box Limited, which has telematics know-how. We expect synergies to be generated between the BIG Business and the Toyota Retail Business as business is developed in the United Kingdom, Continental Europe and the United States.

## Head Office Reinsurance Business

The Head Office at Aioi Nissay Dowa Insurance has engaged in the overseas inward reinsurance business as a means of effectively utilizing capital. Beginning in FY2017, this business is included in the scope of the International Business from the standpoint of reinforcing overseas risk management alongside business expansion. We will engage in profit-focused underwriting for business partners with which we can maintain medium- and long-term relationships in both outward and inward reinsurance, and advance business while managing Group-wide risks.

## 2 Asian Life Insurance Business

We are investing in life insurance companies in countries where life insurance markets are projected to expand—such as Indonesia, India and Malaysia—with the aim of expanding sustainable profits. In Malaysia, we have also begun undertaking the "Takaful"<sup>2</sup> business, which is expected to show strong growth in the future.

<sup>2</sup> A method of handling insurance business in accordance with Islamic doctrine. In Islam, receiving interest income from fund management activities and paying benefits with respect to accidents and diseases of which the incidence is unpredictable is seen as having an element of gambling. For these reasons, ordinary insurance is considered to be not in accordance with Islamic sharia law. In view of this, in countries with a high population of Muslims, there is a need to provide insurance products that are designed to accord with the requirements of sharia law, and "takaful" can be said to be a form of Islamic insurance.

## 3 Summary of International Business

		FY2011						FY2017 (Forecast)
		FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017 (Forecast)
Net Premiums Written	Asia	142.8	173.1	215.7	237.1	257.7	240.6	261.0
	Europe	60.9	64.4	85.4	99.6	121.1	499.6	517.4
	(of which, MS Amlin)	–	–	–	–	–	391.1	449.8
	Americas	43.7	41.4	56.4	66.2	69.4	66.4	70.9
	Reinsurance	16.8	15.6	16.7	19.1	18.6	16.8	–
	Head Office Reinsurance	–	–	–	–	–	–	58.9
	International Business Total	262.2	287.8	369.0	415.9	461.6	818.7	904.6
Net Income	Asia	(89.6)	28.8	16.3	26.0	12.7	16.7	12.3
	Europe	(16.1)	(11.9)	1.8	5.7	(3.1)	2.2	29.1
	(of which, MS Amlin)	–	–	–	–	–	6.1	30.0
	Americas	0.1	(7.7)	(3.3)	(7.9)	8.1	0.8	2.4
	Reinsurance	(6.3)	5.1	8.5	11.0	10.7	12.4	–
	Head Office Reinsurance	–	–	–	–	–	–	(1.0)
	Asian Life Insurance Business	3.0	1.3	(1.2)	5.4	5.7	8.4	26.0
International Business Total	(112.3)	13.5	18.0	38.2	27.9	34.6	64.0	

\* International business figures are aggregates of the results for overseas consolidated subsidiaries, non-life insurance companies' overseas branches, and overseas nonconsolidated affiliates, etc. Figures for business in each region include figures for Toyota Retail Business.

\* Figures in the "Total" rows include head office adjustments, etc. and are not equal to the sum of figures for each segment and each region.

\* Net income is on a Group Core Profit basis, including the Takaful business. The Asia life insurance business shows equity income.

\* Reinsurance Business is included in figures for MS Amlin in FY2017 because it was integrated into MS Amlin together with MSI Lloyd's Business in December 2016.

## Business Strategy

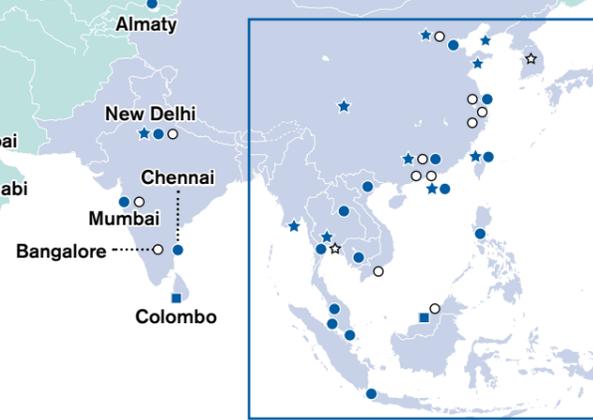
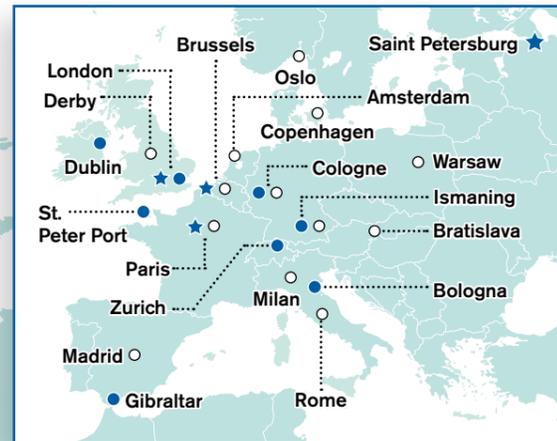
The MS&AD Insurance Group's International Business aims to increase earnings by tapping into market growth based on diverse product and sales strategies that leverage its strengths in each business and region. As a growth driver for the Group, the International Business aggressively pursues investment projects and global partnership strategies that contribute to sustainable growth.

		Outlook	Stage 2 Business Strategy
Overseas non-life insurance business	Asia	Major ASEAN markets	<ul style="list-style-type: none"> <li>Steadily expand Japanese business, expand local business centered on individuals and SMEs, and improve earnings capacity</li> <li>Strengthen ties with local partners</li> <li>Synergies with MS Amlin</li> </ul>
		Large markets (India and China)	<ul style="list-style-type: none"> <li>India: Tap into growth by strengthening management involvement at Chola MS, our local subsidiary in India. Increase earnings in the retail field by expanding sales channels and tapping into Japanese infrastructure investments</li> <li>China: Strengthen ties with local partners</li> </ul>
		Emerging markets	<ul style="list-style-type: none"> <li>Myanmar: Ongoing initiatives for nationwide licensing and strengthening of alliances with local non-life insurance businesses</li> <li>Others: Capture Japanese accounts</li> </ul>
	Europe	Europe	<ul style="list-style-type: none"> <li>Europe: Strengthen presence on local large corporate markets in Continental Europe, steadily capture deals with Japanese corporate clients entering the market.</li> </ul>
		Middle East, Africa	<ul style="list-style-type: none"> <li>Middle East: Strengthen fronting system*</li> <li>Africa: Capture Japanese accounts and deepen market research</li> </ul>
		MS Amlin	<ul style="list-style-type: none"> <li>Generate growth synergies in Asia, North America, Europe and other regions by leveraging the MS&amp;AD Insurance Group's network</li> <li>Maximize business integration benefits, reshuffle portfolio</li> </ul>
	Americas	North America	<ul style="list-style-type: none"> <li>Steadily grow and improve earnings capacity in Japanese and local business</li> <li>Leverage MS Amlin's underwriting know-how</li> </ul>
		Latin America	<ul style="list-style-type: none"> <li>Mexico: Capture Japanese accounts, particularly in the automobile industry</li> <li>Brazil: Improve the earnings power of automobile insurance and fire insurance</li> <li>Other Latin American countries: Strengthen measures for Japanese businesses through a stronger alliance with Mapfre</li> </ul>
	Toyota Retail Business (including BIG business)		<ul style="list-style-type: none"> <li>Further expand partnership with the Toyota group</li> <li>Grow business using the know-how of the Box Innovation Group</li> <li>Launch the telematics automobile insurance service business in the United States</li> </ul>
	Head Office Reinsurance Business		<ul style="list-style-type: none"> <li>Expand business while focusing on profits with business partners who we can maintain medium- to long-term relationships with in both outward and inward reinsurance</li> <li>Group-wide risk management</li> </ul>
Asian Life Insurance Business		<ul style="list-style-type: none"> <li>Generate synergies by sharing expertise in the domestic life insurance business</li> <li>Develop new OTC channels and Japanese corporate clients</li> <li>Strengthen the business management and risk management posture, evaluate new business investments</li> </ul>	

\* A fronting system is a system in which alliances are formed with local insurance companies in countries and regions where we have no entities with an underwriting license. These companies carry out direct underwriting (e.g., issue of insurance policies) in place of the Group. The Group accepts insurance risks by way of reinsurance.

# Group Network and History of International Business

- Overseas branches and offices ..... ☆ Branches ★ Offices
- Overseas subsidiaries and affiliates ..... ●
- Branches and offices of overseas subsidiaries and affiliates ..... ○
- Underwriting agents for the head office ..... ■



## Expansion of Non-Life Insurance Business

### ► M&A-Based Business Expansion

2004	Acquired the Asian non-life insurance business of U.K.-based AVIVA
2005	Acquired Taiwan-based Mingtai
2015	Acquired U.K.-based Box Innovation Group
2016	Acquired U.K.-based MS Amlin

### ► Business Initiations by Means of Capital Investments in Local Markets

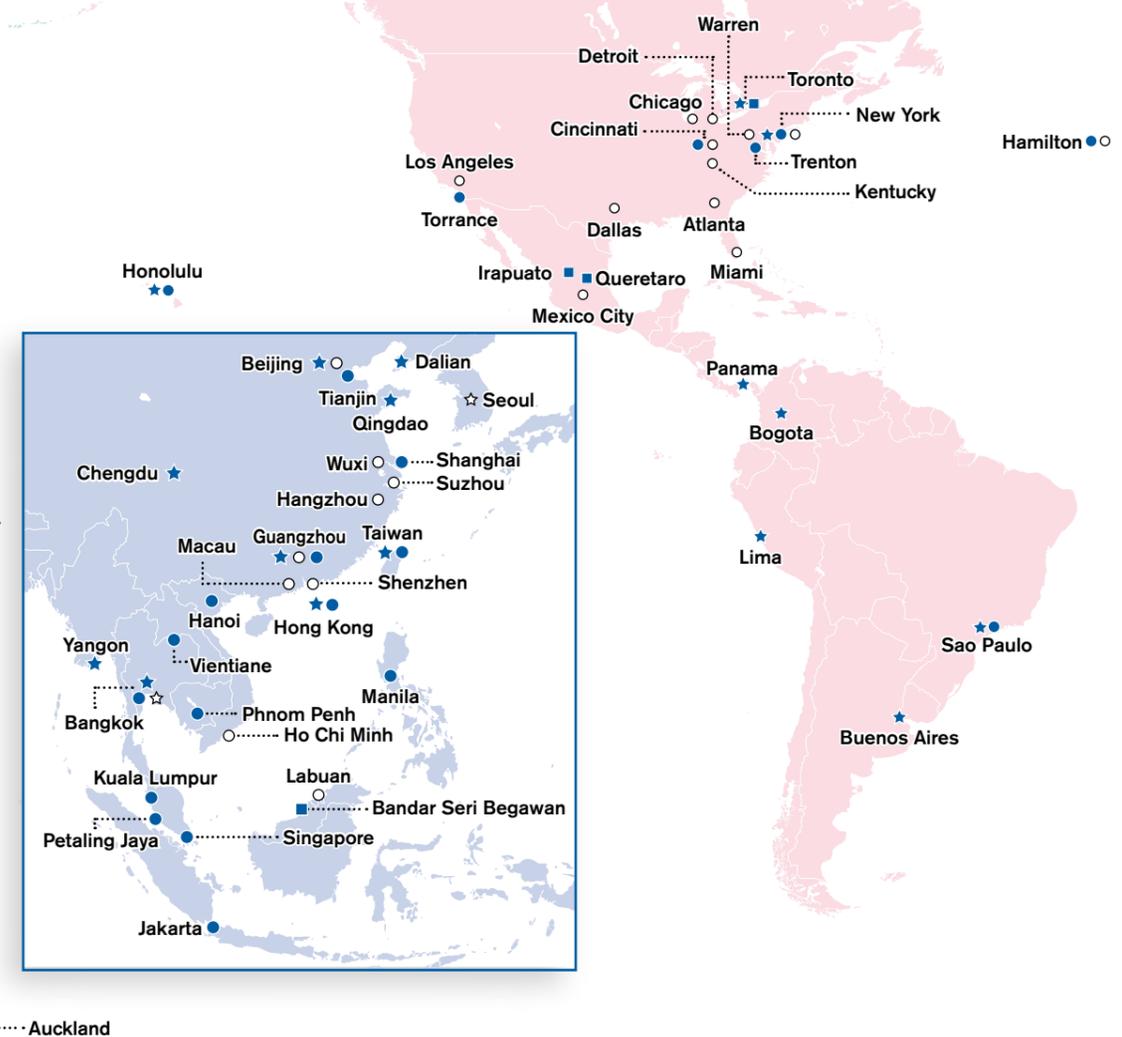
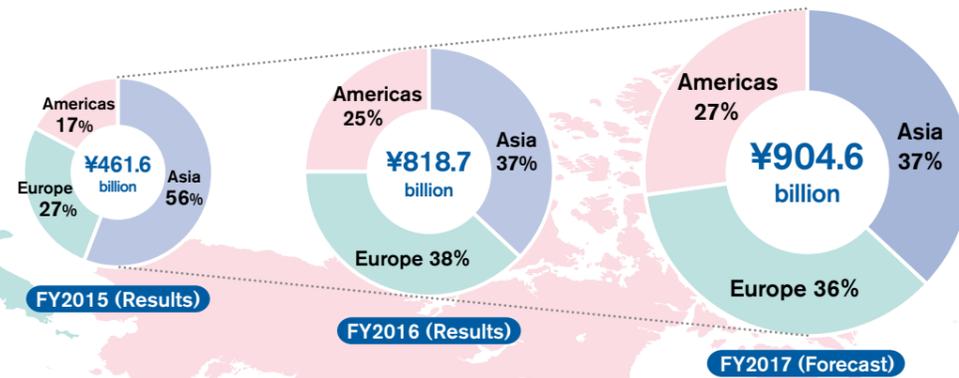
2000	Became the first Japanese non-life insurance company to establish a Lloyd's syndicate
2000	Began Toyota Retail Business in Germany and France
2012	Established a company in Germany
2015	Invested in Ceylinco Insurance (Sri Lanka)

## Expansion of Life Insurance Business

### ► Expansion and Diversification of Asian Life Insurance Business

2010	Investment in Hong Leong Assurance Berhad (Malaysia)
2011	Investment in Hong Leong MSIG Takaful Berhad (Malaysia)
2011	Investment in PT. Asuransi Jiwa Sinarmas MSIG (Indonesia)
2012	Investment in Max Life Insurance Company Limited (India)

## Net Written Premiums and a Well-Balanced Portfolio



## Developing Business in Major Countries/Regions

1924	1934	1956	1957	1958	1962	1966	1969	1970	1974	1977	1978	1997	1999	2001	2003	2005	2010	2015
U.K. (Office)*	Thailand	U.K.	U.S./ Hong Kong	Singapore/ Germany	Malaysia	Australia	Indonesia	New Zealand	Brazil	Philippines	France	Vietnam	Taiwan	China (Shanghai)	India	Cambodia	Laos	Myanmar/ South Africa (Office)*

Items not marked with \* indicate the year in which a direct insurance license was acquired.

## Strategies by Business Domain

## Risk-Related Services Business

Risk-Related Services Business is responsible for important roles within the MS&AD Insurance Group's value creation processes.

Risk-Related Services Business units provide diverse solutions globally in cooperation with Group units engaged in Insurance and Financial Services businesses, and thereby make an important contribution to realizing the Group's mission.

## Overview of Risk-Related Services Business

The MS&AD Insurance Group provides non-insurance products and services to meet customers' needs for risk solutions, such as risk management business, nursing care business, and assistance business.

## Risk Management Business

## Overview of Risk Management Business

The Group's risk management business is developing its operations based on a business model that emphasizes three concepts – "(1) early risk discovery, (2) risk magnitude and incidence frequency reduction, and (3) eventuated risk impact minimization." Insurance and other financial products are employed with respect of the third of those concepts, having the role of "alleviating economic impacts." The operational scope of risk management business units encompasses all three of the concepts.

Working in close cooperation with insurance business units, the risk management business units provide customers with the following types of risk-related services.

- 1 ▶ Provision of risk research and simple diagnoses along with loss prevention advice
- 2 ▶ Consulting services related to the formulating of a business continuity plan and a crisis management plan of companies and other organizations
- 3 ▶ Implementation of surveys and studies of the latest risk-related information and dissemination of that information via seminars and newsletters

The Group unit responsible for these operations is InterRisk Research Institute & Consulting, which is the largest risk consulting companies in Japan. Utilizing its bases in Singapore, Thailand, China, and Bermuda, InterRisk Research Institute & Consulting is globally developing its risk solution services business.



## Progress on Next Challenge 2017

The MS&AD Insurance Group distributed information about the Kumamoto Earthquake that struck in April 2016 in an InterRisk Report and a guidebook for staying safe in earthquakes. We also offered seminars and consulting about business continuity planning (BCP) as a part of our assistance for reconstruction in affected areas and for improving earthquake preparedness in other regions as well.

Governments have been guiding efforts to investigate new measures to prevent and mitigate disasters, considering the potential for catastrophic damage caused by climate change. In light of this, we have developed consulting services and offered information about new ways to prevent and mitigate disasters, including evaluations of natural capital and water-related risks. Partnering with local governments and financial institutions, the MS&AD Insurance Group helps with the creation of communities with disaster prevention and mitigation measures and with the revitalization of regions.

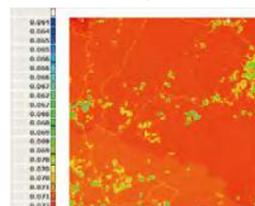
In addition, the MS&AD Insurance Group provides consulting services and information in line with diverse customer needs on topics including CSR, ERM, internal controls, risk management, information management, biodiversity and transportation safety management.

## TOPICS Preservation of Natural Capital and Support for Its Sustainable Use

Global companies are increasingly moving to evaluate their own dependence and impact on natural capital and incorporating this analysis in their decision-making management process.

InterRisk Research Institute & Consulting has begun to offer services that evaluate the value provided by natural capital (i.e., water supply, soil erosion prevention, ecosystem services like carbon storage) around the business sites of companies inside and outside Japan. We aim to help companies with their strategic environmental initiatives by enabling the analysis of climate change effects.

Analysis image  
(water supply services)



## Business Performance

	FY2013	FY2014	FY2015	FY2016
Number of risk surveys conducted	980	1,009	1,092	1,031
	Domestic 560 Overseas 420	Domestic 526 Overseas 483	Domestic 500 Overseas 592	Domestic 468 Overseas 563
Number of risk-related reports issued	82	75	68	84
Number of training/seminars arranged	3,513	3,873	4,199	3,997
Number of media appearances	323	232	306	377
Group Core Profit	¥200 million	¥200 million	¥200 million	¥300 million

## Other Risk-Related Services Business

## Nursing Care Business

The MS&AD Insurance Group inaugurated its nursing care business in 1989.

Currently, two Group companies are supplying high-quality nursing care services that provide seniors with comfort and peace of mind. MITSUI SUMITOMO INSURANCE Care Network operates fee-based retirement homes (currently operating two such facilities as of March 31, 2017) while Fureai Do-Life Services moved in 2000 to become the first Japanese insurance industry unit to operate elderly daycare centers (operating four such facilities as of March 31, 2017).

## Major Operating Companies

## InterRisk Research Institute &amp; Consulting, Inc.

InterRisk Research Institute & Consulting is the largest risk consulting company in Japan. It provides companies and government entities with consulting, risk surveys, research and investigation, information provision, and other services related to diverse kinds of risks. With overseas bases in Singapore, Thailand, China, and Bermuda, the company is seeking to provide risk solutions throughout the world.

Date established: January 1993 Number of employees: 216 (As of April 1, 2017)  
MS&AD Insurance Group shareholding: 100%  
URL ▶ <http://www.irric.co.jp/index.html> (Japanese language only)

## MITSUI SUMITOMO INSURANCE Care Network Co., Ltd.

MITSUI SUMITOMO INSURANCE Care Network operates and administers fee-based retirement homes offering nursing services, provides support for in-home nursing care (creating care plans), and dispatches home care workers (home helpers). By providing high-quality elderly care services, the company strives to create a society in which seniors can enjoy pleasant and cheerful lives.

Date established: October 1990 Number of employees: 290\* (As of April 1, 2017)  
MS&AD Insurance Group shareholding: 100% \*Excluding registered care workers.  
URL ▶ <http://www.msk-carenet.com/docs/index.html> (Japanese language only)

## ANSHIN DIAL Co., Ltd.

ANSHIN DIAL is a company that engages in comprehensive assistance call center operations through two call centers in Tokorozawa and Naha, boasting an affiliate network of more than 5,000 companies nationwide. ANSHIN DIAL provides its customers with services that alleviate their worries, such as roadside assistance and support fixing problems at home 24 hours a day and 365 days a year.

Date established: November 1989 Number of employees: 831 (As of April 1, 2017)  
MS&AD Insurance Group shareholding: 57.55%  
URL ▶ <http://www.anshin-dial.jp/> (Japanese language only)

## Fureai Do-Life Services Co., Ltd.

Fureai Do-Life Services is the first Japanese insurance industry unit to operate elderly daycare centers, and it currently operates four facilities in four regions.

All centers employ physical therapists and other staff to implement functional training programs and other programs associated with preventative and rehabilitation care. They also provide services that are deeply rooted in local communities, based on cooperation with NPOs and schools.

Date established: March 2000 Number of employees: 66 (As of April 1, 2017)  
MS&AD Insurance Group shareholding: 100%  
URL ▶ <http://www.fureai-do.co.jp/> (Japanese language only)

## Future Issues and Strategies

The Kumamoto Earthquake has raised awareness of the importance of preparing for a natural disaster. Needs are likely to increase for a wide range of measures to address the increasing complexity and diversification of risks that companies and local governments face, such as for building overseas risk management systems in accordance with acceleration in globalization, enhancing cybersecurity as IoT progresses, and advancing technologies in self-driving cars, FinTech and AI. Risk management is growing in importance across a broader range of fields. The MS&AD Insurance Group leverages Group synergies to provide high-quality risk solutions on a global basis while focusing efforts on the development of new solutions with an eye on medium- and long-term changes in the business environment. We will continue to provide optimal solutions for the various risks faced by our customers.

## Assistance Business

Through ANSHIN DIAL, we are developing comprehensive assistance call center business related to automobiles (road assistance services) and homes (house support services).

By responding to requests for assistance from people throughout Japan, we are cooperating with our partners in this field to relieve customers' worries and concerns and provide peace of mind.

Strategies by Business Domain

# Financial Services Business

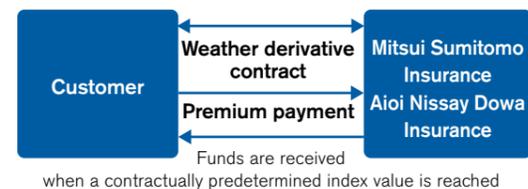
In its Financial Services Business, the MS&AD Insurance Group offers various finance-related solutions and services that make use of its special strengths. The MS&AD Insurance Group is developing and providing various new financial products and services to address increasingly diverse customer needs, leveraging the full range of its capabilities as an insurance and financial services group.

## Overview of Financial Services Business

The MS&AD Insurance Group offers the following kinds of finance-related products and services.

<b>ART Business</b>	Alternative risk transfer (ART) refers to techniques other than traditional insurance policies to transfer risks. ART entails the use of financial technologies and capital markets to provide risk solutions. ART products include derivatives and securitized risk products, with typical products including weather derivatives and earthquake derivatives. We are strengthening the client base and our product development capabilities while monitoring changes in the social environment and market conditions.
<b>Defined Contribution Pension Business</b>	We encourage the spread of individual defined contribution pension plans (DeCo), the demand for which has been increasing across society with declining birthrates and an aging population. We also offer meticulous consulting services for introducing corporate defined contribution pension systems. We aim to expand business as this market grows alongside revisions to laws and regulations.
<b>Retail Financial Services</b>	As a financial institution handling "Flat 35" loans in cooperation with the Japan Housing Finance Agency, we provide long-term, fixed-rate mortgages.
<b>Asset Management Business</b>	We work through Sumitomo Mitsui Asset Management—established in cooperation with Mitsui Sumitomo Group financial institutions—to undertake the investment advisory business, the investment trust management business and other kinds of business. With more than ¥10 trillion in assets under management, Sumitomo Mitsui Asset Management is one of Japan's largest asset management companies.
<b>Venture Capital Business</b>	Working through MITSUI SUMITOMO INSURANCE Venture Capital, we make investments in promising venture businesses and provide support for the growth and development of investee companies.

### ART: Outline of Weather Derivatives



**Examples:**

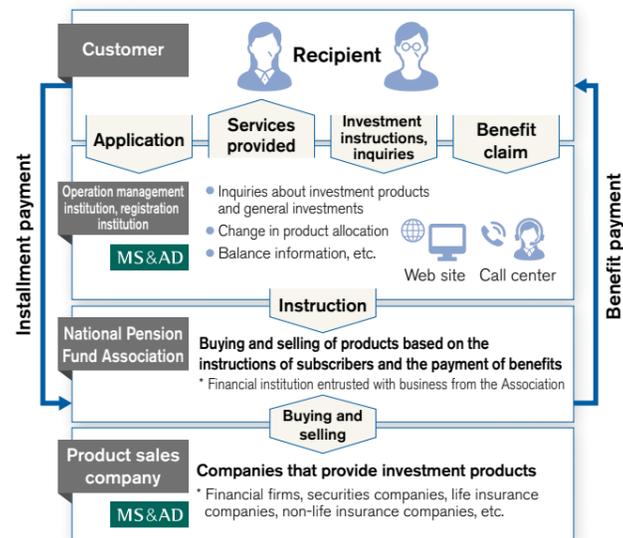
- Sales of summer apparel and beverages decline due to cool weather → Weather derivative indexed to temperatures
- Store customers and event visitors decline due to rain and heavy snowfall → Weather derivative indexed to rainfall, snowfall and snow accumulation

### Group Core Profit

FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016*
1.8	0.4	1.7	4.1	4.3	2.6	0.2

\* Profits declined in fiscal 2016 due to a major loss related to financial guarantees (cancellation loss).

### Scheme for Individual Defined Contribution Pensions



## Major Operating Companies

The Group's Financial Services Business is being developed principally by MSI, ADI, and the following operating companies.

#### Sumitomo Mitsui Asset Management Company, Limited

Assets under management: ¥11,822.0 billion (As of March 31, 2017)  
Date established: December 2002  
Number of employees: 618 (As of April 1, 2017)  
MS&AD Insurance Group shareholding: 20% (As of April 1, 2017)  
URL ▶ <http://www.smam-jp.com/english/index.html>

#### MITSUI SUMITOMO INSURANCE Venture Capital Co., Ltd.

Date established: December 1990  
Number of employees: 10 (As of April 1, 2017)  
MS&AD Insurance Group shareholding: 100%  
URL ▶ [http://www.msivc.co.jp/top\\_en.html](http://www.msivc.co.jp/top_en.html)

#### MS&AD Loan Services Co., Ltd.

Scope of operations: Entrusted administration services for customers within and outside the Group, credit guarantee services, and loan services for individuals  
Date established: October 1976  
Number of employees: 157 (As of April 1, 2017) MS&AD Insurance Group shareholding: 100%  
URL ▶ <http://www.ms-ad-ls.co.jp/site/index> (Japanese language only)

# Asset Management Strategy

Asset management at the MS&AD Insurance Group is undertaken with an emphasis on stability and liquidity in order to prepare for the payment of insurance benefits, and with the objective of ensuring stable returns on investments using ALM based on the characteristics of the insurance liabilities. The MS&AD Insurance Group aims to improve return on risk by dispersing investments in diverse and sophisticated investment assets while considering stability and reducing risk assets by accelerating the reduction of strategic equity holdings.

## Asset Management Conditions

### Response to the Bank of Japan's Negative Interest Rate Policy

Amid a low interest rate environment with Negative Interest Rate Policy at the Bank of Japan, we avoid investments in domestic bonds with negative yields and diversify investments in assets with relatively high expected returns (e.g., foreign bonds, foreign stocks, alternative investments) while considering risks in an effort to secure investment income.

### FY2016 Investments in Foreign Bonds, Foreign Stocks and Alternative Investments (Invested Amount Basis) (¥ billion)

	Total for three companies	Mitsui Sumitomo Insurance	Aioi Nissay Dowa Insurance	Mitsui Sumitomo Aioi Life Insurance
<b>Foreign bonds</b>	+93.1	+17.0	+61.5	+14.6
Of which, corporate bonds	+19.2	+0.0	+12.7	+2.4
<b>Foreign stocks</b>	+19.5	+9.6	+9.2	+0.7
<b>Alternative investments</b>	+27.2	+10.5	+16.7	+0.0
<b>Total</b>	+139.8	+35.1	+87.4	+15.3

### MS Amlin's Asset Management Policy

At MS Amlin, asset allocation seeks to optimize return on risk over the longer term based on risk tolerance and quantitative and qualitative market analysis with the aim of maximizing return on investment within the scope of acceptable risks.

In fiscal 2016, net investment income was slightly lower than targeted on account of high volatility in the market due to Brexit and other factors.

## Practicing Responsible Investment

On June 1, 2015, the MS&AD Insurance Group became a signatory to the Principles for Responsible Investment. In accordance with these principles, we engage in investment activities that take into consideration ESG (environmental, social, governance) during the decision-making process.



### Actual Example of ESG Investment

In February 2017, Mitsui Sumitomo Insurance, Aioi Nissay Dowa Insurance, Mitsui Sumitomo Aioi Life Insurance and Mitsui Sumitomo Primary Life Insurance jointly invested in Sustainable Development Bonds (SDBs) issued by the World Bank.

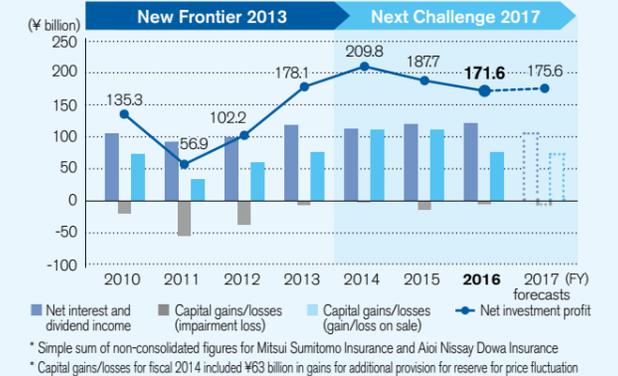
**Amount** US\$120 million (about ¥13.5 billion)

▶ Used to finance projects that support sustainable development in developing countries

Mitsui Sumitomo Insurance and Aioi Nissay Dowa Insurance help solve social issues by investing in funds

- ▶ Through investments in the Mirai Creation Fund, established by the SPARX Group, accelerate innovation and assist companies with technologies driving growth toward future society, such as artificial intelligence, robotics and technologies that help realize a hydrogen society
- ▶ Support the revitalization of regional economies through investments in funds established by the Regional Economy Vitalization Corporation of Japan for the purpose of nurturing companies and rapidly improving the management of companies that play central roles in regions

### Net Investment Income in the Domestic Non-Life Insurance Business



### Net Investment Income at MS Amlin



For more detailed information, please see the official websites of Mitsui Sumitomo Insurance and Aioi Nissay Dowa Insurance.

Policy for Japan's Stewardship Code  
URL ▶ <http://www.ms-ins.com/english/company/aboutus/stewardship/>  
<http://www.aioinissaydowa.co.jp/english/pdf/stewardshipcode.pdf>

Report about Stewardship Activities  
URL ▶ <http://www.ms-ins.com/company/aboutus/stewardship/pdf/20160930.pdf> (Japanese language)  
<http://www.aioinissaydowa.co.jp/corporate/policy/pdf/katsudohoukoku2015.pdf> (Japanese language)

## Special Feature

## Creating Value by Helping to Solve Social Issues

Our lifestyles have improved because of industrial development and scientific and technological advancement.

Medicine has also made outstanding advances, prolonging life spans.

However, these developments have had a profound impact on the global environment, as seen by unprecedented natural disasters and accidents as society has become more advanced and complex.

Through its insurance and financial services business, the MS&AD Insurance Group has taken up the challenge to “contribute to the development of a vibrant society and help secure a sound future for the earth” by working to solve four social issues: frequent occurrence of accidents and disasters, extensive natural disasters caused by climate change, mounting burden of nursing/medical care due to demographic aging and the decreasing vitality of local communities.

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

## Global Round Table

## MS&amp;AD's Story of Value Creation and Our Roles

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

**Q** How does your work contribute to society?

**Nannicha:** Thailand is a developing country economically, and Thai factories face more risks than those in advanced countries. In response, we regularly conduct risk surveys to enhance factory safety and reduce fire risk. We also consistently receive positive feedback from customers, who seem to really appreciate our work. We also conduct traffic safety training programs for companies every year. Following this training, the number of road accidents at some companies fell by around 26%, which shows that we are helping to reduce the number of traffic accidents in Thailand.

**Diane:** The Philippines experiences typhoons, floods and earthquakes throughout each year. Insurance helps to raise public awareness about these catastrophes, various related risks and the effects of disasters on people, their families and their livelihood. Given our knowledge, technologies and expertise on these risks, we are a trustworthy source of information to build public awareness and help ensure preparedness. In addition, insurance serves as a means to help customers cover the economic burdens if these risks materialize. We in customer service are doing our part to create a sustainable society by helping to foster customers who are familiar with insurance, sufficiently insured and environmentally aware. We provide effective services by ensuring that our points of contact are accessible to customers to reduce wait times while worrying about their properties. We also regularly conduct process reviews and solicit feedback from customers to improve our services. We learned from our Customer Satisfaction Survey that customers appreciate the various payment channels and options provided by our company.



**Yoshimitsu:** Japan faces the problem of an aging population, meaning that people need to save more than ever before for nursing care and medical treatment. Our company provides customers with money-saving products to support them during times of need. Although I don't see customers on a daily basis, we ensure that each department works smoothly to offer the best products and services to customers.

Having previously worked in customer service, I'm accustomed to receiving customer feedback. We received 2,000–3,000 calls per month. Many customers thanked us for our service, which gave me a strong sense of pride that our work was meaningful.

**Guoliang:** Like Japan, Singapore is seeing its population age and birthrate decline, making rising demand for elderly care and healthcare costs an issue that future generations will have to face. Along with being a means of transferring risk, insurance can help encourage healthy senior citizens. For example, we can reward policyholders who take active steps to maintain their health. We also provide support for research programs that develop innovative technologies to help reduce the number of nursing caregivers. Singapore increasingly has become a target for large-scale cyberattacks after becoming the regional hub of many global companies. Insurance plays a key role in enabling businesses to transfer cyber risks and can provide related risk management services.

I once dealt with a workers' compensation claim involving the death of a family's sole breadwinner. Wanting the family to financially overcome this crisis, we made this case a top priority. This case taught me that we provide a service that plays a critical role in society.

**Jack:** Society comprises both individuals and businesses that take appropriate risks to improve their situation. Providing the management of MS Amlin with detailed and accurate information on the ways in which our portfolio of risks functions and interacts enables us to support individuals and businesses by assuming risks that they are unable to bear by themselves. In so doing, clients feel reassured about taking on the desirable risks.

**Kathy:** As a means of protecting society, insurance helps society recover from unexpected difficulties such as illness, death, accidents or natural disasters. Insurance policies act as a solid foundation of protection for families and businesses during difficult times. Insurance

**Norio:** Like other countries worldwide, the United States is confronting the issue of global warming. Weather insurance and related derivative products can play a role in addressing this issue by easing weather-related financial risks. Our company provides products that hedge weather-related risks to utilities that use renewable energy including wind, solar and rainfall, along with agribusinesses and other companies that are heavily affected by weather-related risks. Our company recently established a modeling method for developing hedging products based on satellite observation data.



Global Round Table

- 1 Business Domain
- 2 Company
- 3 Responsibilities
- 4 What makes you proud of your company?
- 5 Word/phrase that describes MS&AD



Moderator  
Katsiaryna Rakitskaya  
Corporate Communications and Investor Relations Dept.  
MS&AD Insurance Group Holdings, Inc.



**Norio Furuhashi**  
(U.S.A.)

- 1 Financial Services Business
- 2 MSI GuaranteedWeather, LLC
- 3 As a treasurer, one of my functions is assisting marketing representatives at our group insurance company in the U.S. to promote our weather-related products.
- 4 As a global weather risk management company, we provide weather-related insurance and derivative products. We collect weather-related data such as satellite observation data globally, including Africa, which is then analyzed and developed into a variety of products.

5 Trustworthy



**Nannicha Pattara-akarapan**  
(Thailand)

- 1 Risk-Related Services Business
- 2 InterRisk Asia (Thailand) Co., Ltd.
- 3 I work as an engineer tasked with providing risk-related services to our group companies and customers, which include risk surveys, traffic safety training, news and other articles, and analysis.
- 4 This is a comparatively new company with many younger-generation employees who are eager to evolve, learn and stay abreast of global trends. We consistently work to implement new and innovative services, and the company is well-known in the Thai market.

5 Innovation



**Diane Macandog**  
(Philippines)

- 1 Non-Life Insurance Business
- 2 BPI/MS Insurance Corporation
- 3 I am a member of the Customer Helpline, which handles all client transactions such as policy inquiries, payment negotiations and feedback.
- 4 The Contact Center Project has enabled our company to become the Philippines' first non-life insurance company with an in-house customer service and claims service contact center serviced by a team of dedicated specialists who do their utmost for customers.

5 Cares for its people.



**Kathy Zdravevski**  
(Australia)

- 1 Non-Life Insurance Business
- 2 Aioi Nissay Dowa Insurance Company Australia Pty Ltd
- 3 I work as a settlement consultant focused mainly on claims negotiations and litigation management.
- 4 A rapidly growing company, we have gained a foothold in the Australian market based on our dealer networks and direct customers.  
As a Japanese company, one of our guiding principles is to improve continuously (*kaizen* in Japanese), so we carry out our duties in accordance with this principle.

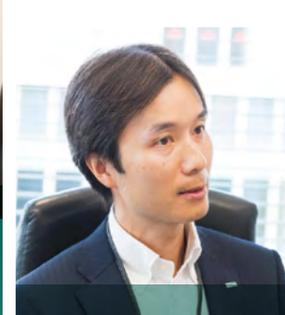
5 Customer focused



**Guoliang Luo**  
(Singapore)

- 1 Non-Life Insurance Business
- 2 MSIG Insurance (Singapore) Pte. Ltd.
- 3 I work as a claims executive who provides claims services mainly in the areas of commercial construction and liability.
- 4 Based on our brand slogan "Insurance that sees the heart in everything," we differentiate ourselves by pursuing innovative solutions to enhance customer satisfaction.  
We also invest in human resources and talent management by effectively training employees and providing undergraduate scholarship programs.

5 Can Do, Will Do, Shall Do



**Yoshimitsu So**  
(Japan)

- 1 Life Insurance Business
- 2 Mitsui Sumitomo Aioi Life Insurance Co., Ltd.
- 3 As a member of the Corporate Planning Department, I am responsible for developing products, services and business areas that contribute to the company's sustainable growth.
- 4 The company provided a wide range of assistance to customers following the Great East Japan Earthquake in March 2011, offering the options best suited to them. While carrying out operations in accordance with rules and regulations, it is important to meet customer needs in a flexible manner.

5 Diversity



**Jack May**  
(U.K.)

- 1 Non-Life Insurance Business
- 2 MS Amlin plc
- 3 I am employed as an actuary on the capital modeling team and make sure that our internal model remains unparalleled in the industry.
- 4 Maintaining an explicit policy of putting the customer first, MS Amlin works to benefit society as a whole along with all stakeholders over the long term.

5 Responsible

addresses the need for longevity by helping to maintain living standards and quality of life. Educating communities about risk helps to decrease property- and infrastructure-related losses.

I telephone customers daily to discuss their claims. This includes liability disputes or the need to obtain information from clients for a claim to proceed legally. One time, I handled a case of a woman whose daughter needed money because she was going to get married in a few weeks. I solved the issue with her claim and she seemed to be satisfied in the end, as was I. My work is fulfilling and makes a positive contribution to society.

**Q What is MS&AD's story of value creation to you?**

**Guoliang:** MS&AD's story of value creation is concisely expressed through the Group's core values, illustrating the Company's strong commitment to achieving our Mission and ultimately becoming a world-leading insurance and financial services group.

**Diane:** Our existence as an organization will have more meaning if we can contribute to the sustainability and improvement of society. As the organization

grows, we must continue to provide products and services that will make everyone's life better. I think it is important to document our story of value creation to ensure an awareness of the purpose of the organization and make sure everyone in the organization is focused on our objectives and mission.

**Kathy:** MS&AD's story of value creation is intended to keep in mind a global perspective while simultaneously highlighting key issues regarding society and dynamic business activities.

By operating in five business domains, MS&AD provides products and services that meet customers' increasingly diverse risks and needs.

**Yoshimitsu:** I think it shows us our position and in what ways we offer safety and peace of mind to society. We provide solutions for the various challenges faced by society. The Company's story of value creation effectively illustrates the objectives and mission that must be achieved through our daily duties.

**Jack:** MS&AD's story of value creation clearly and concisely expresses the core reason for why insurance companies exist. I think it is important for us to clearly understand that, if we concentrate on our fundamental goal of providing high-quality services that meet our clients' actual needs, business objectives such as profit and growth arise organically.

**Q What do you want to accomplish through your work at MS&AD?**

**Nannicha:** I would like our company to become No. 1 in risk-related services and trustworthiness in Thailand and throughout Asia. We want to develop and provide even more effective services for insurance companies. We also want to assist insurance companies in creating not only competitive products but also services.

**Diane:** I want to help our company become No. 1 in the market. This specifically entails helping to cultivate customers who have a decent understanding of insurance and are adequately insured, environmentally conscious and happy. We watch for such customers to promote our services to their families and friends, and provide feedback to help us improve and grow.

I want to help create a workplace in which skilled and knowledgeable employees can happily work with the same aims for customers and the company.

**Jack:** I want to see our various businesses become more interconnected and collaborate to maximize the benefits of being part of a global group. I think the mutual exchange of ideas, people and skills

among different departments, companies and countries leads to a more dynamic, flexible and effective company, thereby providing greater support and benefits to customers and the rest of society. I want to foster greater cooperation among all the companies within the group to ensure we maintain world-class risk management expertise in order to provide customers worldwide with top-level services they find acceptable.

**Guoliang:** I plan to continue adhering to the Company's brand strategy of ceaselessly increasing customer satisfaction and services. I also strongly believe in the need to keep learning in this fiercely competitive industry and would like to share with the young generation the importance of expanding your knowledge, which I think will ultimately contribute to the success of the Group.

**Yoshimitsu:** In Corporate Planning, we are incorporating AI technologies into our business strategies to catch up and surpass our competitors. Though small, our team can improve productivity companywide.

# Our Story of Value Creation

Through our global network, we identify the various risks faced by society and continue in our aim to “develop a vibrant society and help secure a sound future for the earth.”

## 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.

My name is Emma and I'm in charge of the Incident Response Unit at Insure The Box. As a part of the telematics insurance marketed by the company, black boxes are installed in the automobiles of customers. These on-board devices not only record driving behavior and driving data, but also automatically notify us of an alert when there is an accident.

We take great pride in this system and our ability to provide support in the most important service of saving lives in the unfortunate event of an accident.

I would like to share the story of a serious accident that happened to a teenage customer.

One day, we received an alert in the early morning hours at 3:51 a.m. from a customer's black box. We immediately called the customer on his mobile phone without a response. It was clear that a serious accident had occurred. We then contacted the local police and provided them with the GPS coordinates of the vehicle. Arriving on the scene after around 10 minutes, the police found the car off the road. There were indications that the car had crashed through a fence into the shrubs. The driver was pulled out of the wreck through the roof and airlifted to a London hospital by helicopter.

The police commented that they would not have located the car and driver so quickly without our help.

After being contacted by the police in the morning of that fateful day, the driver's father was no doubt both shocked and

relieved to hear that his son was involved in a major accident, placed in an induced coma to help reduce the swelling on his brain and would remain sedated in hospital for another two-and-a-half weeks.

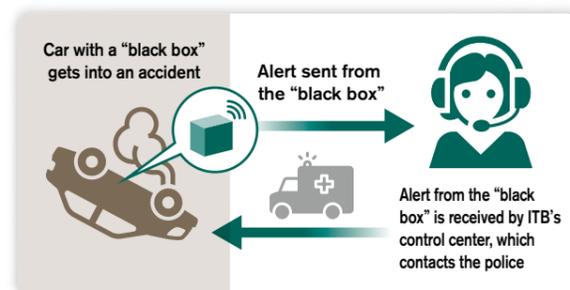
Thereafter, the driver recovered from his injuries and resumed his training to be a



painter and decorator. He has no recollection of the accident. The driver and his father both believe that without the alert from the black box and our contacting the police he could have died.

Going forward, we will continue to contribute to driving security and safety by providing customers with advanced services based on our telematics technology.

\*Insure The Box Limited (managing general agent) is a key subsidiary of Box Innovation Group Limited, the largest telematics insurer in the United Kingdom, which Aioi Nissay Dowa Insurance's European subsidiary acquired the majority stake in April 2015



Insure The Box Limited (ITB)\*  
**Emma Wall**



## Helping coastal vessels stay safe with smartphones

In the island nation of Japan, coastal vessels have played a central role in transporting cargo since the early days. Although not as well-known as trucks and trains, coastal vessels are the perfect mode of transportation for large cargo volumes over long distances, connecting ports within Japan. Today, approximately 5,200 coastal vessels work day and night as a vital distribution network that makes our lives easier.

Though an essential part of our lives, coastal vessels often lack supplementary information resources to help guide them safely to their destination. Compared to land transportation, marine vessels have less observational data about sea and coastal routes and less information about weather and sea conditions. Moreover, fleet managers on land have few means of ascertaining conditions on the seas around their vessels. On occasion, there is misinformation about current conditions between vessels and land bases.

In April 2017, Mitsui Sumitomo Insurance began providing the smartphone-based SIGNAL safety support service for coastal vessels with Weathernews Inc. SIGNAL relies on a

Mitsui Sumitomo Insurance  
Marine Underwriting Department,  
Hull Underwriting Section

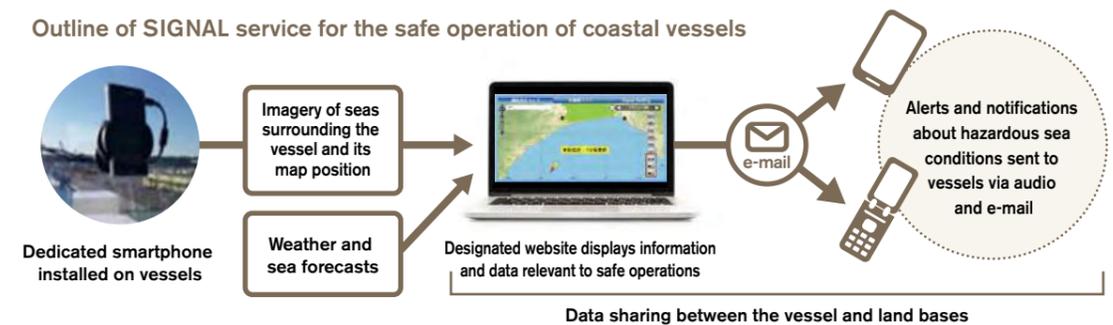
**Sunao Kataoka**



dedicated smartphone provided by Weathernews Inc. to send alerts and notifications about hazardous sea conditions via audio and e-mail to coastal vessels. On a designated website, users can see weather and sea forecasts and imagery of the waters around their vessels. In these ways, SIGNAL provides a visualization of information for the safe operation of coastal vessels. I believe this service will be useful for sharing information between vessels and land bases, as well as in improving mutual communication.

Through SIGNAL, we aim to provide a service that contributes the safe operations of coastal vessels to our customers in the marine transportation industry that underpins distribution in Japan.

### Outline of SIGNAL service for the safe operation of coastal vessels



## Comprehensive assistance for dealing with heightened cyber risks

In May 2017, the WannaCry ransomware cyberattack shook the world. Every day, companies and groups face an increasing number of targeted cyberattacks that have become more sophisticated and larger in scale. In the cyber security field, companies and groups are dealing with an increasingly complex environment, as demonstrated by new data protection regulations coming into effect in the European Union in 2018. Dealing with these risks has become a major issue for corporate management. In the event a cyberattack causes damage, a company could be liable for compensation for damages due to information leaks and the like, while having to spend money on countermeasures. If its information network becomes unusable, business grinds to a halt, resulting in lost profits. Mitsui Sumitomo Insurance and Aioi Nissay Dowa Insurance sell jointly developed insurance products that offer comprehensive coverage for the risk of cyberattacks.

At a customer's request, we will introduce an experienced specialist in cybersecurity to help them quickly recover from a cyberattack.



Mitsui Sumitomo Insurance  
Property & Casualty Underwriting  
Department, Liability Insurance Section

**Yu Ishido**



Aioi Nissay Dowa Insurance  
Commercial Product Underwriting Department,  
Casualty Insurance Section

**Yasushi Yamada**

For SME customers, we offer free training on preventing targeted e-mail attacks and a service to calculate damages from a cyberattack. While giving these customers a concrete idea of what a cyberattack entails, we convey the importance of taking measures to protect against cyberattacks.

Risks associated with cyberattacks will likely increase in the future. We will be there to help our customers maintain healthy corporate management with both insurance products and services.

## 2 Confronting climate change and the deterioration of the natural capital

### Rapid support through our global network

We are dedicated to providing proactive and prompt claim service to our policyholders at all times and especially when a catastrophic ("Cat") event occurs.

Our successful handling of Cat claims relating to hurricanes and other severe weather-related events such as wild fires involves the coordination and effort of many individuals across several departments, including Claims and Underwriting. The main intent of our Cat plan is to identify potential locations at risk, provide a quick claim response to policyholders and report accurate claim loss financial information to our internal and external business partners.

As soon as a potential Cat event is identified, we move quickly to put our Cat Plan in motion. For example, in August 2015 there were several hurricanes in the Pacific near Hawaii. We quickly identified insured properties located in the path of the storms. We contacted our partner vendors such as adjusters to make sure they were prepared to travel to Hawaii to assist us with adjusting claims. Then we made calls to key accounts and

Mitsui Sumitomo Marine  
Management (USA) Inc.  
Property Claims Unit

**Michele A. Best**



brokers to confirm our readiness to respond. Thankfully, the hurricanes did not make a direct hit on any of the islands.

When a Cat event occurs, the primary goal of our claims department is to move quickly to make prompt policyholder contact, inspect and assess damages to affected insured locations, and to provide resources in order to get the insureds' business back up and running as soon as possible. This may include the expedited advance of funds to the policyholder. We have an extensive global network of experts including engineers, building consultants and forensic accountants who are on call and ready to partner with our team to promptly adjust the claim wherever it is.

### Supporting the sustainable use of natural capital

Did you know that it takes 2,400 liters of water to make one hamburger? This much water is needed to make the ingredients that go into a hamburger, such as the beef, lettuce and cattle feed.

More than water, we depend on natural capital through land and the procurement of ingredients. However, this natural capital is losing its ability to support our lifestyles. Taking water as an example, some areas around the world already suffer from severe water shortages, causing issues that directly affect corporate management, such as the shutting off of water supplies to industrial parks, rising raw material prices and taxes on industrial water use. By 2050, global demand for water will be 1.5 times what it is today. Moreover, climate change is forecast to drastically reduce the amount of water supplies in some regions, making the issues even worse.

Last year, InterRisk Research Institute &

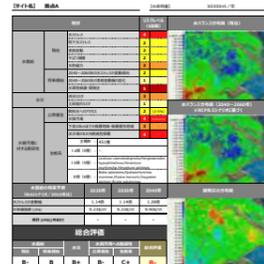
InterRisk Research Institute & Consulting, Inc.  
Risk Management Department Third  
CSR & Environment Section

**Kousuke Terasaki**



Consulting, Inc., developed a water risk assessment service, where it evaluates risks associated with water demand and supply around a customer's production sites based on forecasts that consider climate change. We have received many inquiries and performed risk assessments at 90 sites in 11 countries over the past year. We are often asked to analyze regions at high risk in India, the United States, Australia and China. Customers have said that our analysis has been helpful in identifying premises that require measures or further monitoring, giving us encouragement.

At the request of customers, we also provide assessment services for natural capital other than water. We will focus on expanding our range of service offerings, such as beginning with providing risk assessments of supply chains for natural capital in August 2017.



Water risk assessment sheet

## 3 Ensuring a healthy and affluent lifestyle

### Helping people live long healthy lives

Disease patterns have changed because of the rapid aging of the population and changes in living environments. As a percentage of all diseases, the ratio of people with cancer, cardiovascular disease, cerebrovascular disease, diabetes and other lifestyle-related ailments has increased.

In April 2017, we began offering Karada Care Navi upon seeing the need to provide a service that heightens people's awareness of their own health by drawing their focus to their own bodies in order to lead healthy lifestyles. Through this service, we periodically deliver information that is immediately useful and relevant to people based on four categories: "diseases and treatments good to know," "health tidbits," "eating healthy" and "healthy lifestyles." This information includes a risk checklist and prevention tips for diabetes, which affects many people in their middle and late ages; the causes, treatments and prevention tips for angina pectoris, a disease that can strike during the prime of one's life; and other information on worrisome diseases, medical treatments and biology of human body. We will continue to help our customers live their lives with a smile on their face.

Mitsui Sumitomo Aioi Life Insurance  
Marketing & Sales Planning Department,  
Sales Planning Section

**Chikako Hirasawa**



As medical technologies advance and medical needs diversify, we will focus our energies on educating our customers with information about the latest medical technologies. We have created the popular Advanced Medical Care.net website, where people can view information about cutting-edge medicine, and the Advanced Treatment Navigator website, where people can access basic knowledge about cutting-edge medical treatments and search for healthcare providers that use it. We will continue to care our customers and their families with support services and easy-to-understand information relevant to their health and medical treatments.



## 4 Supporting the development of local communities

### Valuing our interaction with local communities

Aioi Nissay Dowa Insurance has established the Regional AD Club as a means of being closer to communities in line with Our Values. The Club supports local companies based on three pillars of engagement: provision of information, interchange among participating companies and giving back to the community. These efforts help us keep in touch with communities while helping regions and businesses get active.

With Club membership at around 30,000 companies in 47 prefectures across Japan, we support our members through the Internet (our website, e-mail newsletter) and face-to-face interactions (seminars, exchanges, consultations and local contribution activities).

Of these three pillars, we are focusing on provision of information. The core businesses of member companies are introduced and promoted on the Regional AD Club website and sent to members via the e-mail newsletter, helping disseminate timely and useful information for corporate management. Every year, more than 300 seminars are held



Aioi Nissay Dowa Insurance  
Market Development Department,  
Market Development Section

**Yuuko Saitama**



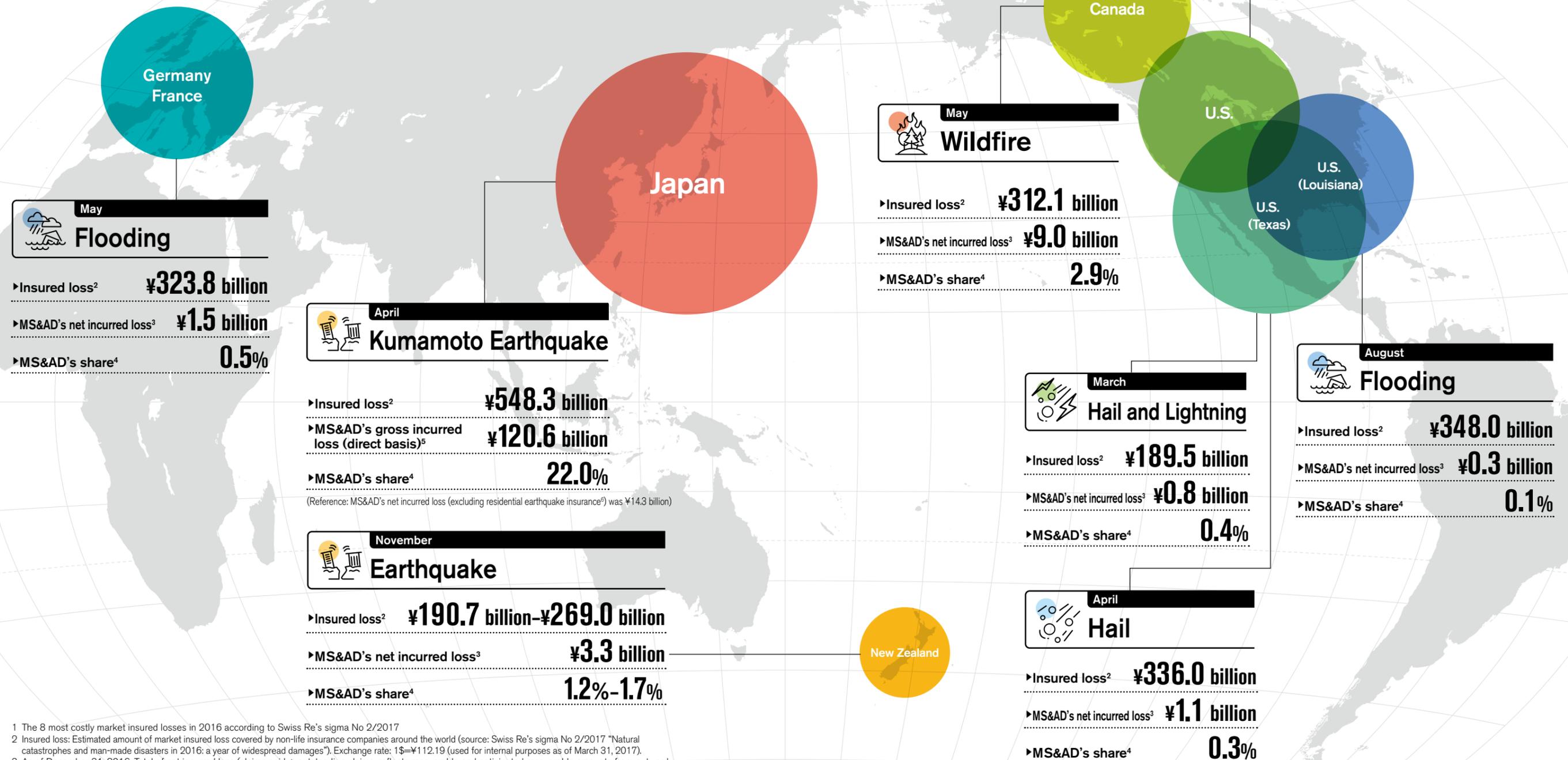
about various topics, such as labor risk countermeasures and industry-classified seminars such as the nursing care business are also held. Moreover, our expert staff provide advice about various management issues and offer human resource training assistance. Through this support for management, we strengthen our connections with local companies and deepen our local marketing abilities, which also leads to insurance business.

In fiscal 2016, our initiatives to give back to the community (the third pillar) focused on relief assistance for reconstruction after the Kumamoto Earthquake. We set up marketing booths at various events and seminars to sell products made locally in Kumamoto. At 15 events across the country, more than 4,000 products were sold at these booths. By holding events involving agents, government entities and groups, we strengthen our relationships with local networks.

We will continue these efforts as a part of regional revitalization across Japan to bring vital energy back to regions.

# World Map of Major Disasters in 2016<sup>1</sup>

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.



1 The 8 most costly market insured losses in 2016 according to Swiss Re's sigma No 2/2017  
 2 Insured loss: Estimated amount of market insured loss covered by non-life insurance companies around the world (source: Swiss Re's sigma No 2/2017 "Natural catastrophes and man-made disasters in 2016: a year of widespread damages"). Exchange rate: 1\$=¥112.19 (used for internal purposes as of March 31, 2017).  
 3 As of December 31, 2016. Total of net incurred loss (claims paid + outstanding claims, reflects recoverable and anticipated recoverable amounts from outward reinsurance contracts) by Mitsui Sumitomo Insurance and Aioi Nissay Dowa Insurance (excluding the Head Office Reinsurance Business) and their overseas subsidiaries. Excludes claims less than ¥50 million at entities outside the affected countries (excluding MS Amlin and MSIG Insurance Europe).  
 4 Ratio of net incurred loss of Mitsui Sumitomo Insurance, Aioi Nissay Dowa Insurance and their overseas subsidiaries to the insured loss.  
 5 As of March 31, 2017. Gross incurred loss on a direct basis of Mitsui Sumitomo Insurance and Aioi Nissay Dowa Insurance (claims paid + outstanding claims, does not reflect recoverable and anticipated recoverable amounts from outward reinsurance contracts).  
 6 See the "Glossary of Insurance Terminology" section (P. 54) for details about the residential earthquake insurance system in Japan.

ERM

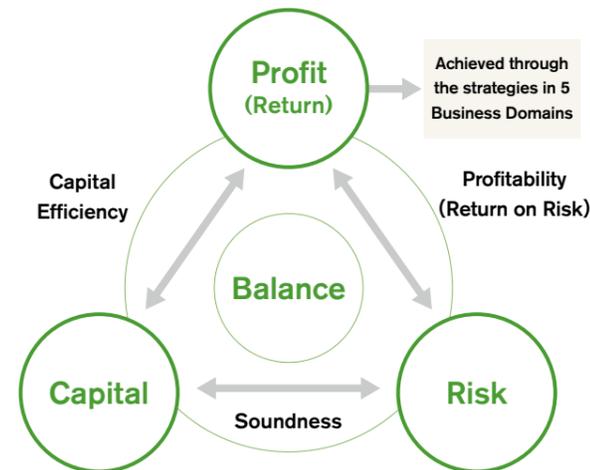
# Enterprise Risk Management

Along with the completion of “Reorganization by Function,” promoting “ERM” is positioned as one of the two key drivers of the MS&AD Insurance Group’s “Next Challenge 2017” medium-term management plan. ERM (Enterprise Risk Management) plays an important role in enabling us to raise “Group Core Profit,” a numerical management target of “Next Challenge 2017” and also attain an “AA-level financial base.”

## Overall Picture of ERM

### Roles and Functions of ERM

- In insurance company management, ERM is an important means of managing the balance among three management indicators – profit (return), risk, and capital.
- ERM requires the quantitative and qualitative evaluation and appropriate management of risk from a comprehensive perspective.
- ERM requires measuring the net asset value (capital) and maintaining a balance between capital and risk. In particular, because fluctuations in financial security markets, etc., cause fluctuations in capital and risk, it is important to maintain soundness based on an understanding of those situations.



### Indicators Emphasized in ERM

<b>Capital Efficiency</b>	Group ROE = $\frac{\text{Return (Group Core Profit)}}{\text{Capital (Consolidated net assets)}}$
<b>Profitability (Return on Risk)</b>	ROR = $\frac{\text{Return (Group Core Profit)}}{\text{Risk (Integrated risk amount*)}}$ VA = $\frac{\text{Return (Group Core Profit)} - \text{Risk (Integrated risk amount)} \times \text{Cost of Capital}}{1}$
<b>Soundness</b>	ESR = $\frac{\text{Capital (Net asset value**)}}{\text{Risk (Integrated risk amount)}}$

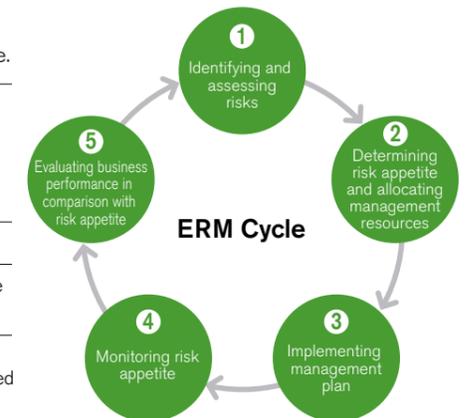
\*1 The integrated risk amount represents the maximum amount of losses and total value of associated insurance payments that are likely to be encountered once in 200 years (= probability of 0.5%). It is marked to market value.  
\*2 Net asset value is an indicator used as a management buffer to enable thorough net asset management. In addition to net assets on the B/S, it includes such items as the catastrophe reserve, life insurance embedded value, other equity liabilities, etc.

<h3>ROR (Return on Risk)</h3> <p>ROR is an indicator that expresses how much profit can be obtained with respect to the subject risks assumed. In order to assume risk, it is necessary to secure capital that balances that risk. Consequently, in business where ROR is high (in other words, business where profit is large relative to the risk assumed), the profit that can be earned is large relative to the capital necessary.</p>	<h3>ESR (Economic Solvency Ratio)</h3> <p>ESR is an indicator of capital adequacy with respect to the risk amount. Risk amounts are calculated based on the statistical quantification of risks of losses and price fluctuations associated with businesses and asset portfolios, and the integrated risk amount represents the total amount of risk assumed by the Group as a whole. By employing calculations based on a 99.5% confidence level of the predicted losses likely to occur once in 200 years and setting the Group’s ESR target level at 200%, the Group is intending to prepare twice the amount of capital required to cover losses that statistically have a recurrence interval of 200 years. Even if such losses were to actually occur, the result would simply be that the amount of capital would be halved. (For ESR status, please refer to “Improved Financial Soundness” on P. 16)</p>
<h3>VA (Value Added)</h3> <p>Value Added (VA) indicates how much value can be generated with respect to the risks assumed. While ROR (Return on Risk) indicates the rate of return that can be obtained with respect to the risks assumed, VA is an indicator of absolute value.</p>	

## ERM Cycle

ERM is implemented through a management PDCA (Plan, Do, Check, Act) cycle.

<b>Plan</b>	① By identifying and assessing risks, the Group quantitatively and qualitatively measures the risks it bears. (See section ‘A’ below.) ② By determining risk appetite and management resource allocation, a management plan is drafted. (See section ‘B’ below.)
<b>Do</b>	③ Business is driven based on the management plan.
<b>Check</b>	④ The actual risk appetite is monitored. In addition, ⑤ business performance is evaluated in comparison with risk appetite. (See section ‘C’ below.)
<b>Act</b>	In cases when the <b>check</b> process has discovered problems, response and remediation measures are drafted in the <b>plan</b> process and then implemented in the <b>do</b> process.



## A Specifying Risks

### Material Risks of the Group (fiscal 2017)

The Group specifies important risks to be controlled by management and formulates a Management Action Plan as well as regularly monitors the situation with respect to each type of risk to maintain a focus on the potential impact of those risks on the Group.

- |   |  |
|---|--|
| 1 Domestic incidence of large-scale natural disasters (earthquakes)                 | 7 Increases in credit risk and bad debt  |
| 2 Domestic incidence of large-scale natural disasters (other than earthquakes)      | 8 Incidence of business suspension due to frequent violation of laws and regulations (inappropriate insurance sales or insurance payments)                           |
| 3 Overseas incidence of large-scale natural disasters                               | 9 Incidence of business suspension and information leakage due to cyberattacks, increased frequency of leaks and/or illegal use of personal/confidential information |
| 4 Large drop in the domestic stock market   | 10 Frequent incidence of IT system failure and incidence of critical IT system failure*  |
| 5 Substantial yen appreciation  | 11 Incidence of a new (virulent) influenza pandemic  |
| 6 Large fluctuations in yen interest rates, continuation of negative interest rates | 12 Incidence of serious labor issues (excess work, harassment, etc.), loss of social credibility   |

\* Includes cases in which large-scale system development projects progress slower than expected, fall short of target, are overbudget and/or where the effects fall short of expectations.

### Approach and measures related to cybersecurity (No. 9)

The Group has adopted a multilayered approach to information security, including measures aimed at preventing unauthorized access to systems, measures to prevent information from leaving the system, and internal security measures to detect and prevent the spread of viruses or other malware within the Group systems. We are also implementing measures on a personal and organizational scale, including employee education and awareness activities, as well as exercises simulating such an attack.

To defend against such security threats, the Group has established a specialized body (MS&AD-CSIRT\*), and we are gathering data on information system vulnerabilities and will be sharing such information among the Group companies.

\* Acronym for “Computer Security Incident Response Team.” This team specializes in information security within the Group.

## B Establishing Management Plan Based on the Determination of Risk Appetite and Allocation of Management Resources

### Risk Appetite Policy

- To secure financial soundness, the risk amount is measured on a companywide basis.
- The target levels of financial soundness and capital efficiency are determined and standards for investment in business including M&A transactions are established.
- Risk appetite (risk selection and control policies for pursuing optimal balances) is determined.
- Capital is allocated to each business and investment, and risk limits (acceptable level) are set for each business and investment.
- Decisions are made regarding material risks to be monitored, the setting of monitoring indicators, etc.

### Capital Allocation System

- Optimize capital allocation from the perspective of return on risk.
- At the five domestic Group insurance companies, determine capital allocation amounts consistent with the risk appetite policy.
- Carry out monitoring during the fiscal year, and consider and implement capital allocation amount revisions and other measures as necessary.



### Management Plan

- Establishing of business portfolio strategy
- Establishing of business domain strategies
- Establishing of business investment strategy
- Establishing of profit improvement measures
- Setting of numerical management targets

## C Monitoring Risk Appetite and Business Evaluation

### Monitoring

- Management using risk-based metrics (ROR, VA, etc.)
- Consideration and drafting of countermeasures and improvement measures as necessary

### Business Evaluation

- Based on the results of monitoring, evaluate projects in line with risk appetite
- Evaluation criteria: Profit scale by business domain, profitability by business domain, capital efficiency by business domain, ROR by business domain, etc.

## Control of Risk

Positioning risk management as a top-priority management task, the MS&AD Group has established the MS&AD Insurance Group Risk Management Basic Policy which underpins common risk management exercised throughout the Group. Specifically, the policy identifies the principal types of risk with impact on the Group's business portfolio, stipulates how risk factors are to be evaluated both quantitatively and qualitatively, and promotes risk management based on those evaluations. More-detailed information on the Group's risk management systems is posted on the Group's official website.

## Insurance Business Risk

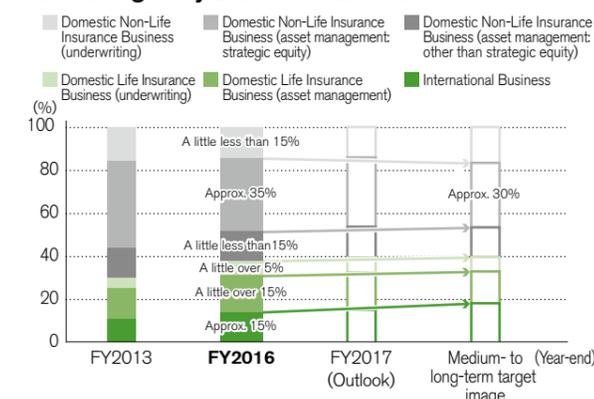
There are a variety of risks inherent in the insurance business, but these can be divided into four basic categories: insurance underwriting risks, asset management risks, liquidity risks and operational risks. The Group remains active in evaluating risk management conditions and the risk management system. We continually measure risk levels and regularly determine if risk levels are consistent with the capital strength of the Group.

<b>Insurance Underwriting Risks</b>	Insurance underwriting risks are risks associated with underwriting losses due to either the frequency of insured events or the amount of damage from accidents and disasters significantly surpassing the projection on which the insurance premiums are calculated.
<b>Asset Management Risks</b>	Asset management risks are risks associated with a reduction in value of assets, including off-balance-sheet assets, or income owing to the fluctuation of interest rates, stock prices, exchange rates, real estate prices, rents and the like, or the financial condition of investee entities, and risks that we cannot hold assets in alignment with the characteristics of liabilities, such as claim payments.
<b>Liquidity Risks</b>	Liquidity risks are risks that cash shortages caused by large cash-outs, such as claims payments due to major disasters, force us to secure financing by selling assets at significantly disadvantageous prices (cash management risk), or risks that market disturbances prevent market transactions or force disadvantageous trades (market liquidity risk).
<b>Operational Risks</b>	Operational risks are risks that cause losses due to the failure of the operational process or business system, misconduct of executives or employees, or external incidents, such as accidents or disasters.

## Changes in the Risk Portfolio

By carefully managing risk control based on the risk appetite policy, we aim to build the following kinds of risk portfolios. Specifically, we are accelerating sales of strategic equity holdings while moving ahead with the expansion of insurance underwriting risks.

### Risk Weight by Business Domain\*



\* The weight of each business domain risk in the case that the sum of the planned risk weights is 100%.

## Reduction of Equity Risk

MSI and ADI have strategic equity holdings of the stock of transactional partners based on the premise that they will be long-term holdings for the purposes of obtaining stable fund management returns from dispersed investments and of comprehensively maintaining and strengthening transactional relations.

However, for the purpose of maintaining a solid financial position, there is a need to proceed with the shrinkage of risk assets concentrated in strategic equity holdings.

For this reason, the Group is moving forward steadily with risk reduction by defining target levels for the medium- to long-term and by defining sales goals in the medium-term management plan.

## Medium- to Long-Term Target Levels

Weight of risk of strategic equity holdings in the Group	Approx. 30%
Weight of market prices to the Group's consolidated total assets	Approx. 10%

## Planned Reduction in Strategic Equity Holdings

Plan	FY2014-2016 Performance	Progress Rate
¥500.0 billion*	¥405.3 billion	81.0%

\* In November 2015, the plan value was raised from the original ¥300 billion.

## Advancing Risk Management

### Efforts to Enhance the Methods of Risk Management

Aiming to accurately assess and manage risk, the Group is moving ahead with efforts to enhance the methods of risk management. In fiscal 2014, the Group built a unified systems base for all Group units, including overseas bases and started full-scale application from fiscal 2015. Thereby, the Group enhanced the methods of risk management while also realizing the unification of data management processes for the Group as a whole.

### Strengthening Natural Disaster Risk Management

As natural disaster risk is one of the most-important kinds of risk for the Group, we are undertaking the following measures aimed at controlling such risks and augmenting capital efficiency.

- Controlling insurance underwriting risk**  
 Revising premium rates and products for property insurance and introducing domestic and overseas underwriting limits based on consideration of risk concentration situations
- Arranging reinsurance to transfer risk**  
 Arranging reinsurance to adjust risk amounts while also confirming the soundness of reinsurance companies and avoiding excessive concentration regarding transactions with specified reinsurance companies to reduce reinsurance credit risk

Please see our official website for more detailed information on risk management

### Website content

- Risk management**  
<http://www.ms-ad-hd.com/en/company/governance/risk.html>
- Risk management basic policy
- Risk management structure
- Insurance business risks
- Risk management in international business
- Crisis management systems (including Business Continuity Management System)



Maintaining a balance among the three management indicators—profit (return), risk and capital—and ensuring sustainable growth

Senior Executive Officer  
Chief Risk Officer (CRO)

Namepei Yanagawa

## Conditions at the End of Fiscal 2016

Developments in fiscal 2016, including financing ¥150 billion through the issuance of subordinate bonds by the holding company, the ongoing effort to reduce equity risk, and the formulation of revenue and expenditure targets in line with our risk appetite policy, were based on our aim to maintain a balance among profit (return), risk and capital. Based on these efforts, the Group saw an improvement in ROE and ROR in fiscal 2016, mainly due to enhanced earnings in the Domestic Non-Life Insurance Business. ESR recovered from 181% in fiscal 2015 to 195%, with improvements also seen in capital efficiency, profitability and financial soundness.

The Group from fiscal 2016 also designated a CFO and a CRO. As CRO, it is my responsibility from a risk perspective to monitor the CFO.

## Improved Risk Management Thanks to Synergies with MS Amlin

MS Amlin was added to the Group in February 2016. This has allowed us to diversify our risk portfolio, which previously was weighted heavily toward Japan and Asia, to include Europe and the Americas, which provides further balance to the risk portfolio itself.

The Group risk management system is led by the holding company's risk management department, which is charged with conducting integrated risk management for the Group to generate synergies. MS Amlin, which earned leading global rating agency Standard and Poor's high ERM rating, became a group member in February 2016 and the incorporation of the company's risk management methods served to further improve risk management for the Group as a whole.

As an example, we note that the internal model used by MS Amlin in measuring risk meets the requirements of EU Solvency II and has been approved by the U.K. financial authorities. Beginning in fiscal 2016, we compared the internal models of MS Amlin and the Group and incorporated MS Amlin's methods into the Group's own model, improving the model validation process. We also have promoted the exchange of actuaries between the holding company's risk management department and MS Amlin, further bolstering the Group's know-how in the field.

## The Impact of Negative Interest Rates on the Domestic Life Insurance Business

In line with the January 2016 introduction of negative interest rates in Japan, Mitsui Sumitomo Aioi Life Insurance launched product revisions and restrictions on the sale of savings-type products. With the goal of further bolstering its financial structure, the holding company launched a capital increase for Mitsui Sumitomo Aioi Life Insurance.

## Implementing Measures to Entrench ERM

The Group enacted several measures aimed at thoroughly entrenching Enterprise Risk Management (ERM) within the organization.

Moreover, through the monitoring of ROR and VA on a Group basis, MS&AD has been able to spread awareness of ERM throughout the organization.

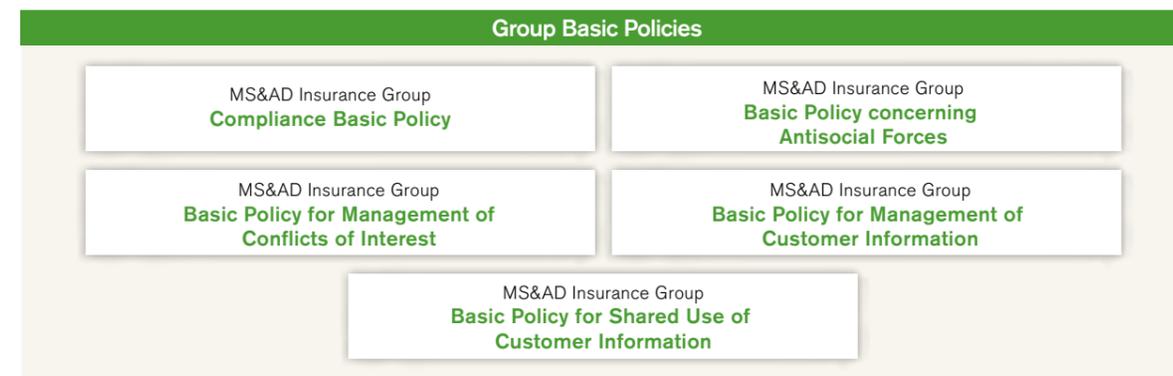
## ERM

## Compliance

Positioning compliance as a top Group management priority, the MS&AD Insurance Group requires that all its officers and employees rigorously comply with all laws and regulations related to business activities.

### ▣ Groupwide Basic Policy on Compliance

A basic policy common to the entire Group has been established, and basic philosophy is shared within the Group. Based on this policy, each Group company establishes internal regulations and rules and promotes compliance.



### ▣ Systems and Organization

MS&AD Holdings has established a specialized unit and organization to comprehensively oversee Group compliance matters. (See the table below.)

In addition, the boards of directors and compliance departments of each domestic and overseas Group company create organizations tailored to each company's actual situation and work to promote and manage compliance measures.

Name	Principal Responsibilities and Activities
<b>Risk and Compliance Committee*</b>	<ul style="list-style-type: none"> <li>Monitoring the compliance situation for the entire Group as well as related consultation and coordination</li> <li>Reporting on important matters to the Board of Directors</li> </ul>
<b>Compliance Department</b>	<ul style="list-style-type: none"> <li>Overseeing and managing compliance-related activities throughout the Group</li> <li>Report each Group company's monitoring results to the Risk and Compliance Committee, the Board of Directors, etc.</li> </ul>
<b>International Supervisory Department</b>	<ul style="list-style-type: none"> <li>Overseeing and managing compliance-related activities of International Business</li> <li>Report important International Business compliance-related matters to the Board of Directors, etc.</li> </ul>

\* One of the Board of Directors' task-specific committees. (See P. 37)

### ▣ A Mechanism to Ensure the Effectiveness of Rules and Systems

The Board of Directors of each Group company approves a Compliance Program that serves as a company-wide compliance action plan. Reports on the implementation and issues of the program are submitted to the compliance committees and Boards of Directors of each company. In addition, each company prepares its own Compliance Manual specifying laws, regulations and rules to be observed by corporate officers and employees; promotes awareness of fundamental compliance issues; and holds regular employee and agent training based on the Compliance Program.

Please see our official website for more detailed information on compliance.

Website content

- **Compliance**  
(<http://www.ms-ad-hd.com/en/company/governance/compliance.html>)
- Compliance Basic Policy
- Compliance promotion structure
- Activities (Compliance Program, Compliance Manual, compliance-related training, compliance-related inspection, monitoring Group companies and internal reporting system)
- Compliance promotion structure in international business operations (prevention of corruption and bribery)
- Tax compliance efforts (compliance with laws, relationships with tax authorities, response to BEPS\* Project)

\* Base Erosion and Profit Shifting

## Corporate Culture and Human Assets Development

## Quality Improvement Initiatives

The Group's basic strategy, as stated in our medium-term management plan, is to work to improve the quality of products and services based on communication with stakeholders and thereby earn their trust and contribute to the solving of social issues.

### ▣ Leveraging the Voices of Our Customers to Improve Quality

We have created a policy for responding to customers to gather a wide range of opinions from them, including their requests for consultations, their hopes and their complaints, so that we can further improve quality within the Group. With this policy as a guide, the domestic insurance companies in the Group can make use of customer feedback to improve operations and provide products and services living up to the needs of our customers.

When making a contract and making an insurance payment, MSI, ADI, Mitsui Direct General and MSI Aioi Life conduct customer surveys and use the information obtained to boost product quality, including through improved services and the development of new products. The customer survey asks customers about their level of satisfaction when making the contract, the level of satisfaction<sup>1</sup> in regard to the company's response to any accident and how willing they would be to recommend<sup>1</sup> MS&AD Insurance to others. Moreover, MSI Primary Life conducts customer surveys for customers making new contracts and customers revising their contracts relative to the understandability of the contracts.

The major items (satisfaction and potential for recommendations) for MSI, ADI and MSI Aioi Life are designated as Key Performance Indicators (KPIs)<sup>2</sup> for the promotion of CSR efforts.

<sup>1</sup> Please refer to P. 21 (non-financial highlights) for customer satisfaction levels relative to automobile accident responses and customer willingness to recommend.

<sup>2</sup> Indicators for the quantitative evaluation of company efforts

### ▣ Contact Center Quality Improvement

We have established the "MS&AD Group CC (contact center) quality standard" governing management and the quality standards for group-wide contact centers. We are implementing self-check and improvement measures at each center based on these standards. We aim to boost quality throughout the group through the sharing of good practices and the common efforts of all group participants. In the 2016 benchmark ratings by HDI-Japan, the world's largest membership-based support services organization, MSI, Mitsui Direct General and MSI Aioi Life earned three stars (the highest rating) for inquiry encounters and three stars for their support portal sites. MSI Aioi Life earned the maximum three stars for monitoring. In addition to being evaluated as three stars, ADI earned the "Five Star Certification," having been assessed as "meeting certain criteria in comparison to international best practices for the operation and management of support centers with business value added as well as leadership in the company and center management."



Please see our official website for more detailed information on CSR.

Website content

- **CSR**  
(<http://www.ms-ad-hd.com/en/csr/index.html>)
- **Message from the President**
- **CSR in the MS&AD Insurance Group**
- **Contributing to Resolution of Social Issues through the Business**
  - Respect for Human Rights
  - Human Asset Development and Health Management
  - ESG Data

## TOPICS

### Our Customer-First Policy in the Operation of the Group's Business

The six domestic insurance companies in the group have formulated and released details regarding the "customer-first policy in the operation of their businesses" as a means of promoting measures aimed at putting the customer first. The MS&AD Insurance Group continues to value each of its customers in line with Mission, Vision and Values. We intend to continue to strive to promote our business on a customer-first basis to continue to grow as a company that customers choose based on trust.

#### Domestic Group Companies Formulating and Announcing Customer-First Policies\*

MSI, ADI, Mitsui Direct General, MSI Aioi Life, MSI Primary Life, au Insurance

\* For details on policies and activities, please see the official websites for each company.

# Diverse Human Assets Development

The MS&AD Insurance Group aims to develop human assets\* with the goal of elevating the level of professionalism of each employee, pursuing betterment as a company as opposed to remaining complacent with the status quo and maximizing power at the organizational level through the aggregation of individual capabilities.

\* Human assets: At the MS&AD Insurance Group, in the spirit of valuing the individual, we refer to our employees as "human assets" rather than "human resources."

## Human Asset Development

The MS&AD Insurance Group envisions ideal employees as those "who learn and think by themselves, take up challenges and continue to grow." At domestic Group insurance companies, to encourage employees to work as professionals who feel pride and are satisfied with their jobs, we educate and support staff through measures such as training, OJT<sup>1</sup> and self-education programs.

All group employees are provided with learning opportunities such as the MS&AD Open College<sup>2</sup> and the MS&AD Online Business School,<sup>3</sup> and an OJT program has been established to help newly hired employees utilize their work experience while acquiring the knowledge and skills they need.

In fiscal 2017, we held a one-day group training session focused on MS&AD's goals for the next five years and how to achieve them for all new employees of the nine Group companies in an effort to foster a sense of unity among all employees.

1 OJT: On-the-job training  
2 Group training program for acquiring business skills such as problem-solving skills  
3 Learning tools for acquiring MBA knowledge using mobile devices



Fiscal 2017 training sessions for new employees at the nine group companies

## Training the Next Generation of Leaders

Domestic Group insurance companies are implementing manager training programs designed to provide comprehensive support for human asset development by strengthening participants' "management skill" and "workplace communication skill." With the aim of nurturing the next generation of leaders who will have the sensibilities and skill sets for management and for working in a global corporation, MSI and ADI are implementing training programs.

### TOPICS

#### MS&AD Enacts Basic Human Rights Policy for the Group in February 2017

With the understanding that our business, including all parts of the value chain, can be affected by both the actual and potential effects of human rights issues, the group has dedicated itself to dialogue and activities based on respect for human rights.

Please see our official website for more detailed information.  
[www.ms-ad-hd.com/en/csr/employee/human\\_rights.html](http://www.ms-ad-hd.com/en/csr/employee/human_rights.html)

## Developing Global Human Assets

To foster the development of international specialists equipped with an abundance of cosmopolitan sense and expertise in each field, MSI and ADI implement programs for seconding their employees to overseas subsidiaries, bases, universities, and overseas training programs that enable employees to study overseas business operations, international business skills, and languages, as well as programs that enable employees to obtain MBAs. In fiscal 2016, the Group sent 41 employees overseas on such programs.

Moreover, aiming to expand its staff of global human assets while also internationalizing head office departments and promoting greater international exchanges and mutual understanding, MSI has instituted the systems described below.

System	Content
Global Trainee System	Head office employees are given work experience at overseas bases and employees of overseas bases can gain work experience in Japan for short periods. In fiscal 2016, 38 Head office employees and 52 overseas employees participated in the system.
Headquarters postings for overseas local employees	A system for temporarily posting overseas local employees to the head office in Japan. A total of 69 overseas local employees had engaged in business at the Company's headquarters in Japan up to fiscal 2016.



Employees recruited and working at an overseas office participating in the program in Japan.

## Employee Satisfaction

Each year, the Group implements an opinion poll asking all Group employees in the Group such questions as those about the degree of diffusion of the Group Mission, Vision, and Values; about whether the Group has a sense of unity; and about whether they feel strong senses of motivation and personal growth.

### KPI on CSR Approaches to "Employee Satisfaction"

Indicator	FY2015 Score*	FY2016	
		Goal	Score*
Employee satisfaction "Pride, Job satisfaction"	4.4 points	Same or higher level compared to previous fiscal year	4.4 points
Employee satisfaction "Working vigorously"	4.3 points	Same or higher level compared to previous fiscal year	4.2 points

\* All-employee average on a 6-point scale

## Promoting Diversity in Human Assets

To promote management of the Group in the face of changes in the global environment, it is important to advance teamwork among individual employees with diverse skills and values. The Group believes that giving all its ambitious employees the opportunity to develop and demonstrate their talents through their work will lead to the augmentation of the Group's competitive strengths.

## Promoting the Career Development of Women

The MS&AD Insurance Group considers it important that female employees take on challenges and bigger roles in the workplace by utilizing their own advantages and characteristics. This leads to the growth of both the employees and the company. MSI, ADI and MSI Aioi Life established a professional team to assist in the career development and positive work-life balance of female employees and create workplace environments that can support this. In July 2011, the MS&AD Insurance Group established a joint declaration for the promotion of female employees and has been working to meet targets set by the professional team. Women now occupy 551 managerial positions among the five companies, equating to about 7.1% of all such positions. ADI saw its first female executive officer in April 2015.

## Global Human Assets Utilization

The Group has a network covering 47 countries and regions throughout the world and employs more than 9,000 people at its overseas subsidiaries and affiliates. The Group also has created systems to promote mutual exchanges between Japan and its various locations throughout the world. Aiming to make the most of the abilities of employees with diverse backgrounds and personalities, as well as their ideas, to augment its own capabilities for responding to dynamically changing markets and elevate its competitiveness, the Group is endeavoring to utilize human assets in a manner that surmounts national borders.

## Employment of People with Disabilities

Group companies continue to engage in hiring activities to expand and anchor places of employment for the disabled. They are also adapting workplaces into more accessible environments and developing duties that can be performed by people with disabilities. In addition, the Group hires para-athletes, athletes with disabilities, providing support for their activities as athletes.

### Total number and ratio of domestic employees\* with disabilities in fiscal 2016

Ratio of domestic employees with disabilities	Number of employees
✓ 2.52%	755

\* This applies to employees as of the end of March 2017 at the holding company, MSI, ADI, Mitsui Direct General, MSI Aioi Life and MSI Primary Life.

The ✓ symbol for fiscal 2016 figures indicates a third-party guarantee from KPMG AZSA Sustainability Co., Ltd.

## Employment of the Elderly

MSI and ADI have a rehiring program for employees who have reached retirement age. The program allows employees to continue exercising their talents by applying their experience and skills. Employment contracts can be renewed in accordance with such factors as the company's operating needs and the nature of the job, enabling employees to work until the maximum age of 65. Under the program, several work options are offered by job type, number of workdays and work hours so that a variety of work patterns are available to choose from.

## Work-Style Reforms

MSI and ADI are committed to work-style reforms. In addition to efforts aimed at correcting long work hours, we are focused on creating an improved work environment as we remain conscious of the diversity of our employees. We are promoting a more time-conscious work style, setting 7 p.m. as the normal time to end the work day, and creating an environment based on a work-life balance, including by supporting a variety of work styles, changing the mind-set of management and individuals, and working to improve productivity while reducing waste and inefficiencies. We will continue to promote an enhanced lifestyle and self-development among our employees by encouraging workers to take allotted time off and helping to create such time. MSI has been using thin-client PCs since October 2016, which allows a variety of work styles, including work from home and work from remote locations. ADI is working to entrench this new environment through the dissemination of easy-to-understand materials (manga) to company employees.

## Support for Employees Raising Children

To enable female employees to actively pursue their careers, it is essential to create an environment in which they can harmonize their work with child raising. To this end, the Group has introduced temporary leave and flextime systems, as well as other various support systems.

### Institutional and Environmental Enhancement Measures (principal initiatives, excluding legally required measures)\*

- Assignment of substitute employees to cover for employees taking child-care leave
- Organization of seminars and the provision of guidebooks to help employees return to work following child-care leave
- Preparation of e-learning courses for employees to use at home during child-care leave
- Support for enrolling children in nurseries
- Promotion of discounts, use of babysitters, nursery schools through business partnerships
- Preparation of work-life balance-related booklets and e-learning courses for managers
- Promotion of "working mother" meetings among returning employees
- Creation of child-care facilities within companies and promotion of use among group employees
- Creation of a special leave system for male employees following the birth of their children

\* There is some variation among the characteristics of individual Group companies' systems.

## Support for Nursing Care

We have established a support system that enables employees to continue working while caring for a family member. MSI, MSI Aioi Life and Mitsui Direct General have introduced nursing care leave programs to support employees who want to continue working after nursing care has been completed. ADI also allows shortened work shifts and work hours so employees can provide nursing care. It also offers a system for rehiring employees who have retired for nursing reasons.

## Corporate Governance

# Corporate Governance

Aiming to promote the Group's sustainable growth and an increase in enterprise value, enhancing the corporate governance system is an indispensable important element in implementing transparent, fair, swift, and decisive decision-making processes. The MS&AD Insurance Group is emphasizing the measures for the "strengthening of Group governance," which is one of the four implementation drivers within the Next Challenge 2017 medium-term management plan.

### Basic Policies

- In line with its Corporate Philosophy (Mission), the Company, as a holding company overseeing all Group businesses, has established a management framework that ensures transparent, fair, swift, and decisive decision-making that takes into account the standpoint of all stakeholders. The Company's objectives are sustainable growth over the long term by using corporate resources efficiently and managing risks properly and, ultimately, to further increase enterprise value.
- To this end, the "MS&AD Insurance Group Corporate Philosophy (Mission), Corporate Vision, and Values" were formulated as something all officers and employees of the Group should adhere to in all situations. In addition to working to disseminate these principles among all officers and employees of the Company and its Group companies, corporate governance, compliance, and risk management are positioned as important management issues in the medium-term management plan, and efforts shall be made to actively promote that plan.

\* The "MS&AD Insurance Group Corporate Philosophy (Mission), Corporate Vision, and Values" is on the back side of the front cover page of this brochure.

### Summary of Corporate Governance Stance

- As a company with an Audit & Supervisory Board, the Company will endeavor to improve governance by ensuring that independently appointed Audit & Supervisory Board Members appropriately act in their auditing functions, in addition to ensuring that the Board of Directors appropriately acts in its oversight functions, while strengthening the functions of each and actively disclosing information.
- The Company has introduced an executive officer system and is proceeding to delegate authority over business execution to these executive officers to ensure swift execution.

### Supervision (Board of Directors)

- In addition to matters specified by law and the Articles of Incorporation, the Board of Directors discusses and decides upon important matters involving Group management strategy and corporate management, including the Group's management policies, management strategies, and capital policy, and oversees the duties of directors and executive officers.
- Five Outside Directors, more than forty percent of the Board of Directors which has twelve members (ten men and two women), are appointed to incorporate perspectives independent from management, strengthen monitoring and oversight functions, and conduct highly transparent management.

### Auditing

#### Audit & Supervisory Board Members and Audit & Supervisory Board

- Each Audit & Supervisory Board Member shall appropriately exercise his/her legal investigating authority, including the authority to audit operations and assets, and supervises the performance of duties of the Directors by attending meetings of the Board of Directors and other important meetings, viewing important approval documents, investigating departments within the Company, and investigating subsidiaries in accordance with the auditing policies and plans stipulated by the Audit & Supervisory Board.
- The Audit & Supervisory Board comprises two full-time Audit & Supervisory Board Members and two part-time Audit & Supervisory Board Members (Outside Audit & Supervisory Board Members), for a total of four members (two men and two women). The Audit & Supervisory Board receives reports from Audit & Supervisory Board Members on the status of performance of duties and reports from officers and employees on important matters related to auditing, and also makes decisions regarding auditing policies and auditing plans.

#### Internal Auditing

- The Company has established the "MS&AD Insurance Group Basic Policy for Internal Audits." Under this basic policy, the Company and domestic Group insurance companies have formed the Internal Audit Department that acts as an independent body with auditing functions.

- The Company's Internal Audit Department reports important matters that have been discovered as a result of internal audits of the Company and domestic Group insurance companies to the Board of Directors and the Group Management Committee. In addition, the Internal Audit Department cooperates with auditing conducted by the Audit & Supervisory Board Members.

#### Accounting Auditors

- The Company has appointed KPMG AZSA LLC as its independent audit corporation. Please note that there are no special interest between this company and MS&AD Holdings.

### Nomination and Remuneration

To maintain a high level of transparency, the Company has formed the Nomination Committee and the Remuneration Committee as internal committees of the Board of Directors. Each committee comprises seven members,\* and the chairpersons and other members are appointed by the Board of Directors. With respect to each committee, a majority of the members and the chairperson have been appointed from among the Outside Directors.

\* In fiscal 2017, both committees comprise all five Outside Directors, the Chairman of the Board and the President & CEO.

#### Nomination Committee

- The Nomination Committee deliberates on major management personnel matters and provides advice on these matters to the Board of Directors. Such matters include the selection of Director and Audit & Supervisory Board Member candidates and Executive Officers of the Company, as well as the selection of Directors and Audit & Supervisory Board Members for domestic insurance companies in which the Company has direct investments.
- Performance evaluations (corporate performance) may be considered when deliberating Director candidates and Executive Officers.
- The Board of Directors appoints candidates for Director, as well as candidates for Audit & Supervisory Board Member and Executive Officers, based on advice from the Nomination Committee. The utmost respect is given to that advice in making selections. The consent of the Audit & Supervisory Board must also be obtained for candidates for Audit & Supervisory Board Member.
- Based on the need to promote substantive discussions regarding the enhancement of corporate governance on the Nomination Committee, policies regarding the selection of Directors and Audit & Supervisory Board Member candidates shall be added to the items for deliberations, with the further clarification that meetings will be held at least once a year.
- There were five meetings in fiscal 2016 for the discussion of Outside Officer candidates.

#### Remuneration Committee

- This committee advises the Board of Directors regarding the remuneration of Directors and Executive Officers of the Company as well as the remuneration systems for the management of domestic insurance companies in which the Company has direct investments.
- Based on the need to promote substantive discussions regarding the enhancement of corporate governance on the Remuneration Committee, policies regarding remuneration for Directors and Executive Officers shall be added to the items for deliberations, with the further clarification that meetings will be held at least once a year.
- There were three meetings held in fiscal 2016.

#### Process for Determining Director Remuneration

- Remuneration for each Director is set within the overall limits approved by the Shareholders' Meeting. Consideration is given to the function of remuneration as an incentive for improvement in performance, the medium- to long-term contribution to enterprise value, the level of compensation appropriate for competitiveness as a global corporation and other factors. To ensure transparency, the Remuneration Committee, which is composed of a majority of Outside Directors, deliberates remuneration amounts, and the final decisions are made by the Board of Directors. The Board of Directors gives the greatest regard to the advice of the Remuneration Committee.

#### Remuneration Breakdown

Remuneration for Directors (excluding Outside Directors) consists of fixed remuneration and performance-based remuneration.

- Fixed remuneration (monetary remuneration): about 70%
- Performance-based remuneration: about 30%, consisting of the following
  - Portion linked to company performance
    - Based on an index of Group Core Profit, consolidated net income, etc.
    - Stock option as stock-based compensation system
    - Monetary remuneration
  - Portion linked to individual performance

Because the Outside Directors are in a position independent from the execution of business, remuneration is limited to fixed (monetary) remuneration.

#### Directors' and Audit & Supervisory Board Members' Remuneration (FY2016)

Total Amount of Remuneration by Category and the Number of Recipients

	Total Remuneration	Total Remuneration by Category	
		Basic	Stock Option
Directors (10*)	¥224 million	¥210 million	¥14 million
Audit & Supervisory Board Members (2*)	¥51 million	¥51 million	–
Outside Directors/Audit & Supervisory Board Members (8)	¥73 million	¥73 million	–

\* Excluding Outside Directors and Audit & Supervisory Board Members.

Persons with Consolidated Remuneration (including remuneration for corporate officer posts at main subsidiaries, etc.) of ¥100 million or more

	Total Remuneration	Total Remuneration by Category	
		Basic	Stock Option
Director Yasuyoshi Karasawa	¥110 million	¥102 million	¥6 million
Director Noriyuki Hara	¥106 million	¥99 million	¥6 million

- From fiscal 2015, the Company has introduced stock options as stock-based compensation so that the Company's directors (excluding outside directors) share not only the benefit of a rising share price, but also share the risk of share price fluctuations with our shareholders. The system involves replacing a portion of performance-based monetary remuneration with stock options provided as stock-based compensation (allotment of stock acquisition rights).
- The Company introduced same system as mentioned above and replaced a portion of performance-based monetary remuneration with stock options as stock-based compensation (allotment of stock acquisition rights) for the Company's executive officers and the directors (excluding Outside Directors) and executive officers of Group domestic insurance companies in which the Company has direct investments (the timing of the grants varies by company).

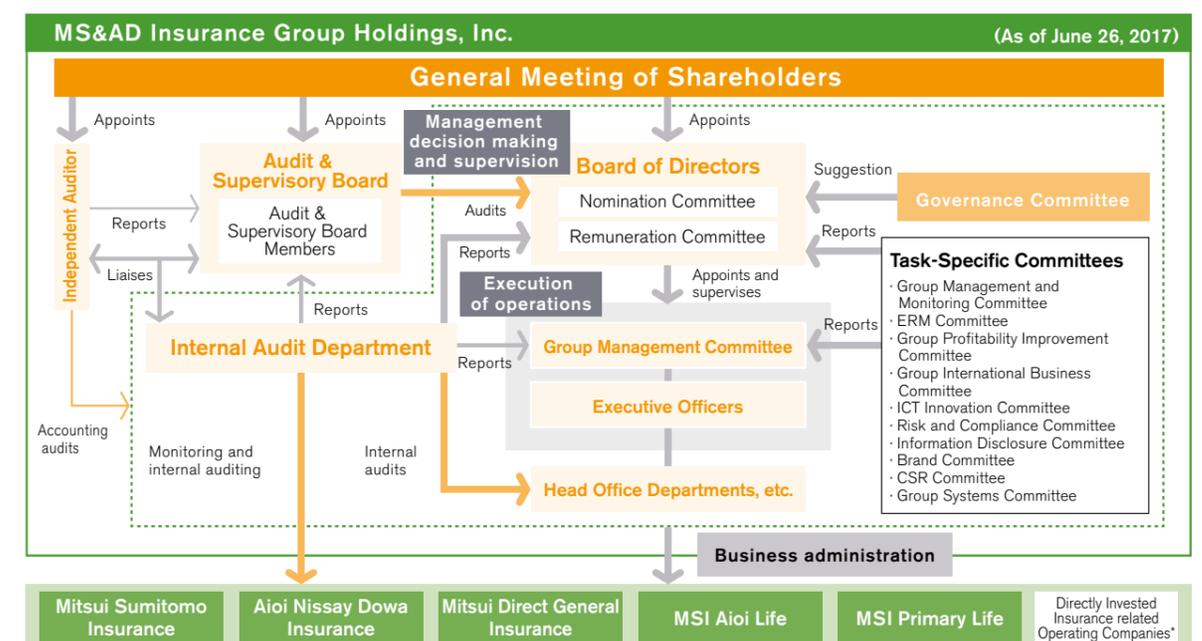
## Group Management Structure

### Role of the Company (the holding company)

- To realize management strategies, increase the Group's management efficiency, and ensure the soundness of Group finances and appropriateness of Group operations, the Company concludes management supervision contracts with its directly invested subsidiaries and undertakes the management administration of each company.
  - Believing that directly and quickly obtaining business-related information from the Group's domestic insurance companies will contribute to the smoothness of Group management, the Company has established a system in which its own directors concurrently serve as directors of the Group's domestic insurance companies. In addition, directors of the Group's domestic insurance companies sometimes attend the Group Management Committee meetings, depending on the proceedings.
- The Company has established Groupwide basic policies – including the "Basic Policy Pertaining to System for Internal Controls," "Risk Management Basic Policy," "Compliance Basic Policy," "Internal Audit Basic Policy," "Risk Appetite Statement," and "Basic Policy on Information and Technology Governance." In addition to requiring compliance with these policies by Group companies, important matters involving directly invested companies require either the approval of or reporting to the Company in line with management supervision contracts.
- The Company establishes Group business strategy, such as the Group's Medium-term Management Plan.
- The Company provides guidance and supervision through the monitoring of the progress of management plans formulated by Group companies and the status of business execution, with the aim of achieving the goals of the Group.

### Role of Group Companies

- Group companies (directly invested companies) formulate their own policies and appropriately establish internal management systems based on the Group's Basic Policies, in addition to formulating management plans in each company based on the Group's Medium-term Management Plan to conduct management as individual companies.
- Directly invested companies also appropriately supervise the management of their subsidiaries under management supervision contracts.



\* MS&AD Holdings has eight insurance related operating companies: InterRisk Research Institute & Consulting, Inc., MS&AD Business Support Co., Ltd., MS&AD Staffing Services Co., Ltd., MS&AD Systems Co., Ltd., MS&AD Business Service Co., Ltd., MS&AD Research Institute Co., Ltd., MS&AD Loan Services Co., Ltd. and ANSHIN DIAL Co., Ltd.

## Continuous Strengthening and Improvement of the Management Structure

### Measures Taken to Strengthen Group Governance

<b>Fiscal 2010 to fiscal 2014</b>	<ul style="list-style-type: none"> <li>Introduction of executive officer system</li> <li>Appointment of multiple Outside Directors</li> <li>Establishment of Nomination Committee and Remuneration Committee</li> <li>Introduction of performance-based remuneration</li> </ul>
<b>Fiscal 2015</b>	<ul style="list-style-type: none"> <li>Establishment and announcement of the "MS&amp;AD Insurance Group Basic Policies on Corporate Governance"</li> <li>Establishment of "Governance Committee" mainly composed of Outside Directors</li> <li>Elevation of the ratio of independent Outside Directors to one-third</li> <li>Announcement of criteria for the selection of Director candidates and Audit &amp; Supervisory Board Member Candidates (including criteria for determining independence of Outside Corporate Officers)</li> <li>Introduction of stock options as stock-based compensation system for Directors (excluding Outside Directors) and executive officers</li> </ul>
<b>Fiscal 2016</b>	<ul style="list-style-type: none"> <li>Establishment of new titles: CFO, CRO, etc.</li> <li>Analysis and evaluation of overall effectiveness of the Board of Directors and announcement of a summary of the results</li> </ul>
<b>Fiscal 2017</b>	<ul style="list-style-type: none"> <li>Increasing the number of Outside Directors from four to five, with the number of Directors overall increasing from 11 to 12.</li> <li>Adding "Policies Related to the Selection of Director and Audit &amp; Supervisory Board Member Candidates" and "Policies Related to Directors and Audit &amp; Supervisory Board Members' Remuneration" to the items for deliberation at the Nomination Committee and Remuneration Committee, respectively.</li> <li>Clarifying that the Internal Audit Department reports directly to the Board of Directors (clarification of the lines of reporting).</li> </ul>

### Improving the Effectiveness of the Board of Directors

#### Establishment of Committees Comprised Mainly of Outside Directors and the Providing of Opportunities for Opinion Exchanges

The committees and meetings shown below have been established since fiscal 2015, and Outside Directors have freely engaged in constructive discussions and opinion exchanges.

Committee/Meeting Name	Committee/Meeting Description	Times Held
Governance Committee	The chairman is elected from among the Outside Directors (5); all Outside Directors, the Chairman of the Board, and the President & CEO discuss matters related to corporate governance status, policies, and stance.	3 times
Outside Directors Council	This council comprises only the Outside Directors (5). The Governance Committee uses discussions within the Outside Directors Council with the Chairman of the Board and the President & CEO.	4 times
Outside Directors-Audit & Supervisory Board Members Joint Council	This council comprises the Outside Directors (5) and the Audit & Supervisory Board Members (4); it has been put in place to liaise between the Outside Directors and Audit & Supervisory Board Members	3 times

#### Support Systems for Outside Directors and Outside Audit & Supervisory Board Members

- Support for the activities of the Outside Directors is provided by the Corporate Planning Department, and support for the Outside Audit & Supervisory Board Members is supplied by the Internal Audit Department. The agenda for the Board of Directors' Meetings is explained to the Outside Directors and Outside Audit & Supervisory Board Members in advance of the meetings by the Corporate Planning Department, which acts as the secretariat for the Board of Directors. In addition, information, such as important risk information, is reported on an ongoing basis to all Directors and Audit & Supervisory Board Members, irrespective of internal or outside.

## Corporate Governance-Related Measures

### Process for the Analysis and Evaluation of the Effectiveness of the Board of Directors (FY2016)

The Company complies with the Corporate Governance Code in its entirety. Please see our official website (<http://www.ms-ad-hd.com/en/company/governance/status.html>) for the status on the 11 principles for which disclosure is required. The status of efforts aimed at evaluating the effectiveness of the Board of Directors, which is of particular interest to all stakeholders, is outlined below.

#### Executing and Compiling the Results of the Director Self-Evaluation Survey

- A questionnaire with eight items was distributed in advance, with the interview conducted by the secretariat.
- With an eye toward the PDCA cycle, the survey focused on whether measures for functional improvement in the 2015 Directors' evaluation were implemented.

#### Exchange of Opinions at the Outside Directors Council

- The exchange of opinions at the Outside Directors Council addressed an analysis and assessment based on the survey results.

#### Compilation at the Governance Committee

- Following the exchange of opinions, the Governance Committee analyzed and evaluated the results and compiled a functional improvement plan aimed at further strengthening governance in fiscal 2017.

#### Implementing Functional Improvement Measures Based on the Results

### Outline of the Analysis and Evaluation

#### Discussion Content and Function at the Board of Directors

Points of improvement	<ul style="list-style-type: none"> <li>In regard to Board of Directors' discussions on business plans and strategies, steady progress has been made since the previous fiscal year, including the discussion of medium- to long-term issues facing the Group.</li> <li>Positive steps to entrench operations based on multiple deliberations regarding large-scale investment projects, including investment projects overseas and risk-taking projects.</li> </ul>
Points requiring further reinforcement moving forward	<ul style="list-style-type: none"> <li>When discussing management strategies and management plans at Board of Directors meetings, there needs to be a deeper discussion of changes in the operating environment, including the impact of technological innovations.</li> </ul>

#### Board of Directors Management

Points of improvement	<ul style="list-style-type: none"> <li>Promoting the visualization of target programs.</li> <li>Expanding time for consideration of important matters relating to strategic decisions by reviewing matters to be discussed by the Board of Directors and expanding items subject to so-called package deliberation, in which the explanation of some agenda items during the Board meetings is simplified.</li> </ul>
Points requiring further reinforcement moving forward	<ul style="list-style-type: none"> <li>Continue developing measures that contribute to the Outside Directors understanding technical terms in each target program or item.</li> </ul>

#### Other (information and training for Outside Directors)

Points of improvement	<ul style="list-style-type: none"> <li>Expanded opportunities to provide training or disperse information in areas requested by the Outside Directors (e.g., three fiscal 2016 workshops).</li> </ul>
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## Corporate Governance

# Introduction to Directors (As of June 26, 2017)

### Directors



Hisahito Suzuki

Representative Director  
Chairman of the Board

**Number of Company shares owned**  
36,670

**Important concurrent positions**  
Director & Vice Chairman, ADI

#### Biography

April 1973 Entered Dai-Tokyo Fire and Marine Insurance Co., Ltd.  
Has business experience in sales, corporate planning, merger preparation, life insurance business, etc.  
Present position since June 2014



Yasuyoshi Karasawa

Representative Director  
President & CEO

**Number of Company shares owned**  
25,200

**Important concurrent positions**  
Director, Chairman of the Board, MSI

#### Biography

April 1975 Entered The Sumitomo Marine and Fire Insurance Co., Ltd.  
Has business experience in corporate planning, sales, corporate communications, financial planning, etc.  
Present position since June 2014



Noriyuki Hara

Representative Director  
Executive Officer

**Number of Company shares owned**  
17,400

**Important concurrent positions**  
Director, President & CEO, MSI

#### Biography

April 1978 Entered Taisho Marine and Fire Insurance Co., Ltd.  
Has business experience in market development, sales, product operations, corporate planning, etc.  
Present position since June 2016



Yasuzo Kanasugi

Representative Director  
Executive Officer

**Number of Company shares owned**  
22,408

**Important concurrent positions**  
Director & President, ADI

#### Biography

April 1979 Entered Dai-Tokyo Fire and Marine Insurance Co., Ltd.  
Has business experience in human resources planning, sales, corporate planning, merger preparation, etc.  
Present position since June 2016



Shiro Fujii

Director  
Executive Vice President,  
CFO

**Number of Company shares owned**  
27,315

**Important concurrent positions**  
—

#### Biography

April 1979 Entered Taisho Marine and Fire Insurance Co., Ltd.  
Has business experience in corporate planning, product operations, handling claims, sales, systems and administrations, etc.  
Present position since April 2016



Masaaki Nishikata

Director  
Executive Officer

**Number of Company shares owned**  
23,700

**Important concurrent positions**  
Director, Vice President Executive Officer, MSI

#### Biography

April 1977 Entered The Sumitomo Marine and Fire Insurance Co., Ltd.  
Has business experience in sales, product operations, sales promotion, etc.  
Present position since June 2016



Fumiaki Ohkawabata

Director  
Executive Officer

**Number of Company shares owned**  
3,800

**Important concurrent positions**  
Director, Senior Executive Officer, ADI

#### Biography

April 1981 Entered Chiyoda Fire & Marine Insurance Co., Ltd.  
Has business experience in sales and product operations, etc.  
Present position since June 2017



Akira Watanabe

Outside Director  
(Independent Director)

**Meeting attendance (FY2016)**  
12 of 13 Board of Directors' meetings (92.3%)

**Number of Company shares owned**  
1,400

#### Reason for appointment

As a lawyer, he is well versed in the field of the Companies Act, and he has a wealth of experience gained through his service as a trustee of companies subject to reorganization proceedings. He has been stating opinions at meetings of the Company's Board of Directors and on other occasions based on his knowledge and experience. We elected him to continue reflecting his knowledge and experience in the management of the Company.

#### Important concurrent positions

Attorney-at-Law, Seiwa Meitetsu Law Office, Director of Asia File Holdings Corporation, Outside Director of Dunlop Sports Co., Ltd., Outside Director of Maeda Corporation, Outside Corporate Auditor of Fast Retailing Co., Ltd., Audit and Supervisory Board Member of Kadokawa Corporation.

Apr. 1973	Admitted as Attorney-at-Law, Attorney-at-Law, Ginza Law Office (currently, Abe, Ikubo & Katayama)
Apr. 1982	Attorney-at-Law, Akira Watanabe Law Office
Apr. 1989	Attorney-at-Law, Seiwa Kyodo Law Office (currently, Seiwa Meitetsu Law Office) (present)
Apr. 2010	Director, the Company (present)



Daiken Tsunoda

Outside Director  
(Independent Director)**Meeting attendance (FY2016)**  
12 of 13 Board of Directors' meetings (92.3%)**Number of Company shares owned**  
0**Reason for appointment**

As a lawyer, he has a wealth of knowledge and experience concerning overall corporate legal affairs. He has been stating opinions at meetings of the Company's Board of Directors and on other occasions based on his knowledge and experience. We elected him to continue reflecting his knowledge and experience in the management of the Company.

**Important concurrent positions**Attorney-at-Law, Nakamura, Tsunoda & Matsumoto  
Outside Director of Eisai Co., Ltd.

Apr. 1994	Admitted as Attorney-at-Law, Attorney-at-Law, Mori Sogo (currently, Mori, Hamada & Matsumoto)
Mar. 2003	Attorney-at-Law, Nakamura & Tsunoda (currently, Nakamura, Tsunoda & Matsumoto) (present)
Apr. 2008	Audit & Supervisory Board Member, the Company
Apr. 2010	Director, the Company (present)



Mari Matsunaga

Outside Director  
(Independent Director)**Meeting attendance (FY2016)**  
12 of 13 Board of Directors' meetings (92.3%)**Number of Company shares owned**  
400**Reason for appointment**

She was a chief editor of magazines and was involved in planning and development of new services at NTT DOCOMO, INC. She has been stating opinions at meetings of the Company's Board of Directors and on other occasions based on her broad knowledge and experience concerning society, culture, consumer lifestyles, and other areas. We elected her to continue reflecting her knowledge and experience in the management of the Company.

**Important concurrent positions**Outside Director of Terumo Corporation\*  
Outside Director of Rohto Pharmaceutical Co.  
Outside Director of Seiko Epson Corporation  
\* Retired as of June 27, 2017

Apr. 1977	Entered Japan Recruit Center (currently, Recruit Holdings Co., Ltd. ["RECRUIT"])
July 1986	Chief editor of SHUSHOKU JOURNAL, published by RECRUIT
July 1988	Chief editor of TRAVAILLE, published by RECRUIT
July 1997	General Manager of Planning Div., Gateway Business Dept., NTT Mobile Communications Network Inc. (currently, NTT DOCOMO, INC.)
Apr. 2000	President & Director, Mari Matsunaga Office
June 2012	Director, the Company (present)



Tadashi Ogawa

Outside Director  
(Independent Director)**Meeting attendance (FY2016)**  
12 of 13 Board of Directors' meetings (92.3%)**Number of Company shares owned**  
5,000**Reason for appointment**

He previously served as Administrative Vice Minister of Finance and Director-Chairman of Japan Tobacco Inc., etc. He has been stating opinions at meetings of the Company's Board of Directors and on other occasions based on his knowledge and experience. We elected him to continue reflecting his wide range of financial and monetary affairs knowledge and corporate management experience in the management of the Company.

**Important concurrent positions**

—

Apr. 1962	Entered the Ministry of Finance
May 1995	Commissioner, National Tax Agency
Jan. 1996	Administrative Vice Minister of Finance
June 2001	Director-Chairman of Japan Tobacco Inc.
June 2005	President, The Bank of Yokohama, Ltd.
June 2011	Director-Chairman of The Bank of Yokohama, Ltd.
June 2012	Director, the Company (present)
June 2013	Senior Advisor of The Bank of Yokohama, Ltd. (present)



Mariko Bando

Outside Director  
(Independent Director)**Meeting attendance**  
No record due to new appointment**Number of Company shares owned**  
0**Reason for appointment**

She previously served as Director General of Gender Equality Bureau of the Cabinet Office and currently serves as President of Showa Women's University. Utilize her broad knowledge and experience in public administration and education, as well as wide insight into promotion of diversity.

**Important concurrent positions**Chancellor (Rijicho and Socho), Showa Women's University  
Director (Outside Director), Asahi Group Holdings, Ltd.

July 1969	Entered the Prime Minister's Office
Oct. 1985	Counsellor of Cabinet Secretariat, Councillor of Cabinet Secretariat
July 1989	Director of Consumer Statistics Division, Statistics Bureau, Management and Coordination Agency
July 1994	Director of Gender Equality Bureau, Cabinet Secretariat
Apr. 1995	Vice-Governor of Saitama Prefecture
June 1998	Consul General of Japan in Brisbane, Australia
Jan. 2001	Director General of Gender Equality Bureau, Cabinet Office
Oct. 2003	Director, Showa Women's University
Apr. 2007	President, Showa Women's University
Apr. 2014	Chancellor (Rijicho), Showa Women's University (present)
July 2016	Chancellor (Socho), Showa Women's University (present)
June 2017	Director, the Company (present)

## Audit &amp; Supervisory Board Members



Hiroshi Miura

Audit &amp; Supervisory Board Member (Full time)

**Number of Company shares owned**  
19,000

Apr. 1979	Entered Taisho Marine and Fire Insurance Co., Ltd.
Apr. 2010	Executive Officer, General Manager of Investment Planning Dept., Mitsui Sumitomo Insurance Co., Ltd. ("MSI")
Apr. 2013	Managing Executive Officer, General Manager of Financial Services Div., MSI Executive Officer, the Company
Apr. 2014	Director, Managing Executive Officer, General Manager of Financial Services Div., MSI
June 2015	Audit & Supervisory Board Member, the Company (present)



Kunio Chiyoda

Outside Audit & Supervisory Board Member  
(Independent Auditor)**Meeting attendance (FY2016)**  
11 of 11 Board of Directors' meetings  
11 of 11 Audit & Supervisory Board meetings**Number of Company shares owned**  
400**Reason for appointment**

As an accounting and auditing professional, he has served as a university professor and public-institution committee member, etc., and that extensive knowledge and experience will be reflected in the Company's audits.

**Important concurrent positions**

May 1971	Registered Certified Public Accountant
Apr. 2013	Chairperson, Certified Public Accountants and Auditing Oversight Board
June 2016	Audit & Supervisory Board Member, the Company (present)



Tomoko Kondo

Audit &amp; Supervisory Board Member (Full time)

**Number of Company shares owned**  
3,479

Apr. 1983	Entered Chiyoda Fire & Marine Insurance Co., Ltd.
Apr. 2015	Executive Officer, Aioi Nissay Dowa Insurance Co., Ltd. ("ADI")
Apr. 2017	Advisor, ADI
June 2017	Audit & Supervisory Board Member, the Company (present)



Kyoko Uemura

Outside Audit & Supervisory Board Member  
(Independent Auditor)**Meeting attendance**  
No record due to new appointment**Number of Company shares owned**  
0**Reason for appointment**

As a legal expert, she previously served as a judge and practices law as an attorney-at-law, etc. and that wealth of knowledge and experience will be reflected in the management of the Company.

**Important concurrent positions**

Attorney-at-Law, LM Law Offices	
Apr. 1994	Assistant Judge, Osaka District Court
Apr. 2004	Judge, Numazu Branch, Shizuoka Family Court
Apr. 2005	Judge, Yokohama District Court
Apr. 2008	Admitted as Attorney-at-Law Attorney-at-Law, LM Law Offices (present)
June 2017	Audit & Supervisory Board Member, the Company (present)

\* To prepare for a contingency in which the Company falls short of the number of incumbent Audit & Supervisory Board Members required by laws and regulations, one substitute Outside Audit & Supervisory Board Member was elected.

Takuya Nakazato  
Substitute Audit & Supervisory Board Member  
(Independent Auditor)

Aug. 1992	Entered TAC Co., Ltd.
Sept. 1996	Registered as Certified Public Accountant Entered Yasuda Sosuke Zeirishi Jimusho (currently, GYOSEI & CO.) and Tokyo Akasaka Audit Corporation (currently GYOSEI & CO.)
Sept. 2000	Representative CPA, Nakazato CPA Office, (present)

## Executive Officers

## Chairman of the Board

Hisahito Suzuki

## President &amp; CEO

Yasuyoshi Karasawa

## Executive Officers

Noriyuki Hara

Yasuzo Kanasugi

## Executive Vice President

Shiro Fujii

Corporate Planning Dept.  
Corporate Communications and Investor Relations Dept.  
Business Development Dept.  
Information Technology Planning Dept.  
International Supervisory Dept.  
Internal Audit Dept.  
Chief Financial Officer

## Senior Executive Officer

Nampeï Yanagawa

Human Resources and General Administration Dept.  
Accounting Dept.  
Compliance Dept.  
Corporate Risk Management Dept.  
Internal Audit Dept.\*  
Chief Risk Officer

## Executive Officers

Masaaki Nishikata  
Marketing & SalesMasahiro Matsumoto  
International BusinessTeruhiko Ito  
Financial Services BusinessFumiaki Ohkawabata  
Products・ReinsuranceHidema Jinno  
General Manager of  
Corporate Risk Management Dept.Sumitaka Taira  
Claims ServicesMasahiro Higuchi  
Assist ManagementShinichiro Funabiki  
Administration and  
Information Systems  
Chief Information Officer  
Chief Information Security OfficerTetsuji Higuchi  
Assist Management

\* Executive Vice President Shiro Fujii is responsible for internal auditing of the departments which Senior Executive Officer Nampeï Yanagawa oversees.

For more details on information related to corporate governance, see the Group's official website.

Website content

## ●Corporate Governance

(<http://www.ms-ad-hd.com/en/company/governance/corporate.html>)

- Basic Policies on Corporate Governance
- Supervision System in Detail (Role of the Board of Directors, Composition of the Board of Directors, Expected Roles of Outside Directors, Support Systems for Outside Directors and Outside Audit & Supervisory Board Members)
- Nomination and Remuneration in Detail (Nomination Process, Criteria for the Selection of Director Candidates and Audit & Supervisory Board Member Candidates, Remuneration Determination Processes)
- Responses to 11 principles of the Corporate Governance Code
- Group Management Structure in Detail
- Internal Control Systems

## Outside Director Message

Outside Director (Independent Director)

# Daiken Tsunoda



### Q.1

**What are your thoughts on the MS&AD Insurance Group, having served for so many years as an outside director?**

I became an outside audit & supervisory board member at Mitsui Sumitomo Insurance Group Holdings in 2008, so this is my 10th year here. I have served as an outside director since 2010, when MS&AD Insurance Group Holdings was born. Japanese companies notably have been increasing the number of independent outside directors on their boards, owing in part to the introduction of the Corporate Governance Code in 2015. The Group had a fair number of independent outside directors and audit & supervisory board members before the Corporate Governance Code was introduced, so we already had taken steps to strengthen corporate governance. We have examined the best way forward to comply with the Corporate Governance Code since its introduction, with outside directors taking the initiative on a series of studies for how to evaluate the effectiveness of the Board of Directors, for example, while compiling a summary of the Company's approaches and policies.

The basic role of an outside director is to promote fair and impartial corporate management from the viewpoint of a common shareholder, a role that has not changed much since before the introduction of the Corporate

Governance Code. After the introduction of the Corporate Governance Code, I believe the mind-set of the Company's employees and directors has changed. Taking my role and responsibilities as an example, I tended to think within the context of legality and soundness due to my background as an attorney but did not pay much attention to capital efficiency. With the Corporate Governance Code, I have begun to think more in terms of improving shareholder interests from the perspective of capital efficiency. However, I feel I still have much to learn.

### Q.2

**What interests you the most about recent moves to strengthen corporate governance?**

First, we changed the way the Board of Directors is run. To have enough time for debate, we discuss formal agendas in block and ensure there is sufficient time to discuss important matters. In fiscal 2016, the Company clarified the position of the Internal Audit Department, an entity that supports the Board of Directors, as an organization with a direct line to the Board of Directors. From long before the Corporate Governance Code was introduced, the MS&AD Insurance Group had viewed the Internal Audit Department as an entity affiliated with the Board of Directors, but

we have now clarified this relationship. Some companies put their internal audit departments under the direct control of the president, but as the president is the theoretical endpoint of an audit, we believe it is better to not have our Internal Audit Department under the direct control of the President from the standpoint of the true meaning of corporate governance. The Corporate Governance Code recommends collaboration between the Internal Audit Department, directors and Audit & Supervisory Board Members, and the Basel Committee on Banking Supervision's Corporate Governance Principles for Banks states that the Internal Audit Department should have a direct reporting line to the Board of Directors. As an attorney specializing in corporate law, I am satisfied with the MS&AD Insurance Group's organizational structure.

Issues that should be considered going forward include a succession plan for the CEO and a more substantive examination of director compensation and other systems. The MS&AD Insurance Group has a Nomination Committee and a Remuneration Committee, but currently the checks and balances function plays a central role, and outside directors are not really involved in the entire decision-making process. The Company has created new rules, giving more shape to the system, but there is still work to be done filling out the details, in my opinion. Moreover, I believe formulating succession plans for outside directors will become more important. We should be thinking about the composition of the Board of Directors and the

kind of people we need, such as whether they are foreign nationals or women, and their fields of expertise. Most companies currently do not have a diversity of outside directors on their boards. I believe we should consider succession plans for outside directors based on an ideal composition for the Board of Directors in the future.

### Q.3

**Can you give us your thoughts on the governance of the MS&AD Insurance Group?**

Our state of governance, including each group company, is a complex issue in my opinion. For example, the Remuneration Committee at the holding company decides the compensation of directors and audit & supervisory board members at the holding company, but how involved should it be in deciding director compensation at group companies? In a similar vein, to what extent should the Nomination Committee at the holding company be involved in matters related to the appointment of directors and audit & supervisory board members at group companies? These are complex issues. As long as the listed company is a holding company, however, group governance will be a key tool for the holding company to keep a firm grip on management, including decisions related to director nominations and remuneration. In this context, I believe the

MS&AD Insurance Group has made substantial progress over the past few years.

Looking ahead, cooperation among the outside directors of group companies may become more important. As the Group gets larger, it becomes more difficult to exchange information and collaborate between each group company and the holding company, as well as among group companies. Audit & Supervisory Board Members have an opportunity to interact at the Group Audit & Supervisory Board. Directors, however, should have more events and opportunities to exchange information among outside directors within the Group in my view.

### Q.4

**What expectations do you have for the future of the Group?**

The MS&AD Insurance Group aims to be a world-leading insurance and financial services group, and I would definitely like to see it become one. The pace of technological change has been rapid in recent years. I believe there is still room for growth if the Group focuses first on protecting our security and safety. More than just insurance, the Group provides security and safety. For example, I would like the MS&AD Insurance Group to become a leading company from the standpoint of risk management, including the prediction of natural disasters, including earthquakes, and providing security and safety.

I hope the future for our children will be secure and safe all around the world, not just in Japan. What can we do for all of the world's children? There are many risks that should be addressed, including climate change and food shortages.

As an attorney specializing in corporate law, I had been keen on corporate behavior centered on shareholders' equity, but I have changed a little lately and now understand its importance for companies within the context of our society.

For example, when we had a major snowstorm in Japan a few years ago, the Group was subject to a major shock on the earnings front, but we really helped people who had taken out insurance policies. While shareholders might be disappointed that earnings took a hit from heavy snowfall, the MS&AD Insurance Group contributed to society by paying out insurance benefits. An analysis of the damage caused by the heavy snowfall has increased the Group's know-how for dealing with similar events in the future, and from a long-term perspective, I believe the experience will likely lead to positive outcomes for society, the company and even shareholders.

Corporate management will probably become more internationally minded as the Group reaches world-leading levels. First, what about foreign languages? How can we learn to respect each other's cultures? I hope that everyone will make their best effort to help the Group realize its mission, vision and values.

## Corporate Governance

# Dialogue with Shareholders and Investors (Information Disclosure and IR Activities)

The MS&AD Insurance Group proactively engages in highly transparent information disclosure and constructive dialogue with shareholders and investors in an effort to achieve sustainable growth and increase enterprise value.

Specifically, by providing highly transparent information disclosure, MS&AD Holdings seeks to reduce information asymmetries with shareholders and investors. Also, by obtaining feedback from constructive dialogue with shareholders and investors, MS&AD Holdings is able to share this feedback with its management and the relevant departments and utilize it in formulating its management strategies.

### ▣ Main Initiatives

- Announcement of the “Policy for Constructive Dialogue with Shareholders”
- Holding of “MS&AD IR Day” with the objectives being to have the top management of each business division explain business details and to carry on a constructive dialogue between management executives and investors
- As measures to strengthen information sharing with management and relevant departments, implementation of regular reporting on IR activities, feedback on how the stock markets view the Company, and quarterly reports on the Company’s share price to the Group Management Committee and the Board of Directors
- Creation of a program for feedback meetings to the Group’s relevant departments

### ▣ Activities Undertaken in Fiscal 2016

The Group organized Information Meetings at which the President explained management strategies and performance, as well as MS&AD IR Day, which aimed to have a constructive dialogue between management executives and investors.

Opportunities also were created for the President and the officer in charge of the Corporate Communications and Investor Relations Department to speak directly to major shareholders and investors in Japan and abroad.

The opinions of shareholders and investors gleaned from these conversations are being reflected in management strategies with the aim of improving enterprise value.

Specific examples include ideas for enhancing profitability (improving the loss ratio, reducing costs), reducing strategic equity holdings, and using surplus capital to bolster shareholder returns and invest in growth.

For individual investors, MS&AD Holdings held corporate briefings around Japan and participated for the first time in the Nikkei IR and Investment Fair.

Strategy explanation meetings for institutional investors and analysts (Information Meeting)	<b>Twice</b>
Telephone conferences (earning results) for institutional investors and analysts	<b>4 times</b>
Sessions for an exchange of opinions with institutional investors and analysts (MS&AD IR Day)	<b>Once</b>
Conferences organized by securities companies	<b>6 times</b>
Individual meetings (except conferences)	<b>232 times</b>
Information sessions for individual investors	<b>7 times</b>



Information Meeting (for institutional investors and analysts)



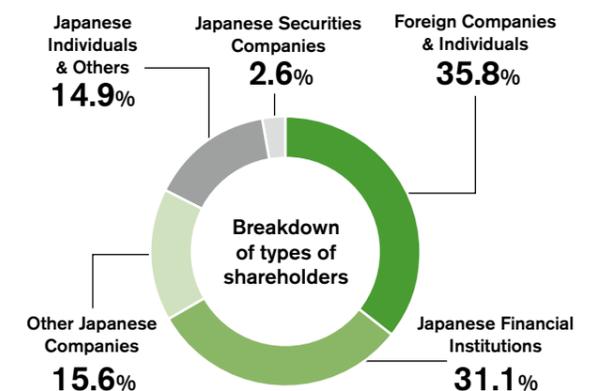
MS&AD IR Day 2016 (Presentation by MS Amlin's CFO)

### ▣ IR Activities for Overseas Investors

With foreign investors and foreign corporate investors making up almost 40% of all its investors, MS&AD Holdings has been stepping up efforts for the disclosure and dissemination of information while engaging in a dialogue with overseas investors.

The President and the officer in charge of the Corporate Communications and Investor Relations Department take trips overseas to visit with investors and proactively participate in conferences sponsored by securities firms for foreign investors as a part of our constructive dialogue initiatives.

From the viewpoint of disclosing information in a timely and fair manner, MS&AD Holdings is enhancing information disclosure through the English version of its Web site, making concerted efforts to augment information for foreign investors.



### ▣ Information Disclosure as the Basis for Dialogue

#### Website (Japanese/English)

The Group makes prompt and fair information disclosure in both English and Japanese.



Daiwa Investor Relations  
“Internet IR Excellence  
Award 2016”

#### Integrated Report (Japanese/English)

The MS&AD Integrated Report 2016, published in 2016, received the Award for Excellence and the Special Award, respectively, from the Fourth WICI Japan Integrated Report Awards and the Nikkei Annual Report Awards.



Japanese version



English version

### ▣ General Shareholders' Meeting

	FY2016	FY2017
Held	<b>June 22 (Wednesday)</b>	<b>June 26 (Monday)</b>
Shareholders attending	<b>654</b>	<b>633</b>
Ratio of the exercise of voting rights	<b>85.8%</b>	<b>85.8%</b>
Notice of convocation issue date	<b>May 30 (Monday)</b>	<b>June 2 (Friday)</b>
Notice of convocation notice website announcement date (Japanese/English)	<b>May 24 (Tuesday)</b>	<b>May 23 (Tuesday) (Japanese) May 26 (Friday) (English)</b>



For more detailed shareholder and investor information, see the Company's official website.  
[www.ms-ad-hd.com/en/ir/index.html](http://www.ms-ad-hd.com/en/ir/index.html)

Website content

- “Policy for Constructive Dialogue with Shareholders”
- Financial and non-financial reports (timely disclosure information, materials for results briefing – conference call, Corporate Governance Reports, materials for Information Meeting and CSR Reports)
- Streaming videos of presentations by the President (including a summary of the Q&A session)
- Notice of convocation of General Shareholders' Meeting

## Domestic Non-Life Insurance Business

## MITSUI SUMITOMO INSURANCE CO., LTD. (MSI)

Responsible for the non-life insurance business, which is a core business of the MS&AD Insurance Group, MSI is exercising its comprehensive capabilities to offer insurance and financial services globally.

## Company Overview

President: **Noriyuki Hara** (concurrently serving as representative director and executive officer of MS&AD Holdings)  
Date Established: **October 1918** Number of Employees: **14,650** (As of March 31, 2017)  
Head Office: **9, Kanda-Surugadai 3-chome, Chiyoda-ku, Tokyo**  
URL <http://www.ms-ins.com/english>



## Vision for Our Company

I believe MSI's mission (raison d'être) is to contribute to society by providing security and safety through the insurance business. As risk professionals, we make concerted efforts to solve social issues, such as reducing traffic accidents, improving preparations for major natural disasters and spreading renewable energy.

The proliferation of new technologies such as information and communications technology (ICT) will likely have a major impact by accelerating the pace of change in social infrastructure and our daily lifestyles. MSI leverages advanced technologies, including artificial intelligence (AI), Big Data and blockchain, to provide products and services in tune with changes in society.

We intend to support the development of society alongside our customers by sincerely fulfilling our mission with a sense of urgency.

## "Next Challenge 2017" Progress and Initiatives

MSI views the Medium-Term Management Plan "Next Challenge 2017" Stage 2 as a period for making substantial progress with initiatives focused on promoting enterprise risk management (ERM), the evolution of reorganization by function and implementing growth strategies.

Steady progress has been made on reorganization by function in each area as one of the pillars of the management plan. In the claims service area, MSI has advanced the joint development of systems with Aioi Nissay Dowa Insurance Co., Ltd. (ADI), with the aim of providing the highest level of claims services in the industry.

We also are seeing greater synergies with MS Amlin, which was added to the Group in February 2016. Utilizing the know-how of MS Amlin, we address more customer needs than ever before.

FY2017 is the final fiscal year of "Next Challenge 2017." MSI aims to secure growth by achieving outcomes that surpass the targets in the plan.

As a core operating company of the MS&AD Insurance Group, MSI will contribute to society as a non-life insurer that supports the livelihoods of people and the economy in line with our aim to become a world-leading insurance and financial services group.

## Principal Indicators (Non-Consolidated)

(¥ billion)

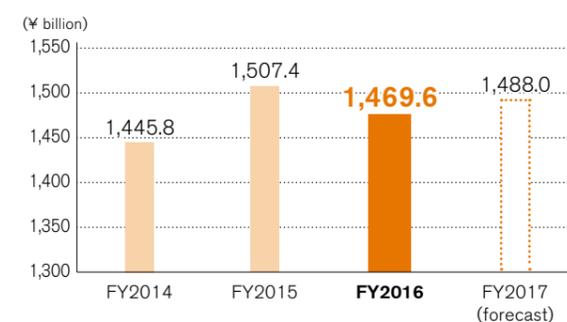
Item	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017 (forecast)
Net premiums written	1,314.2	1,384.5	1,445.8	1,507.4	1,469.6	1,488.0
Growth rate of net premiums written	3.5%	5.3%	4.4%	4.3%	(2.5%)	1.2%
Net loss ratio	73.3%	65.1%	62.2%	58.9%	61.2%	60.3%
Net expense ratio	32.4%	32.0%	31.8%	31.0%	31.2%	31.6%
Combined ratio	105.7%	97.1%	94.0%	89.9%	92.4%	91.9%
Underwriting income/(loss)	(9.7)	(7.3)	14.0	19.1	81.7	82.0
Investment income	82.5	125.1	158.3	152.8	139.4	147.6
Ordinary profit	65.3	101.9	171.3	167.8	215.5	225.0
Net income	42.6	58.0	89.1	113.9	164.5	166.0
Net assets	1,192.0	1,309.6	1,732.7	1,527.4	1,645.0	–
Total assets	5,901.4	6,098.0	6,790.0	6,786.5	6,777.0	–
Net unrealized gains/(losses) on investments in securities (before tax effects)	955.1	1,165.9	1,633.7	1,251.1	1,294.0	–
Solvency margin ratio (non-consolidated)	581.3%	600.3%	651.5%	585.9%	657.9%	–
Number of employees	14,478	14,188	14,859	14,691	14,650	–

## Notes:

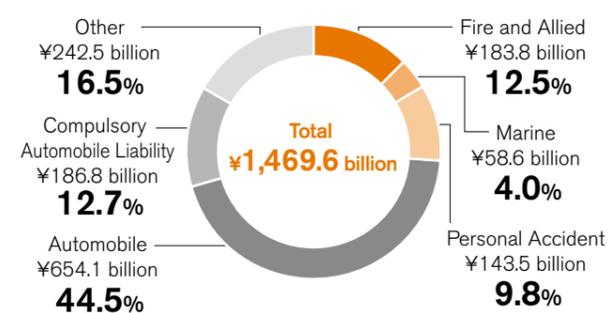
- Net premiums written, net loss ratio, net expense ratio, and combined ratio figures are presented exclusive of Good Result Return premiums of propriety automobile insurance product "ModoRich," which contains a special clause related to premium adjustment and refund at maturity.
- Net loss ratio = (net claims paid + loss adjustment expenses) ÷ net premiums written × 100
- Net expense ratio = (commissions and collection expenses + operating expenses and general and administrative expenses for underwriting) ÷ net premiums written × 100
- Combined ratio = net loss ratio + net expense ratio
- Net unrealized gains/(losses) on investments in securities (before tax effects) represents the difference before tax effects between the fair value and the acquisition cost (including the amortized cost) of available for-sale securities with practically determinable fair value. It includes monetary claims bought, money trusts, and others which are accounted for as investment in securities.

## Principal Management Indicators

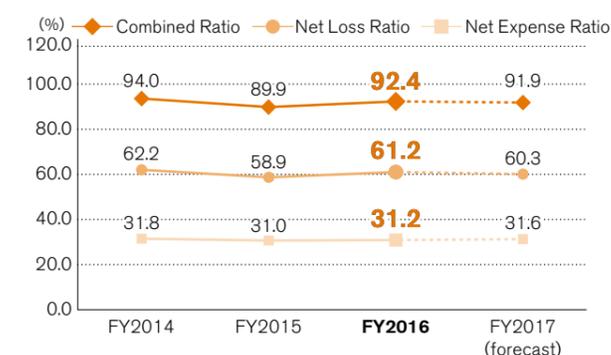
## Net Premiums Written



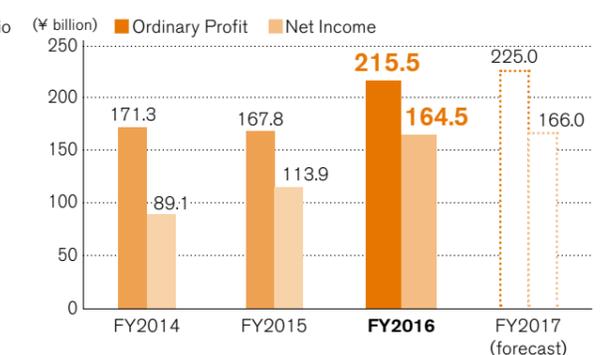
## Composition by Class of Insurance (FY2016)



## Combined Ratio



## Ordinary Profit / Net Income



## Domestic Non-Life Insurance Business

## AIOI NISSAY DOWA INSURANCE CO., LTD. (ADI)

Responsible for the non-life insurance business, which is a core business of the MS&AD Insurance Group, ADI leverages its strong relationships with the Toyota Group and the Nippon Life Group and engages in business based on close relationships with local communities.

## Company Overview

President: **Yasuzo Kanasugi** (concurrently serving as representative director and executive officer of MS&AD Holdings)  
Date Established: **June 1918** Number of Employees: **13,052** (As of March 31, 2017)  
Head Office: **28-1, Ebisu 1-chome, Shibuya-ku, Tokyo**  
URL <http://www.aioinissaydowa.co.jp> (Japanese language only)



## Vision for Our Company

As a core company in the MS&AD Insurance Group, ADI is making companywide efforts to realize the management vision. ADI recognizes that everything it does to contribute to its customers and local communities while continuing to embrace new challenges with passion is its corporate social responsibility (CSR). We are determined to live up to the expectations of all our stakeholders by fulfilling that CSR. Recognizing the importance of each and every customer, we will continue to engage in customer-focused business operations going forward. By securing the trust and confidence of customers, our goal is to secure continuous growth as the company of preferred choice. Toward that end, we have put into practice a Full Support Declaration (three declarations on the key concepts of "quick," "kind" and "reliable") as our corporate message and aim to be a unique company with its own distinctive character whose positive and energetic employees support customers to their utmost.

## "Next Challenge 2017" Progress and Initiatives

In the current fiscal year, ADI is making its ERM more sophisticated while reinforcing governance to successfully finish out the last fiscal year of the Medium-Term Management Plan "AD Next Challenge 2017." Building on the foundation laid thus far, we will push toward the achievement of sustainable growth by securing new sources of revenue with a view to the changing business environment, leveraging our partnerships with the Toyota Group and the Nippon Life Group to the maximum.

At the same time, with our eyes on the future, we are moving ahead with

the creation of a truly original and innovative business model. ADI has added "new risk" to its list of internal cross-organizational projects, in addition to the "telematics," "ICT," "regional revitalization" and "corporate culture innovation" projects started last year. By strengthening and advancing operations through these projects, we aim to actively respond to changes occurring around the world.

As a pioneer in the telematics field, ADI has created Telematics Automobile Insurance that adjusts monthly premiums based on distances traveled and driving behavior. We will contribute to the realization of a secure and safe automobile society by researching and developing new products and services that leverage telematics technology.

ADI has worked tirelessly to improve its 24-hour/365-day-a-year claims handling service that provides the same level of responses at night and on holidays, which was fully launched in the previous fiscal year, to be more responsive to the diversifying lifestyle needs of its customers.

ADI is focusing on activities that convey "the magnificence of challenging yourself" through support for people with disabilities in sports events, with the aim of working closer with communities as a part of its values. These efforts have been recognized with ADI being chosen as a Model Company for Promoting Sports in Tokyo for the second year in a row.

We can take on these challenges only because of the motivation and pride felt by every employee in her/his work. To this end, we are redoubling efforts this fiscal year to encourage the growth and skill development of our employees with the utmost emphasis on a work-life balance as part of our work style reforms. We also are focusing our energies on promoting the career development of women.

As a member of the MS&AD Insurance Group, ADI will help to become a world-leading insurance and financial services group with operations around the world.

## Principal Indicators (Non-Consolidated)

(¥ billion)

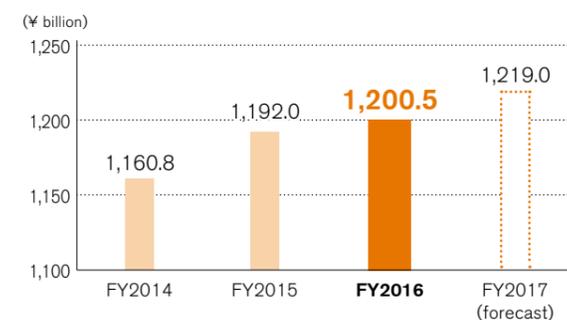
Item	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017 (forecast)
Net premiums written	1,103.2	1,144.6	1,160.8	1,192.0	1,200.5	1,219.0
Growth rate of net premiums written	2.7%	3.8%	1.4%	2.7%	0.7%	1.5%
Net loss ratio	70.4%	65.0%	63.2%	59.2%	59.1%	60.2%
Net expense ratio	34.1%	34.5%	35.0%	34.3%	33.5%	33.7%
Combined ratio	104.5%	99.5%	98.2%	93.5%	92.6%	93.9%
Underwriting income/(loss)	6.6	(28.8)	14.7	24.8	39.5	41.0
Investment income	19.7	53.0	51.5	34.9	32.2	28.0
Ordinary profit	25.8	27.8	68.9	61.7	75.1	70.0
Net income	18.8	13.1	39.4	31.0	50.3	49.0
Net assets	552.4	600.1	796.9	745.1	793.0	—
Total assets	3,236.8	3,257.1	3,470.7	3,418.5	3,498.2	—
Net unrealized gains/(losses) on investments in securities (before tax effects)	258.1	317.6	555.8	473.7	505.3	—
Solvency margin ratio (non-consolidated)	649.1%	754.0%	804.9%	829.3%	851.6%	—
Number of employees	12,784	12,812	12,973	13,260	13,052	—

Notes:

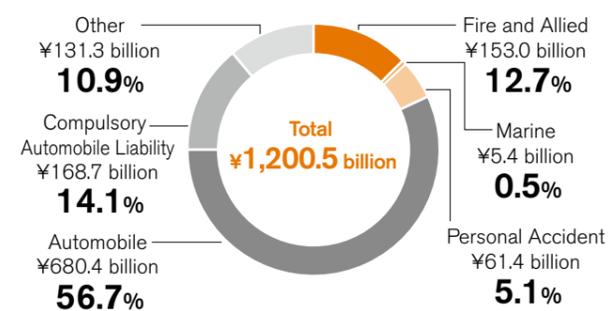
- Net loss ratio = (net claims paid + loss adjustment expenses) ÷ net premiums written × 100
- Net expenses ratio = (commissions and collection expenses + operating expenses and general and administrative expenses for underwriting) ÷ net premiums written × 100
- Combined ratio = net loss ratio + net expense ratio
- Net unrealized gains/(losses) on investments in securities (before tax effects) represents the difference before tax effects between the fair value and the acquisition cost (including the amortized cost) of available-for-sale securities with practically determinable fair value. It includes monetary claims bought, money trusts, and others which are accounted for as investment in securities.

## Principal Management Indicators

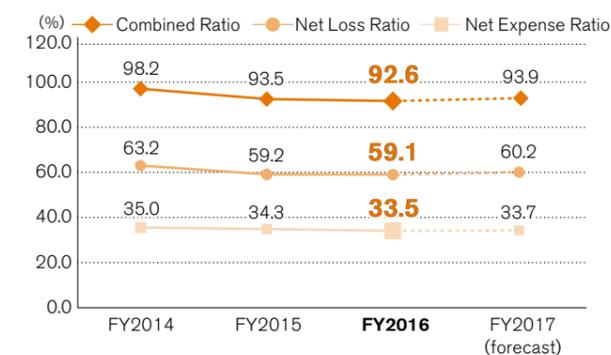
## Net Premiums Written



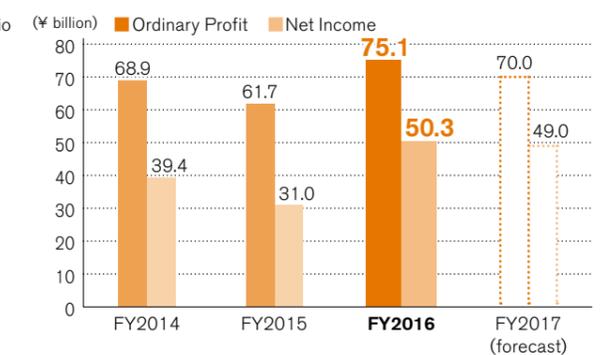
## Composition by Class of Insurance (FY2016)



## Combined Ratio



## Ordinary Profit / Net Income



## Domestic Non-Life Insurance Business

MITSUI DIRECT GENERAL INSURANCE CO., LTD.  
(Mitsui Direct General)

Mitsui Direct General is a non-life insurance company that specializes in directly selling individual voluntary automobile insurance to customers via the Internet and phone calls.

## Company Overview

President: **Ryuhei Funaki**Date Established: **June 1999** Number of Employees: **581** (As of March 31, 2017)Head Office: **5-3, Kouraku 1-chome, Bunkyo-ku, Tokyo**URL **www.mitsui-direct.co.jp** (Japanese language only)

## Vision for Our Company

Mitsui Direct General started business in June 2000 as a non-life insurance company that sells individual voluntary automobile insurance to customers via the Internet and phone calls. Since then, we have continued to expand our operations and to pursue our unique business model, taking high quality, "professional claims handling services for premiums that are rational and reasonable". Taking into account the features and advantages of our business model, the basis of which is our direct relationship with customers, we take the act of directly responding to customers' expectations through close two-way communication as the foundation of all our corporate activities and policies. Going forward, we will aim to be an insurance company that is chosen by, and pleases customers to win their trust.

## "Next Challenge 2017" Progress and Initiatives

In 2016, Mitsui Direct General is prioritizing the three basic strategies (basic strategies for business improvement) outlined below in the Medium-Term Management Plan "Next Challenge 2017" Stage 2 (FY2016–2017) and has almost achieved the target for top-line growth, while seeing a marked improvement in the loss ratio.

## Three Basic Strategies (Basic Strategies for Business Improvement)

1. Top-line growth
2. Realize appropriate rate levels and a highly profitable insurance policy portfolio
3. Enhance claims handling capabilities

We achieved top-line growth thanks to the airing of new TV commercials and successful efforts to improve the quality of our customer service. Mitsui Direct General also steadily improved measures aimed at realizing appropriate rate levels and the loss ratio by taking a detailed look at rates based on each risk classification (region, driving distance and driver's license grade).

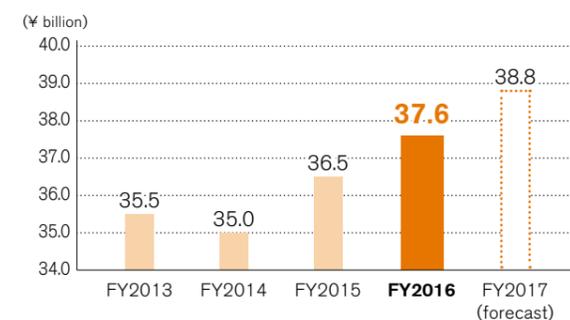
In addition to measures already under way to enhance claims handling capabilities, we firmly advanced the settlement of claims by effectively taking advantage of Group support.

Mitsui Direct General will continue to pursue the three basic strategies (basic strategies for business improvement) with the aim of achieving profitability in fiscal 2017. We will provide our employees with opportunities for growth and a less hectic lifestyle through work style reforms that were launched in fiscal 2016 as an effort to ensure the continued growth and happiness of all our employees, the people who are the company. I am confident Mitsui Direct General can find new avenues for growth by responding directly to the expectations of its customers through the aforementioned measures.

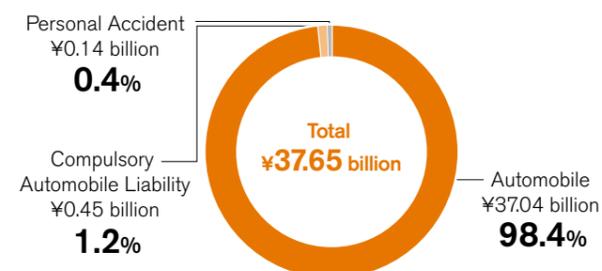
Harnessing our cumulative abilities to take action and improve profitability through teamwork, the source of power among management and employees, we will redouble efforts to be a company that is chosen, celebrated and trusted by everyone in society, as a member of the MS&AD Insurance Group with its ambition to become a world-leading insurance and financial services group.

## Principal Management Indicators

## Net Premiums Written



## Composition by Class of Insurance (FY2016)



## Principal Indicators (Non-Consolidated)

(¥ billion)

Item	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017 (forecast)
Net premiums written	35.2	35.5	35.0	36.5	37.6	38.8
Growth rate of net premiums written	2.8%	0.8%	(1.4%)	4.3%	3.0%	3.0%
Net loss ratio	78.6%	76.3%	78.9%	79.0%	75.9%	—
Net expense ratio	20.7%	20.7%	22.8%	21.9%	22.0%	—
Combined ratio	99.3%	97.0%	101.7%	100.9%	97.9%	—
Underwriting income/(loss)	0.32	0.14	(4.35)	(5.45)	(1.00)	—
Ordinary profit/(loss)	0.52	0.29	(4.23)	(5.37)	(0.95)	0.40
Net income/(loss)	0.46	0.23	(4.33)	(5.42)	(1.00)	—
Net assets	11.0	11.2	6.8	6.4	13.3	—
Total assets	45.5	46.5	46.4	51.0	59.9	—
Solvency margin ratio (non-consolidated)	429.4%	420.8%	255.9%	230.4%	431.4%	—
Number of employees	503	528	572	563	581	—

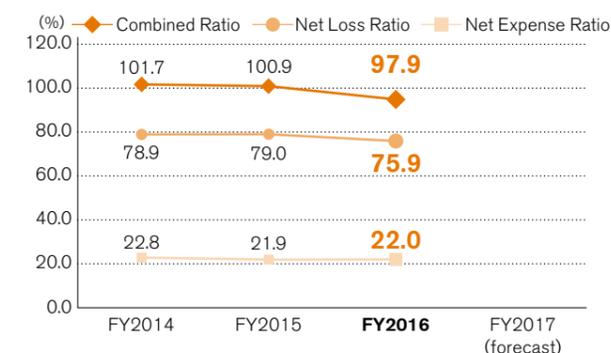
Notes:

1. Net loss ratio= (net claims paid + loss adjustment expenses) ÷ net premiums written × 100

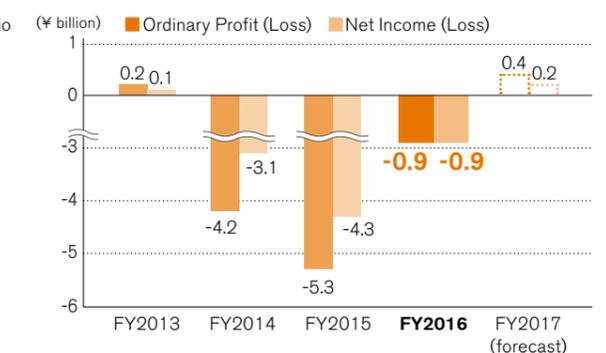
2. Net expenses ratio= (commissions and collection expenses + operating expenses and general and administrative expenses for underwriting) ÷ net premiums written × 100

3. Combined ratio= net loss ratio + net expenses ratio

## Combined Ratio



## Ordinary Profit (Loss) / Net Income (Loss) (per our share)



## Domestic Life Insurance Business

MITSUI SUMITOMO AIOI LIFE INSURANCE CO., LTD.  
(MSI Aioi Life)

MSI Aioi Life is a life insurance company that offers protection-type life insurance products, while leveraging the Group's marketing network and customer base. The company is realizing a growth model that involves a combination of strategies to utilize unique marketing channels.

## Company Overview

President: **Hitoshige Tanbo**Date Established: **August 1996** Number of Employees: **2,595** (As of March 31, 2017)Head Office: **27-2, Shinkawa 2-chome, Chuo-ku, Tokyo**URL [www.msa-life.co.jp](http://www.msa-life.co.jp) (Japanese language only)

## Vision for Our Company

To achieve industry-leading quality and rapid growth, MSI Aioi Life has the following three Visions.

- Respond quickly to changes and look at things through our customers' eyes to provide high-quality products and services.
- As the Group's core life insurance company, achieve rapid growth and sustainable profit enhancement along with our agents.
- Ensure that every employee puts the MSA Style\* into practice and grows along with the company.

\*M: Mizukara kangae, kodo suru (think and act for oneself), S: Shinaji koka wo hakki suru (create synergies), A: Akaruku genki ni charenji suru (take on challenges with a cheerful and enthusiastic mind-set)

## "Next Challenge 2017" Progress

In fiscal 2016, economic conditions were tough on the life insurance business with long-term interest rates being pushed down by a negative interest rates policy. Nonetheless, MSI Aioi Life pushed ahead with initiatives to achieve industry-leading quality and rapid growth, and earnings expanded firmly as a result. In March 2017, MSI Aioi Life raised ¥100 billion in capital to reinforce its financial foundation, further improving its financial soundness as a result.

More than 170,000 policies were sold for New Medical Insurance A-Plus during the first 11 months after its introduction (May 2016), proving to be a popular insurance plan for customers. Moreover, our call centers have received three stars, the highest mark, in three categories (Web support, customer contact and monitoring) of the HDI rating

benchmark by HDI-Japan. MSI Aioi Life is the first company in the life insurance industry to receive three stars in three categories at the same time.

Fiscal 2017 is the year we put the finishing touches on the Medium-Term Management Plan "Next Challenge 2017" and make steady progress on strategies to achieve our management targets for net income and growth in embedded value.

In our product strategy, we aim to help solve social issues, such as addressing falling birthrates and an aging population, empowering women at work and promoting health, by offering attractive products and services that meet diverse needs. In April 2017, MSI Aioi Life introduced New Comprehensive Income Guarantee Insurance and New Income Guarantee Insurance as a new product with expanded coverage for the risk of not being able to work anymore. Combined with New Medical Insurance A-Plus, MSI Aioi Life is ready to increase sales of these key products.

In our strategy to improve quality, we intend to offer the best quality in all business processes with our focus on the customer. Our customer-focused business operations aim to be in the best interests of the customer with integrity and fairness. To this end, we will strive to improve quality further in all business processes that interact with customers, such as product development, solicitation, safeguarding and payments of insurance benefits.

As the Group's core domestic life insurance company, MSI Aioi Life aims to be a company that is trusted by our customers and society, while we continuously bring our customers peace of mind and satisfaction.

## Principal Indicators (Non-Consolidated)

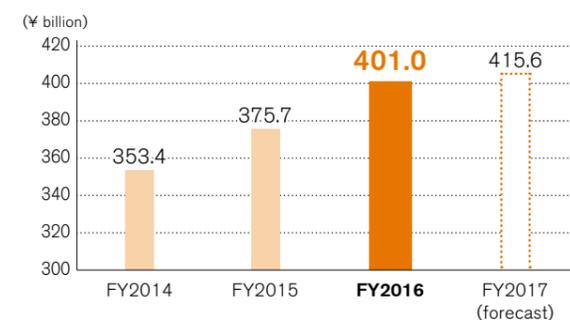
(¥ billion)

Item	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017 (forecast)
Amount of new policies	3,710.5	2,672.2	2,481.1	2,423.3	2,377.1	2,233.3
Amount of policies in force	20,074.6	21,105.0	21,894.0	22,576.0	23,214.2	23,706.0
Annualized premiums of policies in force	317.4	333.5	353.4	375.7	401.0	415.6
Ordinary profit	7.4	17.4	15.9	18.6	16.1	12.7
Core profit	5.8	15.3	16.1	19.4	18.6	—
Net income	0.4	6.6	4.4	6.0	4.5	3.0
Net assets	132.2	131.9	169.1	199.7	276.2	—
Total assets	2,436.2	2,636.0	3,009.2	3,229.0	3,619.1	—
Net unrealized gains/(losses) on investments in securities (before tax effects)	99.2	89.1	132.6	165.2	126.3	—
Embedded value (EEV)	496.4	588.1	647.8	595.8	794.2	844.2
Solvency margin ratio	1,309.8%	1,264.9%	1,429.9%	1,598.4%	1,893.2%	—
Number of employees	2,366	2,421	2,544	2,554	2,595	—

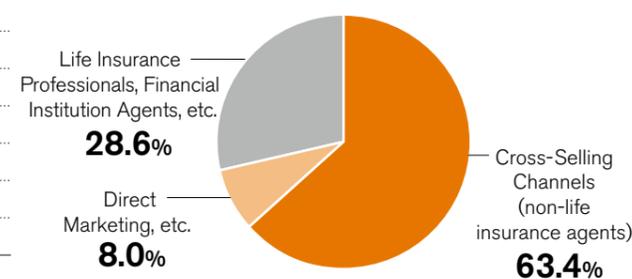
1. Amount of new policies, amount of policies in force, and annualized premiums of policies in force are the total of individual insurance and individual annuity insurance.
2. Core profit is an insurance business profitability indicator that is calculated by deducting capital gains/(losses) and non-recurring income and losses from ordinary profit.
3. Net unrealized gains/(losses) on investments in securities (before tax effects) represents the difference before tax effects between the fair value and the acquisition cost (including the amortized cost) of available-for-sale securities with practically determinable fair value. It includes monetary claims bought, money trusts, and others which are accounted for as investment in securities.

## Principal Management Indicators

## Annualized Premiums of Policies in Force

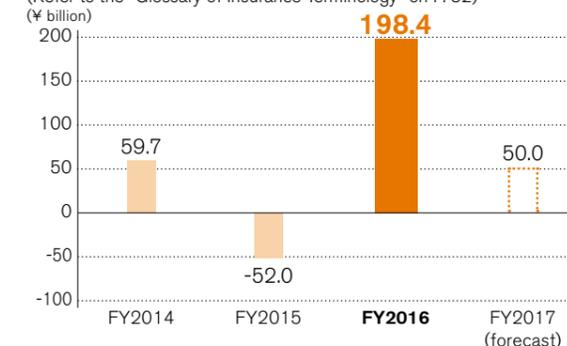


## Weight by Type of Sales Channel (FY2016)



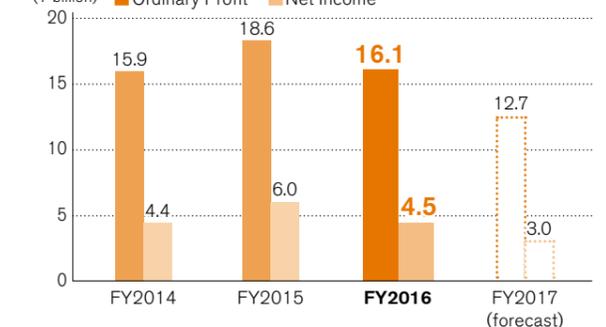
## Increase in Embedded Value (EEV)

(Refer to the "Glossary of Insurance Terminology" on P.52)



## Ordinary Profit / Net Income

(¥ billion)



## Domestic Life Insurance Business

MITSUI SUMITOMO PRIMARY LIFE INSURANCE CO., LTD.  
(MSI Primary Life)

Specializing in over-the-counter sales via financial institutions, MSI Primary Life is a life insurance company that offers asset-building-type products centered on individual annuity insurance and whole life insurance.

## Company Overview

President: **Yasuhiro Nagai**Date Established: **September 2001** Number of Employees: **384** (As of March 31, 2017)Head Office: **Yaesu First Financial Building, 3-7, Yaesu 1-chome, Chuo-ku, Tokyo**URL <http://www.ms-primary.com> (Japanese language only)

## Vision for Our Company

The "Primary" part of our name has various meanings—the basis, the first and the major. This reflects our aim to stay true to the "basis" and work from our starting point: being always a "customer-first" and "customer-focused" company.

We also want to be a close partner for our customers through our individual annuity insurance and whole life insurance products, and try to help create a society where as many people as possible can enjoy a full and enriching life after retirement. Finally, we aim to take the lead in deepening, expanding and creating lasting life insurance markets through a range of highly unique products to support our customers' asset-building efforts.

## "Next Challenge 2017" Progress and Initiatives

Fiscal 2016 was a tumultuous year around the world with Britain deciding to exit the European Union and the outcome of the U.S. presidential election. MSI Primary Life posted annual sales above ¥1 trillion for the third consecutive year, achieving sustained growth while contributing to the Group's vision.

MSI Primary Life engaged in the four key strategies outlined below in accordance with the Medium-Term Management Plan "Next Challenge 2017" Stage 2.

The first one is our "risk, return, capital and ALM strategy." In addition to diversifying our investment methods, we strengthened the integrated management framework that controls risks, return

and capital in a well-balanced manner, while taking a more sophisticated approach to ERM.

Next is our "product strategy." While leveraging our strengths in product development, we won the support of our customers through the development and introduction of Yasashisa Tsunagu, a currency option-type with immediate receivable benefits fixed special whole life insurance that anticipates the needs of aging customers for gifting and inheritance.

The third is our "marketing strategy." We endeavored to further improve the quality of our nationwide network of sales agents affiliated with leading financial institutions through various training programs and administrative guidance.

The final one is our "operations strategy." MSI Primary Life focused on reviewing payment work processes to further improve the quality of claims payment procedures. We also concentrated our energies on improving customer services and administrative quality from the perspective of elderly customers, for example by changing to A3-sized paper with color printing and inserting diagrams of our framework for reports periodically mailed to customers.

As the Medium-Term Management Plan ends in fiscal 2017, it will be a pivotal year for formulating the new medium-term management plan that begins next year. As a core life insurance company for the domestic life insurance business, a growth business of the Group, MSI Primary Life will continue to engage in activities that draw us closer to the realization of the Group's mission, vision and values, centered on the management strategy of focusing on customers.

## Principal Indicators (Non-Consolidated)

(¥ billion)

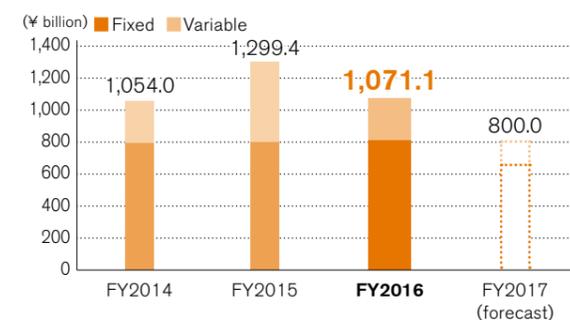
Item	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017 (forecast)
Premiums income	449.3	826.4	1,054.0	1,299.4	1,071.1	800.0
Amount of new policies	432.2	800.5	1,024.7	1,262.6	1,032.2	774.9
Amount of policies in force	3,661.4	4,024.3	4,421.0	4,910.8	5,680.7	6,000.0
Ordinary profit	38.9	39.8	17.7	39.9	57.6	21.9
Core profit / (loss)	37.9	58.3	(33.4)	14.3	52.6	—
Core profit + Capital gains	56.4	57.6	24.4	41.9	58.9	—
Net income	10.3	17.9	12.4	17.8	20.7	14.0
Net assets	71.2	89.2	109.8	125.0	137.7	—
Total assets	3,765.5	4,163.6	4,662.0	5,191.2	5,838.0	—
Net unrealized gains/(losses) on investments in securities (before tax effects)	1.0	1.0	15.4	14.6	10.4	—
Embedded value (EEV)	161.2	234.8	310.2	333.8	375.3	—
Solvency margin ratio	884.0%	1,004.6%	879.7%	985.5%	1,030.5%	—
Number of employees	342	344	363	381	384	—

Notes:

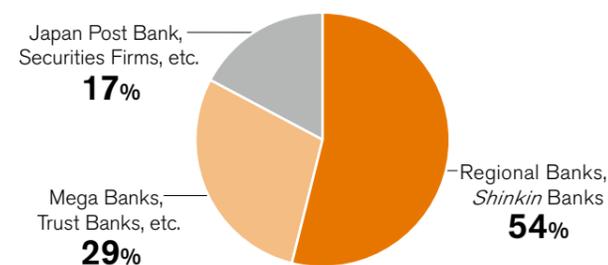
- The amount of new policies and amount of policies in force are the totals of individual insurance and individual annuity insurance.
- Core profit is an insurance business profitability indicator that is calculated by deducting capital gains/(losses) and non-recurring income and losses from ordinary profit. In this business, the sum of core profit and capital gains (losses) provides a more appropriate indicator of actual profit for the period. As for MSI Primary Life, the sum of core profit and capital gains(losses) provides a more appropriate indicator of actual profit for the period instead of core profit(loss).
- Net unrealized gains/(losses) on investments in securities (before tax effects) represents the difference before tax effects between the fair value and the acquisition cost (including the amortized cost) of available-for-sale securities with practically determinable fair value. It includes monetary claims bought, money trusts, and others which are accounted for as investment in securities.

## Principal Management Indicators

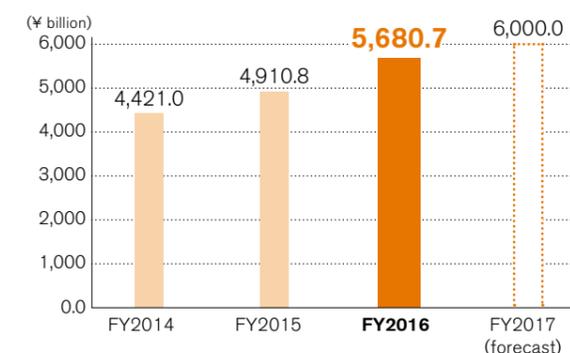
## Premiums Income



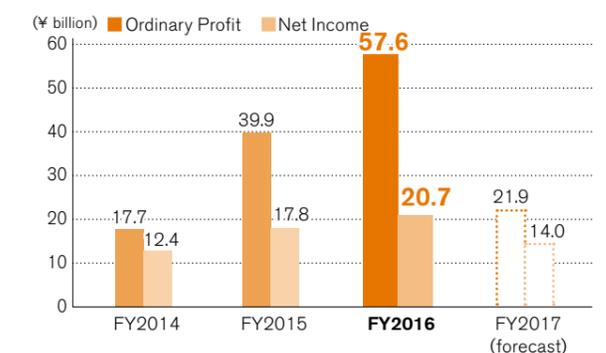
## Weight by Type of Sales Channel (FY2016)



## Amount of Policies in Force



## Ordinary Profit / Net Income



International Business

MS Amlin plc

MS Amlin is an insurance holding company that comprises three core businesses—Lloyd’s, Reinsurance and European Primary Insurance. The company is a leading insurer that provides both insurance and reinsurance services around the world.

Company Overview

Chief Executive: **Charles Philipps** (concurrently serving as Executive Officer of Mitsui Sumitomo Insurance)  
 Date Established: **September 17, 1993** Number of Employees: **2,219** (As of March 31, 2017)  
 Head Office: **The Leadenhall Building, 122 Leadenhall Street, London EC3V 4AG, U.K.**  
 URL <http://www.amlin.com/>



Review of FY2016

Profit before tax (excluding exceptional items) for FY2016 was £60.4 million.

MS Amlin’s underwriting profit was affected primarily by three factors: soft market conditions that continued to put pressure on pricing; major losses from natural catastrophes, including from forest wildfires in Alberta, Canada, Hurricane Matthew and earthquakes in New Zealand and Taiwan; and an increase in outstanding bodily injury claims in the United Kingdom due to a cut in the statutory discount rate (the Ogden rate) used for assessing liability claims.

From a marketing standpoint, the Reinsurance SBU\* has sought to develop its business by geographically expanding into new regions and providing products tailored to the needs of our clients. Despite the challenging market backdrop, our Marine & Aviation and Property & Casualty SBUs made solid progress toward delivering their FY2016 business strategies by maintaining high-quality services for clients.

In addition, we established good working relationships and levels of cooperation with the MS&AD Insurance Group’s bases in Asia and the United States and set up a collaborative synergy scheme through which we have achieved steady synergy results.

Status of Business Integration

In May 2016, the management of MSI’s former Lloyd’s syndicate was transferred to Amlin Underwriting Limited by integrating management agencies. Consequently, from May 2016 onward it became possible to mutually utilize each other’s underwriting know-how, realizing improvements in product and service quality and greater business efficiency. In the Lloyd’s market, we consolidated our position as the second largest Managing Agent by gross premiums written, with our market share increasing 1.5 percentage points to 7.6%.

In December 2016, MSI’s reinsurance subsidiary MS Frontier Reinsurance Limited merged with MS Amlin AG, our Swiss reinsurance subsidiary, and was fully aligned with the Reinsurance SBU.

At the end of December 2016, Mitsui Sumitomo Insurance (London Management) Limited and its underwriting fund management company, MSI Corporate Capital Limited, were integrated into our company.

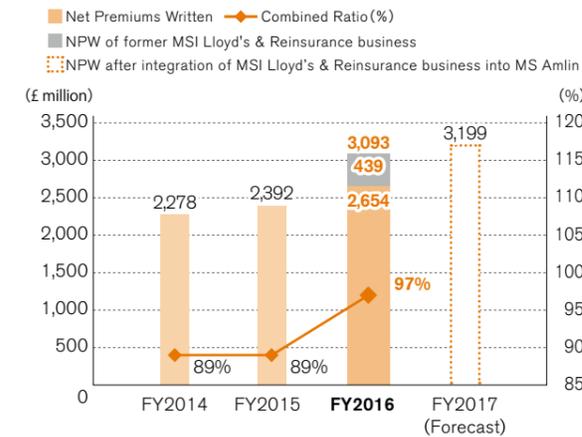
The integration of these businesses has enabled us to enhance our talent pool and increase available capital. We also have reinforced our market positions in many business lines, notably in reinsurance, marine, U.K. property and engineering.

Going forward, I believe that many more opportunities for growth will be obtained by realizing synergies with the existing international business of the MS&AD Insurance Group. I am convinced that leveraging the MS&AD Insurance Group’s strong positions and extensive network in Asia will enable us to further broaden and develop our Asian non-life primary insurance business.

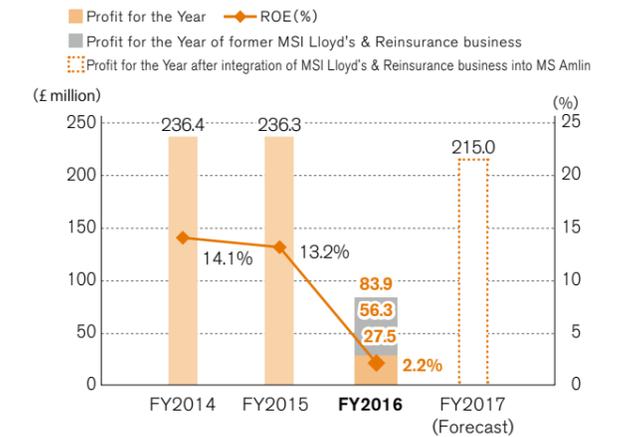
\* SBU: Strategic Business Unit. Governance structure (introduced in September 2014) to unify and manage business across MS Amlin according to underwriting area. Categorized into three SBUs: Reinsurance, Marine & Aviation and Property & Casualty.

Principal Indicators

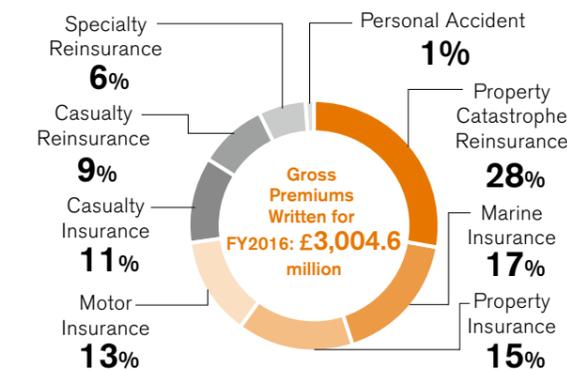
Net Premiums Written and Combined Ratio



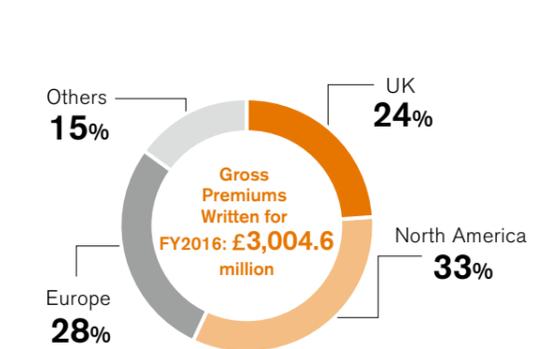
Profit for the Year and ROE



Gross Premiums Written by Class\*

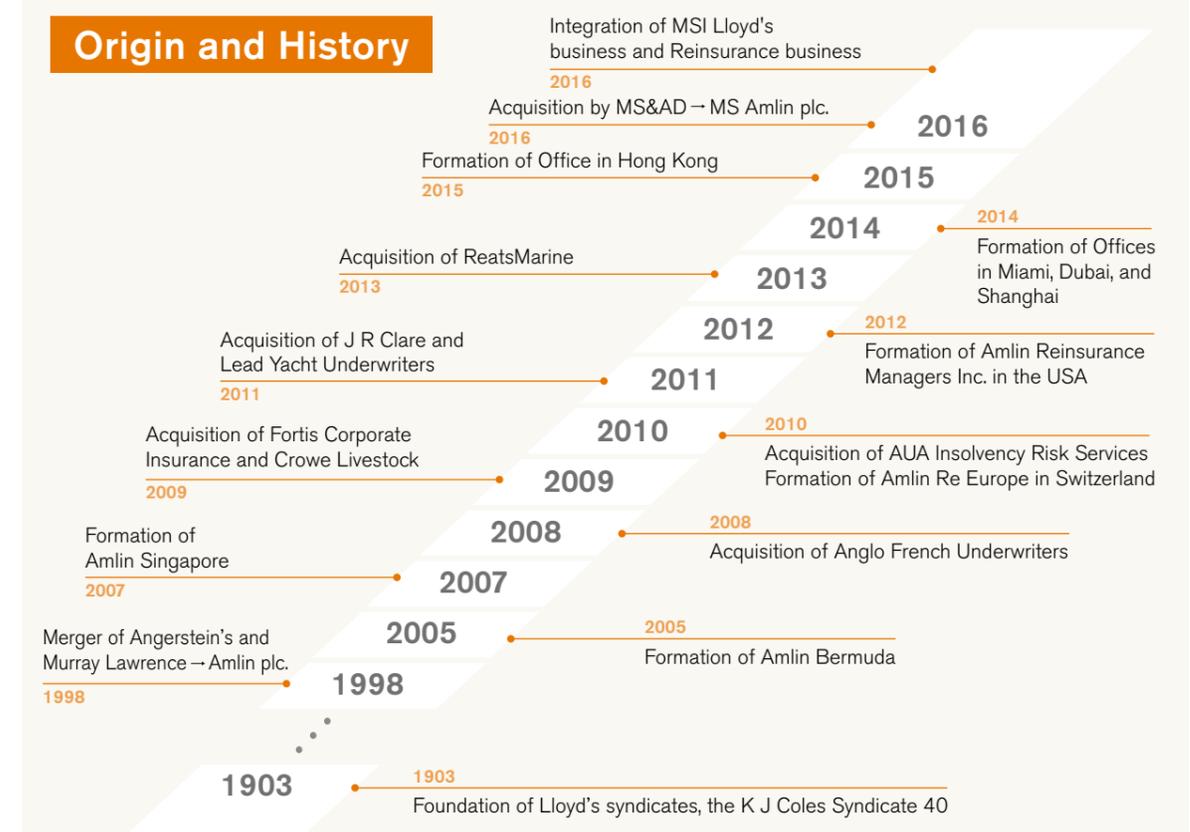


Gross Premiums Written by Geography\*



\* Prior to integration of MSI Lloyd’s & Reinsurance business into MS Amlin

Origin and History



## International Business

## MSIG Holdings (Asia) Pte., Ltd.

As an overseas regional holding company, this company supervises our non-life insurance business in the ASEAN, Hong Kong and Oceania regions. As the only non-life insurance group with facilities in all ASEAN countries, we are making use of our solid business base to create further growth and expand locally rooted businesses.

## Company Overview

CEO: **Alan Wilson** (concurrently serving as Executive Officer of Mitsui Sumitomo Insurance)

Date Established: **September 23, 2004** Number of Employees\*: **4,774** (As of March 31, 2017)

\*Total number of employees in local subsidiaries under the supervision of MSIG Holdings (Asia), the Thai branch, the Oceania branch and the Yangon office of Mitsui Sumitomo Insurance

Head Office: **4 Shenton Way, #27-01 SGX Centre 2, Singapore 068807** URL <http://www.msig-asia.com/>



## Developments and Review of FY2016

The MS&AD Insurance Group steadily has solidified its business base through longstanding expansion into the ASEAN countries including acquisition of the British company AVIVA's Asian non-life insurance business in 2004 and the strengthening of alliances with local partners. Our strong business base consists of a sales network across the whole ASEAN region, a wide range of sales channels (e.g. agents, insurance brokers, automobile dealers and banks), excellent personnel and the MSIG brand—all of which provide us with a competitive edge. We have built up a large market share in each country as a non-life insurer that provides a full line of products and services to all customers, ranging from Japanese and local major corporations to small and medium-sized enterprises as well as individuals.

In FY2016, overall net premiums declined mainly due to slow economic growth as reflected in declining automobile sales as well as trade volume, foreign exchange effects and general soft market conditions. When excluding the foreign exchange effects, our net premiums increased in FY2016. Even under these difficult conditions, MSIG Holdings was able to improve its combined ratio and achieved a net income of ¥14.1 billion in the period under review.

## Future Initiatives

With respect to direct premiums written, MSIG Holdings is looking to position itself as one of the top three market participants in major markets

within the region. To achieve this, our highest priority is the improvement of corporate quality through a customer-focused approach. Our determined expansion in new markets and new businesses as well as continuous improvement in operational efficiency will contribute to our goals. We intend to solidify our position as the No. 1 non-life insurance group in terms of premiums income, profits and corporate quality in the ASEAN region.

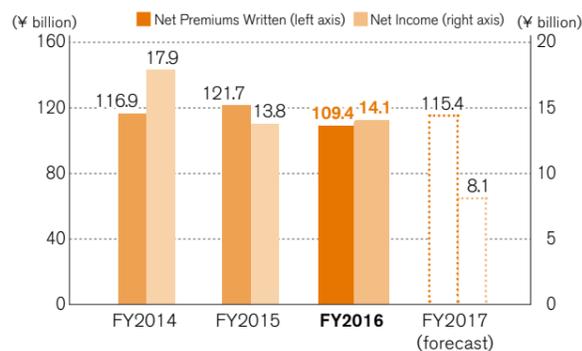
In FY2017, the final year of "Next Challenge 2017," to realize these goals, we aim to achieve solid growth by further expanding and strengthening our sales channels through a greater effort in digital marketing, as well as generating synergies with MS Amlin. At the same time, we have set our sights on enhancing our growth potential and profitability through reasonable underwriting and work to improve earnings by increasing business efficiency.

## Highlights of Future Initiatives

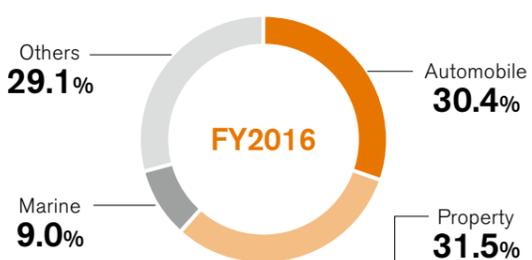
- Further expand and strengthen sales channels and enhance digital marketing
  - Strengthen ties with insurance brokers, agents and leading major banks
  - Continue product innovation efforts and use digital touch points
- Expand Japanese corporate business by approaching companies with Japanese equity investments
- Generate synergies with MS Amlin
- Improve profitability by pursuing underwriting discipline, increasing efficiency in handling claims and managing business expenses

## Principal Management Indicators\*

## Net Premiums Written



## Gross Written Premiums by Product Line (FY2016)



\* Total premiums written for local subsidiaries under the supervision of MSIG Holdings (Asia) and other branches and offices of Mitsui Sumitomo Insurance in the region. Data includes the Oceania Branch that came under supervision of MSIG Holdings (Asia) from FY2016.

## Credit Ratings

## Credit Ratings for Domestic Insurance Companies

This section contains information about credit ratings assigned to the following companies in the Group. (As of July 1, 2017)

Rating Agency	Rating Assigned	MS&AD Holdings	Mitsui Sumitomo Insurance Co., Ltd.	Aioi Nissay Dowa Insurance Co., Ltd.	Mitsui Sumitomo Aioi Life Insurance Co., Ltd.	Mitsui Sumitomo Primary Life Insurance Co., Ltd.
Standard & Poor's Ratings	Financial Strength Rating	—	A+ (Stable)	A+ (Stable)	A+ (Stable)	A+ (Stable)
	Long-Term Issuer Credit Rating	—	A+ (Stable)	A+ (Stable)	—	—
	Short-Term Issuer Credit Rating	—	A-1	A-1	—	—
Moody's	Insurance Financial Strength Rating	—	A1 (Stable)	A1 (Stable)	—	—
	Long-Term Issuer Rating	—	A1 (Stable)	—	—	—
Rating and Investment Information, Inc. (R&I)	Issuer Rating	—	AA- (Positive)	AA- (Positive)	—	—
	Insurance Claims Paying Ability	—	—	—	AA- (Positive)	AA- (Positive)
Japan Credit Rating Agency, Ltd. (JCR)	Ability to Pay Insurance Claims	—	—	AA+ (Stable)	—	—
	Long-Term Issuer Rating	AA (Stable)	AA+ (Stable)	AA+ (Stable)	—	—
	Short-Term Rating (Commercial Paper)	—	J-1+	J-1+	—	—
A.M. Best	Financial Strength Rating	—	A+ (Stable)	A+ (Stable)	—	—
	Issuer Credit Rating	—	aa (Stable)	aa (Stable)	—	—

## Credit Ratings for Overseas Insurance Companies

The table below indicates information about credit ratings of overseas subsidiaries. (As of July 1, 2017)

Rating Agency	Overseas Subsidiaries	Credit Rating
Standard & Poor's	Mitsui Sumitomo Insurance Co. (Europe), Ltd. MSIG Insurance (Hong Kong) Ltd. MSIG Insurance (Singapore) Pte. Ltd. MSIG Insurance Europe AG	Financial Strength Rating A+ (Stable)* <sup>1</sup>
	Aioi Nissay Dowa Insurance Company of Europe Ltd.	Financial Strength Rating A+ (Stable)* <sup>2</sup>
	Mitsui Sumitomo Insurance Company of America Mitsui Sumitomo Insurance USA, Inc.	Financial Strength Rating A+ (Stable)
	Mitsui Sumitomo Insurance (China) Co., Ltd. MSIG Mingtai Insurance Co., Ltd. MS Amlin AG Amlin Insurance SE	Financial Strength Rating A (Stable)
Moody's	Syndicate 2001 MS Amlin AG	Lloyd's Syndicate Rating 4+ (Stable) Insurance Financial Strength Rating A2 (Stable)
A.M. Best	Mitsui Sumitomo Insurance Company of America Mitsui Sumitomo Insurance USA, Inc. Aioi Nissay Dowa Insurance Company of America	Financial Strength Rating A+ (Stable) Issuer Credit Rating aa (Stable)
	Syndicate 2001	Financial Strength Rating A+ (Stable) Issuer Credit Rating aa- (Stable)
	MS Amlin AG	Financial Strength Rating A (Stable) Issuer Credit Rating a+ (Stable)
	DTRIC Insurance Company Ltd. DTRIC Insurance Underwriters, Ltd.	Financial Strength Rating A (Stable) Issuer Credit Rating a (Stable)
	Aioi Nissay Dowa Insurance (China) Co., Ltd.	Financial Strength Rating A- (Stable) Issuer Credit Rating a- (Stable)
Fitch Ratings	MS Amlin AG Amlin Insurance SE	Financial Strength Rating A (Negative)

\*<sup>1</sup> Applicable to the same ratings of Mitsui Sumitomo Insurance with the guarantee on insurance/reinsurance policies, issued by Mitsui Sumitomo Insurance (the issuer of the guarantee, the "Guarantor"). The obligations of the Guarantor under the guarantee rank pari passu with all other unsecured indebtedness of the Guarantor. The guarantee is unconditional and covers the subsidiaries' obligations of payment and not collection.

\*<sup>2</sup> Applicable to the same rating of Aioi Nissay Dowa Insurance with the guarantee on insurance/reinsurance policies, issued by Aioi Nissay Dowa Insurance (the issuer of the guarantee, the "Guarantor"). The obligations of the Guarantor under the guarantee rank pari passu with all other unsecured indebtedness of the Guarantor. The guarantee is unconditional and covers the subsidiaries' obligations of payment and not collection.

# Basic Knowledge about the Insurance Industry

We have prepared this section as a reference material to help readers gain a better understanding of the insurance industry and the Company's business operations and business strategies.

We are striving to provide accurate and fair information, but we cannot guarantee the contents of this section.

## Non-Life Insurance Industry

### Market Overview

#### About ¥8 Trillion

The Japanese non-life insurance industry's market scale in terms of net premiums written was ¥8,359.7 billion in fiscal 2015. (Total for 26 corporate members of the General Insurance Association of Japan)

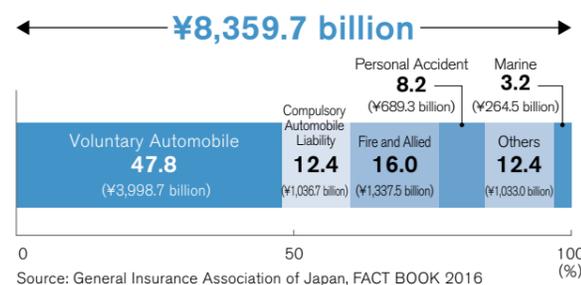
#### Automobile-Related Insurance Accounts for More than 60%

Together, voluntary automobile insurance (47.8%) and compulsory automobile liability (12.4%) account for more than 60% of the market.

#### Three Largest Non-Life Insurers Have Almost 90% Market Share Combined

In Japan, there were 52 companies engaged in the non-life insurance business as of July 2016, including 22 foreign non-life insurers. The three largest non-life insurance companies—the MS&AD Insurance Group, the Tokio Marine Group and the Sompo Japan Nipponkoa Group—have an 87% combined share of the market.

#### Net Premiums Written by Class of Insurance (FY2015)



### Types of Insurance and Related Trends

#### Covering Diverse Risks

We face diverse risks in our daily lives. Non-life insurance products can compensate for economic damages and human losses (the cost of treating injuries, etc.) caused by natural disasters and accidents.

#### Changing with the Times

Until the 1960s, the non-life insurance market was centered on fire and marine insurance products. With the subsequent rise in the number of automobiles in use, such automobile-related products as Voluntary Automobile Insurance and Compulsory Automobile Liability Insurance became the main products in the market. In recent years, "others" insurance such as Liability Insurance has been growing strongly.

#### Trend of Increase in Earthquake Insurance

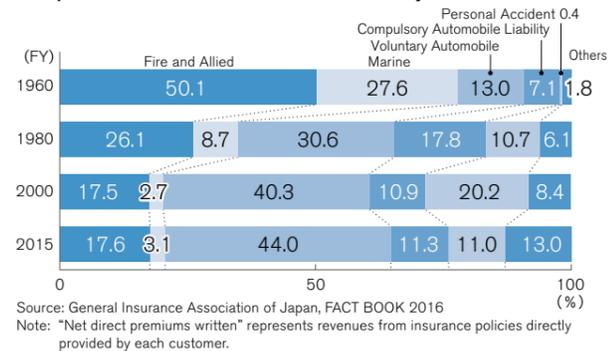
Residential earthquake insurance was developed in 1966, in response to the major earthquake that struck Niigata in Japan in 1964. The number of people obtaining residential earthquake insurance has been trending upward, and the penetration ratio of Earthquake Insurance in residential fire insurance policies has risen to 60.2% (at the end of FY2015).

#### Residential Earthquake Insurance Operated in Collaboration with Government

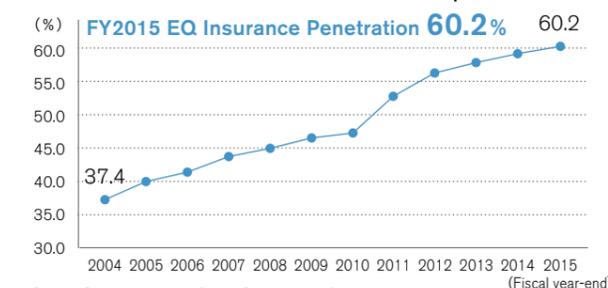
It is difficult to forecast the damage that will occur in the event of an earthquake, so fire insurance by itself does not cover building fires and damage caused by earthquakes.

To provide coverage for earthquake damage, the government and insurance companies collaborate to operate residential earthquake insurance, and there are no variations among insurance companies with respect to coverage of compensation and insurance premiums.

#### Composition of Net Direct Premiums Written by Class of Insurance



#### Trends in the Attachment Rate of Residential Earthquake Insurance



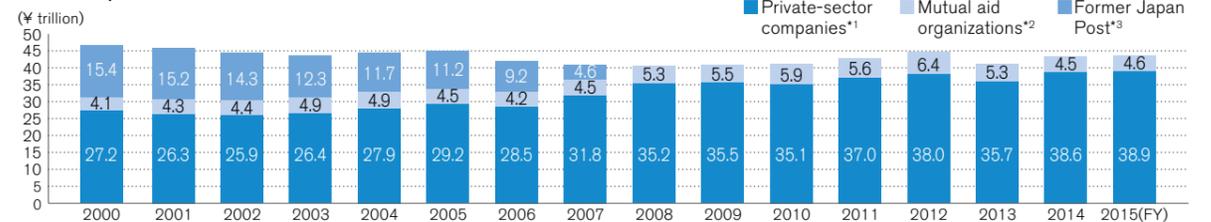
## Life Insurance Industry

### Market Scale

#### Approximately ¥43 Trillion

The scale of Japanese life insurance industry's market in terms of life insurance premiums and others in total is approximately ¥43 trillion, making it the world's second largest market, after that of the United States.

#### Scale of Japan's Life Insurance Market (Trends in Life Insurance Premiums)



Sources: Prepared by MS&AD Holdings based on materials from the Life Insurance Association of Japan, the Japan Cooperative Insurance Association Incorporated, and Japan Post Holdings Co., Ltd., and based on materials in the Japan Institute of Life Insurance's "Fiscal 2015 National Survey on Life Insurance"

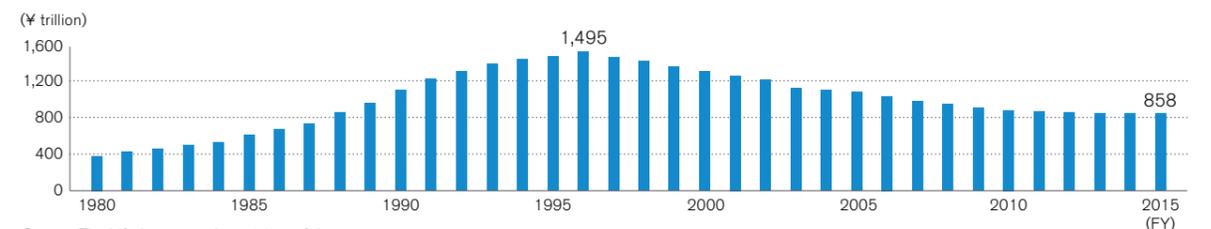
\*1 Private-sector companies: Each corporate member of the Life Insurance Association of Japan. Figures represent premiums and others.  
\*2 Mutual aid organizations: Each organization member of the Japan Cooperative Insurance Association Incorporated. Figures represent premiums and other insurance income received (total for life insurance and annuity insurance).  
\*3 Former Japan Post: Premium income (postal life insurance) during the period through September 2007. The Japan Post Insurance offered from the October 2007 privatization is included in the private-sector companies' figures.

### Trends in Types of Insurance

#### Decline in Big-Ticket Death Benefit Needs

The amount of policies in force for individual insurance has been trending downward since peaking in fiscal 1996. Behind this trend is a decline in big-ticket death benefit needs and a shift to third-sector products needs.

#### Trends in Policies in Force (Individual Insurance)



Source: The Life Insurance Association of Japan

Note: Figures for 2007 and previous years exclude Japan Post Insurance and the former postal life insurance.

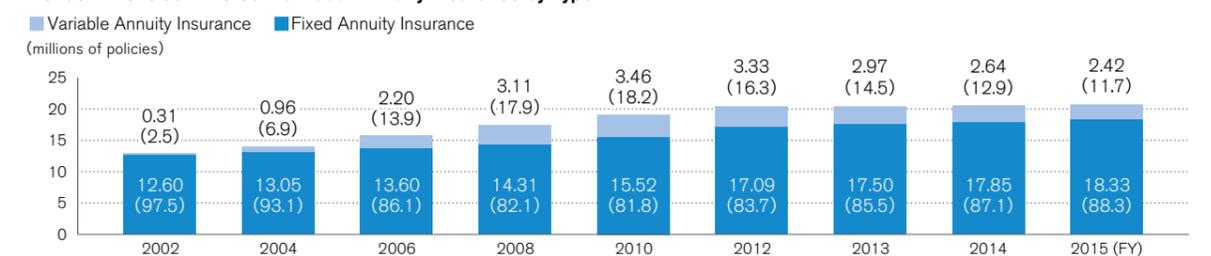
#### Third-Sector Products Become the Major Products

The share of medical and cancer insurance policies (third-sector policies) among the total number of new policies written for individuals has risen – from 23.0% in FY2000 to 37.0% in FY2015 – and become the major life insurance product.

In particular, the advent of a full-blown aging society in Japan will be accompanied by a rise in needs for nursing care insurance. In recent years, each life insurance company has been launching new nursing care insurance products which supplements the public nursing care insurance system, which is not able to completely cover the expenses entailed by nursing care.

Sales of individual annuity insurance began in earnest following the October 2002 lifting of the ban on marketing such products via banks. Growth in individual annuity insurance policies in force is now robust.

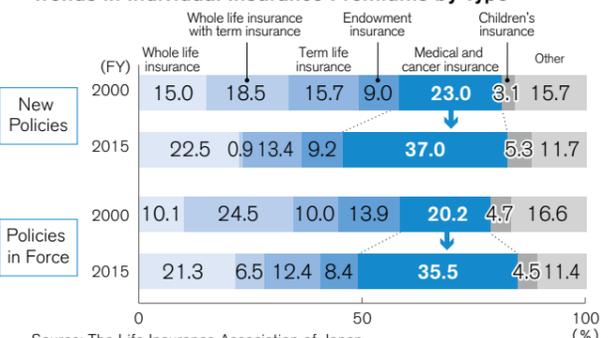
#### Trends in Policies in Force Individual Annuity Insurance by Type



Source: The Life Insurance Association of Japan, "Life Insurance Fact Book (2016)"

Note: Figures in parentheses represent percent shares.

#### The Main Products of Life Insurance Market, Third-Sector – Trends in Individual Insurance Premiums by Type



Source: The Life Insurance Association of Japan, "Life Insurance Trends (2016 edition)"

## Trends and Changes in the Insurance Industry

### Environment of the Insurance Industry

#### Changes in the Macro Environment

As is the case with respect to other industries in Japan, the biggest change in the insurance industry's operating environment is the advent of aging and population decline in Japanese society.

#### Natural Disasters

While natural disasters are a major risk factor in insurance business, the existence of such disasters is also a factor that increases demand for insurance.

### The Insurance Industry Following Financial Regulatory Liberalization

#### Regulatory Liberalization of the Non-Life Insurance Industry

The 1996 revision of the Insurance Business Act brought a shift away from the "convoy system" within the industry and toward liberalization offering a scope for new initiatives. In addition, in response to changes taking place in the insurance industry's operating environment (insurance product diversification, solicitation channel diversification, and increasing agent size), the Insurance Business Act revision, which went into full effect in May 2016, included as its main points "the establishment of basic rules for insurance soliciting" and "the introduction of an obligation to put in place a system with respect to insurance solicitors (agents)."

#### Birth of the Three Mega Insurance Groups

Following the regulatory liberalization of 1996, a progression of mergers and business integrations among non-life insurance companies led to the emergence of the so-called "three mega insurance groups" – the MS&AD Insurance Group, Tokio Marine Group, and Sompo Japan Nipponkoa Group.

#### Major Events Following Regulatory Liberalization

Year	Month	Event
1996	April	Revision of the Insurance Business Act ■ Mutual entry into life and non-life insurance business ■ Reform of the rating organization system ■ Introduction of products and premium rates notification system, etc.
	October	Mutual entry into life and non-life insurance business by subsidiaries
1997	September	Approval of risk-subdivision-type automobile insurance
1998	July	Abolition of the obligation for members to use the premium rates calculated by the rating organization
2001	April	Ban on insurance sales by banks partially lifted
2007	September	Implementation of Financial Instruments and Exchange Act
	December	Insurance sales by banks fully liberalized
2010	April	Implementation of the Insurance Act
2014	May	Passing of law revising the Insurance Business Act
2016	May	Full implementation of Insurance Business Act revision (Implementation of a comparison-recommendation rule and an obligation to grasp customer intentions)

## The Insurance Industry Going Forward

### Initiatives Regarding Overseas Insurance Markets

#### Accelerating Overseas Expansion

In light of the maturation of Japan's insurance market, major Japanese insurance companies have been working to expand their business base overseas.

#### Potentials of Asia Region Markets and BRICs' Markets

The emerging country markets of Asia region countries and BRICs have the potential for large growth. The insurance penetration rates (ratio of insurance premiums against GDP) of the United States and European countries are roughly as high as Japan's – about 8%-11%. On the other hand, the insurance penetration rate of emerging markets of the Asian region and BRICs is relatively low – in the 2%-4% range – so, those markets can be considered to have considerable growth potential.

#### Development of Principal Insurance Markets in 2015

(US\$ billion)

Market/Country	Ranking by Insurance Premiums	Life Insurance Premiums		Non-Life Insurance Premiums		Total Insurance Premiums		Insurance Density** (US\$) 2015	Insurance Penetration Rate** 2015
		2015	Change from 2014	2015	Change from 2014	2015	Change from 2014		
<b>Developed markets</b>		2,087	(6.4)%	1,613	(4.7)%	3,700	(5.7)%	3,440	8.2%
United States	1	553	4.0%	764	3.3%	1,316	3.6%	4,096	7.3%
Japan	2	344	(5.7)%	106	(5.4)%	450	(5.6)%	3,554	10.8%
United Kingdom	4	214	(4.9)%	106	(5.8)%	320	(5.2)%	4,359	10.0%
France	5	150	(14.1)%	80	(15.3)%	231	(14.5)%	3,392	9.3%
Germany	6	97	(18.4)%	117	(14.7)%	213	(16.4)%	2,563	6.2%
Italy	7	125	(14.1)%	40	(18.7)%	165	(15.3)%	2,581	8.7%
South Korea	8	98	(2.9)%	55	(4.0)%	154	(3.3)%	3,034	11.4%
<b>Emerging markets</b>		447	4.8%	407	0.2%	854	2.5%	135	2.9%
<b>Latin America and the Caribbean</b>		66	(11.5)%	92	(11.2)%	158	(11.3)%	–	–
Brazil	14	37	(17.9)%	32	(25.0)%	69	(21.3)%	332	3.9%
Mexico	26	11	(9.8)%	14	(7.1)%	25	(8.3)%	198	2.2%
<b>Central and Eastern Europe</b>		19	(18.8)%	49	(20.7)%	69	(20.2)%	–	–
Russia	31	2	(24.7)%	15	(36.0)%	17	(34.7)%	117	1.4%
<b>Asia and Middle East</b>		317	13.4%	245	12.5%	563	13.0%	–	–
China	3	211	19.1%	176	16.0%	387	17.7%	281	3.6%
India	12	57	5.6%	15	6.0%	72	5.7%	55	3.4%
United Arab Emirates	39	2	13.8%	8	13.0%	10	13.2%	1,102	2.4%
<b>Africa</b>		44	(8.2)%	20	(9.3)%	64	(8.5)%	–	–
<b>Oceania</b>		0	4.0%	0	1.6%	0	2.6%	–	–
<b>World</b>		<b>2,534</b>	<b>(4.6)%</b>	<b>2,020</b>	<b>(3.8)%</b>	<b>4,554</b>	<b>(4.2)%</b>	<b>621</b>	<b>6.2%</b>

Source: Compiled by Swiss Re's economic research and consulting unit based on confirmed and provisional figures announced by each country's regulatory authorities and insurance industry associations (sigma No. 3/2016)

Note: Figures are real figures adjusted for inflation \*1 Insurance density = per capita insurance premiums \*2 Insurance penetration rate = insurance premiums as a share of GDP

### Increasing Diversity of Insurance Companies and Sales Channels

There are increasingly diverse sales channels – such as direct sales channels, OTC sales by banks, and customer-visit-based insurance shops – and some insurance companies are now specializing in sales via the Internet. Even in conventional sales channels, there is an increasing incidence of cross-selling and other new approaches.

### Expanding Breadth of Products and Services

#### "Longevity Risk"

Lengthy lifespans entail growth in living, medical, and other expenses. The insurance industry has been seeking to help cover such economic "risks" associated with lengthy lifespans.

#### New Products and Services Related to Medical and Long-Term Nursing Care

The importance of people's self-help efforts is expected to continue increasing, and the associated role of private-sector insurance companies is becoming large.

## Japan's Insurance Market Viewed from a Global Perspective

### Non-Life Insurance

#### The World's Fourth Largest Market Scale

According to the "sigma" newsletter of Swiss Re, the scale of the non-life insurance market in 147 countries and regions around the world was approximately ¥244 trillion in 2015. The largest market is that of the United States (approximately ¥92.4 trillion), and Japan's market is the fourth largest (approximately ¥12.8 trillion).

#### Japanese Market Smaller in a Share of GDP

Japan's insurance premiums as a share of GDP are only 2.55% (the 20th highest), compared to the global average of 2.77%.

#### Comparison of Non-Life Insurance Premium Income in Principal Countries (2015)

Country/Region	Direct Premiums Written			As a Share of GDP		Per Capital Premiums	
	(¥ million)	Ranking	Share (%)	(%)	Ranking	(¥)	Ranking
United States	92,438,599	1	37.81	4.22	5	287,640	4
China	21,269,449	2	8.70	1.63	53	15,443	56
Germany	14,104,594	3	5.77	3.36	10	167,191	10
Japan	12,815,988	4	5.24	2.55	20	101,278	22
United Kingdom	12,791,056	5	5.23	2.44	22	129,103	16
France	9,731,054	6	3.98	3.09	13	136,643	13
Canada	7,944,046	7	3.25	4.23	4	221,739	6
Netherlands	7,601,894	8	3.11	8.35	2	449,275	2
South Korea	6,705,304	9	2.74	4.12	7	132,443	15
Italy	4,864,075	10	1.99	2.06	32	74,095	29
Spain	3,987,575	11	1.63	2.75	15	85,956	26
Brazil	3,871,266	12	1.58	1.80	43	18,602	54
Switzerland	3,312,833	13	1.36	4.12	6	398,394	3
Australia	3,258,612	14	1.33	2.16	30	136,546	14
Taiwan	1,979,083	15	0.81	3.23	11	84,418	27
Argentina	1,922,198	16	0.79	2.66	18	44,224	35
Belgium	1,915,179	17	0.78	2.65	19	129,018	17
India	1,827,674	18	0.75	0.72	78	1,392	84
Russia	1,775,752	19	0.73	1.19	67	12,381	64
Mexico	1,665,736	20	0.68	1.20	66	13,095	62
Other countries (regions)	28,694,640	–	11.70	–	–	–	–
<b>Total/Average</b>	<b>244,476,606</b>	<b>–</b>	<b>100.00</b>	<b>2.77</b>	<b>–</b>	<b>33,356</b>	<b>–</b>

Source: Prepared based on data in "sigma No. 3/2016" of Swiss Re.

Note 1: The "Total (average)" figures are totals of figures for 147 countries and regions within the scope of the survey in 2015.

Note 2: Premium figures are direct premiums written by domestic- and foreign-based companies in each country and region (including cross-border transaction premiums), and the figures for each country and region do not include direct premiums written by foreign bases of domestic companies.

Note 3: Figures were converted into Japanese yen at the average exchange rate for 2015 (US\$1=¥121.03).

### Life Insurance

#### Japanese Market Accounts for Approximately 14% of the Global Market

According to "sigma No. 3/2016" newsletter of Swiss Re "International Life Insurance Statistics" of the Life Insurance Association of Japan, global life insurance premium income amounted to approximately US\$2,530 billion in 2015. The figure for Japan was approximately US\$340 billion (¥42 trillion), corresponding to 13.6% of the global figure.

Source: Prepared based on data in "sigma No. 3/2016" of Swiss Re.

Note: Figures represent premiums directly written in each country irrespective of the geographical base of the underwriting company.

\*1 Life insurance premiums figures include estimates of premiums from group pension policies (except in certain regions).

\*2 Figures are for the fiscal year from April 1, 2015, through March 31, 2016.

#### Life Insurance Premium Income/Rankings/Market Share by Country (Top 10 Countries)

Country	Life Insurance Premiums (2015)		
	Ranking	Premium Income (US\$ million)	Share (%)
<b>United States*1</b>	1	552,506	21.81
<b>Japan*2</b>	2	343,816	13.57
<b>United Kingdom</b>	3	214,492	8.47
<b>China</b>	4	210,763	8.32
<b>France</b>	5	150,143	5.93
<b>Italy</b>	6	124,848	4.93
<b>South Korea*2</b>	7	98,218	3.88
<b>Germany</b>	8	96,725	3.82
<b>Taiwan</b>	9	79,627	3.14
<b>India*2</b>	10	56,675	2.24

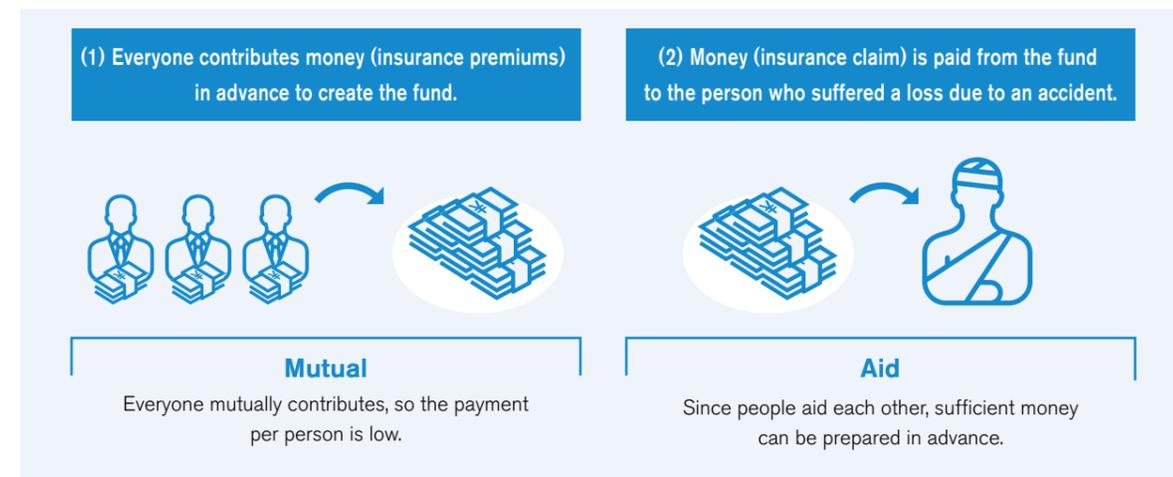
# Basic Knowledge of Insurance

Insurance has such a significant presence that it would not be an exaggeration to say that “insurance is indispensable to our lives.” Here, we present some basic knowledge of insurance.

## Q The insurance mechanism: So, what is insurance in the first place?

To provide compensation\* for economic loss from dangers (accident, disaster, illness, etc.) that may occur in the future, insurance is a system or mechanism of mutual aid in which a large number of people for whom such an economic loss could occur maintain a fund they mutually contribute to in advance, and when the anticipated loss occurs, compensation in the form of a specified amount of money is paid from the fund to the person who suffered the loss.

\* “Compensation” is the act of paying funds to make up for a loss incurred.



Now, let's look at the concrete details.

### “Insurance” is an effective provision for emergencies

No one can know when an accident will occur. It is important to prepare for accidents as well as unforeseen expenditures.

Take savings as an analogy, they are accumulated to use for specific goals. So, savings are not well suited to use as preparation for accidents and disasters that could occur at any time.

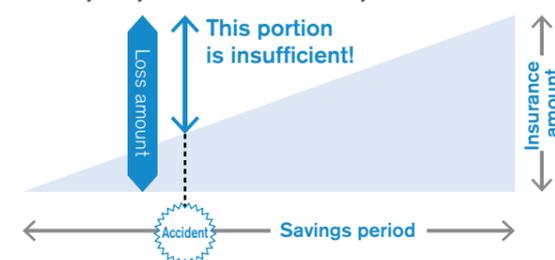
### Savings forms a triangle, while insurance forms a square

Through insurance, we can obtain adequate compensation throughout the policy period (insurance term). Consequently, you can be prepared for accidents and disasters that could occur at any time. In light of these characteristics, it is said that “savings forms a triangle, while insurance forms a square.” Insuring means “preparing yourself for safety.”

## When an accident or disaster occurs

### In case of savings:

You may not yet have sufficient money saved.



If an accident occurs at this time...

### In case of insurance:

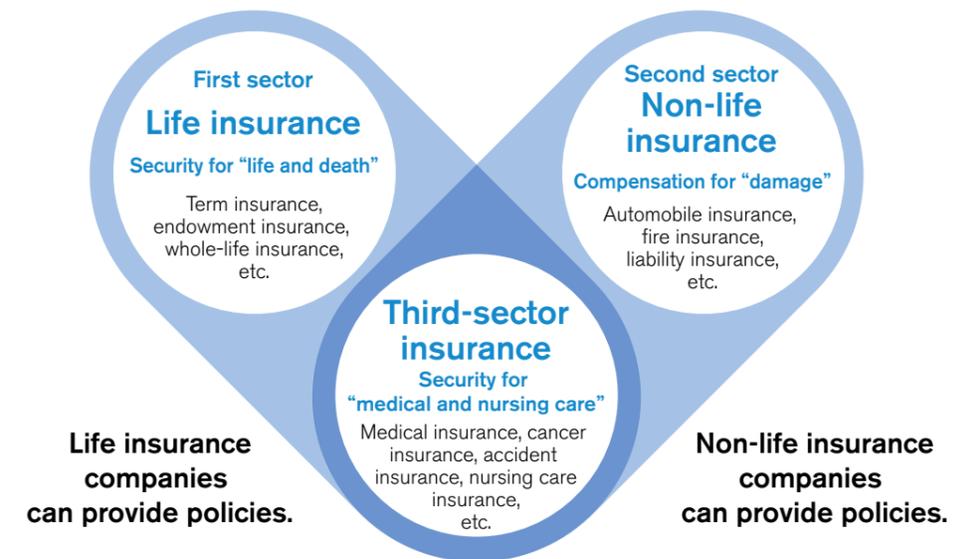
You immediately have sufficient money prepared.



Even if an accident occurs at this time...

## Q What kinds of insurance are there?

Insurance can be divided overall into three categories: ① life insurance, ② non-life insurance, and ③ third-sector insurance.



### ① Life insurance (first sector)

Life insurance is insurance that pays fixed-amount insurance claims related to “life and death.” Only life insurance companies can provide life insurance.

### ② Non-life insurance (second sector)

Non-life insurance is insurance that pays insurance claims for the amount of damage incurred from unexpected accidents. Only non-life insurance companies can provide non-life insurance.

### ③ Third-sector insurance

Insurance such as personal accident insurance and medical insurance that pays insurance claims for personal injuries and illnesses and that cannot be labeled as either non-life or life insurance is known as “third-sector insurance.” It can be provided by either non-life or life insurance companies.

## COLUMN Reinsurance—Insurance for Insurance Companies

Reinsurance is where an insurance company that has accepted risk on behalf of a customer disperses all or some of this risk by having it underwritten by another insurance company. For example, through reinsurance, insurance firms can take on major risks on their own that they otherwise would not be able to assume, such as the risk of a passenger aircraft having an accident, the risk of a huge tanker sinking or a major natural disaster such as a typhoon or an earthquake.



### Framework and Parties Involved in Reinsurance

Insurance Company A, a direct insurer that takes on risk on behalf of customers, pays reinsurance premiums to Insurance Company B, a reinsurer. If a customer files a claim for damages from an accident, Insurance Company A pays the insurance benefits to the customer (direct insurance claim) while Insurance Company B pays Insurance Company A the reinsurance benefits (reinsurance claim).



This represents the basic framework for reinsurance. In practice, the reinsurer also takes out reinsurance for all or a portion of the risk it accepts, spreading the reinsurance among multiple insurance companies.

## ▣ Glossary of Insurance Terminology

### A

#### Alternative Risk Transfer (ART) Business

A general term referring to the use of techniques other than traditional insurance policies to transfer risks, meaning to provide risk-bearing entities with coverage or protection. ART entails the use of financial technologies and capital markets to provide risk solutions. ART products include derivatives and securitized products, and the typical products include “weather derivatives” and “earthquake derivatives.”

#### Annualized Premiums

The insurance premium payment method differs depending on the insurance contract. An annualized premium is calculated by adjusting for these differences in payment methods and computing the yearly average paid in premiums. It indicates how much income an insurance company makes from insurance premiums in one year.

#### Asset Liability Management (ALM)

A general term for the comprehensive management of risks related to assets and liabilities. The value of most of the assets held by insurance companies and other financial institutions is affected by market prices (or market interest rates), in other words, they are at risk. A proper evaluation of risks and returns cannot focus on assets or liabilities alone – the ALM business management methodology seeks to maximize profit, while managing in a way that pays comprehensive attention to the risk and return of both assets and liabilities.

#### Assumed Interest Rate

Insurance companies anticipate a certain level of profits from asset management and offer discounts on insurance premiums based on this. This discount rate is called the assumed interest rate.

### C

#### Cancer Insurance

Cancer insurance policies provide hospitalization benefits and surgery benefits when beneficiaries are hospitalized or undergo surgery to treat cancer. There are products that provide “cancer outpatient benefits” to beneficiaries after they have been discharged from a hospital after having been hospitalized for a specified period of time, and there are products that provide “cancer hospital discharge benefits” or “cancer home care benefits” after they have been discharged from a hospital after having been hospitalized for a specified period of time.

#### Catastrophe Reserves

Most non-life insurance premium rates are set using the “law of large numbers,” but, in a given fiscal year, it is always possible that there will be a major typhoon or other large disaster causing damages on a scale that cannot be absorbed using premium income for that year alone. The catastrophe reserve is provided to prepare to respond to the temporary surge in claims associated with such disasters. For more details, see P. 54.

#### CAT Bond (Catastrophe Bond)

Securities sold by non-life insurance companies to investors to enable the insurance companies to avoid major losses owing to claims paid in connection with major disasters. If there is no occurrence of a disaster on a scale surpassing previously stipulated criterion, then the CAT bonds’ interest and principal will be paid to the investors, but, in the case of such a disaster, the principal will be partially or entirely reduced.

#### Combined Ratio

An indicator that is the sum of the net loss ratio and the net expense ratio, and subtracting this ratio from 1 gives the underwriting balance ratio. Although the indicator is not adjusted to reflect outstanding claims and underwriting reserve, it reflects profitability for the fiscal period. Used only in the insurance industry, its concept is similar to that of the ratio of operating profit on sales of ordinary companies.

#### Commissions and Collection Expense

The total of agent commissions, insurance broker commissions, sales expense, collection expense, reinsurance commissions, and ceded premium commissions. (Note that ceded premium commissions, which are commission incomes pertaining to ceded reinsurance and retrocession premiums, are deductions.)

#### Compulsory Automobile Liability Insurance (CALI)

In order to provide relief to victims of automobile accidents, this is compulsory insurance that all motor vehicles must be enrolled in under law. Motorized bicycles are also subject to this requirement. Compulsory automobile liability insurance provides compensation in cases where other persons are killed or injured in traffic accidents, etc. Insurance claims are paid for loss compensation of the other persons.

#### Core Profit (Fundamental Profit)

Ordinary profit after adjustments for capital profits/(losses) and extraordinary income and losses, which represent profits and losses not stemming from principal business of life insurance companies; so, Core Profit is an indicator of the profitability of the Company’s principal business operations during a fiscal year. The concept of Core Profit is close to those of ordinary companies’ “operating income” and banks’ “business income.”

#### Corporate Governance Code

Corporate governance principles that the Tokyo Stock Exchange is requiring its listed companies to comply with. (For more details, please consult the Tokyo Stock Exchange website) [URL](http://www.jpix.co.jp/english/equities/listing/cg/03.html) <http://www.jpix.co.jp/english/equities/listing/cg/03.html>

#### Cross-Selling

Concurrent selling of life insurance and non-life insurance products, such as in the case of a non-life insurance agent that sells life insurance products.

### D

#### Direct Insurance

A term used in contrast with reinsurance. When an insurance contract is reinsured, the original insurance that has been reinsured is called direct insurance.

It can also be used to refer to all the insurance contracts directly entered into with policyholders by the insurance company. → [Reinsurance](#)

### E

#### Earned-Incurred Loss Ratio (EI Loss Ratio)

After adjusting for provisions and reversals of loss reserves and ordinary policy liability reserves, the EI Loss Ratio is an indicator of the loss ratio on a current - period - occurrence basis.

It is calculated as follows. → [Net Loss Ratio](#)

- EI Loss Ratio = claims incurred ÷ premiums earned
- Claims incurred = period-end net claims paid + (period-end loss reserve – previous period-end loss reserve)
- Premiums earned = previous period-end unearned premiums + net premiums written for the period – period-end unearned premiums

#### Embedded Value (EV)

The current value of net assets plus the current value of future profit expected from policies in force (policies in force value). Under current statutory accounting practices, the recognition of costs is concentrated at the time of sales, while the related profits are recognized in subsequent years; so, using those accounting practices to accurately evaluate corporate performance is difficult in some ways. Since EV encompasses an evaluation of the current value of future profit expected from policies in force, it is a useful indicator that can be used to supplement statutory accounting practices for the purpose of evaluating companies’ performance and enterprise values.

While the Company has disclosed its EV for some time, since fiscal 2011, it has disclosed its EV calculated on the basis of the European Embedded Value principles (EEV principles\*), and this type of EV is referred to as EEV. In addition, the Company’s calculations of EEV employ a market-consistent approach to evaluating liability- and asset-related cash flows that is consistent with the financial products traded in markets.

\* The EEV principles were instituted by a CFO Forum (comprised of the chief financial officers (CFOs of major European insurance companies)), in May 2004 with the goal of promoting a consistent EV calculation and disclosure method and thereby promoting an increase in transparency.

#### Enterprise Risk Management (ERM)

A process for determining and evaluating the risks associated with the execution of business operations by an enterprise in an integrated, comprehensive, and strategic manner. It is an integrated risk management method used for maximizing enterprise value. For more details, see P. 33.

#### Equity Ratio

The proportion of equity divided by total assets. Owing to the application of accounting standards concerning financial products and inclusion of unrealized gains on securities within balance sheet figures, the equity ratio is also stated based on market value.

#### ESG

Three concepts of environmental, social, and governance (ESG). In ESG investing, the investor does not focus exclusively on the profit that can be earned from an investment, but goes on to consider the impact of the investment on the environment as well as on shareholders, customers, employees, local communities, and other stakeholders. ESG investing essentially entails carrying out CSR when making investment decisions.

#### Expected Mortality

Based on past statistics, gender-wise and age-wise mortality (or the number of those alive) is predicted, and this information is used for calculating the required amount of insurance premium for the future insurance payments. The mortality rate used in these calculations is called the expected mortality.

#### Expected Operating Expense Ratio

Life insurance companies anticipate all the expenses required for business operation such as concluding contracts, receiving premiums, maintaining and managing policies, and so on in advance. The sum of these expenses is divided by expected premium income to calculate the expected operating expense ratio.

### F

#### Foreign Currency-Denominated Life Insurance

Foreign currency-denominated life insurance calls for the use of foreign currency (U.S. dollars, Euros, Australian dollars, etc.) to pay insurance premiums and the use of foreign currency to pay insurance benefits and reimbursements upon policy cancellations. A portion of such life insurance products as whole life insurance, endowment insurance, and fixed/variable individual annuities are sold as foreign currency-denominated products. When the foreign-currency benefits from such products are converted into yen, they will be impacted by foreign exchange rate fluctuations; so, there is a possibility that the yen-denominated benefits may end up being lower than the yen-denominated value of the premiums paid. The impact of foreign exchange rate fluctuations is referred to as “foreign exchange risk (foreign exchange rate fluctuation risk),” and policyholders and beneficiaries of foreign currency- denominated policies are exposed to those risks.

#### Full-Time Agents

Agents specializing in the sale of insurance. In the field of non-life insurance, in addition to specialized agents (professional agents), there are also automobile sales dealers, automobile repair shops, real estate agents, travel agents, and other sideline agents that sell insurance alongside their main line of business.

### G

#### General Insurance Rating Organization of Japan

An insurance rating organization formed by the merger in July 2002 of the Property and Casualty Insurance Rating Organization of Japan (established 1948) and the Automobile Insurance Rating Organization of Japan (established 1964), which were established in accordance with the Act of Non-Life Insurance Rating Organizations.

It collects data from member insurance companies and calculates the Reference Loss Cost Rates for automobile insurance, fire insurance, personal accident insurance, and nursing care expense insurance, as well as Standard Rates for compulsory automobile liability insurance and earthquake insurance. It also handles loss adjustment work for compulsory automobile liability, collects insurance data, and conducts research and analysis.

#### Gross Written Premium

Premiums written that were received from direct insurance contracts and reinsurance contracts during one fiscal year; they are the premiums written prior to the deduction of reinsurance premiums ceded via reinsurance contracts.

#### Group Core Profit

Group Core Profit, which is a numerical management target within the Next Challenge 2017 medium-term management plan, is calculated as follows.

Group Core Profit = Consolidated net income – Net capital gains/losses on stock portfolio (gains/losses on sales, etc.) – Net evaluation gains/losses on credit derivatives – Other incidental factors + Equity in earnings of the non-consolidated Group companies

#### Group Return on Equity (Group ROE)

Group ROE, which is a numerical management target within the Next Challenge 2017 medium-term management plan, is calculated as follows.

Group ROE = Group Core Profit ÷ Consolidated total net assets excluding non-controlling interests (average of beginning and ending amounts of B/S)

### I

#### Income Guarantee Insurance

A type of insurance under which pension can be claimed after the policyholder’s death for the full term of the insurance as decided at the time of entering the contract. The number of times pension can be claimed depends on the time of death of the policyholder. The minimum number of times pension can be claimed is guaranteed. If the number of times pension has been claimed before maturity is less than the guaranteed minimum, the remaining number of times can be claimed.

#### Incurred but Not Reported Loss (IBNR)

The portion of underwriting reserves corresponding to claims that have incurred but had not been reported to the company at the end of the period. IBNR is estimated using statistical methods. → [Ordinary Outstanding Claims Reserve](#)

### Individual Annuity Insurance

Annuity insurance is a financial product used to save premiums and thereby fund the payment of future annuities, and individual annuity insurance is an annuity insurance product provided by private-sector life insurance companies. The annuities are received after the beneficiary reaches an age specified in the policy contract. There are several kinds of individual annuity insurance products defined based on the annuity receipt period, such as whole life annuity with a guarantee period, annuity certain, fixed-term annuity with a guarantee period, and a husband-and-wife annuity.

### Insurance Business Act

A law that was enacted to promote the protection of policyholders through ensuring sound and appropriate business operations of insurance companies and fair solicitation of insurance policies. The act lays down organizational and operational rules for insurance businesses, as well as defining the criteria for the administration and supervision of insurance companies, and determining the supervision standards and authorities of government units overseeing insurance business operations.

### Insurance Claim (Benefit)

In the case of non-life insurance, the sum of money paid by an insurance company to the insured based on the amount of damage incurred as a result of an insured event. (In the case of life insurance) the sum of money decided beforehand in the insurance contract paid by the insurance company upon the maturity of the contract to the designated beneficiary, in the event of illness or death of the insured person.

### Insurance Policy

A document handed over by the insurance company to the policyholder upon conclusion of the insurance contract. It certifies the conclusion of the contract and its details.

### Insurance Premium

A sum of money received by an insurance company from an insurance policyholder as compensation for covering the risks faced by the insured.

### Insurance Rate

A ratio used in the calculation of the insurance premium and is expressed as the insurance premium amount per unit insured amount. For example, in the case of a ¥1 insurance premium amount per ¥1,000 insurance amount, the insurance rate could be expressed as "1 per mille."

### Insured Amount

In the case of non-life insurance, the insured amount to be paid by the insurance company in the event of an insured event occurring is decided based on the amount of the damage incurred, but an upper limit is set on this amount. This amount is the insured amount. It is fixed based on the contract entered into between the policyholder and the insurance company.

## J

### Japanese Version of the Stewardship Code

A set of principles released by the Financial Services Agency directed at institutional investors who own shares in companies. (For details, please see the Financial Services Agency website.)

URL <http://www.fsa.go.jp/en/refer/councils/stewardship/>

## L

### Law of Large Numbers

If you roll a die (1 dice), a "one" may appear by chance, but if you continue to increase the number of times the die is rolled, the ratio of times that "one" appears will approach one time out

of six. As in this case, when the number of trials is increased, the law of large numbers indicates that the results will approach a fixed value. When calculating the probability of accident occurrence, the probability can be forecast by analyzing large volumes of accident data rather than just looking at the accident percentages of a few cases.

### Life Insurance Professional

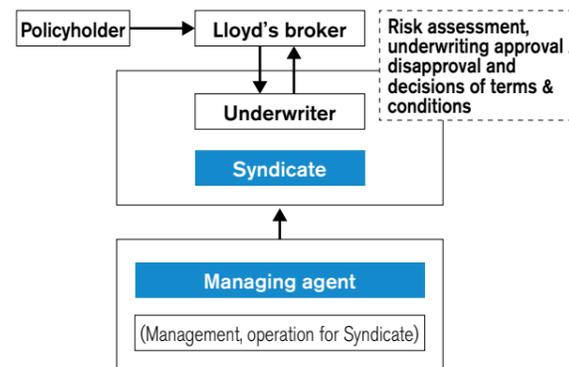
An agent specializing in life insurance or selling life insurance as its main business.

### Lloyd's (Insurance Market)

The generic name for an insurance market established in London in the 17th century, having more than a 300-year history. On a day-to-day basis, huge and complex risks are brought to Lloyd's, where that risk is assessed, premiums decided, and insurance underwritten by underwriters who have a high level of specialized expertise and who belong to individual syndicates (the risk underwriting bodies at Lloyd's).

Lloyd's is under the supervision of the British regulatory authorities as well as the rigorous management and supervisory system of Lloyd's itself, and it is not easy to become a Lloyd's member (syndicate fund contributor) or establish a syndicate as many strict requirements must be satisfied.

As of the end of December 2015, Lloyd's had 97 syndicates and 59 managing agents registered. The fiscal 2015 gross written premiums of the Lloyd's market as a whole were approximately 26.7 billion British pounds.



### Long-Term Care Insurance (Nursing Care Insurance)

A kind of insurance that can provide benefits for the purpose of providing long-term nursing care. In Japan, there exist both public long-term care insurance and private long-term care insurance products. Among the latter type of products, there are products that will provide a lump-sum benefit and/or annuities in cases where the beneficiary requires nursing due to being bedridden or suffering dementia for a specified period of time. There are also products that will provide a lump-sum benefit and/or annuities based on the public long-term care insurance system's primary nursing care requirement authorization.

### Loss Adjustment Expense

Personnel expenses and non-personnel expenses (including depreciation costs) as well as various taxes related to the loss adjustment and insurance claim payment operations.

## M

### Marine/Non-Marine Insurance

Marine insurance includes hull insurance, cargo insurance, and transit insurance. Non-marine insurance refers to insurance products other than marine insurance and includes categories such as fire insurance, automobile insurance, personal accident insurance, and other new insurance products.

### Maturity Refund

In savings-type insurance, if the contract has remained valid and continued to maturity, and insurance premium payments have been completed, the maturity refund is the money paid at maturity to the policyholder by the insurance company. The amount paid is predetermined at the time of entering the contract.

### Medical Insurance

Medical insurance provides benefits to policyholders when they are hospitalized due to illness or injury or undergo specified types of surgical operations. Some medical insurance policies also provide death benefits on the decease of the beneficiary, but the amount of such benefits is generally small.

### Motor Channel Agent

Sideline agents that sell insurance as a side business but are mainly automobile repair shops, used car sales dealers, or automobile-related service providers, or motorbike shops. Automobile dealerships that also sell insurance are excluded from this category.

## N

### Net Claims Paid

Net claims paid is obtained by totaling (adding or subtracting as indicated) items ① to ④ listed to the right, and plainly shows the amount of insurance claims paid. The payment of insurance claims is the main expenditure involved in the non-life insurance business.

- ① Direct claims paid
- ) ② Reinsurance claims ceded
- + ) ③ Reinsurance claims paid
- ) ④ Retrocession claims ceded
- ⑤ Net claims paid  
(Income statement item)

### Net Expense Ratio

The net expense ratio is obtained by adding the commissions and collection expense to operating expenses and general administrative expenses incurred in the insurance underwriting business, and dividing this by net premiums written. It is an indicator of the operational efficiency of an insurance company. The net expense ratio can also be called simply "expense ratio."

### Net Loss Ratio

The net loss ratio is obtained by adding net claims paid and loss adjustment expenses, and dividing this by net premiums written, and it indicates the company's insurance underwriting business performance. It can also be called "published loss ratio" or "loss ratio."

The net loss ratio is what is called a "written paid basis" indicator, as it can be calculated based simply on written premium and paid claims during the accounting period in question. → [Earned-Incurred Loss Ratio \(EI Loss Ratio\)](#)

### Net Premiums Written

Net premiums written is obtained by totaling (adding or subtracting as indicated) items ① to ④ listed to the right, and plainly shows the income earned from the non-life insurance business (excluding deposit premiums from policyholders).

- ① Direct premiums written
- ) ② Reinsurance premiums ceded
- + ) ③ Reinsurance premiums written
- ) ④ Retrocession premiums ceded
- ⑤ Net premiums written  
(Income statement item)

### Non-Fleet Grade System (Automobile Insurance)

A system of insurance premium discounts and surcharges based on the accident history applied to non-fleet contracts. The term non-fleet contracts refers to contracts where the total number of contract automobiles owned and used by the policyholder (the number of contracts with other insurance companies included) is nine or less. (Cases where the number of automobiles is 10 or more are referred to as "fleet contracts.") The grades are divided into 20 levels (grade 1 to grade 20), and the grade is maintained even if the insurance company changes. For more details, see P. 54.

## O

### Ordinary Outstanding Claims Reserve

A type of outstanding claims reserve set aside based on an estimation of future liability of individual claims that have occurred and been reported but not yet settled.

→ [Incurred but Not Reported Loss \(IBNR\)](#)

### Ordinary Underwriting Reserves

The amount of unearned premiums (premium reserve) or the initial year balance, whichever is greater, is set aside as a liability reserve and called "ordinary underwriting reserve."

- Unearned premiums (premium reserve): Insurance premiums corresponding to the time period remaining on an insurance policy, collected beforehand.
- Initial year balance: Premiums received during the fiscal year less claims paid, reserves for outstanding claims, and other expenses incurred under those contracts.

### Outstanding Claims

When an accident has occurred prior to the balance sheet date and the related claim has not been paid, provisions are made to the outstanding claims to fund the claim payment.

## P

### Policies in Force

The outstanding amount of valid insurance policies owned by an insurance company at the end of the fiscal year. It is an indication of the grand total amount (of insurance, etc.) guaranteed to policyholders.

### Policy Clauses

The policy clauses define the details of the insurance contract, including the policyholder's obligation to pay the insurance premium and duty of disclosure, as well as the payment amount and terms and conditions of payment by the insurance company. There are two kinds of policy clauses – common policy clauses, which are common to all insurance contracts of the same type, and special policy clauses (clauses containing special policy conditions), which are customized for individual contracts by adding to or changing/limiting some of the provisions in the common policy clauses.

### Policyholder

The party applying to an insurance company for an insurance contract is called the policyholder. The policyholder is obliged to pay the insurance premium once the contract is concluded.

### Policyholder Dividends

Regarding the deposit premium of saving-type insurance (or asset-building-type insurance with dividends), in the case that the insurance company generates investment income exceeding a stipulated interest rate, the company will pay policyholder dividends to beneficiaries along with benefits on the policy maturity refund.

### Policy Reserve

The reserve set aside by the insurance company at the period-end closing of accounts so that it can fulfill its obligation to pay insurance claims based on insurance contracts. It includes outstanding claims and underwriting reserves, and policyholder dividend reserves.

## R

### Reinsurance

When an insurance company seeking to disperse risk which an insurance company underwrote the responsibility for insurance policies it has written to another insurance company, that is called reinsurance. → [Direct Insurance](#)

### Reinsurance Premium

An insurance premium received from another insurance company via a reinsurance contract in return for underwriting a part of the risk.

**Reinsurance Premium Ceded**

An insurance premium paid to another insurance company via a reinsurance contract in return for covering a part of the risk of the original insurance contract, for purposes such as risk diversification.

**Reorganization by Function**

An unprecedented business model made possible by the 2013 revision of Japan's Insurance Business Act, Reorganization by Function calls for making the most of the strengths of each group insurance company while undertaking business reorganization. While enabling the bypassing of the negative aspects of simple corporate mergers – including temporary costs and the business impediments, time losses, and various other problematic factors that often arise at the time of mergers – Reorganization by Function is designed to realize smooth business integration without slowing the speed of business growth, and it concurrently enables the leveraging of individual companies' strengths and the realization of efficiency in the pursuit of business scale and profitability.

**Reserve for Price Fluctuation**

In accordance with the Insurance Business Act revised in 1996, this reserve is provided to cover losses incurred from future decreases in prices of assets such as stocks and bonds whose value is likely to fluctuate.

**Retrocession Premium**

When a reinsurance company reinsures a certain portion of the accepted reinsurance risks to other reinsurers, a reinsurance company pays a retrocession premium to other reinsurers based on the retrocession contracts.

**S**

**Solvency Margin Ratio**

The solvency margin of an insurance company, including its capital and reserves, seen as a percentage of a risk amount greater than what can be ordinarily expected, which may include catastrophic disasters or a massive drop in the price of owned assets. It is an indicator of the soundness of the company's management.

Solvency margin ratio = solvency margin ÷ half of total risk amount greater than what can be ordinarily expected

**Strategic Equity**

Investments in stocks with the intention of holding the stock over a long period to maintain and strengthen general business relationships with the issuer, while also securing a stable stream of investment income and improving asset value over the long run.

**Sustainable Development Goals (SDGs)**

URL <http://www.undp.org/content/undp/en/home/sustainable-development-goals.html>

- Goal 1: No poverty
- Goal 2: Zero hunger
- Goal 3: Good health and well-being
- Goal 4: Quality education
- Goal 5: Gender equality
- Goal 6: Clean water and sanitation
- Goal 7: Affordable and clean energy
- Goal 8: Decent work and economic growth
- Goal 9: Industry, innovation and infrastructure
- Goal 10: Reduced inequalities
- Goal 11: Sustainable cities and communities
- Goal 12: Responsible consumption and production
- Goal 13: Climate action
- Goal 14: Life below water
- Goal 15: Life on land
- Goal 16: Peace, justice and strong institutions
- Goal 17: Partnerships for the goals

**T**

**Telematics**

A combination of "telecommunication" and "informatics," telematics refers to information services provided by equipping automobiles and other mobile objects with communications systems.

Telematics Automobile Insurance refers to the automobile insurance with the premium rates calculated based on the collected data which is relating to the driver's driving tendency such as miles driven, drivers' use of accelerator and brake functions.

**Term Insurance**

A type of insurance, where the term of the insurance is fixed and the insurance benefits can be claimed only if the policyholder dies during the term. There are no maturity proceeds. This is ordinarily a fixed-amount insurance, where the insurance amount is fixed and remains unchanged throughout the term of insurance, but it could also be a decreasing term insurance, where the insurance premium is fixed and the insurance amount progressively decreases over the insurance term, and increasing term insurance, where the insurance amount increases over the duration of the insurance term. → [Whole Life Insurance](#)

**Third Sector**

The third "sector" of insurance, positioned somewhere between the first sector (life insurance) and second sector (non-life insurance), and includes many different types of insurance, such as medical insurance, cancer insurance, nursing care insurance, and accident insurance.

**U**

**Underwriting Profit (Loss)**

Claims payment and loss adjustment expenses, maturity refunds and other underwriting expenses, and operating expenses and other general administrative expenses required for insurance underwriting are subtracted from net premiums written and other underwriting profit, and this is then adjusted to reflect other income and expenditure (such as expenses associated with compulsory automobile liability insurance, etc., corresponding to corporate taxes) to calculate underwriting profit (loss).

As for non-life insurance companies, the principal revenue sources are underwriting income and investment income, and underwriting profit indicates the profitability level of underwriting operations.

**Underwriting Reserves**

The general term for reserve funds set aside by insurance companies based on the legal requirement, for use toward insurance claims payments and other insurance-related obligations that could arise in the future. Underwriting reserves are broadly classified into five types. (1) ordinary underwriting reserves, (2) catastrophe reserves, (3) contingency reserves, (4) refund reserves, and (5) policyholder dividend reserves.

**V**

**Variable Insurance**

An insurance product where the premium is invested in stocks, bonds, and other assets, and the insurance payment or payout upon cancellation varies depending on the performance of the investment. The investment risk (the risk fluctuation in pension or cancellation payout) is borne by the individual policyholder. When the policyholder dies, the beneficiary can claim the basic insurance + variable insurance. The basic insurance is a minimum amount guaranteed to the policyholder irrespective of the investment fund's performance. Even when the variable insurance is negative, the basic insurance can be claimed.

**W**

**Whole Life Insurance**

Of the types of insurance providing for the receipt of death benefits on death, this is a type that is not for a fixed period but continues for a lifetime and does not have benefits on maturity. → [Term Insurance](#)

**Accounting Line Item Terminology**

Please refer to the Guide Book for the Understanding of Disclosure Materials of Non-Life Insurance Companies<sup>\*1</sup> (prepared by the General Insurance Association of Japan) and the Life Insurance Company Disclosure Notes Glossary<sup>\*2</sup> (prepared by the Life Insurance Association of Japan for details of accounting line items and other pertinent information.

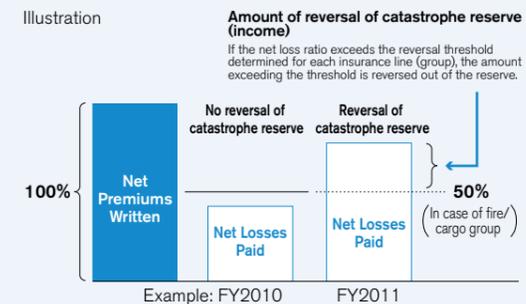
<sup>\*1</sup> [http://www.sonpo.or.jp/archive/publish/sonpo/pdf/0004/book\\_kantanguide.pdf](http://www.sonpo.or.jp/archive/publish/sonpo/pdf/0004/book_kantanguide.pdf)

<sup>\*2</sup> [http://www.seiho.or.jp/data/publication/tora/pdf/tora\\_yougo.pdf](http://www.seiho.or.jp/data/publication/tora/pdf/tora_yougo.pdf)

**Catastrophe Reserves**

- These are reserves that insurance companies set aside to prepare for major disasters (typhoons, earthquakes, etc.) for which the "law of large numbers" does not function.
- The funds are accumulated as reserves (expense posted) at a certain percentage of each fiscal year's net premiums written.
- If a fiscal year's loss ratio (ratio of net losses paid to net premiums written) exceeds a certain threshold, reserves are reversed and posted as income.
- This is one of the mechanisms used to mitigate the impact on an insurance company's fiscal year profit and to guarantee it has a suitable capacity to pay insurance claims.

Illustration

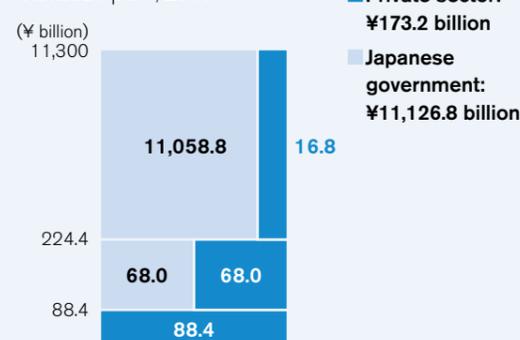


**About Household Earthquake Insurance**

Based on Japan's Law Concerning Earthquake Insurance (the Earthquake Insurance Act), household earthquake insurance is operated jointly by the government and non-life insurance companies. Reflecting the significant impact that earthquakes can have on society, household earthquake insurance is a prerequisite for and incidental to fire insurance. Recognizing the substantial damage that is likely to occur in the event of a large-scale earthquake, household earthquake insurance involves a government reinsurance underwriting mechanism in preparation for the payment of massive insurance amounts. For their part, non-life insurance companies forego the accumulation of profits in similar fashion to compulsory automobile liability insurance. Premiums are set aside as a reserve to cover insurance payments in the event of an earthquake in the future.

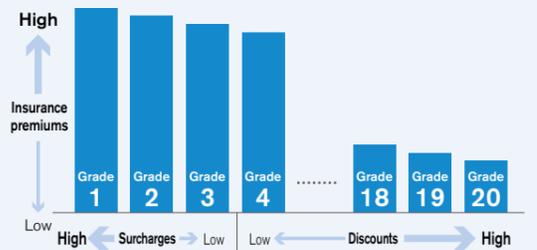
**Government and Private-Sector Burdens**

Revised April 1, 2017



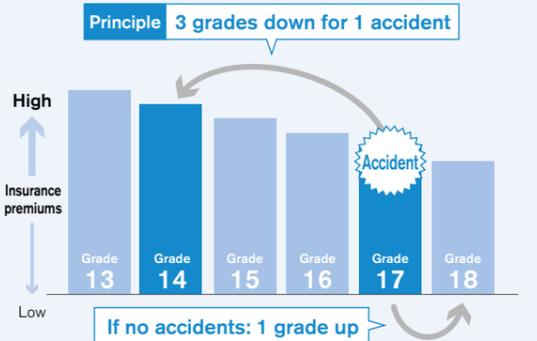
**Non-Fleet Grade System (Automobile Insurance)**

- This system applies discount percentages to grades defined from Grade 1 to Grade 20.

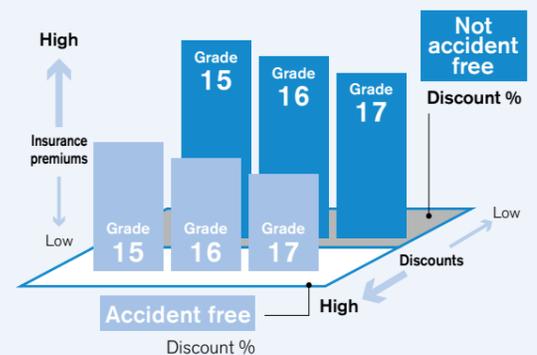


- When the contract is first concluded, the customer starts at Grade 6 (or Grade 7) and then rises by a one-grade increment if there are no accidents.
- If there is an accident, the grade drops by three-grade increments, and, at renewal time, the grade, in principle, drops by three-grade increments per accident.\*

\* Depending on the accident type and the type of claim received, there are cases where the grade drops by only a one-grade increment and cases where the matter is not counted as an accident.



- Even at the same grade, discount percentages differ, depending on whether there have been accidents in the past. When "accidents exist," insurance premiums are set higher than when "no accidents exist."



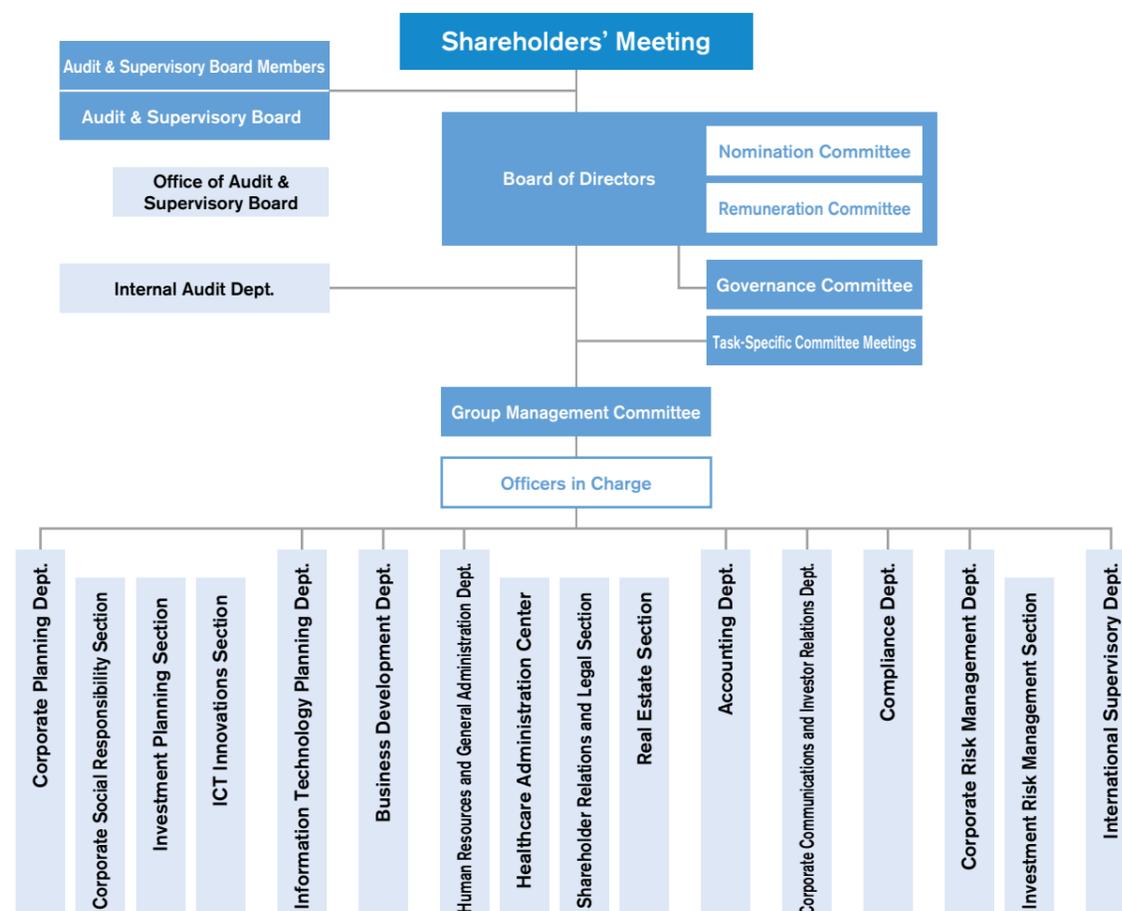
# Corporate Profile

MS&AD Insurance Group Holdings is an insurance holding company. The Company controls the entire MS&AD Insurance Group, planning strategies and allocating management resources across the Group, as well as monitoring and overseeing Group companies. The Company has thus established a system for Group corporate governance.

The Company will be the force to maximize the total potential of the Group, forming the center of efforts to raise the level of management control, pursue Group synergies, accelerate decision making, and develop human assets through various business frameworks and personnel systems.

Corporate name	MS&AD Insurance Group Holdings, Inc.
Date established	April 1, 2008 (Name changed on April 1, 2010)
Headquarters	27-2, Shinkawa 2-chome, Chuo-ku, Tokyo, Japan
Representative	Representative Director, President & CEO Yasuyoshi Karasawa
Paid-in capital	¥100,000 million
Number of employees	329 (40,641 on a consolidated basis) (As of March 31, 2017)
Business description	Our activities as an insurance holding company are as follows: 1. Management of non-life and life insurance companies and companies qualified to become subsidiaries under the Insurance Business Act. 2. Any business associated with the above.
Stock listings	Tokyo Stock Exchange (First Section) Nagoya Stock Exchange (First Section)

## MS&AD Insurance Group Holdings, Inc. / Organizational Chart



# Stock and Shareholders (As of March 31, 2017)

## 1. Summary of Issued Shares

Class of Stock	Common stock	Total Number of Authorized Shares	900,000,000
Total Number of Issued Shares	633,291,754	Number of Shareholders	61,701

## 2. Shareholding Profile

### Breakdown by Sector

Item	Japanese Financial Institutions	Japanese Securities Companies	Other Japanese Companies	Foreign Companies and Individuals	Japanese Individuals and Others	Total
Number of Shareholders	165	60	1,543	783	59,150	61,701
Number of Shares Held (millions)	196.97	16.57	98.77	226.66	94.29	633.29
Percentage of Shares Issued	31.1%	2.6%	15.6%	35.8%	14.9%	100.0%

### Breakdown by Number of Shares Held

Item	1-99	100-999	1,000-9,999	10,000-99,999	100,000 and Above	Total
Number of Shareholders	18,825	30,243	11,308	919	406	61,701
Percentage of All Shareholders	30.5%	49.0%	18.3%	1.5%	0.7%	100.0%

### Breakdown by Region

Item	Hokkaido	Tohoku	Kanto	Chubu	Kinki	Chugoku	Shikoku	Kyushu	Overseas	Total
Number of Shares (millions)	2.06	2.81	308.44	67.15	19.68	2.20	2.22	2.18	226.51	633.29
Percentage of Shares Issued	0.3%	0.4%	48.8%	10.6%	3.1%	0.3%	0.4%	0.3%	35.8%	100.0%

## 3. Major Shareholders

Shareholder Name	Address	Number of Shares Held (in thousands)	Percentage to Shares Issued (%)
Toyota Motor Corporation	1, Toyota-cho, Toyota-city, Aichi Prefecture	52,610	8.31
NIPPON LIFE INSURANCE COMPANY	1-6-6, Marunouchi, Chiyoda-ku, Tokyo c/o Nippon Life Securities Operations Department	36,325	5.74
The Master Trust Bank of Japan, Ltd. (Trust account)	2-11-3, Hamamatsu-cho, Minato-ku, Tokyo	30,822	4.87
Japan Trustee Services Bank, Ltd. (Trust account)	1-8-11, Harumi, Chuo-ku, Tokyo	24,565	3.88
STATE STREET BANK AND TRUST COMPANY (Standing agent: The Hong Kong and Shanghai Banking Corporation Limited, Tokyo Branch)	One Lincoln Street, Boston, MA 02111, U.S.A. (3-11-1, Nihonbashi, Chuo-ku, Tokyo)	17,795	2.81
Japan Trustee Services Bank, Ltd. (Trust account 5)	1-8-11, Harumi, Chuo-ku, Tokyo	10,836	1.71
STATE STREET BANK AND TRUST COMPANY 505225 (Standing agent: Corporate Financial Sales Div., Mizuho Corporate Bank, Ltd.)	P.O. BOX 351 Boston, Massachusetts 02101, U.S.A. (2-15-1 Konan, Minato-ku, Tokyo)	9,809	1.55
THE BANK OF NEW YORK MELLON 140044 (Standing agent: Corporate Financial Sales Div., Mizuho Corporate Bank, Ltd.)	225 LIBERTY STREET, NEW YORK, NEW YORK, U.S.A. (2-15-1 Konan, Minato-ku, Tokyo)	9,254	1.46
CBNY - GOVERNMENT OF NORWAY (Standing agent: Citibank, N.A., Tokyo Branch)	BANKPLASSEN 2, 0107 OSLO 0107 NO (6-27-30, Shinjuku, Shinjuku-ku, Tokyo)	8,667	1.37
Japan Trustee Services Bank, Ltd. (Trust account 1)	1-8-11, Harumi, Chuo-ku, Tokyo	7,997	1.26
<b>Total</b>		<b>208,684</b>	<b>32.95</b>

Note: Apart from the shares shown above, the Company holds 40,884 thousand shares (6.46%) as treasury stock.

#### 4. Changes in Total Number of Issued Shares, Paid-in Capital, etc.

Date	Issued Shares		Paid-in Capital		Capital Reserves	
	Increase	Balance	Increase	Balance	Increase	Balance
April 1, 2010	211,971 thousand	633,291 thousand	—	¥100,000 million	¥550,064 million	¥729,255 million

Note: The increases in the total number of issued shares and capital reserves were due to the issue of new shares at the time of an exchange of shares between the Company and both Aioi and NDI.

#### 5. Basic Information

<b>Fiscal Year</b>	April 1 to March 31 of the following year
<b>Annual Shareholders' Meeting</b>	Within three months of the end of each fiscal year
<b>Record Date</b>	Ordinary General Meeting of Shareholders: March 31, every year Year-end dividends: March 31, every year Interim dividends: September 30, every year
<b>Method of Public Notification</b>	Electronic reporting can be found online at <a href="http://www.ms-ad-hd.com/ir/notification/index.html">http://www.ms-ad-hd.com/ir/notification/index.html</a> (Japanese only) In the event of an incident or other event that prevents electronic reporting, the Company will publish its notifications in the Nikkei newspaper.
<b>Stock Exchange Listings</b>	Tokyo Stock Exchange and Nagoya Stock Exchange (First Section)
<b>Administrator of Shareholders' Registry</b>	Sumitomo Mitsui Trust Bank, Limited
<b>Place of Business of Administrator of Shareholders' Registry:</b>	Sumitomo Mitsui Trust Bank, Limited, Stock Transfer Agency Dept. (1-4-1, Marunouchi, Chiyoda-ku, Tokyo, Japan)
<b>Special Account Management Institution:</b>	Sumitomo Mitsui Trust Bank, Limited*
<b>(Postal Address)</b>	Sumitomo Mitsui Trust Bank, Limited, Stock Transfer Agency Dept. (2-8-4, Izumi, Suginami-ku, Tokyo 168-0063, Japan)
<b>Telephone Inquiry</b>	☎ 0120-782-031

\* Following a share exchange effective April 1, 2010, the Company inherited the responsibility for a special account that was established on the same day for the shareholders of Aioi and NDI. As a result, the special account management institution for prior shareholders of these two companies will continue to be Mitsubishi UFJ Trust and Banking Corporation (1-4-5, Marunouchi, Chiyoda-ku, Tokyo).

## Group Business Schematic (As of March 31, 2017)

The primary businesses undertaken by MS&AD Holdings and its Group companies (subsidiaries and affiliates), and the main Group companies undertaking each business, are listed below.



Note: The above shows the primary consolidated subsidiaries and other entities in each business.  
The ★ and ● symbols indicate the following: ★: Consolidated subsidiary ●: Equity-method affiliate

## Main Subsidiaries

## 1. CONSOLIDATED SUBSIDIARIES

Name of Company	Location	Date of Incorporation	Principal Business	Paid-in Capital	Voting Rights of MS&AD Holdings (%)	Voting Rights of Subsidiaries (%)
Mitsui Sumitomo Insurance Co., Ltd.	Chiyoda-ku, Tokyo	Oct. 21, 1918	Domestic Non-Life Insurance	¥139,595 million	100.0%	—
Aioi Nissay Dowa Insurance Co., Ltd.	Shibuya-ku, Tokyo	June 30, 1918	Domestic Non-Life Insurance	¥100,005 million	100.0	—
Mitsui Direct General Insurance Co., Ltd.	Bunkyo-ku, Tokyo	June 3, 1999	Domestic Non-Life Insurance	¥39,106 million	86.4	—
au Insurance Company, Limited	Shibuya-ku, Tokyo	Feb. 23, 2010	Domestic Non-Life Insurance	¥2,400 million	—	66.6%
Mitsui Sumitomo Aioi Life Insurance Co., Ltd.	Chuo-ku, Tokyo	Aug. 8, 1996	Domestic Non-Life Insurance	¥85,500 million	100.0	—
Mitsui Sumitomo Primary Life Insurance Co., Ltd.	Chuo-ku, Tokyo	Sept. 7, 2001	Domestic Non-Life Insurance	¥41,060 million	100.0	—
MITSUMI SUMITOMO INSURANCE Venture Capital Co., Ltd.	Chuo-ku, Tokyo	Dec. 6, 1990	Financial Services	¥1,000 million	—	100.0
InterRisk Research Institute & Consulting, Inc.	Chiyoda-ku, Tokyo	Jan. 4, 1993	Risk-Related Services	¥330 million	100.0	—
MSIG Holdings (Americas), Inc.	New York, U.S.A.	Oct. 21, 1988	International	US\$4,126 thousand	—	100.0
Mitsui Sumitomo Insurance USA Inc.	New York, U.S.A.	Jan. 28, 1988	International	US\$5,000 thousand	—	100.0
Mitsui Sumitomo Insurance Company of America	New York, U.S.A.	Mar. 29, 2001	International	US\$5,000 thousand	—	100.0
Aioi Nissay Dowa Insurance Company of America	New York, U.S.A.	Jan. 11, 1994	International	US\$5,000 thousand	—	100.0
DTRIC Insurance Company, Limited	Honolulu, U.S.A.	Dec. 12, 1978	International	US\$2,500 thousand	—	74.8
DTRIC Insurance Underwriters, Limited	Honolulu, U.S.A.	Feb. 2, 2007	International	US\$2,500 thousand	—	100.0
Mitsui Sumitomo Seguros S/A.	São Paulo, Brazil.	Dec. 15, 1965	International	BRL619,756 thousand	—	100.0
MS Amlin plc	London, U.K.	Sept. 17, 1993	International	UK£143,168 thousand	—	100.0
MS Amlin Corporate Services Limited	London, U.K.	Aug. 1, 1988	International	UK£16 thousand	—	100.0
MS Amlin Corporate Member Limited	London, U.K.	Sept. 19, 1994	International	UK£1,700 thousand	—	100.0
MS Amlin Underwriting Limited	London, U.K.	Nov. 29, 1988	International	UK£400 thousand	—	100.0
Mitsui Sumitomo Insurance (London Management) Ltd	London, U.K.	Jan. 6, 2000	International	UK£35,960 thousand	—	100.0
MSI Corporate Capital Limited	London, U.K.	Jan. 7, 2000	International	UK£5,200 thousand	—	100.0
MS Amlin Investments Limited	London, U.K.	May 12, 1998	International	UK£149,029 thousand	—	100.0
MS Amlin (Overseas Holdings) Limited	London, U.K.	Aug. 24, 2005	International	UK£75,000 thousand	—	100.0
Amlin Insurance SE	London, U.K.	Jan. 4, 2016	International	UK£1,164 thousand	—	100.0
Mitsui Sumitomo Insurance Company (Europe), Limited	London, U.K.	July 28, 1972	International	UK£160,900 thousand	—	100.0
Aioi Nissay Dowa Insurance Company of Europe Limited	London, U.K.	Nov. 12, 2004	International	UK£418,756 thousand	—	100.0
MS Amlin AG	Zurich, Switzerland	Aug. 19, 2010	International	CHF10,000 thousand	—	100.0
MSIG Insurance Europe AG	Koeln, Germany	Apr. 20, 2012	International	€84,000 thousand	—	100.0
Aioi Nissay Dowa Life Insurance of Europe AG	Ismaning, Germany	Dec. 8, 2005	International	€5,000 thousand	—	100.0

Name of Company	Location	Date of Incorporation	Principal Business	Paid-in Capital	Voting Rights of MS&AD Holdings (%)	Voting Rights of Subsidiaries (%)
MS Financial Reinsurance Limited	Hamilton, Bermuda	Nov. 21, 2011	Financial Services	¥46 million	—	100.0
Amlin Bermuda Holdings, Ltd.	Hamilton, Bermuda	Oct. 28, 2005	International	UK£350,207 thousand	—	100.0
Solo Absolute Bonds and Currency Fund	Paris, France	June 10, 2011	International	€950,223 thousand	—	100.0
MSIG Holdings (Asia) Pte. Ltd.	Singapore, Singapore	Sept. 23, 2004	International	S\$1,075 million	—	100.0
MSIG Insurance (Singapore) Pte. Ltd.	Singapore, Singapore	Sept. 23, 2004	International	S\$333,442 thousand	—	100.0
Aioi Nissay Dowa Insurance Company Australia Pty Ltd	Melbourne, Australia	Aug. 1, 2008	International	A\$87,800 thousand	—	100.0
MSIG Mingtai Insurance Co., Ltd.	Taipei, Taiwan	Sept. 22, 1961	International	NT\$2,535 million	—	100.0
Mitsui Sumitomo Insurance (China) Company Limited	Shanghai, P.R.C.	Sept. 6, 2007	International	RMB500,000 thousand	—	100.0
Aioi Nissay Dowa Insurance (China) Company Limited	Tianjin, P.R.C.	Jan. 23, 2009	International	RMB625,000 thousand	—	100.0
MSIG Insurance (Hong Kong) Limited	Hong Kong, P.R.C.	Sept. 8, 2004	International	HK\$1,625 million	—	100.0
MSIG Insurance (Vietnam) Company Limited	Hanoi, Vietnam	Feb. 2, 2009	International	VND300,000 million	—	100.0
PT. Asuransi MSIG Indonesia	Jakarta, Indonesia	Dec. 17, 1975	International	IDR100,000 million	—	80.0
MSIG Insurance (Thailand) Public Company Limited	Bangkok, Thailand	Apr. 14, 1983	International	THB142,666 thousand	—	86.4
MSIG Insurance (Malaysia) Bhd.	Kuala Lumpur, Malaysia	Apr. 28, 1979	International	MYR333,142 thousand	—	65.4 [1.4]
MSIG Insurance (Lao) Co., Ltd.	Vientiane, Laos	Sept. 18, 2009	International	US\$2,000 thousand	—	51.0
60 other companies						

Notes: 1. Figures in square brackets [ ] represent the percentage of voting rights belonging to closely allied entities or entities who are in agreement with MS&AD on voting issues.

## 2. EQUITY-METHOD AFFILIATES

Name of Company	Location	Date of Incorporation	Principal Business	Paid-in Capital	Voting Rights of MS&AD Holdings (%)	Voting Rights of Subsidiaries (%)
Sumitomo Mitsui Asset Management Company, Limited	Minato-ku, Tokyo	July 15, 1985	Financial Services	¥2,000 million	—	20.0%
Cholamandalam MS General Insurance Company Limited	Chennai, India	Nov. 2, 2001	International	INR2,988 million	—	40.0
Max Life Insurance Company Limited	Chandigarh, India	July 11, 2000	International	INR19,188 million	—	25.0
PT. Asuransi Jiwa Sinarmas MSIG	Jakarta, Indonesia	July 17, 1984	International	IDR105,000 million	—	50.0
BPI/MS Insurance Corporation	Makati, Philippines	Oct. 1, 1965	International	PHP350,000 thousand	—	48.5
Hong Leong Assurance Berhad	Petaling Jaya, Malaysia	Dec. 20, 1982	International	MYR200,000 thousand	—	30.0
Six other companies						

# Global Network

(As of July 1, 2017)

☆:Overseas Branches ★:Overseas Offices ●:Overseas Subsidiaries and Affiliates  
△:Branches or Offices of Overseas Subsidiaries and Affiliates ■:Underwriting Agents for the Head Office

## ASIA AND OCEANIA

SINGAPORE	MS&AD Holdings	● Interisk Asia Pte. Ltd.
	MSI	● MSIG Holdings (Asia) Pte. Ltd. ● MSIG Insurance (Singapore) Pte. Ltd.
THAILAND	MS&AD Holdings	● InterRisk Asia (Thailand) Co., Ltd.
	MSI	☆ Thailand Branch ● MSIG Insurance (Thailand) Public Company Limited ● MSI Holding (Thailand) Company Limited ● MSIG Service and Adjusting (Thailand) Company Limited ● Calm Sea Service Company Limited ● MBTS Broking Services Company Limited
	ADI	★ Bangkok Representative Office ● Aioi Bangkok Insurance Public Company Limited ● Bangkok Chayorathn Company, Limited ● Bangkok Chayolife Company, Limited
MALAYSIA	MSI	● MSIG Insurance (Malaysia) Bhd. ● MSIG Berhad ● Hong Leong Assurance Berhad ● Hong Leong MSIG Takaful Berhad △ MS Amlin AG Labuan Branch
PHILIPPINES	MSI	● BPI/MS Insurance Corporation
INDONESIA	MSI	● PT. Asuransi MSIG Indonesia ● PT. Asuransi Jiwa Sinarmas MSIG
REPUBLIC OF KOREA	MSI	☆ Korea Branch
PEOPLE'S REPUBLIC OF CHINA	MS&AD Holdings	● InterRisk Consulting (Shanghai) Co., Ltd.
	MSI	● Mitsui Sumitomo Insurance (China) Company Limited △ Guangdong Branch Shenzhen Marketing Service Department △ Beijing Branch △ Jiangsu Branch Suzhou Marketing Service Department ★ China General Representative Office ★ Dalian Representative Office ★ Chengdu Representative Office ★ Qingdao Representative Office
	ADI	★ China General Representative Office ★ Guangzhou Representative Office ● Aioi Nissay Dowa Insurance (China) Company Limited △ Zhejiang Branch ● Guangzhou Guang Ai Insurance Brokers Ltd.
HONG KONG	MSI	● MSIG Insurance (Hong Kong) Limited ● Sumitomo Mitsui Asset Management (Hong Kong) Limited
	ADI	★ Hong Kong Representative Office
MACAU	MSI	△ MSIG Insurance (Hong Kong) Limited Macau Branch
TAIWAN	MSI	● MSIG Mingtai Insurance Co., Ltd.
	ADI	★ Taipei Representative Office
VIETNAM	MSI	● MSIG Insurance (Vietnam) Company Limited △ MSIG Insurance (Vietnam) Company Limited, Ho Chi Minh City Branch

INDIA	MSI	● Cholamandalam MS General Insurance Company Limited ● Cholamandalam MS Risk Services Limited ★ New Delhi Representative Office ● Max Life Insurance Company Limited ● MS Amlin (India) Private Limited
MYANMAR	MSI	★ Yangon Representative Office
CAMBODIA	MSI	● Asia Insurance (Cambodia) Plc.
LAO PEOPLE'S DEMOCRATIC REPUBLIC	MSI	● MSIG Insurance (Lao) Co., Ltd.
AUSTRALIA	MSI	☆ Oceania Branch ★ Oceania Branch Melbourne Office
	ADI	☆ Australian Branch ★ Sydney Representative Office ★ Melbourne Representative Office ● Aioi Nissay Dowa Insurance Company Australia Pty Ltd
NEW ZEALAND	MSI	★ Oceania Branch New Zealand Office
	ADI	☆ New Zealand Branch ● Aioi Nissay Dowa Management New Zealand Limited

## THE AMERICAS

U.S.A.	MSI	★ New York Representative Office ● MSIG Holdings (Americas), Inc. ● Mitsui Sumitomo Insurance Company of America ● Mitsui Sumitomo Insurance USA Inc. ● Mitsui Sumitomo Marine Management (U.S.A.), Inc. △ New York Office △ Warren Office △ Los Angeles Office △ Cincinnati Office △ Atlanta Office △ Chicago Office △ Detroit Office △ Dallas Office ● MSI Risk Management Services, Inc. ● Seven Hills Insurance Agency, LLC ● Aioi Nissay Dowa Insurance Company of America △ Kentucky Office △ Detroit Office △ Dallas Office ● MS Amlin Reinsurance Managers, Inc. ● MSI GuaranteedWeather, LLC ● Vortex Insurance Agency, LLC ● Sumitomo Mitsui Asset Management (New York) Inc.
	ADI	★ New York Representative Office ★ Honolulu Representative Office ● Aioi Nissay Dowa Insurance Services USA Corporation ● Advanced Connectivity, LLC ● Connected Analytic Services, LLC ● Toyota Insurance Management Solutions USA, LLC ● DTRIC Insurance Company, Limited ● DTRIC Insurance Underwriters, Limited ● DTRIC Management Company, Limited
GUAM (U.S.A.)	ADI	■ Takagi & Associates, Inc.
SAIPAN (U.S.A.)	ADI	■ Takagi & Associates, Inc. Saipan Branch
CANADA	MSI	★ Toronto Representative Office c/o Chubb Insurance Company of Canada ■ Chubb Insurance Company of Canada
BERMUDA	MS&AD Holdings	● Interisk Global Management (Bermuda) Limited
	MSI	● SPAC Insurance (Bermuda) Limited ● MSI GuaranteedWeather Trading Limited ● MS Financial Reinsurance Limited △ MS Amlin AG Bermuda Branch

CAYMAN	MSI	● SLI Cayman Limited
MEXICO	MSI	△ MSIG Holdings (Americas), Inc. Mexican Representative Office c/o Mapfre Tepeyac, S.A.
PANAMA	MSI	★ Panama Representative Office
BRAZIL	MSI	● Mitsui Sumitomo Seguros S/A. ● Mitsui Sumitomo Insurance Company Limited-Escritório de Representação no Brasil Ltda. ★ São Paulo Representative Office
COLOMBIA	MSI	★ Bogotá Representative Office
PERU	MSI	★ Lima Representative Office
ARGENTINA	MSI	★ Buenos Aires Representative Office

## EUROPE, THE MIDDLE EAST AND AFRICA

UNITED KINGDOM	MSI	★ London Representative Office ● MS Amlin plc ● MS Amlin Corporate Services Limited ● MS Amlin Underwriting Limited ● MS Amlin Corporate Member Limited ● Amlin Insurance SE ● Mitsui Sumitomo Insurance Company (Europe), Limited △ Mitsui Sumitomo Insurance Company (Europe), Limited Derby Office ● MSIG Corporate Services (Europe) Limited ● Sumitomo Mitsui Asset Management (London) Limited
	ADI	★ London Representative Office ● Aioi Nissay Dowa Insurance Company of Europe Limited ● Aioi Nissay Dowa Insurance Management Limited ● Toyota Insurance Management Limited ● Box Innovation Group Limited ● Insure The Box Limited ● ITB Services Limited ● ITB Web Limited ● ITB Telematics Solutions LLP ● ITB Premium Finance Limited
IRELAND	MSI	● MSI Insurance Management (Ireland) Limited
GERMANY	MSI	● MSIG Insurance Europe AG △ MSIG Insurance Europe AG Region Germany ● MSIG German Services GmbH
	ADI	△ Aioi Nissay Dowa Insurance Company of Europe Limited German Branch △ Toyota Insurance Management Limited German Branch ● Aioi Nissay Dowa Life Insurance of Europe AG
THE NETHERLANDS	MSI	△ MSIG Insurance Europe AG The Netherlands Branch
	ADI	△ Aioi Nissay Dowa Insurance Company of Europe Limited Netherlands Branch
FRANCE	MSI	△ MSIG Insurance Europe AG France Branch
	ADI	★ Paris Representative Office △ Aioi Nissay Dowa Insurance Company of Europe Limited French Branch △ Toyota Insurance Management Limited French Branch
BELGIUM	MSI	△ MSIG Insurance Europe AG Belgium Branch △ MSIG Corporate Services (Europe) Limited Belgium Branch
	ADI	★ Brussels Representative Office △ Aioi Nissay Dowa Insurance Company of Europe Limited Belgian Branch △ Toyota Insurance Management Limited Belgian Branch
SWITZERLAND	MSI	● MS Amlin AG

SPAIN	MSI	△ MSIG Insurance Europe AG Spain Branch
	ADI	△ Aioi Nissay Dowa Insurance Company of Europe Limited Spanish Branch △ Toyota Insurance Management Limited Spanish Branch
ITALY	MSI	△ MSIG Insurance Europe AG Italy Branch
	ADI	△ Aioi Nissay Dowa Insurance Company of Europe Limited Italian Branch △ Toyota Insurance Management Limited Italian Branch ● Top Class Insurance S. r. l. ● Top Class Broker S. r. l.
SLOVAKIA	MSI	△ MSIG Insurance Europe AG Slovakia Branch
RUSSIA	MSI	★ Moscow Representative Office ★ St. Petersburg Representative Office
	ADI	★ Moscow Representative Office ● LLC Toyota Insurance Management (Insurance Brokers) ● LLC Toyota Insurance Management (Insurance Agency)
NORWAY	ADI	△ Aioi Nissay Dowa Insurance Company of Europe Limited Norwegian Branch
UNITED ARAB EMIRATES	MSI	★ Dubai Representative Office ★ Abu Dhabi Representative Office
REPUBLIC OF SOUTH AFRICA	MSI	△ Mitsui Sumitomo Insurance Company (Europe), Limited Johannesburg Representative Office
KAZAKHSTAN	ADI	● Toyota Insurance Management (Insurance Broker) LLP
DENMARK	ADI	△ Toyota Insurance Management Limited Danish Branch
POLAND	ADI	△ Toyota Insurance Management Limited Polish Branch
BAILIWICK OF GUERNSEY	MSI	● Arena Holdings Limited

# Short Commentary: Group Financial Statements

## Commentary 1: Balance Sheet (B/S)

On its consolidated balance sheet (P. 68), the Group has total assets of ¥21.2 trillion, and the majority of its liabilities, ¥16.1 trillion, are policy liabilities—that is, reserves for paying future insurance claims. On the other hand, the largest asset item is investments in securities, which have a total market value of ¥15.3 trillion. Unrealized gains on securities in excess of the book value (¥1.3 trillion) are recorded under deferred tax liabilities and accumulated other comprehensive income (net unrealized gains/losses on investments in securities). This means that policy liabilities, which account for the majority of the Group's balance sheet liabilities, are invested in securities. In addition, net unrealized gains on investment in securities (after tax-effect accounting) accounted for about half of net assets as of the end of FY2016.

(¥ billion)

(Main) assets		(Main) liabilities	
Cash, deposits and savings	1,419.2	Policy liabilities	16,156.1
Money trusts	971.1	Bonds issued	456.1
Investments in securities	15,303.1	Other liabilities	1,226.7
(of which are stocks)	2,693.7	Deferred tax liabilities	173.5
Loans	886.3	<b>Total liabilities</b>	18,499.8
Tangible fixed assets	464.9		
Intangible fixed assets	417.1	<b>Net assets</b>	
Other assets	1,225.7	<b>Shareholders' equity</b>	1,425.2
		Net unrealized gains/losses on investments in securities	1,360.8
		<b>Total net assets</b>	2,734.4
<b>Total assets</b>	21,234.3	<b>Total liabilities and net assets</b>	21,234.3

## Commentary 2: Statements of Income (P/L)

### ① Main components of the statements of income

A summary of the Group's consolidated statements of income (see P. 69) is provided below. It consists primarily of underwriting income and expenses and investment income and expenses.

<b>FY2016</b>	Income (+): underwriting income, ¥4,810.8 billion; investment income, ¥507.2 billion; other ordinary income, ¥17.0 billion Expenses (-): underwriting expenses, ¥4,256.3 billion (of which ¥908.1 billion is provision for underwriting reserves) Investment expenses, ¥55.0 billion; operating expenses and general and administrative expenses, ¥653.5 billion; other ordinary expenses, ¥17.5 billion Ordinary profit: ¥352.6 billion
<b>FY2015</b>	Income (+): underwriting income, ¥4,606.5 billion; investment income, ¥389.5 billion; other ordinary income, ¥16.8 billion Expenses (-): underwriting expenses, ¥3,904.2 billion (of which ¥744.3 billion is provision for underwriting reserves) Investment expenses, ¥210.7 billion; operating expenses and general and administrative expenses, ¥590.8 billion; other ordinary expenses, ¥15.6 billion Ordinary profit: ¥291.5 billion

### ② Underwriting profit for domestic non-life insurance companies and catastrophe reserves

Underwriting profit, the difference between underwriting income and underwriting expenses, can be dramatically impacted by events such as natural disasters. Non-life insurance companies are legally required to build up catastrophe reserves to mitigate that impact. When companies have to pay extremely large insurance claims, they can reverse the catastrophe reserves, which mitigates the impact to a certain degree. The following table indicates past underwriting profit, incurred losses related to natural disasters, and changes in catastrophe reserves (net provision). (See the "Glossary of Insurance Terminology" section (P. 54) for details on the catastrophe reserves.)

#### Impact of natural disasters on underwriting profit

(¥ billion)

	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
<b>Underwriting profit/(loss)</b>	(83.7)	(190.0)	(3.0)	(36.1)	28.7	43.9	121.3
<b>Impact on underwriting profit -(A+B)</b>	(65.9)	(172.0)	(13.2)	(93.3)	(58.5)	(149.7)	(132.9)
<b>Incurred losses due to natural disaster (A)</b>	65.9	311.5	55.1	96.3	27.2	68.1	51.0
Great East Japan Earthquake	62.7	(7.7)	1.3	-	-	-	-
2011 Thailand floods	-	264.3	0.6	(23.0)	(5.1)	-	-
2014 massive snowfalls	-	-	-	82.1	2.2	0.3	-
Other natural disasters	3.2	54.9	53.2	37.1	30.1	67.7	51.0
<b>Net provision for catastrophe reserves (B)</b>	0	(139.5)	(41.9)	(3.0)	31.3	81.6	81.8

\* Simple sum for MSI and ADI

Example: The impact of loss of ¥311.5 billion from natural disasters, for FY2011 was mitigated by reversal of catastrophe reserves of ¥139.5 billion and resulted in an underwriting loss of ¥190.0 billion.

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## Five-Year Summary (Unaudited)

Download Data Sheet 

	Yen in millions					US\$ in millions
	FY2012	FY2013	FY2014	FY2015	FY2016	FY2016
<b>Ordinary income:</b>	¥ 4,315,787	¥ 4,362,754	¥ 4,689,658	¥ 5,013,038	¥ 5,335,239	\$ 47,636
Net premiums written	2,639,015	2,811,611	2,939,113	3,078,732	3,407,389	30,423
<b>Ordinary profit/(loss)</b>	150,300	190,259	287,061	291,578	352,612	3,148
<b>Net income/(loss) attributable to owners of the parent</b>	83,625	93,451	136,247	181,516	210,447	1,879
<b>Comprehensive income/(loss)</b>	543,938	322,865	807,972	(233,116)	114,294	1,020
<b>Net assets</b>	2,021,625	2,285,832	3,036,663	2,725,274	2,734,432	24,415
<b>Total assets</b>	15,914,663	16,878,148	18,788,046	20,303,649	21,234,300	189,592

	Yen					US\$
<b>Net income/(loss) attributable to owners of the parent per share - Basic</b>	¥ 134.46	¥ 150.58	¥ 221.34	¥ 298.72	¥ 350.94	\$ 3.13
<b>Net income/(loss) attributable to owners of the parent per share - Diluted</b>	–	–	–	–	350.90	3.13
<b>Net assets per share</b>	3,215.33	3,646.22	4,911.40	4,469.58	4,572.82	40.83

	Yen in millions					US\$ in millions
<b>Equity ratio</b>	12.56%	13.39%	16.00%	13.29%	12.76%	–
<b>Return on equity</b>	4.79%	4.42%	5.18%	6.36%	7.78%	–
<b>Price earnings ratio</b>	15.36	15.70	15.23	10.50	10.09	–

	Yen in millions					US\$ in millions
<b>Cash flows</b>						
Cash flows from operating activities	¥118,751	¥489,950	¥628,184	¥1,291,017	¥1,086,948	\$9,705
Cash flows from investing activities	(165,248)	(549,136)	(410,671)	(1,217,980)	(614,899)	(5,490)
Cash flows from financing activities	33,590	(57,323)	(58,941)	199,075	(100,198)	(895)
Cash and cash equivalents at the end of year	716,221	625,084	805,455	1,056,407	1,415,903	12,642
<b>Number of employees</b>	36,643	37,055	38,358	40,617	40,641	–

Note: U.S. dollar amounts in this report have been translated from yen, for convenience only, at the rate of ¥112=US\$1. For details, see Note 1 of Significant Accounting Policies (P. 72).

## Management's Discussion and Analysis

## 1. OVERVIEW

This Management's Discussion and Analysis (MD&A) provides information on the nature of the businesses conducted by MS&AD Holdings and its affiliates (191 subsidiaries and 31 associates as of March 31, 2017), and the positioning of the principal affiliates within these businesses.

MS&AD is a specified listed company pursuant to the provisions stipulated in the Japanese Cabinet Order 49-2 and is regulated under this Order with respect to securities transactions and other matters. As a result, investors should make decisions based on the Group's consolidated financial statements as provided for under the minimal standards criteria of material facts set forth in restrictions on insider trading.

## Description of Businesses

## 1) Domestic Non-Life Insurance Business

MS&AD's domestic non-life insurance business is operated by the following three subsidiaries and others in Japan:

- Mitsui Sumitomo Insurance Company, Limited ("MSI")
- Aioi Nissay Dowa Insurance Company, Limited ("ADI")
- Mitsui Direct General Insurance Company, Limited ("Mitsui Direct General")

## 2) Domestic Life Insurance Business

MS&AD's domestic life insurance business is operated by the following two subsidiaries and others in Japan:

- Mitsui Sumitomo Aioi Life Insurance Company, Limited ("MSA Life")
- Mitsui Sumitomo Primary Life Insurance Company, Limited ("MSP Life")

## 3) International Business

MS&AD's international business is operated by international divisions of domestic non-life insurance subsidiaries in Japan, and overseas subsidiaries, including MS Amlin plc, and overseas branches of domestic non-life insurance subsidiaries in overseas countries.

## 4) Financial Services Business / Risk-Related Services Business

## a) Financial Services Business

MS&AD's financial services business, including asset management, financial guarantees, 401k, ART (alternative risk transfer), personal finance, and venture capital finance, is operated by domestic non-life insurance subsidiaries, Sumitomo Mitsui Asset Management Company, Limited, Mitsui Sumitomo Insurance Venture Capital Company, Limited, and others.

## b) Risk-Related Services Business

MS&AD's risk-related services business, including risk management and nursing care business, is operated by InterRisk Research Institute & Consulting, Inc., Mitsui Sumitomo Insurance Care Network Company, Limited, and others.

## 2. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

MS&AD Holdings' consolidated financial statements are prepared in accordance with accounting principles generally accepted in Japan (Japan GAAP). The preparation of these financial statements requires MS&AD Holdings' management to select and apply accounting policies as well as to make a number of estimates regarding the impact on disclosure of assets and liabilities as well as revenues and expenses. The management bases their estimates on historical experience and other assumptions that they consider reasonable. Nevertheless, these estimates contain inherent uncertainties and thus could differ from actual results.

Significant accounting policies used in the preparation of MS&AD Holdings' consolidated financial statements are presented in "SIGNIFICANT ACCOUNTING POLICIES" of the "Notes to Consolidated Financial Statements."

The management recognizes the following significant accounting policies and estimates could have significant impacts on the consolidated financial statements.

## 1) Method for Determination of Fair Value

Certain assets and liabilities are recorded on the Company's balance sheet at their fair values. These fair values are determined based on market prices. For certain derivatives for which market prices are not available, reasonable estimates of fair value are made based on the present value of future cash flows, the price of the underlying assets, the contract period, and other factors.

## 2) Impairment of Securities

Since securities held by the Group companies are subject to the risk of price fluctuations in securities markets, MS&AD applies impairment accounting for securities based on reasonable criteria. If securities markets decline, an impairment loss could be incurred.

## 3) Impairment of Fixed Assets

When the profitability of fixed assets declines and investments in these assets are unlikely to be recovered, MS&AD recognizes impairment losses to reflect recoverable amounts under certain circumstances.

The recoverable amount for an asset or asset group is the higher of the net sales value (the value computed by deducting expected disposal expenses from the fair value of an asset or asset group) and the value in use (the present value of expected future cash flows resulting from the continual usage and subsequent disposal of an asset or asset group).

Accordingly, the amount of the impairment loss for fixed assets depends on estimated future cash flows based on the assumption and forecasts that MS&AD considers reasonable. Consequently, an additional impairment loss could be incurred in the event of a change in the usage of fixed assets or in the event of changes in real estate or leasing market prices.

## 4) Deferred Tax Assets

In determining recoverable deferred tax assets, future taxable income is estimated based on the assumptions and forecasts that MS&AD considers reasonable. Since the recoverable amount of deferred tax assets depends on estimates of future taxable income, the amount of deferred tax assets could fluctuate in the event of a subsequent change in estimates of future taxable income.

### 5) Allowance for Credit Losses

In preparation for losses on bad debts, MS&AD records estimated amounts deemed to be unrecoverable as an allowance for credit losses. Unrecoverable amounts and recorded allowances for credit losses could change from their initial estimates due to changes in the financial condition of debtors.

### 6) Outstanding Claims

MS&AD estimates and sets aside reserves as outstanding claims for any unpaid amounts of its payment obligations as determined or recognized by insurance contracts. Claim payments and recorded outstanding claims could change from their initial estimates due to such factors as the results of legal judgments and exchange rate fluctuations.

### 7) Underwriting Reserves

To meet future obligations in accordance with insurance contracts, MS&AD sets aside underwriting reserves. It could, therefore, become necessary to increase underwriting reserves in the event of unforeseen losses due to significant changes in the business environment, operating conditions and other factors.

### 8) Retirement Benefit Expenses and Retirement Benefit Obligations

Retirement benefit expenses and retirement benefit obligations are calculated based on certain assumptions that include discount rates, future retirement rates, and mortality rates. However, future retirement benefit expenses and obligations could change in the event that actual results differ from the assumptions used, or in the event that it becomes necessary to change the assumptions.

## 3. SUMMARY OF BUSINESS RESULTS

During the fiscal year under review, the global economy generally achieved a moderate recovery. The recovery of the U.S. economy and the European economies continued and there were signs of a quickening of the economic tempo in Asia.

The Japanese economy was on a moderate recovery track. Despite the impact of a decline in long-term interest rates reflecting the negative interest rate policy, personal consumption picked up somewhat against the backdrop of an improved labor market. Capital investment and corporate earnings also continued trending upward.

In the non-life insurance industry, while net premiums written decreased centering on fire insurance and marine insurance, net claims paid increased owing to natural disasters, including the earthquakes in Kumamoto. In the life insurance industry, whereas the amount of individual insurance policies in force was virtually unchanged, the number of policies in force increased centering on medical insurance.

Under these circumstances, based on the medium-term management plan "Next Challenge 2017" launched in fiscal 2014, the Group strove to increase its enterprise value as a whole through a commitment to sustainable growth, improving profitability, ensuring soundness, and improving capital efficiency. In driving these endeavors forward, MS&AD focused on the "completion of reorganization by function," "strengthening of group governance and promotion of ERM (enterprise risk management)," "transformation of the business structure to respond to future changes in the environment," and "permeation of a corporate culture and development of human assets that meet challenges as professionals."

For reorganization by function, Mitsui Sumitomo Insurance Co., Ltd. ("MSI") and Aioi Nissay Dowa Insurance Co., Ltd. ("ADI") implemented measures to cultivate a greater sense of unity in the Group, including joint development of a claims service system and greater standardization of products and operating procedures.

In order to achieve the Group management strategy, the Company further strengthened business management systems. This included the establishment of the Group International Business Committee to pursue overseas Group synergies. The Company also undertook such measures as the establishment of a department dedicated to reinforcing product and service development functions utilizing ICT as a part of efforts to create a new business model.

Accounting for each of the aforementioned factors, results in the fiscal year under review were as follows.

The Company reported consolidated underwriting income of ¥4,810.8 billion, investment income of ¥507.2 billion, and other ordinary income of ¥17.0 billion. Thus, the total for ordinary income was ¥5,335.2 billion. Meanwhile, ordinary expenses amounted to ¥4,982.6 billion. This breaks down into underwriting expenses of ¥4,256.3 billion, investment expenses of ¥55.0 billion, operating expenses and general and administrative expenses of ¥653.5 billion, and other ordinary expenses of ¥17.5 billion.

As a result, the Company posted an ordinary profit of ¥352.6 billion, up ¥61.0 billion over the previous fiscal year. After factoring in extraordinary income and extraordinary losses, and income taxes - current, net income attributable to owners of the parent of ¥210.4 billion was reported, an increase of ¥28.9 billion year on year.

### [Key Consolidated Financial Indicators]

	(Yen in millions)			
	FY2015	FY2016	Change	Change (%)
Net premiums written	¥3,078,732	¥3,407,389	¥ 328,657	10.7
Life insurance premiums	1,356,334	1,253,167	(103,167)	(7.6)
Ordinary profit	291,578	352,612	61,034	20.9
Net income attributable to owners of the parent	181,516	210,447	28,930	15.9

In the non-life insurance business, net premiums written grew by ¥328.6 billion over the previous fiscal year, to ¥3,407.3 billion. This was mainly attributable to substantial contributions from overseas insurance subsidiaries and in particular the boost provided following the inclusion of MS Amlin plc within the scope of consolidation.

In the life insurance business, life insurance premiums declined by ¥103.1 billion year on year, to ¥1,253.1 billion, owing largely to the downturn at Mitsui Sumitomo Primary Life Insurance Co., Ltd. ("MSP Life").

MS&AD posted an ordinary profit of ¥352.6 billion, an increase of ¥61.0 over the previous fiscal year. This was due in part to an increase in ordinary profit from the domestic non-life insurance business. After factoring in extraordinary income and losses, income taxes, and other items, net income attributable to owners of the parent rose by ¥28.9 billion year on year, to ¥210.4 billion.

Insurance premiums written and claims paid by product line of insurance were as follows.

### Direct Premiums Written (including Deposit Premiums from Policyholders)

Lines of Insurance	(Yen in millions)					
	FY2015			FY2016		
	Amount	Share (%)	Change (%)	Amount	Share (%)	Change (%)
Fire and Allied	¥ 657,398	19.0	5.2	¥ 602,521	16.7	(8.3)
Marine	132,284	3.8	1.0	168,715	4.7	27.5
Personal Accident	319,937	9.2	(6.2)	321,055	8.9	0.3
Voluntary Automobile	1,475,596	42.5	3.8	1,524,096	42.1	3.3
Compulsory Automobile Liability	356,465	10.3	0.3	366,523	10.1	2.8
Other	527,502	15.2	10.8	632,874	17.5	20.0
Total	¥3,469,185	100.0	3.6	¥3,615,785	100	4.2
Deposit premiums from policyholders	116,225	3.4	(16.3)	98,546	2.7	(15.2)

#### Notes:

- The figures represent amounts after the elimination of internal transactions between segments.
- Direct premiums written (including deposit premiums from policyholders) are the premiums from policyholders minus the surrender benefits and other refunds to policyholders. (Includes deposit premiums from policyholders for savings-type insurance.)

### Net Premiums Written

Lines of Insurance	(Yen in millions)					
	FY2015			FY2016		
	Amount	Share (%)	Change (%)	Amount	Share (%)	Change (%)
Fire and Allied	¥ 471,476	15.3	10.7	¥ 540,715	15.9	14.7
Marine	106,108	3.4	2.6	145,697	4.3	37.3
Personal Accident	218,487	7.1	(5.4)	237,918	7.0	8.9
Voluntary Automobile	1,495,339	48.6	4.0	1,559,958	45.8	4.3
Compulsory Automobile Liability	357,639	11.6	2.7	356,088	10.4	(0.4)
Other	429,680	14.0	9.5	567,010	16.6	32.0
Total	¥3,078,732	100.0	4.8	¥3,407,389	100.0	10.7

Note: The figures represent amounts after the elimination of internal transactions between segments.

### Net Claims Paid

Lines of Insurance	(Yen in millions)					
	FY2015			FY2016		
	Amount	Share (%)	Change (%)	Amount	Share (%)	Change (%)
Fire and Allied	¥ 235,176	14.5	(9.3)	¥ 297,850	16.3	26.6
Marine	48,009	3.0	3.4	96,981	5.3	102.0
Personal Accident	109,376	6.7	(4.2)	107,937	5.9	(1.3)
Voluntary Automobile	776,606	47.7	(1.3)	798,736	43.6	2.8
Compulsory Automobile Liability	259,078	15.9	0.4	258,465	14.1	(0.2)
Other	199,092	12.2	7.2	271,905	14.8	36.6
Total	¥1,627,340	100.0	(1.4)	¥1,831,876	100.0	12.6

Note: The figures represent amounts after the elimination of internal transactions between segments.

### Segment Information

Performance by segment was as follows.

#### 1) Domestic Non-Life Insurance Business (MSI)

Net premiums written, among items of underwriting income, declined by ¥37.0 billion over the previous fiscal year, to ¥1,470.1 billion, primarily because of the decrease in fire insurance revenue.

Meanwhile, net claims paid, among items of underwriting expenses, climbed by ¥10.5 billion, to ¥811.4 billion, owing largely to the increase in revenue from other insurance. The net loss ratio came in at 61.2%, 2.3 percentage points higher than in the previous fiscal year. In addition, as a result of the decrease in net premiums written, the net expense ratio was 31.2%, 0.2 of a percentage point higher than in the previous fiscal year.

After taking into account other items, including deposit premiums from policyholders, maturity refunds to policyholders, reversal of outstanding claims, and reversal of underwriting reserves, underwriting profit rose by ¥62.6 billion, to ¥81.7 billion. This mainly reflected such factors as the reversal of underwriting reserves and the decrease in incurred losses (the sum total of net claims paid and provision for outstanding claims after deducting reversal of outstanding claims) during the fiscal year under review.

#### 2) Domestic Non-Life Insurance Business (ADI)

Net premiums written, among items of underwriting income, rose by ¥8.4 billion over the previous fiscal year, to ¥1,200.5 billion, primarily because of increased revenue in voluntary automobile insurance and other insurance.

Meanwhile, net claims paid, among items of underwriting expenses, climbed by ¥3.7 billion, to ¥648.6 billion. Although claims payments related to natural disasters decreased, the increase in net claims paid was largely attributable to the increase in other insurance payments. The net loss ratio was 59.1%, which was 0.1 of a percentage point lower than in the previous fiscal year. In addition, as a result of the decrease in underwriting-related operating expenses and general and administrative expenses, the net expense ratio came in at 33.5%, which was 0.8 of a percentage point lower than in the previous fiscal year.

After taking into account other items, including deposit premiums from policyholders, maturity refunds to policyholders, provision for outstanding claims, and provision for underwriting reserves, underwriting profit rose by ¥14.6 billion, to ¥39.5 billion.

#### 3) Domestic Non-Life Insurance Business (Mitsui Direct General)

Results for Mitsui Direct General, a consolidated subsidiary, for the fiscal year under review are presented as follows.

Net premiums written, among items of underwriting income, increased by ¥1.0 billion over the previous fiscal year, to ¥37.6 billion

Meanwhile, net claims paid, among items of underwriting expenses, declined by ¥0.5 billion, to ¥25.7 billion. The net loss ratio was 75.9%, which was 3.1 percentage points lower than in the previous fiscal year.

In addition, commissions and collection expenses as well as underwriting-related operating expenses and general and administrative expenses rose by ¥0.2 billion, to ¥8.2 billion. As a result, the net expense ratio came to 22.0%, which was 0.1 of a percentage point higher than in the previous fiscal year.

Underwriting loss improved by ¥4.4 billion over the previous fiscal year, for a loss of ¥1.0 billion. This was primarily due to the decrease in incurred losses (the sum total of net claims paid and provision for outstanding claims) during the fiscal year under review. On this basis, net loss also narrowed by ¥4.4 billion over the previous fiscal year, for a loss of ¥1.0 billion.

Based on these factors, the net loss, after taking ownership interests into account declined by ¥3.4 billion over the previous fiscal year, to ¥0.9 billion.

4) Domestic Life Insurance Business (MSA Life)  
Results for Mitsui Sumitomo Aioi Life Insurance, a consolidated subsidiary, for the fiscal year under review are presented as follows.

Premium and other income rose by ¥18.0 billion over the previous fiscal year, to ¥480.2 billion, mainly due to an increase in individual insurance premiums.

Ordinary profit decreased by ¥2.4 billion, to ¥16.1 billion, largely because of an increase in insurance claims and others.

Net income declined by ¥1.4 billion over the previous fiscal year, to ¥4.5 billion.

5) Domestic Life Insurance Business (MSP Life)  
Results for Mitsui Sumitomo Primary Life Insurance, a consolidated subsidiary, for the fiscal year under review are presented as follows.

Premium and other income decreased by ¥216.2 billion over the previous fiscal year, to ¥1,083.8 billion. This was mainly attributable to the decline in variable whole-life insurance premiums.

Ordinary profit increased by ¥17.7 billion, to ¥57.6 billion, primarily because of the downturn in agency commissions associated with the decrease in premiums written. Net income climbed by ¥2.8 billion, to ¥20.7 billion owing primarily to the additional provision of ¥26.3 billion to the reserve for price fluctuation.

6) International Business (Overseas Insurance Subsidiaries)  
Net premiums written rose by ¥356.2 billion over the previous fiscal year, to ¥693.1 billion, primarily because of the inclusion of MS Amlin plc within the scope of consolidation.

Ordinary profit increased by ¥2.4 billion, to ¥40.0 billion. Net income after taking ownership interest into account (segment income) decreased by ¥4.5 billion over the previous fiscal year, to ¥24.0 billion, owing primarily to costs associated with the reorganization of overseas consolidated subsidiaries posted as an extraordinary loss.

#### 4. CASH FLOW ANALYSIS

With regard to cash flows in the fiscal year under review, net cash flows provided by operating activities decreased by ¥204.0 billion over the previous fiscal year to ¥1,086.9 billion, mainly due to an increase in the amount of claims paid. Net cash flows from investing activities increased by ¥603.0 billion from the previous fiscal year, when the acquisition of shares of subsidiaries associated with changes in the scope of consolidated subsidiaries was made, to ¥ (614.8) billion. In addition, net cash flows from financing activities were ¥ (100.1) billion, a decrease of ¥299.2 billion over the previous fiscal year, which mainly reflected a decline in revenue from borrowings. As a result, the balance of cash and cash equivalents at the

end of the fiscal year under review stood at ¥1,415.9 billion, an increase of ¥359.4 billion from the end of the previous fiscal year.

#### 5. BUSINESS ENVIRONMENT AND ISSUES TO BE ADDRESSED FROM THE BUSINESS AND FINANCIAL PERSPECTIVES

Going forward, the moderate recovery of the global economy is expected to continue despite concerns about the impact of government policies of each country.

The moderate recovery of the Japanese economy is also expected to continue supported by various policies implemented by the government.

Regarding the insurance industry, although the market is expected to grow in view of this economic environment, the outlook of the business environment is expected to remain uncertain, owing to such factors as the advance of the aging society with a low birth rate and occurrence of large-scale natural disasters associated with global climate change. Moreover, it is necessary for insurance companies to change their business structures to fit the likely future environment, considering such factors as the progress of ICT, including automatic driving technology for automobiles.

In this business environment, with the aim of accomplishing the targets of the “Next Challenge 2017” medium-term management plan whose final year is fiscal 2017, the Group will further strengthen Group governance systems and enhance ERM. At the same time, the Group will promote investment in businesses in view of anticipated changes in the business environment, thus laying a foundation for the Group’s sustainable growth. By leveraging our inherent characteristics as a group comprising multiple non-life and life insurance companies, we will implement initiatives to achieve greater group synergy. Furthermore, we will promote permeation of a corporate culture and development of human assets that meet challenges as professionals. Through these initiatives, we aspire to create a world-leading insurance and financial services group with a global business reach.

#### 6. RISK ANALYSIS

Details of certain risks related to the Group’s business performance and financial condition that may potentially have a significant influence on investor decisions are presented as follows.

##### (i) Asset management risk

The Group holds various assets under management, including securities, loans, real estate, and off-balance-sheet assets. There is a risk that a deterioration of economic or financial market conditions could cause changes in asset and liability values and thereby impact the Group’s business results. The main kinds of such risks are as follows.

##### *a. Stock price risk*

The Group holds large amounts of stock for the purpose of maintaining relationships with business partners over the medium- to long-term, and there is a possibility of a reduction in the value of the Group’s assets and recognition of impairment losses and losses on sales in the event of a decline in stock prices.

##### *b. Interest rate risk*

There is a possibility of a decrease in the value of the Group’s assets, such as bonds and loans, in the event of a rise in interest rates. The Group holds insurance liabilities requiring future payments to policyholders of savings-type insurance, long-term third-sector insurance, or life insurance. If interest rates rise, those values will decrease, but if interest rates fall, the opposite will occur.

##### *c. Foreign exchange rate risk*

The Group holds assets and liabilities denominated in foreign currencies such as the U.S. dollar, and there is a possibility of changes in those assets and liabilities owing to the impact of foreign exchange rate movements.

##### *d. Credit risk*

There is a possibility that lowered creditworthiness or bankruptcies of stock and bond issuers or borrowers, or disruptions in credit markets could cause a decline in the value of the Group’s assets such as stocks, corporate bonds, loans, and credit and guarantee insurance contracts or prevent the Group from recovering principal and/or interest.

##### (ii) Risk of large insurance claims due to natural disaster

Natural disasters such as typhoons and earthquakes can result in large losses, and with such natural disasters growing in frequency and scale worldwide due to the impact of such factors as climate change, there is a possibility that huge natural disasters exceeding forecast levels will occur. The Group utilizes reinsurance and builds appropriate catastrophe reserves, so it is able to properly respond to instances of large claim payments arising from such catastrophic events. Nonetheless, there is a risk of a negative impact on the Group’s business results due to excessive payments caused by larger-than-expected natural disasters.

##### (iii) Liquidity risk

If there is an increase of payments of insurance claims from natural disasters, the Group’s cash flows may deteriorate and force the Group to procure funds through transactions with extremely unfavorable terms. The Group could also be forced to conduct transactions at extremely unfavorable prices due to market disruptions. There is a risk that such situations could have a negative impact on the Group’s business results.

##### (iv) Reinsurance transaction risk

The Group utilizes reinsurance to diversify its liabilities assumed under insurance contracts and to stabilize earnings. Nevertheless, there is a risk that a worsening of conditions in the reinsurance markets could prevent the Group from securing adequate reinsurance protection and risk diversification, which would inhibit its insurance underwriting capabilities. Moreover, there is a risk of a negative impact on the Group’s business results due to a sharp rise in reinsurance premiums or an inability to recover reinsurance claims in the event of the bankruptcy of reinsurance companies.

##### (v) Risk of loss resulting from unforeseen changes, including changes in economic and social environment

Although insurance companies set premium levels based on forecasts of probable future losses from insurance contracts, the actual amount of losses may exceed the forecasts. This is particularly true for long-term contracts because of the possibility of significant changes in the economic and social conditions initially expected. Accordingly, there is a risk of a negative impact on the Group’s business results due to the need for additional provisions for policy liabilities.

##### (vi) Risk related to intensified competition within the insurance industry

The Group’s business environment is becoming increasingly harsh due to factors such as new entrants coming into the insurance industry in conjunction with ongoing deregulation and downward pressure on premium levels. There is a risk that the Group’s business results could be negatively impacted from intensified competition due to further deregulation, increased entry of new participants, and shrinkage of insurance market and others.

##### (vii) Risk associated with domestic life insurance business

The Group is working to expand its domestic life insurance business as one of its growth areas. However, the domestic life insurance business is seeing increasing competition from other life insurance companies, mainly major domestic life insurance providers and providers from overseas. In this operating environment, there are various risks specific to the life insurance business, such as the risk that the Group may be unable to develop a stable market position or that actual events may differ significantly from initial forecasts due to uncertainties in mortality rate and surrender trends given the long-term nature of insurance policies. Accordingly, there is a risk that these factors could have a negative impact on the Group’s business results.

##### (viii) Risk associated with international business

The Group is aggressively expanding international business in areas such as Asia, Europe and the Americas through branches and subsidiaries including development of business domain based on M&A strategy. With this comes the risk of unexpected changes in the political, economic and social conditions, regulatory changes, foreign exchange rate fluctuations, and the occurrence of natural disasters and epidemics in these countries. In such an event, there is a risk of a negative impact on the Group’s business results.

##### (ix) Risk associated with related business

The Group engages in a wide range of business activities that fall outside the insurance domain. In addition to the Financial Services Business, which includes asset management, financial guarantee, 401k, alternative risk transfer (ART), personal loan, venture capital, and other related products and services, the Group is also active in risk management, nursing care, and other related fields through its Risk-Related Services Business. There is a risk that the Group’s business results could be negatively impacted from intensified competition due to greater than expected changes in the conditions of those markets in which the Group operates.

##### (x) Risk of information leaks

The Group maintains large volumes of customer information, including personal information, and confidential information, such as management data at each of the Group companies including the Company. The Group has put an information management framework in place to strictly administer information. However, in the event of a significant leak of information, the Group could suffer a loss of the trust from customers and society, as well as be held liable to pay compensation for damages. In such an event, there is a risk of a negative impact on the Group’s business results.

##### (xi) Information systems risk

There is a risk that natural disasters, accidents, improper access via cyberattacks, system defects, and other factors could cause problems such as an information leak or stoppage, malfunction, or improper use of the Group’s information systems. There is also a risk that unexpected accidents could cause a delay or budget overrun of a large-scale system development project aimed to improve profitability. The Group is striving to manage such information systems risk; however, in the case of a large-scale information system problem involving a system stoppage, a system malfunction or improper system use, an information leak, or a delay or budget overrun of a large-scale system development project, there is a risk of a negative impact on the Group’s business results.

##### (xii) Risks related to personnel and labor relations

The Group works diligently to secure and develop excellent personnel. However, should a major personnel or labor relations issue arise that causes the Group to suffer a loss of trust from society, there is a risk of a negative impact on the Group’s business results.

**(xiii) Business operation risk**

This risk relates to the Group's business activities. Specifically, administrative errors, legal or regulatory violations, impropriety by employees, criminal conduct by outside parties, and the occurrence of disasters pose a risk of losing the trust of customers and society and a risk of interfering with business operations. The Group is striving to undertake appropriate management processes designed to prevent the occurrence of such situations and minimize the impact of such situations that cannot be prevented, but there is a risk that such situations could cause supervisory authorities to respond by imposing sanctions that could have a negative impact on the Group's business results.

**(xiv) Risk of business disruption**

The Group has formulated a business continuity plan and prepared a crisis management framework to respond to the occurrence of natural disasters or unusual events such as an earthquake in the Tokyo metropolitan area and an outbreak of disease, such as novel influenza virus. This framework is intended to limit the duration of any disruption of business and enable business operations to be continued. Notwithstanding these crisis management measures, the Group's business continuity could be inhibited, or the impact of the above disruptions could be greater than anticipated. In such an event, there is a risk of a negative impact on the Group's business results.

**(xv) Risk of not fully realizing synergies from business integration**

The Group takes synergy effects from business integration into account when formulating numerical management targets. The Group will expand its customer base by improving the quality of service, share and standardize administrative tasks and systems, and take all manner of other measures in business integration. Furthermore, on September 27, 2013, the Company, MSI, ADI and MSA Life finalized the "Agreement on Reorganization by Function" measures designed to promote the realization of objectives such as sustainable growth and the enhancement of corporate value. The Group is taking comprehensive risk management preparations to prevent business and information systems problems, insufficient responses to customers, and other potential problems associated with the implementation of "Reorganization by Function" measures; however, in the case that unforeseen confusion were to occur despite the preventative measures and impede the full realization of synergies from business integration, there is a risk of a negative impact on the Group's business results.

**(xvi) Risks from changes in applicable laws, regulations and systems**

The Group conducts business based on the provisions of applicable acts such as the Insurance Business Act of Japan and issues financial reports in accordance with the laws, regulations and standards that relate to corporate accounting and tax affairs. Any future amendment to these applicable laws and regulations that requires a change to the methods of selling insurance products and the product content, as well as the methods for estimating and accounting for policy liabilities, deferred tax assets, and other items, may have a negative impact on the Group's business results.

**(xvii) Reputational risk**

Rumors about the insurance industry or the Group have the potential to affect the social credibility of the Group, regardless of whether or not they are true. Such rumors can be created or spread through the mass media, postings on the Internet, or other means. The Group strives to minimize the effect of rumors by discovering them quickly and responding to them in a timely and appropriate fashion. However, if a malicious rumor were to be circulated, there is a risk that it may have a negative impact on the Group's business results.

**(xviii) Other risks**

There is a risk that the Group's business results could be negatively impacted by acts of terrorism, disputes, and riots both in Japan and overseas, military conflicts between nations, unprecedented large-scale accidents and incidents, and external factors that are difficult to predict in advance.

**7. SOLVENCY MARGIN RATIO**

Insurance companies build reserves to cover payments of insurance claims. Moreover, they must secure adequate ability to cover payments even in the event of a crisis beyond the scale of what is ordinarily forecast, such as a major disaster or a significant decline in asset prices. An insurance company's payment capability, including capital and reserves, is known as the solvency margin total amount, "(A)" in the tables below, and its risk amount, "(B)" in the tables below, reflects such a risk exceeding ordinary forecasts. The ratio of (A) to (B) is an index called the solvency margin ratio, "(C)" in the tables below, which is calculated based on the Insurance Business Act.

The solvency margin ratio is an objective decision-making index used by government agencies for monitoring insurance companies and insurance holding companies. A solvency margin ratio of 200% or higher is taken to indicate that an insurance company has sufficient capability to pay insurance claims and other obligations.

The status of MS&AD and its domestic insurance subsidiaries as of the end of the fiscal year under review was as follows.

**MS&AD  
Consolidated Solvency Margin Ratio**

(Yen in millions)		
	FY2015	FY2016
(A) Solvency margin total amount	¥4,245,473	<b>¥4,875,444</b>
(B) Risk amount	1,142,234	<b>1,117,406</b>
(C) Solvency margin ratio (A/(B × 1/2)) × 100	743.3%	<b>872.6%</b>

Note: The consolidated solvency margin ratio is calculated based on the provisions in Article 210-11, 3 and Article 210-11, 4 of the Ordinance for Enforcement of the Insurance Business Act and in the Financial Services Agency (FSA) Public Ministerial Announcement No. 23 of 2011.

Primarily due to the increase in total shareholders' equity attributable to consolidated net income, MS&AD's consolidated solvency margin total amount rose by ¥629.9 billion compared with the end of the previous fiscal year. At the same time, the risk amount decreased by ¥24.8 billion compared with the end of the previous fiscal year owing mainly to a downturn in the amount of catastrophic disaster risk. As a result, the consolidated solvency margin ratio climbed by 129.3 percentage points over the previous fiscal year-end, to 872.6%.

**MSI****a. Non-Consolidated Solvency Margin Ratio**

(Yen in millions)		
	FY2015	FY2016
(A) Solvency margin total amount	¥2,612,098	<b>¥2,840,438</b>
(B) Risk amount	891,542	<b>863,472</b>
(C) Solvency margin ratio (A/(B × 1/2)) × 100	585.9%	<b>657.9%</b>

Note: The non-consolidated solvency margin ratio is calculated based on the provisions in Articles 86 and 87 of the Ordinance for Enforcement of the Insurance Business Act and Article 50 of the Notification of the Ministry of Finance 1996.

Primarily due to the increase in total shareholders' equity attributable to net income, MSI's non-consolidated solvency margin total amount rose by ¥228.3 billion compared with the end of the previous fiscal year. At the same time, the risk amount decreased by ¥28.0 billion compared with the end of the previous fiscal year owing mainly to a downturn in the amount of catastrophic disaster risk. As a result, the non-consolidated solvency margin ratio climbed by 72.0 percentage points over the previous fiscal year-end, to 657.9%.

**b. Consolidated Solvency Margin Ratio**

(Yen in millions)		
	FY2015	FY2016
(A) Solvency margin total amount	¥2,195,007	<b>¥2,497,621</b>
(B) Risk amount	773,500	<b>722,818</b>
(C) Solvency margin ratio (A/(B × 1/2)) × 100	567.5%	<b>691.0%</b>

Note: The consolidated solvency margin ratio is calculated based on the provisions in Article 86-2 and Article 88 of the Ordinance for Enforcement of the Insurance Business Act and FSA Public Ministerial Announcement No. 23 of 2011.

Primarily due to the increase in total shareholders' equity attributable to consolidated net income, MSI's consolidated solvency margin total amount rose by ¥302.6 billion compared with the end of the previous fiscal year. At the same time, the risk amount decreased by ¥50.6 billion compared with the end of the previous fiscal year owing mainly to a downturn in the amount of catastrophic disaster risk. As a result, the consolidated solvency margin ratio climbed by 123.5 percentage points over the previous fiscal year-end, to 691.0%.

**ADI****a. Non-Consolidated Solvency Margin Ratio**

(Yen in millions)		
	FY2015	FY2016
(A) Solvency margin total amount	¥1,246,991	<b>¥1,332,714</b>
(B) Risk amount	300,711	<b>312,981</b>
(C) Solvency margin ratio (A/(B × 1/2)) × 100	829.3%	<b>851.6%</b>

Note: See the note for MSI "a. Non-Consolidated Solvency Margin Ratio" regarding the non-consolidated solvency margin ratio calculation method.

Primarily due to an increase in catastrophe reserves, ADI's non-consolidated solvency margin total amount rose by ¥85.7 billion compared with the end of the previous fiscal year. As a result, the non-consolidated solvency margin ratio climbed by 22.3 percentage points over the previous fiscal year-end, to 851.6%.

**b. Consolidated Solvency Margin Ratio**

(Yen in millions)		
	FY2015	FY2016
(A) Solvency margin total amount	¥1,215,369	<b>¥1,305,152</b>
(B) Risk amount	287,402	<b>298,961</b>
(C) Solvency margin ratio (A/(B × 1/2)) × 100	845.7%	<b>873.1%</b>

Note: See the note for MSI "b. Consolidated Solvency Margin Ratio" regarding the consolidated solvency margin ratio calculation method.

Primarily due to an increase in catastrophe reserves, ADI's consolidated solvency margin total amount rose by ¥89.7 billion compared with the end of the previous fiscal year. As a result, the consolidated solvency margin ratio climbed by 27.4 percentage points over the previous fiscal year-end, to 873.1%.

**Mitsui Direct General  
Non-Consolidated Solvency Margin Ratio**

(Yen in millions)		
	FY2015	FY2016
(A) Solvency margin total amount	¥7,721	<b>¥14,705</b>
(B) Risk amount	6,701	<b>6,817</b>
(C) Solvency margin ratio (A/(B × 1/2)) × 100	230.4%	<b>431.4%</b>

Note: See the note for MSI "a. Non-Consolidated Solvency Margin Ratio" regarding the non-consolidated solvency margin ratio calculation method.

Primarily due to the increase in total net assets attributable to the increase in capital, Mitsui Direct General's non-consolidated solvency margin total amount rose by ¥6.9 billion compared with the end of the previous fiscal year. As a result, the non-consolidated solvency margin ratio climbed by 201.0 percentage points over the previous fiscal year-end, to 431.4%.

**MSA Life  
Non-Consolidated Solvency Margin Ratio**

(Yen in millions)		
	FY2015	FY2016
(A) Solvency margin total amount	¥380,460	<b>¥487,958</b>
(B) Risk amount	47,604	<b>51,546</b>
(C) Solvency margin ratio (A/(B × 1/2)) × 100	1,598.4%	<b>1,893.2%</b>

Note: See the note for MSI "a. Non-Consolidated Solvency Margin Ratio" regarding the non-consolidated solvency margin ratio calculation method.

Primarily due to the increase in total net assets attributable to the increase in capital, MSA Life's non-consolidated solvency margin total amount rose by ¥107.4 billion compared with the end of the previous fiscal year. As a result, the non-consolidated solvency margin ratio climbed by 294.8 percentage points over the previous fiscal year-end, to 1,893.2%.

**MSP Life  
Non-Consolidated Solvency Margin Ratio**

(Yen in millions)		
	FY2015	FY2016
(A) Solvency margin total amount	¥438,444	<b>¥558,542</b>
(B) Risk amount	88,978	<b>108,399</b>
(C) Solvency margin ratio (A/(B × 1/2)) × 100	985.5%	<b>1,030.5%</b>

Note: See the note for MSI "a. Non-Consolidated Solvency Margin Ratio" regarding the non-consolidated solvency margin ratio calculation method.

Primarily due to an increase in the excess of continued Zillmerized reserve, MSP Life's non-consolidated solvency margin total amount rose by ¥120.0 billion compared with the end of the previous fiscal year. As a result, the non-consolidated solvency margin ratio climbed by 45.0 percentage points over the previous fiscal year-end, to 1,030.5%.

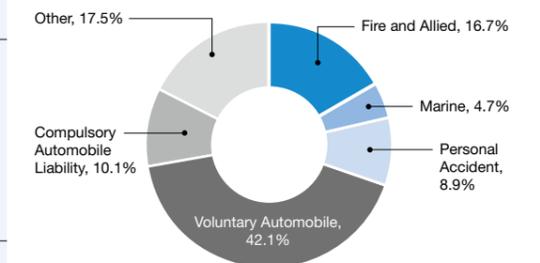
## Premiums Written and Net Claims Paid – Non-Life Insurance (Unaudited)

### (a) Direct Premiums Written (including deposit premiums from policyholders)

Lines of Insurance	(Yen in millions)												(US\$ in millions)			
	FY2012			FY2013			FY2014			FY2015			FY2016			FY2016
	Amount	Change (%)	Share (%)	Amount	Change (%)	Share (%)	Amount									
Fire and Allied	¥ 548,666	6.9	18.0	¥ 590,674	7.7	18.3	¥ 625,179	5.8	18.7	¥ 657,398	5.2	19.0	¥ 602,521	(8.3)	16.7	\$ 5,380
Marine	107,893	2.4	3.5	121,387	12.5	3.8	131,030	7.9	3.9	132,284	1.0	3.8	168,715	27.5	4.7	1,506
Personal Accident	352,446	(1.7)	11.6	347,562	(1.4)	10.8	341,241	(1.8)	10.2	319,937	(6.2)	9.2	321,055	0.3	8.9	2,867
Voluntary Automobile	1,327,991	2.8	43.5	1,378,126	3.8	42.8	1,421,126	3.1	42.4	1,475,596	3.8	42.5	1,524,096	3.3	42.1	13,608
Compulsory Automobile Liability	321,641	4.8	10.6	352,649	9.6	10.9	355,417	0.8	10.6	356,465	0.3	10.3	366,523	2.8	10.1	3,273
Other	391,322	2.7	12.8	432,409	10.5	13.4	476,209	10.1	14.2	527,502	10.8	15.2	632,874	20.0	17.5	5,651
<b>Total</b>	<b>¥3,049,962</b>	<b>3.2</b>	<b>100.0</b>	<b>¥3,222,809</b>	<b>5.7</b>	<b>100.0</b>	<b>¥3,350,204</b>	<b>4.0</b>	<b>100.0</b>	<b>¥3,469,185</b>	<b>3.6</b>	<b>100.0</b>	<b>¥3,615,785</b>	<b>4.2</b>	<b>100.0</b>	<b>\$32,284</b>
Deposit premiums from policyholders	¥ 163,936	(4.7)	5.4	¥ 151,449	(7.6)	4.7	¥ 138,799	(8.4)	4.1	¥ 116,225	(16.3)	3.4	¥ 98,546	(15.2)	2.7	\$ 880

### DIRECT PREMIUMS WRITTEN (FY2016)

Total ¥3,615.7 Billion

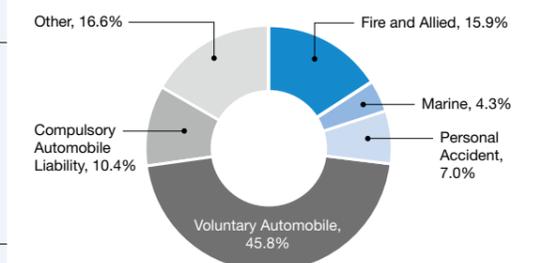


### (b) Net Premiums Written

Lines of Insurance	(Yen in millions)												(US\$ in millions)			
	FY2012			FY2013			FY2014			FY2015			FY2016			FY2016
	Amount	Change (%)	Share (%)	Amount	Change (%)	Share (%)	Amount									
Fire and Allied	¥ 354,012	4.2	13.4	¥ 398,163	12.5	14.2	¥ 425,881	7.0	14.5	¥ 471,476	10.7	15.3	¥ 540,715	14.7	15.9	\$ 4,828
Marine	87,312	(0.1)	3.3	97,054	11.2	3.5	103,389	6.5	3.5	106,108	2.6	3.4	145,697	37.3	4.3	1,301
Personal Accident	222,865	1.5	8.4	227,546	2.1	8.1	230,991	1.5	7.9	218,487	(5.4)	7.1	237,918	8.9	7.0	2,124
Voluntary Automobile	1,337,106	2.9	50.7	1,393,198	4.2	49.5	1,438,002	3.2	48.9	1,495,339	4.0	48.6	1,559,958	4.3	45.8	13,928
Compulsory Automobile Liability	310,521	6.5	11.8	338,245	8.9	12.0	348,356	3.0	11.8	357,639	2.7	11.6	356,088	(0.4)	10.4	3,179
Other	327,197	2.9	12.4	357,402	9.2	12.7	392,491	9.8	13.4	429,680	9.5	14.0	567,010	32.0	16.6	5,063
<b>Total</b>	<b>¥2,639,015</b>	<b>3.3</b>	<b>100.0</b>	<b>¥2,811,611</b>	<b>6.5</b>	<b>100.0</b>	<b>¥2,939,113</b>	<b>4.5</b>	<b>100.0</b>	<b>¥3,078,732</b>	<b>4.8</b>	<b>100.0</b>	<b>¥3,407,389</b>	<b>10.7</b>	<b>100.0</b>	<b>\$30,423</b>

### NET PREMIUMS WRITTEN (FY2016)

Total ¥3,407.3 Billion

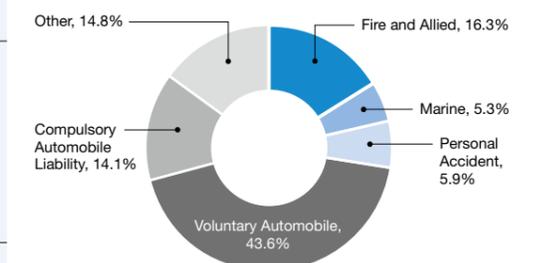


### (c) Net Claims Paid

Lines of Insurance	(Yen in millions)												(US\$ in millions)			
	FY2012			FY2013			FY2014			FY2015			FY2016			FY2016
	Amount	Change (%)	Share (%)	Amount	Change (%)	Share (%)	Amount	Change (%)	Share (%)	Amount	Change (%)	Share (%)	Amount	Change (%)	Share (%)	Amount
Fire and Allied	¥ 315,906	(33.3)	18.2	¥ 252,695	(20.0)	15.1	¥ 259,270	2.6	15.7	¥ 235,176	(9.3)	14.5	¥ 297,850	26.6	16.3	\$ 2,659
Marine	40,490	(17.0)	2.3	51,532	27.3	3.1	46,430	(9.9)	2.8	48,009	3.4	3.0	96,981	102.0	5.3	866
Personal Accident	113,462	0.1	6.5	115,636	1.9	6.9	114,136	(1.3)	6.9	109,376	(4.2)	6.7	107,937	(1.3)	5.9	964
Voluntary Automobile	831,073	(2.0)	47.7	805,460	(3.1)	48.2	786,916	(2.3)	47.7	776,606	(1.3)	47.7	798,736	2.8	43.6	7,132
Compulsory Automobile Liability	264,802	0.6	15.2	261,349	(1.3)	15.7	258,095	(1.2)	15.6	259,078	0.4	15.9	258,465	(0.2)	14.1	2,308
Other	175,049	(10.0)	10.1	183,667	4.9	11.0	185,698	1.1	11.3	199,092	7.2	12.2	271,905	36.6	14.8	2,428
<b>Total</b>	<b>¥1,740,784</b>	<b>(10.3)</b>	<b>100.0</b>	<b>¥1,670,343</b>	<b>(4.0)</b>	<b>100.0</b>	<b>¥1,650,547</b>	<b>(1.2)</b>	<b>100.0</b>	<b>¥1,627,340</b>	<b>(1.4)</b>	<b>100.0</b>	<b>¥1,831,876</b>	<b>12.6</b>	<b>100.0</b>	<b>\$16,356</b>

### NET CLAIMS PAID (FY2016)

Total ¥1,831.8 Billion



## Policies in Force and New Policies – Domestic Life Insurance (Unaudited)

### (a) Policies in Force

	(Yen in millions)								(US\$ in millions)		
	FY2012		FY2013		FY2014		FY2015		FY2016		
	Amount	Change (%)	Amount	Change (%)	Amount	Change (%)	Amount	Change (%)	Amount	Change (%)	
Individual insurance	¥19,782,531	13.2	¥21,391,387	8.1	¥22,676,597	6.0	¥24,277,843	7.1	¥25,813,254	6.3	\$230,475
Individual annuities	3,953,545	6.7	3,738,051	(5.5)	3,638,524	(2.7)	3,208,994	(11.8)	3,081,777	(4.0)	27,516
Group insurance	5,165,629	3.4	5,124,978	(0.8)	5,301,496	3.4	6,518,709	23.0	7,074,353	8.5	63,164
Group annuities	429	(10.1)	399	(6.9)	369	(7.7)	351	(4.7)	325	(7.4)	3

Notes: 1. The amounts of individual annuities represent the total sum of (a) the funds to be held at the time annuity payments are to commence (the premium reserves in the case of individual variable annuities) for the policies for which annuity payments have not yet commenced and (b) the underwriting reserves for the policies for which annuity payments have commenced.  
2. The amounts of group annuities represent the underwriting reserves.

### (b) New Policies

	(Yen in millions)				(US\$ in millions)	
	FY2012	FY2013	FY2014	FY2015	FY2016	FY2016
	Amount	Amount	Amount	Amount	Amount	Amount
Individual insurance	¥3,933,771	¥3,235,603	¥3,307,082	¥3,495,356	¥3,249,483	\$29,013
Individual annuities	208,998	237,132	198,867	190,634	159,925	1,428
Group insurance	710,988	104,852	88,702	1,005,973	61,074	545
Group annuities	–	–	–	–	–	–

Note: The amounts of individual annuities represent the funds to be held at the time annuity payments are to commence (the premium reserves at the time of enrollment in the case of individual variable annuities).

## Investment Assets and Investments in Securities (Unaudited)

### (a) Investment Assets

	FY2015		FY2016		FY2016
	(Yen in millions)		(Yen in millions)		(US\$ in millions)
	Amount	Share	Amount	Share	Amount
Deposits and savings	¥ 1,083,668	5.3%	¥ 1,419,153	6.7%	\$ 12,671
Call loans	31,175	0.2	15,000	0.1	134
Receivables under resale agreements	29,999	0.1	6,999	0.0	62
Receivables under securities borrowing transactions	275,350	1.4	285,455	1.3	2,549
Monetary claims bought	125,785	0.6	111,320	0.5	994
Money trusts	828,097	4.1	971,119	4.6	8,671
Investments in securities	14,670,914	72.3	15,303,103	72.1	136,635
Loans	883,106	4.3	886,316	4.2	7,914
Land and buildings	439,994	2.2	428,845	2.0	3,829
Total investment assets	¥18,368,092	90.5%	¥19,427,313	91.5%	\$173,458
Total assets	¥20,303,649	100.0%	¥21,234,300	100.0%	\$189,592

### (b) Investments in Securities

	FY2015		FY2016		FY2016
	(Yen in millions)		(Yen in millions)		(US\$ in millions)
	Amount	Share	Amount	Share	Amount
Government bonds	¥ 3,715,479	25.3%	¥ 3,809,185	24.9%	\$ 34,011
Municipal bonds	277,388	1.9	273,964	1.8	2,446
Corporate bonds	1,544,932	10.5	1,574,639	10.3	14,059
Stock	2,594,180	17.7	2,693,726	17.6	24,051
Foreign securities	3,929,242	26.8	4,295,138	28.1	38,349
Other securities	2,609,689	17.8	2,656,449	17.3	23,718
Total	¥14,670,914	100.0%	¥15,303,103	100.0%	\$136,635

Note: "Other securities" consists mainly of investment trusts managed in separate accounts.

## Consolidated Balance Sheets

Download Data Sheet MS&AD Insurance Group Holdings, Inc. and Its Consolidated Subsidiaries  
As of March 31, 2016 and 2017

Assets	Yen in millions		US\$ in millions
	2016	2017	2017
Cash, deposits and savings	¥ 1,083,838	¥ 1,419,267	\$ 12,672
Call loans	31,175	15,000	134
Receivables under resale agreements	29,999	6,999	62
Receivables under securities borrowing transactions	275,350	285,455	2,549
Monetary claims bought	125,785	111,320	994
Money trusts	828,097	971,119	8,671
Investments in securities	14,670,914	15,303,103	136,635
Loans	883,106	886,316	7,914
Tangible fixed assets:			
Land	235,730	232,151	2,073
Buildings	204,263	196,693	1,756
Lease assets	2,848	2,943	26
Construction in progress	1,934	1,658	15
Other tangible fixed assets	33,022	31,508	281
Total tangible fixed assets	477,799	464,955	4,151
Intangible fixed assets:			
Software	82,529	74,572	666
Goodwill	204,055	163,415	1,459
Lease assets	25	3	0
Other intangible fixed assets	235,470	179,164	1,600
Total intangible fixed assets	522,081	417,156	3,725
Other assets	1,251,615	1,225,719	10,944
Assets for retirement benefits	32,815	32,452	290
Deferred tax assets	45,871	55,660	497
Customers' liabilities under acceptances and guarantees	55,500	50,530	451
Bad debt reserve	(10,300)	(10,756)	(96)
<b>Total assets</b>	<b>¥20,303,649</b>	<b>¥21,234,300</b>	<b>\$189,592</b>

See accompanying notes to consolidated financial statements.

Liabilities and Net Assets	Yen in millions		US\$ in millions
	2016	2017	2017
Liabilities			
Policy liabilities:			
Outstanding claims	¥ 1,967,518	¥ 1,982,354	\$ 17,700
Underwriting reserves	13,316,332	14,173,799	126,552
Total policy liabilities	15,283,850	16,156,153	144,251
Bonds issued	349,841	456,191	4,073
Other liabilities	1,299,598	1,226,769	10,953
Liabilities for pension and retirement benefits	188,853	190,562	1,701
Reserve for retirement benefits for officers	796	640	6
Accrued bonuses for employees	33,589	28,396	254
Reserve for reorganization by function	–	22,097	197
Reserves under the special laws:			
Reserve for price fluctuation	161,032	194,960	1,741
Total reserves under the special laws	161,032	194,960	1,741
Deferred tax liabilities	205,312	173,566	1,550
Acceptances and guarantees	55,500	50,530	451
<b>Total liabilities</b>	<b>17,578,374</b>	<b>18,499,867</b>	<b>165,177</b>
Net Assets			
Shareholders' equity:			
Common stock	100,000	100,000	893
Capital surplus	670,646	669,458	5,977
Retained earnings	628,562	775,877	6,927
Treasury stock	(80,065)	(120,050)	(1,072)
Total shareholders' equity	1,319,143	1,425,285	12,726
Accumulated other comprehensive income/(loss):			
Net unrealized gains/(losses) on investments in securities	1,324,886	1,360,859	12,151
Net deferred gains/(losses) on hedges	40,113	23,472	210
Foreign currency translation adjustments	22,369	(91,219)	(814)
Accumulated actuarial gains/(losses) on retirement benefits	(8,343)	(9,420)	(84)
Total accumulated other comprehensive income/(loss)	1,379,024	1,283,692	11,462
Stock acquisition rights	–	307	3
Non-controlling interests	27,106	25,147	225
<b>Total net assets</b>	<b>2,725,274</b>	<b>2,734,432</b>	<b>24,415</b>
<b>Total liabilities and net assets</b>	<b>¥20,303,649</b>	<b>¥21,234,300</b>	<b>\$189,592</b>

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Income

Download Data Sheet MS&AD Insurance Group Holdings, Inc. and Its Consolidated Subsidiaries  
For the years ended March 31, 2016 and 2017

	Yen in millions		US\$ in millions
	2016	2017	2017
<b>Ordinary income and expenses</b>			
<b>Ordinary income:</b>			
<b>Underwriting income:</b>			
Net premiums written	¥3,078,732	¥3,407,389	\$30,423
Deposit premiums from policyholders	116,225	98,546	880
Investment income on deposit premiums from policyholders	48,953	45,405	405
Life insurance premiums	1,356,334	1,253,167	11,189
Other underwriting income	6,317	6,353	57
<b>Total underwriting income</b>	4,606,563	4,810,863	42,954
<b>Investment income:</b>			
Interest and dividends income	268,620	272,556	2,434
Investment gains on money trusts	2,879	16,056	143
Investment gains on trading securities	-	50,255	449
Gains on sales of securities	144,405	92,602	827
Gains on redemption of securities	1,856	718	6
Gains on derivative transactions	17,237	-	-
Investment gains on separate accounts	-	81,380	727
Other investment income	3,536	39,118	349
Transfer of investment income on deposit premiums from policyholders	(48,953)	(45,405)	(405)
<b>Total investment income</b>	389,582	507,283	4,529
<b>Other ordinary income:</b>			
Gains on equity method investments	2,245	2,112	19
Other ordinary income	14,646	14,980	134
<b>Total other ordinary income</b>	16,892	17,093	153
<b>Total ordinary income</b>	5,013,038	5,335,239	47,636
<b>Ordinary expenses:</b>			
<b>Underwriting expenses:</b>			
Net claims paid	1,627,340	1,831,876	16,356
Loss adjustment expenses	161,666	169,562	1,514
Commissions and collection expenses	640,777	681,003	6,080
Maturity refunds to policyholders	293,137	236,800	2,114
Dividends to policyholders	1,015	526	5
Life insurance claims	396,259	330,897	2,954
Provision for outstanding claims	27,870	71,394	637
Provision for underwriting reserves	744,397	908,160	8,109
Other underwriting expenses	11,755	26,131	233
<b>Total underwriting expenses</b>	3,904,219	4,256,352	38,003
<b>Investment expenses:</b>			
Investment losses on money trusts	19,168	1,034	9
Losses on sales of securities	9,896	12,769	114
Impairment losses on securities	17,946	2,034	18
Losses on redemption of securities	1,062	1,118	10
Losses on derivative transactions	-	31,628	282
Investment losses on separate accounts	76,153	-	-
Other investment expenses	86,518	6,512	58
<b>Total investment expenses</b>	210,745	55,096	492
<b>Operating expenses and general and administrative expenses</b>	590,839	653,593	5,836
<b>Other ordinary expenses:</b>			
Interest expense	7,432	8,986	80
Provision for bad debt reserve	-	2,012	18
Losses on bad debts	170	217	2
Amortization of deferred assets under Article 113 of the Insurance Business Act	236	947	8
Other ordinary expenses	7,815	5,420	48
<b>Total other ordinary expenses</b>	15,655	17,584	157
<b>Total ordinary expenses</b>	4,721,460	4,982,626	44,488
<b>Ordinary profit/(loss)</b>	291,578	352,612	3,148
<b>Extraordinary income and losses</b>			
<b>Extraordinary income:</b>			
Gains on sales of fixed assets	2,771	3,546	32
Other extraordinary income	14,982	-	-
<b>Total extraordinary income</b>	17,753	3,546	32
<b>Extraordinary losses:</b>			
Losses on sales of fixed assets	2,572	2,456	22
Impairment losses on fixed assets	10,129	5,512	49
Provision for reserves under the special laws:			
Provision for reserve for price fluctuation	24,293	33,928	303
<b>Total provision for reserves under the special laws</b>	24,293	33,928	303
Other extraordinary losses	15,242	31,656	283
<b>Total extraordinary losses</b>	52,238	73,553	657
<b>Income/(loss) before income taxes</b>	257,094	282,605	2,523
<b>Income taxes - current</b>	62,816	105,468	942
<b>Income taxes - deferred</b>	12,466	(34,562)	(309)
<b>Total income taxes</b>	75,282	70,906	633
<b>Net income/(loss)</b>	181,811	211,699	1,890
<b>Net income/(loss) attributable to non-controlling interests</b>	294	1,252	11
<b>Net income/(loss) attributable to owners of the parent</b>	¥ 181,516	¥ 210,447	\$ 1,879

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Comprehensive Income

MS&AD Insurance Group Holdings, Inc. and Its Consolidated Subsidiaries  
For the years ended March 31, 2016 and 2017

	Yen in millions		US\$ in millions
	2016	2017	2017
Net income/(loss)	¥ 181,811	¥211,699	\$1,890
Other comprehensive income/(loss):			
Net unrealized gains/(losses) on investments in securities	(308,774)	33,664	301
Net deferred gains/(losses) on hedges	7,973	(16,640)	(149)
Foreign currency translation adjustments	(67,259)	(114,654)	(1,024)
Actuarial gains/(losses) on retirement benefits	(36,989)	(1,073)	(10)
Share of other comprehensive income/(loss) of equity method investments	(9,877)	1,298	12
<b>Total other comprehensive income/(loss)</b>	(414,927)	(97,405)	(870)
<b>Total comprehensive income/(loss)</b>	¥ (233,116)	¥114,294	\$1,020
Allocation:			
Comprehensive income/(loss) attributable to owners of the parent	¥ (230,492)	¥115,115	\$1,028
Comprehensive income/(loss) attributable to non-controlling interests	(2,623)	(821)	(7)

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Changes in Net Assets

MS&AD Insurance Group Holdings, Inc. and Its Consolidated Subsidiaries  
For the years ended March 31, 2016 and 2017

2016 (Yen in millions)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Beginning balance	¥100,000	¥675,327	¥490,329	¥ (49,978)	¥1,215,678
Changes for the year:					
Dividends paid			(43,284)		(43,284)
Net income/(loss) attributable to owners of the parent			181,516		181,516
Repurchase of treasury stock				(30,089)	(30,089)
Disposal of treasury stock		0		2	3
Changes in scope of consolidation					-
Changes in equity resulted from increase in capital of consolidated subsidiaries		(566)			(566)
Changes in equity resulted from transactions with non-controlling interests		(206)			(206)
Put options granted to non-controlling interests		(3,908)			(3,908)
Net changes of items other than shareholders' equity					
<b>Total changes for the year</b>	-	(4,680)	138,232	(30,087)	103,464
Ending balance	¥100,000	¥670,646	¥628,562	¥ (80,065)	¥1,319,143

	Accumulated other comprehensive income/(loss)					Stock acquisition rights	Non-controlling interests	Total net assets
	Net unrealized gains/(losses) on investments in securities	Net deferred gains/(losses) on hedges	Foreign currency translation adjustments	Accumulated actuarial gains/(losses) on retirement benefits	Total accumulated other comprehensive income/(loss)			
Beginning balance	¥1,635,784	¥32,140	¥94,417	¥28,690	¥1,791,033	-	¥29,950	¥3,036,663
Changes for the year:								
Dividends paid								(43,284)
Net income/(loss) attributable to owners of the parent								181,516
Repurchase of treasury stock								(30,089)
Disposal of treasury stock								3
Changes in scope of consolidation								-
Changes in equity resulted from increase in capital of consolidated subsidiaries								(566)
Changes in equity resulted from transactions with non-controlling interests								(206)
Put options granted to non-controlling interests								(3,908)
Net changes of items other than shareholders' equity	(310,898)	7,973	(72,048)	(37,034)	(412,008)	-	(2,843)	(414,852)
<b>Total changes for the year</b>	(310,898)	7,973	(72,048)	(37,034)	(412,008)	-	(2,843)	(311,388)
Ending balance	¥1,324,886	¥40,113	¥22,369	¥ (8,343)	¥1,379,024	-	¥27,106	¥2,725,274

See accompanying notes to consolidated financial statements.

2017 (Yen in millions)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Beginning balance	¥100,000	¥670,646	¥628,562	¥ (80,065)	¥1,319,143
Changes for the year:					
Dividends paid			(63,223)		(63,223)
Net income/(loss) attributable to owners of the parent			210,447		210,447
Repurchase of treasury stock				(39,985)	(39,985)
Disposal of treasury stock		0		1	1
Changes in scope of consolidation			91		91
Changes in equity resulted from increase in capital of consolidated subsidiaries		(570)			(570)
Changes in equity resulted from transactions with non-controlling interests		(617)			(617)
Put options granted to non-controlling interests					-
Net changes of items other than shareholders' equity					
<b>Total changes for the year</b>	-	(1,188)	147,315	(39,984)	106,142
Ending balance	¥100,000	¥669,458	¥775,877	¥ (120,050)	¥1,425,285

	Accumulated other comprehensive income/(loss)					Stock acquisition rights	Non-controlling interests	Total net assets
	Net unrealized gains/(losses) on investments in securities	Net deferred gains/(losses) on hedges	Foreign currency translation adjustments	Accumulated actuarial gains/(losses) on retirement benefits	Total accumulated other comprehensive income/(loss)			
Beginning balance	¥1,324,886	¥40,113	¥ 22,369	¥ (8,343)	¥1,379,024	-	¥27,106	¥2,725,274
Changes for the year:								
Dividends paid								(63,223)
Net income/(loss) attributable to owners of the parent								210,447
Repurchase of treasury stock								(39,985)
Disposal of treasury stock								1
Changes in scope of consolidation								91
Changes in equity resulted from increase in capital of consolidated subsidiaries								(570)
Changes in equity resulted from transactions with non-controlling interests								(617)
Put options granted to non-controlling interests								-
Net changes of items other than shareholders' equity	35,973	(16,640)	(113,588)	(1,076)	(95,332)	307	(1,959)	(96,984)
<b>Total changes for the year</b>	35,973	(16,640)	(113,588)	(1,076)	(95,332)	307	(1,959)	9,158
Ending balance	¥1,360,859	¥23,472	¥ (91,219)	¥ (9,420)	¥1,283,692	¥307	¥25,147	¥2,734,432

See accompanying notes to consolidated financial statements.

2017

(US\$ in millions)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Beginning balance	\$893	\$5,988	\$5,612	\$ (715)	\$11,778
Changes for the year:					
Dividends paid			(564)		(564)
Net income/(loss) attributable to owners of the parent			1,879		1,879
Repurchase of treasury stock				(357)	(357)
Disposal of treasury stock		0		0	0
Changes in scope of consolidation			1		1
Changes in equity resulted from increase in capital of consolidated subsidiaries		(5)			(5)
Changes in equity resulted from transactions with non-controlling interests		(6)			(6)
Put options granted to non-controlling interests					-
Net changes of items other than shareholders' equity					
Total changes for the year	-	(11)	1,315	(357)	948
Ending balance	\$893	\$5,977	\$6,927	\$ (1,072)	\$12,726

	Accumulated other comprehensive income/(loss)					Stock acquisition rights	Non-controlling interests	Total net assets
	Net unrealized gains/(losses) on investments in securities	Net deferred gains/(losses) on hedges	Foreign currency translation adjustments	Accumulated actuarial gains/(losses) on retirement benefits	Total accumulated other comprehensive income/(loss)			
Beginning balance	\$11,829	\$358	\$ 200	\$ (74)	\$12,313	-	\$242	\$24,333
Changes for the year:								
Dividends paid								(564)
Net income/(loss) attributable to owners of the parent								1,879
Repurchase of treasury stock								(357)
Disposal of treasury stock								0
Changes in scope of consolidation								1
Changes in equity resulting from increase in capital of consolidated subsidiaries								(5)
Changes in equity resulted from transactions with non-controlling interests								(6)
Put options granted to non-controlling interests								-
Net changes of items other than shareholders' equity	321	(149)	(1,014)	(10)	(851)	3	(17)	(866)
Total changes for the year	321	(149)	(1,014)	(10)	(851)	3	(17)	82
Ending balance	\$12,151	\$210	\$ (814)	\$ (84)	\$11,462	\$3	\$225	\$24,415

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Cash Flows

MS&amp;AD Insurance Group Holdings, Inc. and Its Consolidated Subsidiaries

For the years ended March 31, 2016 and 2017

	Yen in millions		US\$ in millions
	2016	2017	2017
<b>I. Cash flows from operating activities:</b>			
Income/(loss) before income taxes	¥ 257,094	¥ 282,605	\$ 2,523
Adjustments for:			
Depreciation	43,746	62,184	555
Impairment losses on fixed assets	10,129	5,512	49
Amortization of goodwill	6,281	11,393	102
Increase/(decrease) in outstanding claims	29,336	82,392	736
Increase/(decrease) in underwriting reserves	737,163	903,095	8,063
Increase/(decrease) in bad debt reserve	(4,170)	1,542	14
Increase/(decrease) in reserve for retirement benefits for officers	(156)	(156)	(1)
Increase/(decrease) in accrued bonuses for employees	(74)	(3,096)	(28)
Increase/(decrease) in reserve for reorganization by function	-	22,097	197
Increase/(decrease) in liabilities for pension and retirement benefits	1,521	2,078	19
Increase/(decrease) in reserve for price fluctuation	24,293	33,928	303
Interest and dividends income	(268,620)	(272,556)	(2,434)
Losses/(gains) on money trusts	16,337	(15,075)	(135)
Losses/(gains) on investments in securities	(117,355)	(127,655)	(1,140)
Losses/(gains) on derivative transactions	(17,237)	31,628	282
Investment losses/(gains) on separate accounts	76,153	(81,380)	(727)
Interest expense	7,432	8,986	80
Foreign exchange losses/(gains)	77,069	(31,703)	(283)
Losses/(gains) on disposal of tangible fixed assets	(198)	(1,090)	(10)
Losses/(gains) on equity method investments	(2,245)	(2,112)	(19)
Decrease/(increase) in other assets	(12,290)	(70,445)	(629)
Increase/(decrease) in other liabilities	53,871	6,834	61
Other, net	(2,454)	(19,868)	(177)
<b>Subtotal</b>	915,623	829,139	7,403
Interest and dividends received	413,020	355,139	3,171
Interest paid	(7,315)	(10,628)	(95)
Income taxes refunded/(paid)	(30,310)	(86,701)	(774)
<b>Net cash provided by/(used in) operating activities (a)</b>	1,291,017	1,086,948	9,705
<b>II. Cash flows from investing activities:</b>			
Net decrease/(increase) in deposits and savings	(6,378)	(1,112)	(10)
Proceeds from sales and redemption of monetary claims bought	8,033	17,191	153
Purchase of money trusts	(456,026)	(206,384)	(1,843)
Proceeds from sales of money trusts	153,046	78,917	705
Purchase of securities	(2,557,765)	(3,136,168)	(28,002)
Proceeds from sales and redemption of securities	2,340,374	2,577,663	23,015
Investment in loans	(350,336)	(212,875)	(1,901)
Collection of loans	244,814	212,220	1,895
Net increase/(decrease) in cash collateral under securities borrowing and lending transactions	887	73,812	659
Other, net	23,955	21,800	195
<b>Subtotal (b)</b>	(599,394)	(574,934)	(5,133)
<b>(a + b)</b>	691,622	512,013	4,572
Acquisition of tangible fixed assets	(22,016)	(20,158)	(180)
Proceeds from sales of tangible fixed assets	5,021	8,922	80
Acquisition of intangible fixed assets	(18,832)	(27,608)	(247)
Acquisition of shares of subsidiaries resulting in changes in scope of consolidation	(574,189)	-	-
Net payments for sale of subsidiaries resulting in changes in scope of consolidation	(7,554)	-	-
Other, net	(1,013)	(1,119)	(10)
<b>Net cash provided by/(used in) investing activities</b>	(1,217,980)	(614,899)	(5,490)
<b>III. Cash flows from financing activities:</b>			
Proceeds from borrowings	436,767	32,651	292
Repayments of borrowings	(240,000)	(141,389)	(1,262)
Issuance of bonds	148,967	148,961	1,330
Redemption of bonds	(70,000)	(33,890)	(303)
Repurchase of treasury stock	(30,089)	(39,985)	(357)
Dividends paid to shareholders	(43,242)	(63,151)	(564)
Dividends paid to non-controlling interests	(1,281)	(1,098)	(10)
Purchase of shares of subsidiaries not resulting in changes in scope of consolidation	(384)	(617)	(6)
Other, net	(1,660)	(1,678)	(15)
<b>Net cash provided by/(used in) financing activities</b>	199,075	(100,198)	(895)
<b>IV. Effect of exchange rate changes on cash and cash equivalents</b>	(20,508)	(11,451)	(102)
<b>V. Net increase/(decrease) in cash and cash equivalents</b>	251,605	360,399	3,218
<b>VI. Cash and cash equivalents at beginning of year</b>	805,455	1,056,407	9,432
<b>VII. Decrease in cash and cash equivalents due to exclusion from scope of consolidation</b>	(699)	(903)	(8)
<b>VIII. Net increase/(decrease) in cash and cash equivalents due to merger of consolidated subsidiaries</b>	46	-	-
<b>IX. Cash and cash equivalents at end of year</b>	¥1,056,407	¥1,415,903	\$ 12,642

See accompanying notes to consolidated financial statements.

## Notes to Consolidated Financial Statements

MS&AD Insurance Group Holdings, Inc. and its Consolidated Subsidiaries  
As of and for the years ended March 31, 2016 and 2017

### SIGNIFICANT ACCOUNTING POLICIES

#### 1. Basis of presentation

The accompanying consolidated financial statements have been translated from the consolidated financial statements of MS&AD Insurance Group Holdings, Inc. ("the Company") prepared in accordance with the provisions set forth in the Corporate Accounting Regulations, the Enforcement Regulations of the Japanese Insurance Business Act and related rules, and regulations applicable to the non-life insurance industry in general, and in conformity with accounting principles and practices generally accepted in Japan, which may differ in certain respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan. In preparing the accompanying consolidated financial statements, certain additional information has been provided to the consolidated financial statements issued domestically in order to present them in a form that is more familiar to readers outside Japan.

The accompanying consolidated financial statements are expressed in Japanese yen. As permitted by the regulations under the Corporate Accounting Regulations, amounts are rounded down to the nearest million of Japanese yen, except for those stated otherwise. As a result, the totals shown in the accompanying consolidated financial statements in Japanese yen do not necessarily agree with the sums of the individual amounts.

Solely for the convenience of readers, the accompanying consolidated financial statements as of and for the year ended March 31, 2017 have been translated into U.S. dollars at the rate of ¥112=US\$1, the approximate exchange rate prevailing on the Tokyo foreign exchange market on the last business day of March 2017. Such translation should not be construed as presentations that the Japanese yen amounts have been, should have been, or could in the future be, converted into U.S. dollars at that or any other rate.

"Subsidiary" and "Associate" appearing in the accompanying consolidated financial statements and notes thereto refer to those defined in Article 2 of the Corporate Accounting Regulations.

#### 2. Scope of consolidation

##### (1) Number of consolidated subsidiaries

104 companies

Major consolidated subsidiaries are as follows:

Mitsui Sumitomo Insurance Co., Ltd. ("MSI")  
Aioi Nissay Dowa Insurance Co., Ltd. ("ADI")  
Mitsui Sumitomo Aioi Life Insurance Co., Ltd. ("MSAL")  
Mitsui Sumitomo Primary Life Insurance Co., Ltd. ("MSPL")  
MSIG Holdings (Americas), Inc.  
MS Amlin plc  
MSIG Insurance (Malaysia) Bhd.

Changes in scope of consolidation

Leadenhall Capital Partners US LP and 5 other companies have been included in the scope of consolidation since the year ended March 31, 2017 as they were newly established.

MSC Corporation has been excluded from the scope of consolidation during the year ended March 31, 2017 as its effect on consolidated net income and retained earnings is no longer considered material. Dowa Insurance Company (Europe) Limited has been excluded from the scope of consolidation during the year ended March 31, 2017 as its liquidation has been completed. MS Frontier Reinsurance Limited has been excluded from the scope of consolidation during the year ended March 31, 2017 as it was merged with MS Amlin AG. In addition, AUT (No.1) Limited and 17 other companies have been excluded from the scope of consolidation during the year ended March 31, 2017 due to sales of their shares.

##### (2) Unconsolidated subsidiaries

Major unconsolidated subsidiaries are as follows:

Anshin Dial Co., Ltd.  
MS&AD Systems Co., Ltd.

Certain subsidiaries including the above subsidiaries are not consolidated, as they are not considered to affect, in all material aspects, the consolidated financial conditions and business performance, in view of the size of their total assets, ordinary income, net income and retained earnings attributable to the Company.

#### 3. Application of equity method

##### (1) Number of associates accounted for under the equity method

12 companies

Major associates accounted for under the equity method are as follows:

Sumitomo Mitsui Asset Management Company, Limited  
PT. Asuransi Jiwa Sinarmas MSIG

Changes in scope of application of equity method

Eagle Underwriting Group Inc. and 3 other companies have become equity method affiliates during the year ended March 31, 2017 due to the Company's acquisition of shares.

Manchester Underwriting Management Limited and other company have been excluded from the scope of application of the equity method during the year ended March 31, 2017 due to sales of their shares.

##### (2) Other affiliates, including unconsolidated subsidiaries and associates (e.g. Anshin Dial Co., Ltd. and Zenkankyo Small Amount and Short Term Insurance Holdings, Ltd.), are stated at cost as their effects on consolidated net income and retained earnings are not considered material, individually and in aggregate.

##### (3) The Company holds 29.9% of the voting rights of Japan Earthquake Reinsurance Co., Ltd. ("Japan Earthquake Re") through MSI and ADI. However, Japan Earthquake Re is not included in the affiliates since the Company does not have the ability to exercise significant influence over operating and financial decisions of Japan Earthquake Re in view of its public nature.

#### 4. Fiscal year of consolidated subsidiaries

The fiscal year end of certain consolidated subsidiaries, including MS Amlin plc and 95 other companies, is December 31 which is different from that of the Company. The Company uses the financial statements as of their latest fiscal year end for consolidation purposes since the intervening period does not exceed three months from the Company's fiscal year end.

The Company makes adjustments to incorporate significant transactions occurred during the intervening period that materially affect the consolidated financial statements.

#### 5. Accounting policies

##### (1) Valuation policies and methods of securities (including those included in Cash, deposits and savings and Monetary claims bought as set forth in the Enforcement Regulations of the Japanese Insurance Business Act)

(i) Trading securities are valued at their year-end market prices. Cost of sales is calculated using the moving average method. For overseas consolidated subsidiaries, cost of sales is calculated using the first-in first-out method.

(ii) Held-to-maturity securities are valued at amortized cost.

(iii) Investments in unconsolidated subsidiaries and associates that are not accounted for under the equity method are valued at cost determined by the moving average method.

(iv) Debt securities and money trusts earmarked for underwriting reserves are valued at amortized cost determined by the moving average method in accordance with Industry Audit Committee Report No. 21 "Temporary Treatment of Accounting and Auditing Concerning Debt Securities Earmarked for Underwriting Reserve in the Insurance Industry" (issued by the Japanese Institute of Certified Public Accountants on November 16, 2000).

A summary of the risk management policy for debt securities and money trusts earmarked for underwriting reserves is as follows:

In order to effectively manage risks of variability in interest rates related to assets and liabilities, MSAL establishes subgroups of "individual insurance" that meet certain criteria for each type of insurance and investment policy and applies the investment policy and cash allocation policy reflecting their characteristics. In addition, MSAL periodically assesses whether the durations of the debt securities earmarked for underwriting reserves fall within a certain range from those of the underwriting reserves in each subgroup.

In order to effectively manage risks of variability in interest rates related to assets and liabilities, MSPL establishes subgroups of "individual insurance and individual annuities" that meet certain criteria for each currency and applies the investment policy and cash allocation policy reflecting their characteristics. In addition, MSPL periodically assesses whether the durations of the debt securities earmarked for underwriting reserves fall within a certain range from those of the underwriting reserves in each subgroup. Starting from the year ended March 31, 2017, in order to improve asset liability management (ALM) and investment methods appropriate for investment environment, the size of subgroups of certain individual insurance denominated in U.S. dollars has been reduced. There is no effect of this change on the consolidated financial statements.

- (v) Available-for-sale securities (except for those without practically determinable fair value) are valued at their year-end market prices.

Net unrealized gains and losses are reported as a separate line item of net assets. For foreign currency bonds held by certain consolidated subsidiaries, changes in fair values due to fluctuations in foreign exchange rates are reported in net unrealized gains and losses in net assets, while remaining changes are reported as foreign exchange gains and losses in the consolidated financial statement of income. Cost of sales is calculated by the moving average method.

- (vi) Available-for-sale securities without practically determinable fair value are valued at cost using the moving average method.

- (vii) Money trusts which are specifically managed for the Company and its domestic consolidated subsidiaries for trading purposes are valued at their year-end market prices.

Money trusts which are specifically managed for the Company and its domestic consolidated subsidiaries, other than money trusts held for trading purposes, money trusts held to maturity and money trusts earmarked for underwriting reserves, are valued on the same basis as available-for-sale securities.

(2) Valuation policies and methods of derivative financial instruments

Derivative financial instruments are valued at fair value.

(3) Depreciation methods of significant depreciable assets

- (i) Depreciation of tangible fixed assets is computed using the straight-line method.
- (ii) Intangible fixed assets are amortized by the straight-line method. Capitalized software for internal use is amortized by the straight-line method over its estimated useful life.

(4) Accounting policies for significant reserves

- (i) Bad debt reserve

For domestic consolidated insurance subsidiaries, bad debt reserve is established under the internal standards for self-assessment of assets and the policy for write-off and provision.

Bad debt reserve for loans to debtors who are legally deemed to be insolvent due to bankruptcy or special liquidation, or whose notes are under suspension at clearing houses, and loans to debtors who are deemed to be substantially insolvent is provided based on the outstanding balance remaining after deducting the resale value of collateral and the amount collectible through guarantees.

Bad debt reserve for loans to debtors who are likely to become insolvent in the future is provided based on the outstanding balance remaining after deducting the resale value of collateral, the amount collectible through guarantees and the amount expected to be repaid by the debtors considering their overall ability to pay.

For loans other than those described above, bad debt reserve is calculated by multiplying the outstanding balances by the historical bad debt ratios.

Bad debt reserve for all loans and receivables is provided based on the assessment under the internal standards for self-assessment of assets. The assessment is performed by departments which are responsible for the respective assets and the results are reviewed by the independent internal audit departments.

For other domestic consolidated subsidiaries, bad debt reserve is established under their internal standards for self-assessment of assets and policies for write-off and provision similar to those of the domestic consolidated insurance subsidiaries.

For overseas consolidated subsidiaries, bad debt reserve is established based on the assessment of collectability of individual receivables.

- (ii) Reserve for retirement benefits for officers

Reserve for retirement benefits that covers the cost for services rendered by officers and operating officers of MSI and MSAL up to the year ended March 31, 2005, the date in which the retirement benefit plans for officers were terminated, is established based on the estimated amounts to be paid at the year-end to provide for future retirement benefits (including pension) for officers and operating officers of MSI and MSAL.

- (iii) Accrued bonuses for employees

Accrued bonuses for employees are determined based on the estimated amounts to be paid at the year-end to provide for future bonuses for employees and operating officers.

- (iv) Reserve for reorganization by function

Reserve for reorganization by function is established based on the estimated costs to be incurred in the future associated with the reorganization by function at domestic consolidated insurance subsidiaries of the Company.

- (v) Reserve for price fluctuation

For the domestic consolidated insurance subsidiaries, the reserve for price fluctuation is recognized under Article 115 of the Insurance Business Act to provide for possible losses arising from price fluctuation of investment assets such as equity securities.

(5) Accounting for retirement benefits

- (i) Attribution method of retirement benefits over the service period

In computing retirement benefit obligations, the estimated retirement benefits are attributed to the periods up to the current year using the plan's benefit formula.

- (ii) Accounting for actuarial gains and losses

Actuarial gains and losses are amortized, commencing from the following year, using the straight-line method over a certain number of years (primarily 10 to 11 years) that do not exceed the expected average remaining service period of employees at the time of occurrence.

(6) Translation of foreign currency assets and liabilities

Foreign currency monetary assets and liabilities of the Company are translated into Japanese yen using the spot exchange rate prevailing at the year-end. The foreign exchange gains and losses resulting from the translation are recognized in earnings. Foreign currency assets and liabilities of overseas consolidated subsidiaries are translated into Japanese yen using the spot exchange rate prevailing at their respective year-ends, while shareholders' equity is translated at the historical rates. Income and expenses of overseas consolidated subsidiaries are translated into Japanese yen using the average exchange rate for the year. Differences arising from such translations are included in Foreign currency translation adjustments and Non-controlling interests in Net Assets.

(7) Accounting for consumption taxes

Consumption taxes received or paid by the Company and its major domestic consolidated subsidiaries are not included in income or expenses, except for those relating to Loss adjustment expenses and Operating expenses and general and administrative expenses incurred by the domestic consolidated non-life insurance subsidiaries. Consumption taxes excluded from income and expenses are recorded at the net amount on the balance sheet.

Non-deductible consumption taxes are recognized as expenses for the period, except for those relating to the purchase of depreciable fixed assets which are not charged to expenses but deferred as Other assets and amortized over a period of five years on a straight-line basis.

## (8) Hedge accounting

Under accounting principles generally accepted in Japan ("Japanese GAAP"), several methodologies are allowed for hedge accounting. Two fundamental approaches are the deferred hedge method and the fair value hedge method. Under the deferred hedge method, gains and losses on changes in fair value of derivative financial instruments are deferred and accounted for as a separate line item of net assets. Under the fair value hedge method, which is allowed only with respect to available-for-sale securities being the hedged items, gains and losses on changes in fair value of the hedging instruments are recognized in earnings together with the corresponding gains and losses of the hedged items attributable to the risks being hedged.

In addition, for certain derivative financial instruments, alternative treatments are permitted under Japanese GAAP. Assets and liabilities denominated in foreign currencies and hedged by foreign exchange forward contracts or currency swaps can be accounted for by the allocation method. Under this method, the foreign exchange forward contracts and currency swaps used as hedging instruments are not measured at fair value since gains and losses on the derivatives are assumed to be offset with changes in fair value of the corresponding hedged items, and hedged items are translated at the foreign exchange rates that are stipulated in the foreign exchange forward contracts or currency swaps (hedging instruments). Interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not remeasured at fair value, but the differentials paid or received under the swap agreements are recognized and included in interest expense or income of the hedged items (the exceptional method).

For certain domestic consolidated insurance subsidiaries, gains and losses on equity forward contracts used for hedging risks of variability in the fair value of investments in equity securities are accounted for under either the deferred hedge method or the fair value hedge method. Gains and losses on currency swap contracts and certain foreign exchange forward contracts used for hedging risks of variability in foreign exchange rates on foreign currency assets are accounted for under the deferred hedge method, the fair value hedge method or the allocation method. Gains and losses on currency swap contracts used for hedging risks of variability in foreign exchange rates on foreign currency bonds issued by MSI are accounted for under the allocation method.

Gains and losses on interest rate swap contracts used for hedging risks of variability in interest rates of loans, bonds and borrowings are accounted for under the deferred hedge method or the exceptional method when they meet certain criteria.

Gains and losses on interest rate and currency swap contracts used for hedging risks of variability in foreign exchange rates and interest rates on foreign currency borrowings are accounted for under the integrated method when they meet certain criteria. The integrated method is to hedge foreign currency risks and interest rate risks using the allocation method and the exceptional method, respectively.

Certain overseas consolidated subsidiaries use certain foreign currency borrowings and currency option contracts for hedging risks of variability in foreign exchange rates on investments in subsidiaries. Gains and losses on those financial instruments are accounted for under the deferred hedge method. In addition, certain foreign exchange forward contracts are used for hedging instruments in certain overseas consolidated subsidiaries and those are accounted for under the fair value hedge method.

Hedge effectiveness is assessed quarterly by comparing cumulative fluctuations in fair value or cash flows of the hedged items and hedging instruments for the periods from the respective start dates of the hedges to the assessment dates. When the hedged items and the hedging instruments are highly and clearly interrelated, when the interest rate swap transactions meet the criteria for application of the exceptional method, or when the interest rate and currency swap contracts meet the criteria for application of the integrated method, hedge effectiveness is not assessed.

Certain interest rate swap contracts used for the ALM (Asset and Liability Management) to ensure adequate control of the risks of interest rate variability are accounted for under the deferred hedge method and assessed for hedge effectiveness in accordance with the Industry Audit Committee Report No. 26, "Accounting and Auditing Treatment of Application of the Accounting Standard for Financial Instruments in the Insurance Industry" (issued by the Japanese Institute of Certified Public Accountants on September 3, 2002). The hedge effectiveness of interest rate swaps used for the ALM is evaluated on a portfolio basis, based on whether upward and downward movements in value of the hedged items and the hedging instruments offset each other within a certain range, in respect to changes in the interest rates.

## (9) Accounting for deferred assets under Article 113 of the Insurance Business Act

The amortization under Article 113 of the Insurance Business Act is calculated in accordance with the Insurance Business Act and the articles of incorporation of an Insurance Company, Limited.

**6. Goodwill**

Goodwill is amortized using the straight-line method over its useful life within 20 years. Insignificant amounts of goodwill are charged to expenses as incurred.

**7. Additional information**

The Company has adopted "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26 issued on March 28, 2016), effective from the year ended March 31, 2017.

**8. Cash and cash equivalents on the consolidated statement of cash flows**

In preparing the consolidated statements of cash flows, cash and cash equivalents constitute cash on hand, readily available deposits and short-term highly liquid investments with original maturities not exceeding three months.

## NOTES TO CONSOLIDATED BALANCE SHEETS

### 1. The amounts of accumulated depreciation and accelerated depreciation of tangible fixed assets are as follows:

	Yen in millions	
	March 31, 2016	March 31, 2017
Accumulated depreciation	356,407	360,399
Accelerated depreciation	14,424	14,331

Note: As permitted under Japanese tax legislation for the purpose of deferral in recognizing taxable income, acquisition cost of certain qualifying properties is reduced to offset the taxable income that resulted from the sales of assets to be replaced by the acquired assets or receipts of governmental subsidies provided for the acquisition of the new assets. The total amounts deducted from the original acquisition cost of the qualifying properties as of March 31, 2016 and 2017 were ¥14,424 million and ¥14,331 million, respectively.

### 2. The carrying amounts of equity investments in unconsolidated subsidiaries and associates are as follows:

	Yen in millions	
	March 31, 2016	March 31, 2017
Investments in securities (Domestic stocks)	18,680	15,965
Investments in securities (Foreign securities)	142,448	143,840
Investments in securities (Other securities)	8,805	11,399

### 3. The amounts of loans to borrowers in bankruptcy, overdue loans, loans overdue for three months or more, and restructured loans are as follows:

	Yen in millions	
	March 31, 2016	March 31, 2017
Loans to borrowers in bankruptcy	1	34
Overdue loans	394	536
Loans overdue for three months or more	938	539
Restructured loans	1,795	1,633
Total	3,129	2,744

Note: Loans to borrowers in bankruptcy represent those, excluding any part of bad debts that have been written off, on which accrued interest receivables are not recognized because repayments of the principal or interest have been overdue for considerable periods and regarded uncollectible (hereinafter, this category is referred to as "Loans not accruing interest") and which meet the conditions prescribed in Article 96, Section 1-3 or 1-4 of the Corporation Tax Act Enforcement Ordinance (Cabinet Order No. 97, 1965).

Overdue loans represent loans not accruing interest excluding (a) loans to borrowers in bankruptcy and (b) loans that have been granted a grace period for interest payments in order to assist the debtors' operational restructuring or financial recovery.

Loans overdue for three months or more represent those of which the principal or interest has been past due for three months or more after the contractual due date for repayments of the principal or interest. The loans to borrowers in bankruptcy and overdue loans are excluded from this category.

Restructured loans represent those which have been granted favorable terms for the benefit of the debtors, such as interest exemption or reduction, a grace period for interest payments, a grace period for principal repayments or forgiveness of debts for the purpose of the restructuring of, or support to the debtors in financial difficulty. The loans to borrowers in bankruptcy, overdue loans and loans overdue for three months or more are excluded from this category.

### 4. The amounts of pledged assets and corresponding debt obligations are as follows:

	Yen in millions	
	March 31, 2016	March 31, 2017
Pledged assets:		
Investments in securities	283,656	285,275
Cash, deposits and savings	22,055	23,873
Money trusts	2,311	2,302

Note: The amounts in the above table primarily consist of collateral assets required for borrowings included in Other liabilities, for international operations and for Real Time Gross Settlement of the current account with the Bank of Japan.

	Yen in millions	
	March 31, 2016	March 31, 2017
Corresponding debt obligations:		
Borrowings	9	8

### 5. The amounts of investments in securities loaned under securities lending agreements are as follows:

	Yen in millions	
	March 31, 2016	March 31, 2017
	389,507	603,759

### 6. The amounts of assets received as collateral under loan agreements or securities borrowing transactions with cash collateral which the Company has the right to sell or repledge are as follows:

	Yen in millions	
	March 31, 2016	March 31, 2017
Securities	193,542	210,947
Commercial papers	14,999	–

Note: All securities and commercial papers in the above table have not been resold or repledged, and are held by the Company and its subsidiaries.

### 7. The amounts of assets and liabilities in separate accounts under Article 118 of the Insurance Business Act are as follows:

	Yen in millions	
	March 31, 2016	March 31, 2017
	2,534,442	2,553,766

### 8. The amounts of deferred assets under Article 113 of the Insurance Business Act included in Other assets are as follows:

	Yen in millions	
	March 31, 2016	March 31, 2017
	947	–

### 9. Guarantees on transactions conducted by a limited partnership entity are as follows:

March 31, 2016

MSI provides guarantees on transactions conducted by a limited partnership entity. Aggregate net present value of these transactions was ¥202,597 million in a negative liability position as of March 31, 2016. This amount was not included in Customers' liabilities under acceptances and guarantees or Acceptances and guarantees since there was no substantial exposure.

March 31, 2017

MSI provides guarantees on transactions conducted by a limited partnership entity. Aggregate net present value of these transactions was ¥192,303 million in a negative liability position as of March 31, 2017. This amount was not included in Customers' liabilities under acceptances and guarantees or Acceptances and guarantees since there was no substantial exposure.

### 10. The unutilized balances of commitment lines to third parties are as follows:

	Yen in millions	
	March 31, 2016	March 31, 2017
	5,030	3,633

### 11. Information on financial instruments

(1) Qualitative information on financial instruments

(i) Policy on financial instruments

The Group applies Asset and Liability Management (ALM) policies to maintain stability of investment returns, safety of assets and sufficient liquidity under an appropriate risk management framework to attain the sustainable growth of the net asset value. In addition, the Group is exposed to investment risks such as market risks and credit risks and manages those risks in accordance with the risk management policies of the Group and each group company.

The Group's cash inflows which mainly arise from insurance operations and investment activities are affected by changes in external environment such as occurrences of natural disasters and changes in financial market conditions. In order to enhance efficiency of funds operations and strengthen financial capacity under such changing conditions, the Group undertakes to raise funds through issuance of long-term or short-term corporate bonds or other financing methods as the needs arise.

(ii) Details of financial instruments and associated risks

The Group's financial assets mainly consist of securities including domestic bonds, domestic stocks and foreign securities, loans and other financial instruments. Risks pertaining to investments include market risks, credit risks, market liquidity risks and other risks. Market risks arise from fluctuations in

interest rates, stock prices, foreign exchange rates and other market indicators. Credit risks arise from deterioration in the financial condition of security issuers and counterparties of loans. Market liquidity risks represent the risks that investment assets are forced to be sold at extremely unfavorable prices under turmoil in the financial markets.

The Group utilizes derivative transactions represented by interest rate swaps, interest rate options, bond future contracts, equity index options, equity index future contracts, equity forward contracts, foreign exchange forward contracts, currency swaps, currency options, and interest rate and currency swaps for the purpose of hedging risks such as fluctuations in interest rates, stock prices and foreign exchange rates. In addition, the Group utilizes credit derivatives and weather derivatives in order to generate investment returns with consideration given to the associated risks.

For details of derivative transactions to which hedge accounting is applied, please refer to "Significant Accounting Policies, 5. Accounting policies, (8) Hedge accounting."

In general, derivative transactions involve risks associated with fluctuations in fair value of derivative financial instruments, risks of nonperformance resulting from insolvency of counterparties and market liquidity risks. Derivative transactions utilized by the Group are also exposed to these risks. However, market risks associated with derivative transactions utilized for the purpose of hedging are mitigated, as changes in the fair value of hedged items and hedging instruments offset each other. In order to mitigate credit risks arising from the nonperformance of counterparties, most of the Group's derivative transactions are executed only with selected counterparties of high credit quality and diversified amongst various counterparties. Furthermore, under Credit Support Annex (CSA) the Group obtains collateral from counterparties.

(iii) Risk management structure relating to financial instruments

The Group manages risks in accordance with the basic policy for risk management and internal policies for asset management risks, which stipulate the definition of risks and management method established by the Board of Directors. At major domestic consolidated insurance subsidiaries, the trading department is segregated from the back-office and risk management departments and maintains a structure which enables to exercise organizational checks and balances on a daily basis. The risk management department assesses, analyzes and manages risks related to financial instruments by quantifying market and credit risks using the VaR (Value-at-Risk) method and risk limit management based on asset and liability position, and regularly reports the results to the Board of Directors.

a. Market risk management

The Group maintains and operates a risk management structure taking into account the characteristics of each financial instrument in accordance with its internal policies for market risk management. In addition to monitoring of risk amount by quantifying risks using the VaR method as described above, major domestic consolidated insurance subsidiaries manage market risks through assessment of potential risks that cannot be identified using the VaR method, analysis of sensitivity of existing assets to changes in interest rates, stock prices and foreign exchange rates and analysis of concentration and weakness of portfolio.

b. Credit risk management

The Group maintains and operates a risk management structure in accordance with its internal policies for credit risk management. For securities and derivative transactions at major domestic consolidated insurance subsidiaries, the trading and risk management departments manage credit risks of security issuers and derivative counterparties by regularly monitoring the credit information and fair values associated with the investment assets. For loans at MSI, ADI and MSPL, the trading and risk management departments maintain a credit risk management structure through credit screening, setting internal credit ratings and credit limits, managing credit information, requiring collaterals and guarantees where necessary, and resolving delinquent loans on an individual loan basis.

c. Liquidity risk management

The Group maintains and operates a funding and market liquidity risk management structure in accordance with internal policies for liquidity risk management. The Group's treasury management classifies funding needs into "ordinary" and "emergency" depending on the urgency level and oversees operation and management for the liquidity in each level, which gives the foremost consideration to the liquidity risk. The treasury management also ensures diversification of fundraising activities to secure and maintain liquidity in various environments. The Group manages funding liquidity risks by holding a sufficient amount of cash, savings and deposits, and highly liquid securities such as government bonds, and regularly monitoring their aggregate amounts in case of unexpected events like catastrophes and the deterioration of funding liquidity arising from turmoil in the financial markets.

(iv) Supplementary explanation of matters relating to the fair value of financial instruments and other information

The fair value of financial instruments is determined based on market prices and, when market prices are not available, based on reasonable estimates. In determining fair value, certain assumptions and methods are used, thus the fair value may differ if alternative assumptions are applied.

(2) Supplementary information on fair value of financial instruments

The following tables summarize the carrying amounts on the consolidated balance sheets and the fair values of financial instruments as of March 31, 2016 and 2017 together with their differences. The following tables exclude financial instruments in which the fair values are not practically determinable (see Note 2).

March 31, 2016	Yen in millions		
	Carrying amount	Fair value	Difference
(i) Cash, deposits and savings	1,083,838	1,084,286	448
(ii) Call loans	31,175	31,175	-
(iii) Receivables under resale agreements	29,999	29,999	-
(iv) Receivables under securities borrowing transactions	275,350	275,350	-
(v) Monetary claims bought	125,785	125,785	-
(vi) Money trusts	828,097	828,097	-
(vii) Investments in securities:			
Trading securities	3,224,129	3,224,129	-
Held-to-maturity securities	1,056,254	1,293,985	237,731
Debt securities earmarked for underwriting reserves	1,094,252	1,172,227	77,974
Available-for-sale securities	8,993,933	8,993,933	-
(viii) Loans	883,106		
Bad debt reserve <sup>(*)</sup>	(450)		
	882,656	901,448	18,792
Total assets	17,625,472	17,960,419	334,946
Bonds issued	349,841	368,730	18,889
Total liabilities	349,841	368,730	18,889
Derivative transactions <sup>(2)</sup> :			
Hedge accounting not applied	20,064	20,064	-
Hedge accounting applied	52,811	52,811	-
Total derivative transactions	72,875	72,875	-

(\*) Bad debt reserve for loans is deducted from the carrying amount.

(2) Derivative assets and liabilities included in Other assets and Other liabilities, are presented on a net basis. Debits and credits arising from derivative transactions are netted.

March 31, 2017	Yen in millions		
	Carrying amount	Fair value	Difference
(i) Cash, deposits and savings	1,419,267	1,419,683	415
(ii) Call loans	15,000	15,000	-
(iii) Receivables under resale agreements	6,999	6,999	-
(iv) Receivables under securities borrowing transactions	285,455	285,455	-
(v) Monetary claims bought	111,320	111,320	-
(vi) Money trusts	971,119	971,119	-
(vii) Investments in securities:			
Trading securities	3,188,376	3,188,376	-
Held-to-maturity securities	1,032,755	1,223,936	191,181
Debt securities earmarked for underwriting reserves	1,697,252	1,721,469	24,216
Available-for-sale securities	9,071,223	9,071,223	-
(viii) Loans	886,316		
Bad debt reserve <sup>(*)</sup>	(347)		
	885,969	894,888	8,918
Total assets	18,684,739	18,909,472	224,732
Bonds issued	456,191	476,218	20,027
Total liabilities	456,191	476,218	20,027
Derivative transactions <sup>(2)</sup> :			
Hedge accounting not applied	19,113	19,113	-
Hedge accounting applied	23,924	23,924	-
Total derivative transactions	43,038	43,038	-

(\*) Bad debt reserve for loans is deducted from the carrying amount.

(2) Derivative assets and liabilities included in Other assets and Other liabilities, are presented on a net basis. Debits and credits arising from derivative transactions are netted.

(Note 1) Determination of fair value of financial instruments

Assets

(i) Cash, deposits and savings

With regard to deposits and savings, the fair value is measured at the present value of the estimated future cash flows discounted at interest rates applicable to the same type of new deposits and savings based on duration. With regard to deposits and savings without fixed maturities and short-term deposits and savings, the book value is deemed as the fair value due to their demand feature or short-term duration.

(ii) Call loans

With regard to call loans, the book value approximates the fair value since they are scheduled to be settled in a short period of time.

(iii) Receivables under resale agreements

With regard to receivables under resale agreements, the book value approximates the fair value since they are scheduled to be settled in a short period of time.

(iv) Receivables under securities borrowing transactions

With regard to receivables under securities borrowing transactions, the book value approximates the fair value since they are scheduled to be settled in a short period of time.

(v) Monetary claims bought

With regard to commercial papers (CP), the price quoted by exchanges or counterparty financial institutions is deemed as the fair value. With regard to certain CP, the book value approximates the fair value since they are scheduled to be settled in a short period of time. With regard to Monetary claims bought other than CP, the price quoted by counterparty financial institutions is deemed as the fair value.

(vi) Money trusts

With regard to money trusts, the price quoted by trustees is deemed as the fair value.

(vii) Investments in securities

The fair value of equity securities is determined based on the quoted market price and the fair value of bonds is determined based on the price quoted by exchanges, independent price vendors or counterparty financial institutions.

(viii) Loans

With regard to floating rate loans, the book value approximates the fair value contingent on no significant changes in the credit conditions of the debtor, because the floating rates on the loans reflect market interest rates. With regard to fixed rate loans, for loans sorted by type, term and credit rating, the fair value is based on the present value of the estimated future cash flows discounted at market interest rates, such as yields on government bonds, plus a credit spread. The fair value of certain personal loans is determined at the net present value of the estimated future cash flows discounted at interest rates applicable to the same type of new loans.

With regard to policy loans, which do not have contractual maturities, as the loan amount is limited to the surrender value, the carrying amount approximates the fair value, considering their estimated repayment periods and interest rates.

With regard to loans to debtors that are legally or substantially bankrupt and loans to doubtful debtors, the carrying amount less bad debt reserve is deemed as the fair value, because the bad debt reserve is determined based on the present value of the estimated future cash flows or the value of the collateral and the amount collectible through guarantees.

Liabilities

Bonds issued

With regard to bonds issued, the fair value is determined based on "Reference Statistical Prices for OTC Bond Transactions" published by the Japan Securities Dealers Association or prices quoted by independent price vendors or counterparty financial institutions.

Derivative transactions

With regard to derivative transactions, the fair value is determined based on published forward exchange rates, closing prices at major exchanges, prices quoted by counterparty financial institutions or prices calculated by the option-pricing model.

(Note 2) The carrying amounts of financial instruments in which the fair values are not practically determinable, which are not included in "(vii) Investments in securities" above, are as follows:

	Yen in millions	
	March 31, 2016	March 31, 2017
Unlisted stocks and other assets invested in unconsolidated subsidiaries and associates	169,935	171,204
Other unlisted stocks	85,611	84,285
Unlisted investment trusts	1,701	12,651
Partnership investments comprised of unlisted stocks	45,095	45,354
<b>Total</b>	<b>302,344</b>	<b>313,495</b>

The fair value of the financial instruments in the above table is not disclosed because their fair value is not practically determinable due to lack of marketability and difficulties in reasonably estimating future cash flows.

(Changes in presentation)

In the previous years, unlisted investment trusts were included in Partnership investments comprised of unlisted stocks. Starting from the year ended March 31, 2017, this item has been presented as a separate line item, because its effect on balance sheet has become material.

(Note 3) Maturity analysis of monetary assets and securities with fixed maturities

March 31, 2016	Yen in millions			
	Within 1 year	Over 1 to 5 years	Over 5 to 10 years	Over 10 years
Cash, deposits and savings	1,072,187	11,393	79	0
Call loans	31,175	—	—	—
Receivables under resale agreements	29,999	—	—	—
Receivables under securities borrowing transactions	275,350	—	—	—
Monetary claims bought	96,908	—	—	26,590
Investments in securities:				
Held-to-maturity securities				
Government bonds	—	—	59,400	810,200
Corporate bonds	31,525	21,507	23,502	87,900
Debt securities earmarked for underwriting reserves				
Government bonds	—	—	—	49,700
Municipal bonds	—	—	—	—
Corporate bonds	—	4,500	—	11,250
Foreign securities	—	6,018	856,573	141,606
Available-for-sale securities with fixed maturities:				
Government bonds	57,027	618,357	845,950	888,474
Municipal bonds	10,722	56,745	67,130	109,900
Corporate bonds	125,749	670,658	366,653	132,816
Foreign securities	120,265	542,994	811,388	115,189
Loans <sup>(*)</sup>	99,055	270,515	314,592	133,962
<b>Total</b>	<b>1,949,965</b>	<b>2,202,689</b>	<b>3,345,270</b>	<b>2,507,590</b>

(\*) The amounts in the above table do not include ¥515 million of loans in which repayments cannot be expected since the debtors are legally bankrupt, substantially bankrupt or likely to go bankrupt and ¥65,150 million of loans without fixed maturities.

March 31, 2017	Yen in millions			
	Within 1 year	Over 1 to 5 years	Over 5 to 10 years	Over 10 years
Cash, deposits and savings	1,406,219	12,871	74	0
Call loans	15,000	—	—	—
Receivables under resale agreements	6,999	—	—	—
Receivables under securities borrowing transactions	285,455	—	—	—
Monetary claims bought	92,927	—	—	17,158
Investments in securities:				
Held-to-maturity securities				
Government bonds	—	—	100,200	778,000
Corporate bonds	7,007	14,500	23,502	88,400
Debt securities earmarked for underwriting reserves				
Government bonds	—	—	—	202,900
Municipal bonds	—	400	—	5,500
Corporate bonds	5,400	12,800	600	61,750
Foreign securities	127	35,422	1,197,382	144,306
Available-for-sale securities with fixed maturities:				
Government bonds	124,604	689,350	670,230	934,464
Municipal bonds	8,084	54,200	84,344	91,700
Corporate bonds	170,348	607,913	407,042	120,055
Foreign securities	73,553	475,380	885,155	116,062
Loans <sup>(*)</sup>	91,763	256,513	348,725	122,403
<b>Total</b>	<b>2,287,489</b>	<b>2,159,352</b>	<b>3,717,256</b>	<b>2,682,700</b>

(\*) The amounts in the above table do not include ¥692 million of loans in which repayments cannot be expected since the debtors are legally bankrupt, substantially bankrupt or likely to go bankrupt and ¥66,690 million of loans without fixed maturities.

(Note 4) Maturity analysis of bonds issued

March 31, 2016	Yen in millions					
	Within 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Over 4 to 5 years	Over 5 years
Bonds issued	—	—	—	—	—	347,310
<b>Total</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>347,310</b>

March 31, 2017	Yen in millions					
	Within 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Over 4 to 5 years	Over 5 years
Bonds issued	—	—	—	—	—	456,191
<b>Total</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>456,191</b>

**12. Certain consolidated subsidiaries own investment properties in Tokyo and other areas. The carrying amounts, changes in carrying amounts and fair value of the investment properties are as follows:**

	Yen in millions	
	March 31, 2016	March 31, 2017
Carrying amount	73,825	80,378
Fair value	127,201	138,665

Notes:

1. Carrying amount represents the acquisition cost less accumulated depreciation.

2. Fair value is primarily determined based on the appraisal values provided by qualified external appraisers. With respect to the properties with no substantial changes in their appraisal values or indices that were considered to appropriately reflect market prices since most recent appraisal dates, the fair value is determined based on these appraisal values or the values adjusted by the relevant indices.

**13. Business combination**

(Business combination through acquisition)

Finalization of provisional accounting treatment

The Company provisionally accounted for the business combination through acquisition of MS Amlin plc during the year ended March 31, 2016. Purchase price allocation has been completed during the year ended March 31, 2017, and there is no adjustment to the amount of goodwill.

**14. The amounts of net assets per share are as follows:**

	March 31, 2016	March 31, 2017
Net assets per share (in Yen)	4,469.58	4,572.82
Stock acquisition rights deducted from net assets (Yen in million)	—	307
Non-controlling interests deducted from net assets (Yen in millions)	27,106	25,147
Outstanding common shares (in thousands of shares)	603,672	592,407

**15. Significant subsequent events**

The Company resolved to retire its treasury stock at the Board meeting held on May 19, 2017, in accordance with Article 178 of the Companies Act as follows:

- (1) Type of shares to be retired  
Common stock of the Company
- (2) Number of shares to be retired  
40,000,000 shares
- (3) Number of issued stock after the retirement of treasury stock  
593,291,754 shares
- (4) Scheduled date of retirement  
June 30, 2017

## NOTES TO CONSOLIDATED STATEMENTS OF INCOME

### 1. The amounts of gains/(losses) on derivative transactions to reduce the currency risks of foreign currency reinsurance transactions, included in other underwriting income/(expenses), are as follows:

Yen in millions	
For the year ended March 31, 2016	For the year ended March 31, 2017
(1,628)	3

### 2. The amounts of foreign exchange losses included in other investment expenses are as follows:

Yen in millions	
For the year ended March 31, 2016	For the year ended March 31, 2017
(76,842)	36,938

### 3. Major components of business expenses are as follows:

Yen in millions	
For the year ended March 31, 2016	For the year ended March 31, 2017
Commission expenses	657,756
Salaries	279,245
	659,449
	301,507

Note: Business expenses represent the aggregate amount of Loss adjustment expenses, Operating expenses and general and administrative expenses, and Commissions and collection expenses presented in the consolidated statements of income.

### 4. Impairment losses recognized on fixed assets are as follows:

For the year ended March 31, 2016

Use	Category	Description	Yen in millions		
			Impairment losses on fixed assets		Breakdown
Investment properties	Land and buildings	5 properties, including a building for rent in Kagawa	249	Land	38
				Buildings	210
Idle real estate and real estate for sale	Land and buildings	21 properties, including an office building in Tokyo	9,394	Land	7,861
				Buildings	1,533
Other	Other intangible fixed assets	Software related to insurance business operations held by overseas consolidated subsidiaries	485	—	—

Fixed assets used for the insurance business operations are grouped as a single asset group by each insurance company. Other assets such as investment properties, idle assets and assets for sale are grouped on an individual basis.

Fixed assets are reviewed for impairment whenever events or changes in circumstances, such as a significant decline in the value of the asset (asset group) or a change in the intended use of the asset, indicate that the carrying amount of the asset (asset group) may not be recoverable. An impairment loss is measured by the amount in which the carrying amount of the asset (asset group) exceeds its recoverable amount, which is the higher of 1) the sum of discounted cash flows from the continued use and eventual disposition of the asset (asset group) and 2) the net sales value at disposition.

As the assets in the above table were to be disposed in the near future or determined to be closed, ¥10,129 million of the aggregate difference between the carrying amounts of the assets and recoverable amounts was recognized as impairment losses on fixed assets under Extraordinary losses.

The recoverable amounts of these assets represent their net sales value, which are determined based on the appraisal value provided by qualified appraisers.

For the year ended March 31, 2017

Use	Category	Description	Yen in millions		
			Impairment losses on fixed assets		Breakdown
Investment properties	Land and buildings	4 properties, including a building for rent in Saitama	4	Land	2
				Buildings	1
Idle real estate and real estate for sale	Land and buildings	35 properties, including an office building in Aichi	2,925	Land	788
				Buildings	1,971
				Other	166
Other	Other intangible fixed assets	Software related to insurance business operations held by overseas consolidated subsidiaries	2,582	—	—

Fixed assets used for the insurance business operations are grouped as a single asset group by each insurance company. Other assets such as investment properties, idle assets and assets for sale are grouped on an individual basis.

Fixed assets are reviewed for impairment whenever events or changes in circumstances, such as a significant decline in the value of the asset (asset group) or a change in the intended use of the asset, indicate that the carrying amount of the asset (asset group) may not be recoverable. An impairment loss is measured by the amount in which the carrying amount of the asset (asset group) exceeds its recoverable amount, which is the higher of 1) the sum of discounted cash flows from the continued use and eventual disposition of the asset (asset group) and 2) the net sales value at disposition.

As the land and buildings in the above table were to be disposed in the near future, the aggregate difference between the carrying amounts of the assets and recoverable amounts was recognized as impairment losses on fixed assets under Extraordinary losses. The recoverable amounts of these assets represent their net sales value, which are determined based on the appraisal value provided by qualified appraisers.

For the other intangible fixed assets, the portion of carrying amounts of the software being developed by overseas consolidated subsidiaries, which there is no definite plan to use with at present, is recognized as impairment losses.

### 5. Details of Other extraordinary income are as follows:

For the year ended March 31, 2016

Other extraordinary income represents reversal of Foreign currency translation adjustments related to Mitsui Sumitomo Insurance (London) Limited in the amount of ¥8,807 million and gains resulting from amortization of unrecognized actuarial gains and losses related to the return of a portion of retirement benefit trusts by ADI in the amount of ¥6,174 million.

### 6. Details of Other extraordinary losses are as follows:

For the year ended March 31, 2016

Other extraordinary losses represent additional payments of retirement benefit related to outplacement and career support program implemented at ADI in the amount of ¥11,344 million and system-related costs that were recognized by the reorganization by function at certain domestic consolidated insurance subsidiaries in the amount of ¥3,898 million.

For the year ended March 31, 2017

Other extraordinary losses represent costs for reorganization by function such as system development costs recognized at domestic consolidated insurance subsidiaries of the Company in the amount of ¥26,337 million (of which provision for reserve for reorganization by function of ¥22,097 million) and costs for reorganization recognized at overseas consolidated subsidiaries in the amount of ¥5,319 million.

## 7. The amounts of net income/(loss) attributable to owners of the parent per share are as follows:

	For the year ended March 31, 2016	For the year ended March 31, 2017
Basic net income/(loss) attributable to owners of the parent per share (in Yen)	298.72	350.94
Diluted net income/(loss) attributable to owners of the parent per share (in Yen)	—	350.90

## Notes:

1. Since there was no potential dilution for the years ended March 31, 2016 diluted net income/(loss) attributable to owners of the parent per share is not disclosed.
2. The basis of calculation is as follows:

	For the year ended March 31, 2016	For the year ended March 31, 2017
Net income/(loss) attributable to owners of the parent (Yen in millions)	181,516	210,447
Average outstanding common stock during the year (in thousands of shares)	607,639	599,655
Increase in number of common stock used for calculation of diluted net income/(loss) attributable to owners of the parent (in thousands of shares)	—	74

## NOTES TO CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

## 1. Reclassification adjustments and income tax effects of other comprehensive income/(loss)

	Yen in millions	
	2016	2017
Net unrealized gains/(losses) on investments in securities:		
Gains/(losses) arising during the period	(336,466)	114,896
Reclassification adjustments	(115,480)	(80,311)
Before income tax effect adjustments	(451,947)	34,585
Income tax effects	143,172	(920)
Net unrealized gains/(losses) on investments in securities	(308,774)	33,664
Net deferred gains/(losses) on hedges:		
Gains/(losses) arising during the period	16,202	(13,289)
Reclassification adjustments	(5,659)	(5,208)
Before income tax effect adjustments	10,542	(18,498)
Income tax effects	(2,569)	1,857
Net deferred gains/(losses) on hedges	7,973	(16,640)
Foreign currency translation adjustments:		
Gains/(losses) arising during the period	(56,719)	(114,654)
Reclassification adjustments	(10,539)	—
Foreign currency translation adjustments	(67,259)	(114,654)
Actuarial gains/(losses) on retirement benefits:		
Gains/(losses) arising during the period	(43,086)	(4,129)
Reclassification adjustments	(8,689)	3,786
Before income tax effect adjustments	(51,776)	(343)
Income tax effects	14,786	(730)
Actuarial gains/(losses) on retirement benefits	(36,989)	(1,073)
Share of other comprehensive income/(loss) of equity method investments:		
Gains/(losses) arising during the period	(8,307)	3,337
Reclassification adjustments	(1,570)	(2,039)
Share of other comprehensive income/(loss) of equity method investments	(9,877)	1,298
Total other comprehensive income/(loss)	(414,927)	(97,405)

## NOTES TO CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

For the year ended March 31, 2016

### 1. Type and number of issued stock and treasury stock

	in thousands of shares			
	Beginning balance	Increase	Decrease	Ending balance
Issued stock:				
Common stock	633,291	—	—	633,291
Total	633,291	—	—	633,291
Treasury stock:				
Common stock	21,101	8,518	1	29,618
Total	21,101	8,518	1	29,618

Notes:

1. The increase in the number of treasury common stock during the year was 8,518 thousand shares, as a result of open market repurchases of 8,492 thousand shares and repurchases of fractional stock of 26 thousand shares.

2. The decrease in the number of treasury common stock during the year was 1 thousand shares, as a result of sales of fractional stock.

### 2. Dividends

#### (1) Dividends paid

Resolution	Type of shares	Aggregate amount of dividends (Yen in millions)	Dividends per share		
			(in Yen)	Date of record	Effective date
General shareholders' meeting held on June 22, 2015	Common stock	22,038	36	March 31, 2015	June 23, 2015
Board meeting held on November 18, 2015	Common stock	21,245	35	September 30, 2015	December 4, 2015

Note: Date of record is the date to determine shareholders who are entitled to receive dividends.

#### (2) Dividends declared effective after March 31, 2016 for which the date of record is in the year ended March 31, 2016

Resolution	Type of shares	Aggregate amount of dividends (Yen in millions)	Dividends per share			
			Source of dividends	(in Yen)	Date of record	Effective date
General shareholders' meeting to be held on June 22, 2016	Common stock	33,202	Retained earnings	55	March 31, 2016	June 23, 2016

Note: Date of record is the date to determine shareholders who are entitled to receive dividends.

### 3. Put options granted to non-controlling interests

Aioi Nissay Dowa Insurance Company of Europe Limited granted written put options for shares held by non-controlling interests of BIG, its consolidated subsidiary. The present value of the redemption value of such options was recognized in Other liabilities with the same amount recognized as reduction in Capital surplus.

For the year ended March 31, 2017

### 1. Type and number of issued stock and treasury stock

	in thousands of shares			
	Beginning balance	Increase	Decrease	Ending balance
Issued stock:				
Common stock	633,291	—	—	633,291
Total	633,291	—	—	633,291
Treasury stock:				
Common stock	29,618	11,265	0	40,884
Total	29,618	11,265	0	40,884

Notes:

1. The increase in the number of treasury common stock during the year was 11,265 thousand shares, as a result of open market repurchases of 11,250 thousand shares and repurchases of fractional stock of 14 thousand shares.

2. The decrease in the number of treasury common stock during the year was 0 thousand shares, as a result of sales of fractional stock.

### 2. Stock acquisition rights

Category	Breakdown	Yen in millions
		Ending balance
Filer	Stock acquisition rights as stock options	307
Total		307

### 3. Dividends

#### (1) Dividends paid

Resolution	Type of shares	Aggregate amount of dividends (Yen in millions)	Dividends per share		
			(in Yen)	Date of record	Effective date
General shareholders' meeting held on June 22, 2016	Common stock	33,202	55	March 31, 2016	June 23, 2016
Board meeting held on November 18, 2016	Common stock	30,021	50	September 30, 2016	December 6, 2016

Note: Date of record is the date to determine shareholders who are entitled to receive dividends.

#### (2) Dividends declared effective after March 31, 2017 for which the date of record is in the year ended March 31, 2017

Resolution	Type of shares	Aggregate amount of dividends (Yen in millions)	Dividends per share			
			Source of dividends	(in Yen)	Date of record	Effective date
General shareholders' meeting to be held on June 26, 2017	Common stock	41,468	Retained earnings	70	March 31, 2017	June 27, 2017

Note: Date of record is the date to determine shareholders who are entitled to receive dividends.

## NOTES TO CONSOLIDATED STATEMENTS OF CASH FLOWS

### 1. Reconciliation of balance sheet items to cash and cash equivalents

	Yen in millions	
	2016	2017
Cash, deposits and savings	1,083,838	1,419,267
Call loans	31,175	15,000
Receivables under resale agreements	29,999	6,999
Monetary claims bought	125,785	111,320
Investments in securities	14,670,914	15,303,103
Time deposits with original maturity of more than three months	(176,397)	(161,987)
Monetary claims bought other than cash equivalents	(83,189)	(61,279)
Investments in securities other than cash equivalents	(14,625,719)	(15,216,521)
Cash and cash equivalents	1,056,407	1,415,903

### 2. Major components of assets and liabilities of newly consolidated subsidiaries due to acquisition of shares

For the year ended March 31, 2016

MS Amlin plc ("MS Amlin") has been included in the scope of consolidation due to acquisition of shares. The components of assets and liabilities at the acquisition date, the acquisition cost of MS Amlin's shares and net consideration paid for acquisition of MS Amlin are as follows:

	Yen in millions
Investments in securities	700,664
Intangible fixed assets	226,335
Other assets	504,698
	1,431,697
Goodwill	130,719
Policy liabilities	(778,126)
Other liabilities	(175,653)
Total liabilities	(953,779)
Foreign currency translation adjustments	19,535
Non-controlling interests	(495)
Acquisition cost of MS Amlin's shares	627,677
Less: Cash and cash equivalents held at MS Amlin	53,488
Net consideration paid for acquisition of MS Amlin	574,189

### 3. Major components of assets and liabilities of subsidiaries that have been excluded from the scope of consolidation due to sales of shares

For the year ended March 31, 2016

Cardinal Reinsurance Limited ("Cardinal Re") has been excluded from the scope of consolidation due to sales of shares. The components of assets and liabilities at the time of sales, the sales value and net payments for sales of Cardinal Re's shares are as follows:

	Yen in millions
Assets	17,252
Liabilities	(7,386)
Accumulated other comprehensive income/(loss)	(1,733)
Losses on sales of shares of subsidiaries	800
Sales value of Cardinal Re's shares	7,330
Less: Cash and cash equivalents held at Cardinal Re	14,885
Net payments for sales of Cardinal Re	(7,554)

### 4. Cash flows from investing activities include those from investments made as part of the insurance business.

## Independent Auditor's Report



### Independent Auditor's Report

To the Board of Directors of MS&AD Insurance Group Holdings, Inc.:

We have audited the accompanying consolidated financial statements of MS&AD Insurance Group Holdings, Inc. and its consolidated subsidiaries, which comprise the consolidated balance sheets as of March 31, 2016 and 2017, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

#### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of MS&AD Insurance Group Holdings, Inc. and its consolidated subsidiaries as of March 31, 2016 and 2017, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

#### Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2017 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Significant Accounting Policies in the notes to the consolidated financial statements.

KPMG AZSA LLC

June 26, 2017  
Tokyo, Japan

KPMG AZSA LLC is a limited liability by share corporation incorporated under the Japanese Civil Code Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

## Summary of Business Results of Main Consolidated Subsidiaries

### MITSUI SUMITOMO INSURANCE CO., LTD. (NON-CONSOLIDATED)

#### Non-Consolidated Balance Sheets

Items	Yen in millions	
	March 31, 2016	March 31, 2017
<b>(Assets)</b>		
Cash, deposits and savings:	¥ 442,553	¥ 389,027
Cash on hand	133	81
Deposits in banks	442,420	388,945
Receivables under resale agreements	29,999	6,999
Monetary claims bought	28,785	20,393
Money trusts	11,564	3,500
Investments in securities:	5,173,738	5,294,691
Government bonds	1,278,847	1,263,321
Municipal bonds	91,948	88,898
Corporate bonds	494,579	495,736
Domestic stocks	1,756,599	1,806,870
Foreign securities	1,525,945	1,604,888
Other securities	25,817	34,974
Loans:	448,667	418,146
Policy loans	8,242	7,672
General loans	440,424	410,474
Tangible fixed assets:	215,984	210,723
Land	77,690	77,391
Buildings	127,253	122,668
Construction in progress	33	390
Other tangible fixed assets	11,006	10,272
Intangible fixed assets:	43,039	40,105
Software	23,485	21,902
Other intangible fixed assets	19,554	18,203
Other assets:	349,567	352,144
Premiums receivable	3,068	3,330
Due from agencies	114,336	117,841
Co-insurance accounts receivable	7,263	9,257
Reinsurance accounts receivable	58,020	56,073
Foreign reinsurance accounts receivable	30,899	37,979
Agency business accounts receivable	583	619
Other receivables	26,530	38,881
Accrued income	6,260	6,228
Guarantee deposits	11,530	10,565
Deposits with the Japan Earthquake Reinsurance Company	11,286	6,019
Suspense payments	36,111	38,488
Derivative financial instruments	42,639	25,651
Cash collateral pledged under derivative transactions	-	300
Other assets	1,038	907
Customers' liabilities under acceptances and guarantees	45,803	45,520
Bad debt reserve	(3,115)	(4,175)
<b>Total assets</b>	<b>¥6,786,590</b>	<b>¥6,777,076</b>

Items	Yen in millions	
	March 31, 2016	March 31, 2017
<b>(Liabilities)</b>		
Policy liabilities:	¥3,994,619	¥3,960,687
Outstanding claims	649,729	643,446
Underwriting reserves	3,344,890	3,317,241
Bonds issued	256,191	256,191
Other liabilities:	610,785	515,281
Co-insurance accounts payable	10,935	11,120
Reinsurance accounts payable	59,230	63,397
Foreign reinsurance accounts payable	22,171	28,144
Agency business accounts payable	24	12
Borrowings	296,767	196,767
Income taxes payable	31,780	39,277
Deposits received	18,212	32,469
Unearned income	43	31
Other payables	46,819	48,854
Suspense receipts	24,236	23,286
Derivative financial instruments	5,160	1,649
Cash collateral received under derivative transactions	87,988	62,168
Lease obligations	903	1,399
Asset retirement obligations	3,765	3,831
Other liabilities	2,745	2,869
Reserve for pension and retirement benefits	135,688	136,186
Reserve for retirement benefits for officers	761	612
Accrued bonuses for employees	11,716	10,453
Reserve for reorganization by function	-	3,015
Reserves under the special laws:	64,133	67,801
Reserve for price fluctuation	64,133	67,801
Deferred tax liabilities	139,408	136,275
Acceptances and guarantees	45,803	45,520
<b>Total liabilities</b>	<b>5,259,108</b>	<b>5,132,025</b>
<b>(Net assets)</b>		
Common stock	139,595	139,595
Capital surplus:	93,107	93,107
Additional paid-in capital	93,107	93,107
Retained earnings:	352,644	443,975
Legal earned reserve	46,487	46,487
Other retained earnings:	306,156	397,487
Tax-exempted reserve for accelerated depreciation	16,012	15,840
Retained earnings brought forward	290,143	381,647
<b>Total shareholders' equity</b>	<b>585,347</b>	<b>676,678</b>
Net unrealized gains/(losses) on investments in securities	902,019	932,995
Net deferred gains/(losses) on hedges	40,113	35,377
<b>Total valuation and translation adjustments</b>	<b>942,133</b>	<b>968,372</b>
<b>Total net assets</b>	<b>1,527,481</b>	<b>1,645,050</b>
<b>Total liabilities and net assets</b>	<b>¥6,786,590</b>	<b>¥6,777,076</b>

## MITSUI SUMITOMO INSURANCE CO., LTD. (NON-CONSOLIDATED)

### Non-Consolidated Statements of Income

Items	Yen in millions	
	Year ended March 31, 2016	Year ended March 31, 2017
<b>Ordinary income:</b>	¥1,822,757	¥1,772,858
<b>Underwriting income:</b>	1,629,696	1,609,647
Net premiums written	1,507,157	1,470,122
Deposit premiums from policyholders	84,712	70,040
Investment income on deposit premiums from policyholders	37,567	35,508
Reversal of outstanding claims	–	6,283
Reversal of underwriting reserves	–	27,649
Other underwriting income	259	44
<b>Investment income:</b>	187,416	159,029
Interest and dividends income	116,990	116,792
Investment gains on money trusts	739	517
Gains on sales of securities	102,149	71,738
Gains on redemption of securities	541	304
Gains on derivative transactions	3,466	4,405
Other investment income	1,095	780
Transfer of investment income on deposit premiums from policyholders	(37,567)	(35,508)
<b>Other ordinary income</b>	5,645	4,181
<b>Ordinary expenses:</b>	1,654,861	1,557,316
<b>Underwriting expenses:</b>	1,405,264	1,319,905
Net claims paid	800,899	811,476
Loss adjustment expenses	87,427	87,834
Commissions and collection expenses	263,136	251,720
Maturity refunds to policyholders	211,446	167,151
Dividends to policyholders	967	466
Provision for outstanding claims	8,815	–
Provision for underwriting reserves	30,101	–
Foreign exchange losses	1,851	736
Other underwriting expenses	619	519
<b>Investment expenses:</b>	26,738	11,968
Investment losses on money trusts	536	9
Losses on sales of securities	3,004	4,469
Impairment losses on securities	7,292	497
Losses on redemption of securities	425	447
Foreign exchange losses	9,825	1,624
Other investment expenses	5,652	4,920
<b>Operating expenses and general and administrative expenses</b>	215,144	217,601
<b>Other ordinary expenses:</b>	7,713	7,840
Interest expense	6,173	6,325
Provision for bad debts	–	1,160
Losses on bad debts	4	9
Other ordinary expenses	1,535	345
<b>Ordinary profit</b>	167,896	215,542
<b>Extraordinary income:</b>	1,782	1,379
Gains on sales of fixed assets	1,782	1,379
<b>Extraordinary losses:</b>	13,567	8,479
Losses on sales of fixed assets	520	700
Impairment losses on fixed assets	8,294	489
Provision for reserves under the special laws:	3,613	3,667
Provision for reserve for price fluctuation	3,613	3,667
Other extraordinary losses	1,139	3,621
<b>Income before income taxes</b>	156,111	208,442
<b>Income taxes – current</b>	37,305	56,972
<b>Income taxes – deferred</b>	4,835	(13,098)
<b>Total income taxes</b>	42,140	43,874
<b>Net income</b>	¥ 113,970	¥ 164,568

## Non-Consolidated Solvency Margin Ratio

Insurance companies running their business in Japan calculate the non-consolidated solvency margin ratio pursuant to the provisions of Articles 86 and 87 of the Insurance Business Act Enforcement Regulations and Public Notice No. 50 issued by the Ministry of Finance in 1996.

While insurance companies set aside reserves to provide for payments of insurance claims should an insured event occur, they are also required to maintain sufficient funds to pay out in an event outside the normal range of estimates such as a major catastrophe and a significant drop in the value of their assets.

The non-consolidated solvency margin ratio, or item (C) in each of the tables below, which is calculated in accordance with the Insurance Business Act, is the ratio of “solvency margin of insurance companies calculated based on their capital and other reserves”, or (A) the total amount of solvency margin, to “risks exceeding the normal range of estimates”, or (B) the total amount of risks.

The non-consolidated solvency margin ratio is one of the objective indicators used by the insurance regulatory authorities to supervise insurance companies. A non-consolidated solvency margin ratio of 200% or over indicates adequate ability to satisfy insurance claims and other payment requirements.

	Yen in millions	
	March 31, 2016	March 31, 2017
(A) Total amount of solvency margin	¥2,612,098	¥2,840,438
Total net assets	539,532	639,997
Reserve for price fluctuation	64,133	67,801
Contingency reserve	483	589
Catastrophe reserve	495,691	536,735
General bad debt reserve	199	156
Net unrealized gains/(losses) on investments in securities and net deferred gains/(losses) on hedges (prior to tax effect deductions)	1,126,342	1,164,861
Net unrealized gains/(losses) on land	39,762	45,296
Excess of policyholders' contract deposits (a)	–	–
Subordinated debts, etc. (b)	256,191	256,191
Amount excluded from the margin, out of (a) and (b)	–	–
Deductions	14,674	14,646
Others	104,435	143,455
(B) Total amount of risks $\sqrt{(R_1+R_2)^2+(R_3+R_4)^2}+R_5+R_6$	891,542	863,472
General insurance risk (R <sub>1</sub> )	120,693	125,601
Insurance risk of third sector insurance contracts (R <sub>2</sub> )	–	–
Assumed interest rate risk (R <sub>3</sub> )	17,579	16,637
Asset management risk (R <sub>4</sub> )	682,112	696,215
Business administration risk (R <sub>5</sub> )	19,645	19,178
Catastrophe risk (R <sub>6</sub> )	161,872	120,461
(C) Solvency margin ratio $[(A) / \{(B) \times 1/2\}] \times 100$	585.9%	657.9%

## AIOI NISSAY DOWA INSURANCE CO., LTD. (NON-CONSOLIDATED)

### Non-Consolidated Balance Sheets

Items	Yen in millions	
	March 31, 2016	March 31, 2017
<b>(Assets)</b>		
<b>Cash, deposits and savings:</b>	¥ 131,947	¥ 172,323
Cash on hand	23	21
Deposits in banks	131,923	172,302
<b>Call loans</b>	15,000	15,000
<b>Monetary claims bought</b>	94	–
<b>Money trusts</b>	2,511	2,502
<b>Investments in securities:</b>	2,497,578	2,577,087
Government bonds	693,622	670,598
Municipal bonds	22,487	20,726
Corporate bonds	269,389	279,472
Domestic stocks	792,765	843,368
Foreign securities	675,729	707,044
Other securities	43,582	55,876
<b>Loans:</b>	221,856	210,917
Policy loans	3,794	3,384
General loans	218,062	207,533
<b>Tangible fixed assets:</b>	181,665	174,597
Land	80,890	76,916
Buildings	90,026	86,506
Lease assets	51	29
Construction in progress	836	1,187
Other tangible fixed assets	9,860	9,957
<b>Intangible fixed assets:</b>	23,976	19,679
Software	16,966	14,633
Other intangible fixed assets	7,009	5,045
<b>Other assets:</b>	289,975	276,730
Premiums receivable	2,611	2,639
Due from agencies	77,801	79,671
Due from foreign agencies	780	800
Co-insurance accounts receivable	3,265	3,813
Reinsurance accounts receivable	55,238	54,357
Foreign reinsurance accounts receivable	37,363	49,319
Agency business accounts receivable	84	65
Other receivables	53,866	40,227
Accrued income	7,734	7,916
Guarantee deposits	7,047	7,061
Deposits with the Japan Earthquake Reinsurance Company	7,844	3,961
Suspense payments	22,876	23,333
Derivative financial instruments	13,461	3,563
<b>Prepaid pension expenses</b>	28,175	27,150
<b>Deferred tax assets</b>	14,544	16,329
<b>Customers' liabilities under acceptances and guarantees</b>	12,500	7,530
<b>Bad debt reserve</b>	(1,309)	(1,584)
<b>Total assets</b>	<b>¥3,418,516</b>	<b>¥3,498,264</b>

Items	Yen in millions	
	March 31, 2016	March 31, 2017
<b>(Liabilities)</b>		
<b>Policy liabilities:</b>	¥2,404,819	¥2,425,101
Outstanding claims	511,559	526,764
Underwriting reserves	1,893,259	1,898,337
<b>Bonds issued</b>	50,000	50,000
<b>Other liabilities:</b>	143,343	154,423
Co-insurance accounts payable	3,817	3,966
Reinsurance accounts payable	51,236	57,124
Foreign reinsurance accounts payable	19,397	21,389
Agency business accounts payable	1,509	1,478
Borrowings	9	8
Income taxes payable	3,000	17,290
Deposits received	2,585	2,888
Unearned income	18	18
Other payables	40,003	26,495
Suspense receipts	19,057	18,807
Derivative financial instruments	1,943	4,264
Lease obligations	109	30
Asset retirement obligations	654	661
Other liabilities	0	0
<b>Reserve for pension and retirement benefits</b>	20,239	22,840
<b>Accrued bonuses for employees</b>	5,757	5,919
<b>Reserve for Reorganization by Function</b>	166	2,288
<b>Reserves under the special laws:</b>	36,525	37,114
Reserve for price fluctuation	36,525	37,114
<b>Acceptances and guarantees</b>	12,500	7,530
<b>Total liabilities</b>	<b>2,673,351</b>	<b>2,705,218</b>
<b>(Net assets)</b>		
<b>Common stock</b>	100,005	100,005
<b>Capital surplus:</b>	81,207	81,207
Additional paid-in capital	52,593	52,593
Other capital surplus	28,614	28,614
<b>Retained earnings:</b>	221,876	237,071
Legal earned reserve	47,411	47,411
Other retained earnings:	174,464	189,660
Retained earnings brought forward	174,464	189,660
<b>Total shareholders' equity</b>	403,089	418,284
<b>Net unrealized gains/(losses) on investments in securities</b>	342,075	374,762
<b>Total valuation and translation adjustments</b>	342,075	374,762
<b>Total net assets</b>	<b>745,164</b>	<b>793,046</b>
<b>Total liabilities and net assets</b>	<b>¥3,418,516</b>	<b>¥3,498,264</b>

## AIOI NISSAY DOWA INSURANCE CO., LTD. (NON-CONSOLIDATED)

### Non-Consolidated Statements of Income

Items	Yen in millions	
	Year ended March 31, 2016	Year ended March 31, 2017
<b>Ordinary income:</b>	¥1,309,986	¥1,304,987
<b>Underwriting income:</b>	1,243,096	1,246,626
Net premiums written	1,192,089	1,200,525
Deposit premiums from policyholders	31,513	28,506
Investment income on deposit premiums from policyholders	19,196	17,365
Other underwriting income	297	228
<b>Investment income:</b>	60,713	52,058
Interest and dividends income	58,752	55,409
Investment gains on money trusts	0	1
Gains on sales of securities	19,522	13,349
Gains on redemption of securities	1,242	425
Other investment income	391	238
Transfer of investment income on deposit premiums from policyholders	(19,196)	(17,365)
<b>Other ordinary income</b>	6,176	6,302
<b>Ordinary expenses:</b>	1,248,214	1,229,799
<b>Underwriting expenses:</b>	1,031,846	1,026,167
Net claims paid	644,889	648,618
Loss adjustment expenses	61,076	60,829
Commissions and collection expenses	223,121	223,848
Maturity refunds to policyholders	81,691	69,648
Dividends to policyholders	47	59
Provision for outstanding claims	441	15,205
Provision for underwriting reserves	15,132	5,077
Foreign exchange losses	2,419	1,562
Other underwriting expenses	3,027	1,318
<b>Investment expenses:</b>	20,302	14,439
Losses on sales of securities	9,069	4,298
Impairment losses on securities	6,664	4,919
Losses on redemption of securities	448	370
Losses on derivative transactions	1,761	4,102
Foreign exchange losses	832	125
Other investment expenses	1,525	622
<b>Operating expenses and general and administrative expenses</b>	193,651	186,846
<b>Other ordinary expenses:</b>	2,413	2,345
Interest expense	756	755
Provision for bad debts	-	295
Losses on bad debts	6	0
Other ordinary expenses	1,650	1,294
<b>Ordinary profit</b>	61,771	75,188
<b>Extraordinary income:</b>	3,717	2,644
Gains on sales of fixed assets	637	2,644
Other extraordinary income	3,079	-
<b>Extraordinary losses:</b>	23,946	11,015
Losses on sales of fixed assets	1,265	1,922
Impairment losses on fixed assets	3,695	5,709
Provision for reserves under the special laws:	6,641	589
Provision for reserve for price fluctuation	6,641	589
Other extraordinary losses	12,343	2,795
<b>Income before income taxes</b>	41,542	66,816
<b>Income taxes – current</b>	3,218	17,097
<b>Income taxes – deferred</b>	7,225	(672)
<b>Total income taxes</b>	10,444	16,425
<b>Net income</b>	¥ 31,098	¥ 50,391

### Non-Consolidated Solvency Margin Ratio

	Yen in millions	
	March 31, 2016	March 31, 2017
(A) Total amount of solvency margin	¥1,246,991	¥1,332,714
Total net assets	382,616	398,099
Reserve for price fluctuation	36,525	37,114
Contingency reserve	747	747
Catastrophe reserve	287,174	318,711
General bad debt reserve	372	296
Net unrealized gains/(losses) on investments in securities and net deferred gains/(losses) on hedges (prior to tax effect deductions)	427,061	455,477
Net unrealized gains/(losses) on land	9,267	14,099
Excess of policyholders' contract deposits (a)	-	-
Subordinated debts, etc. (b)	50,000	50,000
Amount excluded from the margin, out of (a) and (b)	-	-
Deductions	9,747	10,743
Others	62,975	68,911
(B) Total amount of risks $\sqrt{(R_1+R_2)^2+(R_3+R_4)^2}+R_5+R_6$	300,711	312,981
General insurance risk (R <sub>1</sub> )	100,469	103,370
Insurance risk of third sector insurance contracts (R <sub>2</sub> )	-	-
Assumed interest rate risk (R <sub>3</sub> )	8,919	8,387
Asset management risk (R <sub>4</sub> )	207,334	221,083
Business administration risk (R <sub>5</sub> )	7,431	7,728
Catastrophe risk (R <sub>6</sub> )	54,827	53,574
(C) Solvency margin ratio $[(A) / \{(B) \times 1/2\}] \times 100$	829.3%	851.6%

## MITSUI DIRECT GENERAL INSURANCE CO., LTD. (NON-CONSOLIDATED)

### Non-Consolidated Balance Sheets

Items	Yen in millions	
	March 31, 2016	March 31, 2017
<b>(Assets)</b>		
<b>Cash, deposits and savings:</b>	¥ 3,918	¥12,180
Deposits in banks	3,918	12,180
<b>Investments in securities:</b>	38,973	39,510
Government bonds	2,173	1,865
Municipal bonds	18,897	21,537
Corporate bonds	17,902	16,107
<b>Tangible fixed assets:</b>	213	367
Buildings	60	56
Other tangible fixed assets	153	310
<b>Intangible fixed assets:</b>	2,396	2,307
Software	2,396	2,217
Other intangible fixed assets	0	89
<b>Other assets:</b>	5,586	5,625
Premiums receivable	0	0
Other receivables	3,314	3,330
Accrued income	59	58
Guarantee deposits	386	352
Suspense payments	1,824	1,880
Other assets	2	2
<b>Bad debt reserve</b>	(1)	(4)
<b>Total assets</b>	<b>¥51,086</b>	<b>¥59,987</b>
<b>(Liabilities)</b>		
<b>Policy liabilities:</b>	43,044	44,851
Outstanding claims	22,978	24,157
Underwriting reserves	20,066	20,693
<b>Other liabilities:</b>	1,217	1,254
Reinsurance accounts payable	1	1
Income taxes payable	120	119
Other payables	1,059	1,101
Suspense receipts	19	14
Asset retirement obligations	16	17
<b>Reserve for pension and retirement benefits</b>	–	52
<b>Accrued bonuses for employees</b>	215	262
<b>Reserves under the special laws:</b>	49	56
Reserve for price fluctuation	49	56
<b>Deferred tax liabilities</b>	118	119
<b>Total liabilities</b>	<b>44,646</b>	<b>46,596</b>
<b>(Net assets)</b>		
<b>Common stock</b>	35,101	39,106
<b>Capital surplus:</b>	5,001	9,006
Additional paid-in capital	5,001	9,006
<b>Retained earnings:</b>	(33,816)	(34,820)
Other retained earnings:	(33,816)	(34,820)
Retained earnings brought forward	(33,816)	(34,820)
<b>Total shareholders' equity</b>	<b>6,285</b>	<b>13,291</b>
<b>Net unrealized gains/(losses) on investments in securities</b>	155	99
<b>Total valuation and translation adjustments</b>	155	99
<b>Total net assets</b>	<b>6,440</b>	<b>13,390</b>
<b>Total liabilities and net assets</b>	<b>¥51,086</b>	<b>¥59,987</b>

## Non-Consolidated Statements of Income

Items	Yen in millions	
	Year ended March 31, 2016	Year ended March 31, 2017
<b>Ordinary income:</b>	¥36,704	¥37,753
<b>Underwriting income:</b>	36,592	37,670
Net premiums written	36,571	37,653
Investment income on deposit premiums from policyholders	21	17
Other underwriting income	0	–
<b>Investment income:</b>	99	73
Interest and dividends income	111	89
Gains on sales of securities	9	0
Transfer of investment income on deposit premiums from policyholders	(21)	(17)
<b>Other ordinary income</b>	12	9
<b>Ordinary expenses:</b>	42,076	38,708
<b>Underwriting expenses:</b>	34,278	30,627
Net claims paid	26,247	25,745
Loss adjustment expenses	2,633	2,822
Commissions and collection expenses	229	254
Provision for outstanding claims	4,439	1,178
Provision for underwriting reserves	727	627
<b>Investment expenses:</b>	–	–
<b>Operating expenses and general and administrative expenses</b>	7,776	8,047
<b>Other ordinary expenses:</b>	22	33
Provision for bad debts	0	2
Losses on bad debts	0	–
Other ordinary expenses	20	30
<b>Ordinary loss</b>	<b>5,372</b>	<b>955</b>
<b>Extraordinary income</b>	–	–
<b>Extraordinary losses:</b>	18	12
Losses on sales of fixed assets	10	4
Provision for reserves under the special laws:	7	7
Provision for reserve for price fluctuation	7	7
<b>Loss before income taxes</b>	<b>5,390</b>	<b>967</b>
<b>Income taxes – current</b>	17	14
<b>Income taxes – deferred</b>	19	22
<b>Total income taxes</b>	<b>37</b>	<b>36</b>
<b>Net loss</b>	<b>¥ 5,427</b>	<b>¥ 1,004</b>

## Non-Consolidated Solvency Margin Ratio

	Yen in millions	
	March 31, 2016	March 31, 2017
(A) Total amount of solvency margin	¥7,721	¥14,705
Total net assets	6,285	13,291
Reserve for price fluctuation	49	56
Contingency reserve	0	0
Catastrophe reserve	1,191	1,231
General bad debt reserve	0	1
Net unrealized gains/(losses) on investments in securities and net deferred gains/(losses) on hedges (prior to tax effect deductions)	194	124
Net unrealized gains/(losses) on land	–	–
Excess of policyholders' contract deposits (a)	–	–
Subordinated debts, etc. (b)	–	–
Amount excluded from the margin, out of (a) and (b)	–	–
Deductions	–	–
Others	–	–
(B) Total amount of risks $\sqrt{(R_1+R_2)^2+(R_3+R_4)^2+R_5+R_6}$	6,701	6,817
General insurance risk (R <sub>1</sub> )	6,129	6,227
Insurance risk of third sector insurance contracts (R <sub>2</sub> )	–	–
Assumed interest rate risk (R <sub>3</sub> )	0	0
Asset management risk (R <sub>4</sub> )	818	912
Business administration risk (R <sub>5</sub> )	217	223
Catastrophe risk (R <sub>6</sub> )	300	300
(C) Solvency margin ratio $[(A) / \{(B) \times 1/2\}] \times 100$	230.4%	431.4%

## MITSUI SUMITOMO AIOI LIFE INSURANCE CO., LTD. (NON-CONSOLIDATED)

### Non-Consolidated Balance Sheets

Items	Yen in millions	
	March 31, 2016	March 31, 2017
<b>(Assets)</b>		
<b>Cash, deposits and savings:</b>	¥ 73,084	¥ 290,010
Cash on hand	0	0
Deposits in banks	73,084	290,009
<b>Receivables under securities borrowing transactions</b>	275,350	285,455
<b>Investments in securities:</b>	2,765,411	2,919,795
Government bonds	1,680,750	1,804,655
Municipal bonds	123,431	135,839
Corporate bonds	710,132	726,620
Domestic stocks	1,315	1,314
Foreign securities	246,210	244,182
Other securities	3,570	7,183
<b>Loans:</b>	52,677	55,198
Policy loans	52,677	55,198
<b>Tangible fixed assets:</b>	4,752	4,638
Buildings	673	620
Lease assets	2,474	2,724
Other tangible fixed assets	1,604	1,292
<b>Intangible fixed assets:</b>	16,768	20,987
Software	5,023	6,440
Other intangible fixed assets	11,745	14,547
<b>Due from agencies</b>	139	116
<b>Reinsurance accounts receivable</b>	860	1,018
<b>Other assets:</b>	40,062	42,103
Other receivables	28,950	30,610
Prepaid expenses	1,632	1,537
Accrued income	7,098	6,949
Guarantee deposits	324	328
Derivative financial instruments	1,673	2,029
Suspense payments	358	621
Other assets	24	24
<b>Bad debt reserve</b>	(76)	(128)
<b>Total assets</b>	¥3,229,031	¥3,619,194

Items	Yen in millions	
	March 31, 2016	March 31, 2017
<b>(Liabilities)</b>		
<b>Policy liabilities:</b>	¥2,696,520	¥2,934,939
Outstanding claims	24,858	27,648
Underwriting reserves	2,661,796	2,896,459
Reserve for dividends to policyholders	9,865	10,831
<b>Due to agencies</b>	5,013	5,626
<b>Reinsurance accounts payable</b>	262	283
<b>Other liabilities:</b>	289,830	375,124
Payables under securities lending transactions	277,880	361,797
Income taxes payable	1,995	853
Other payables	137	140
Accrued expenses	5,788	7,450
Unearned income	0	0
Deposits received	87	91
Derivative financial instruments	105	544
Lease obligations	2,695	2,976
Asset retirement obligations	426	429
Suspense receipts	712	839
<b>Reserve for pension and retirement benefits</b>	2,187	2,535
<b>Reserve for retirement benefits for officers</b>	34	28
<b>Reserves under the special laws:</b>	5,230	5,988
Reserve for price fluctuation	5,230	5,988
<b>Deferred tax liabilities</b>	30,221	18,397
<b>Total liabilities</b>	3,029,301	3,342,924
<b>(Net assets)</b>		
<b>Common stock</b>	35,500	85,500
<b>Capital surplus:</b>	43,688	93,688
Additional paid-in capital	13,214	63,214
Other capital surplus	30,473	30,473
<b>Retained earnings:</b>	1,539	6,133
Other retained earnings:	1,539	6,133
Retained earnings brought forward	1,539	6,133
<b>Total shareholders' equity</b>	80,727	185,321
<b>Net unrealized gains/(losses) on investments in securities</b>	119,001	90,948
<b>Total valuation and translation adjustments</b>	119,001	90,948
<b>Total net assets</b>	199,729	276,270
<b>Total liabilities and net assets</b>	¥3,229,031	¥3,619,194

## MITSUI SUMITOMO AIOI LIFE INSURANCE CO., LTD. (NON-CONSOLIDATED)

### Non-Consolidated Statements of Income

Items	Yen in millions	
	Year ended March 31, 2016	Year ended March 31, 2017
<b>Ordinary income:</b>	¥512,568	¥530,173
<b>Insurance premiums and others:</b>	462,251	480,264
Insurance premiums	461,125	478,928
Reinsurance income	1,126	1,335
<b>Investment income:</b>	47,722	47,500
Interest and dividends income:	43,459	43,797
Interest on deposits	0	0
Interest and dividends on securities	41,571	42,034
Interest on loans	1,536	1,572
Other interest and dividends	351	189
Gains on sales of securities	4,262	3,703
<b>Other ordinary income:</b>	2,594	2,408
Receipts of annuities with special conditions	460	367
Receipts of deferred insurance claims	1,610	1,545
Other ordinary income	523	495
<b>Ordinary expenses:</b>	493,920	514,019
<b>Insurance claims and others:</b>	175,220	183,438
Insurance claims	38,732	40,756
Annuity payments	13,943	15,737
Benefits	15,848	17,271
Surrender benefits	102,443	104,943
Other refunds	2,765	3,151
Reinsurance premiums	1,487	1,578
<b>Provision for underwriting reserves and others:</b>	230,351	237,453
Provision for outstanding claims	2,071	2,789
Provision for underwriting reserves	228,279	234,662
Provision for interest portion of reserve for dividends to policyholders	0	0
<b>Investment expenses:</b>	2,090	3,860
Interest expense	292	67
Losses on sales of securities	890	894
Losses on derivative transactions	846	2,792
Foreign exchange losses	4	4
Provision for bad debts	13	54
Other investment expenses	41	46
<b>Operating expenses</b>	75,084	76,907
<b>Other ordinary expenses:</b>	11,173	12,359
Payments of deferred insurance claims	1,445	1,348
Taxes	6,187	6,805
Depreciation	3,221	3,815
Provision for reserve for pension and retirement benefits	312	348
Other ordinary expenses	6	42
<b>Ordinary profit</b>	18,647	16,153
<b>Extraordinary income:</b>	0	3
Gains on sales of fixed assets	0	3
<b>Extraordinary losses:</b>	735	775
Losses on sales of fixed assets	32	17
Provision for reserves under the special laws:	703	757
Provision for reserve for price fluctuation	703	757
Provision for reserve for dividends to policyholders	9,037	8,972
<b>Income before income taxes</b>	8,874	6,409
<b>Income taxes – current</b>	3,508	2,728
<b>Income taxes – deferred</b>	(675)	(913)
<b>Total income taxes</b>	2,833	1,815
<b>Net income</b>	¥ 6,041	¥ 4,594

## Business Results

### Amount of Policies in Force and New Policies

#### (1) Policies in force

	Yen in 100 millions			
	March 31, 2016		March 31, 2017	
	Number of policies (in thousands)	Amount	Number of policies (in thousands)	Amount
Individual insurance	2,767	¥218,310	2,938	¥224,779
Individual annuities	185	7,449	186	7,362
Group insurance	—	65,187	—	70,743
Group annuities	—	3	—	3

Notes: 1. The amounts of individual annuities represent the total sum of (a) the funds to be held at the time annuity payments are to commence for the policies for which annuity payments have not yet commenced and (b) the underwriting reserves for the policies for which annuity payments have commenced.  
2. The amounts of group annuities represent the underwriting reserves.

#### (2) New policies

	Yen in 100 millions							
	Year ended March 31, 2016				Year ended March 31, 2017			
	Number of policies (in thousands)	Amount	New policies	Net increase by conversion	Number of policies (in thousands)	Amount	New policies	Net increase by conversion
Individual insurance	309	¥23,988	23,988	—	317	¥23,468	23,468	—
Individual annuities	5	245	245	—	7	302	302	—
Group insurance	—	10,059	10,059	—	—	610	610	—
Group annuities	—	—	—	—	—	—	—	—

Note: The amounts of individual annuities represent the funds to be held at the time annuity payments are to commence.

### Annualized Premiums

#### (1) Policies in force

	Yen in 100 millions	
	March 31, 2016	March 31, 2017
Individual insurance	¥3,327	¥3,577
Individual annuities	429	433
Total:	3,757	4,010
Medical coverage, living benefits, etc.	787	884

#### (2) New policies

	Yen in 100 millions	
	Year ended March 31, 2016	Year ended March 31, 2017
Individual insurance	¥468	¥501
Individual annuities	13	15
Total:	481	517
Medical coverage, living benefits, etc.	135	152

Notes: 1. An annualized premium is the annual total of premiums that is obtained by multiplying the amount of a single payment with the number of payments per year in accordance with the premium payment method. An annualized premium for a lump-sum payment policy is the premium divided by the number of years of coverage.  
2. "Medical coverage, living benefits, etc." represents the portion of annualized premiums that corresponds to medical coverage benefits (for hospitalization, surgeries, etc.), living benefits (for specified diseases, nursing care, etc.) and premium waiver benefits (excluding those for disability, but including those for specified diseases, nursing care, etc.).

## MITSUI SUMITOMO AIOI LIFE INSURANCE CO., LTD. (NON-CONSOLIDATED)

### Non-Consolidated Business Performance

	Yen in millions		
	Year ended March 31, 2016	Year ended March 31, 2017	Change
Fundamental profit	¥ 19,437	¥ 18,616	¥ (820)
Fundamental revenues:	508,306	526,470	18,163
Insurance premiums and others	462,251	480,264	18,012
Fundamental expenses	488,869	507,853	18,983
Capital gains/(losses)	2,520	12	(2,508)
Non-recurring gains/(losses)	(3,309)	(2,475)	834
Ordinary profit	18,647	16,153	(2,494)
Extraordinary income	0	3	2
Extraordinary losses	735	775	39
Provision for reserve for dividends to policyholders	9,037	8,972	(65)
Income taxes	2,833	1,815	(1,018)
Net income	6,041	4,594	(1,447)

### Non-Consolidated Solvency Margin Ratio

	Yen in millions	
	March 31, 2016	March 31, 2017
(A) Total amount of solvency margin	¥380,460	¥487,958
Total capital	80,727	183,197
Reserve for price fluctuation	5,230	5,988
Contingency reserve	29,150	31,584
General bad debt reserve	11	25
Net unrealized gains/(losses) on investments in securities and net deferred gains/(losses) on hedges (prior to tax effect deductions) × 90%	148,752	113,685
Net unrealized gains/(losses) on land × 85%	–	–
Excess of continued Zillmerized reserve (a)	142,443	151,430
Subordinated debts, etc. (b)	–	–
Amount excluded from the margin, out of (a) and (b)	(26,894)	–
Brought in capital	–	–
Deductions	–	–
Others	1,038	2,046
(B) Total amount of risks $\sqrt{(R_1+R_3)^2+(R_2+R_3+R_4)^2}+R_4$	47,604	51,546
Insurance risk (R <sub>1</sub> )	15,906	16,565
Insurance risk of third sector insurance contracts (R <sub>2</sub> )	9,660	11,315
Assumed interest rate risk (R <sub>3</sub> )	3,049	3,080
Minimum guarantee risk (R <sub>7</sub> )	–	–
Asset management risk (R <sub>3</sub> )	35,576	38,611
Business administration risk (R <sub>4</sub> )	1,283	1,391
(C) Solvency margin ratio $[(A) / \{(B) \times 1/2\}] \times 100$	1,598.4%	1,893.2%

## MITSUI SUMITOMO PRIMARY LIFE INSURANCE CO., LTD. (NON-CONSOLIDATED)

### Non-Consolidated Balance Sheets

Items	Yen in millions	
	March 31, 2016	March 31, 2017
<b>(Assets)</b>		
Cash, deposits and savings:	¥ 136,349	¥ 141,458
Deposits in banks	136,349	141,458
Call loans	16,175	–
Monetary claims bought	34,997	41,499
Money trusts	813,920	965,032
Investments in securities:	3,906,188	4,404,883
Government bonds	59,983	68,744
Municipal bonds	13,881	6,739
Corporate bonds	42,637	55,882
Foreign securities	1,255,692	1,715,807
Other securities	2,533,993	2,557,710
Loans:	160,609	208,643
Policy loans	436	422
General loans	160,173	208,220
Tangible fixed assets:	749	560
Buildings	276	246
Lease assets	322	188
Other tangible fixed assets	150	126
Intangible fixed assets:	4,748	4,471
Software	4,722	4,467
Lease assets	25	3
Reinsurance accounts receivable	139	2,851
Other assets:	83,598	25,001
Other receivables	70,412	3,798
Prepaid expenses	300	362
Accrued income	11,719	16,023
Guarantee deposits	135	3,810
Derivative financial instruments	184	2
Suspense payments	845	1,005
Deferred tax assets	33,754	43,644
<b>Total assets</b>	<b>¥5,191,230</b>	<b>¥5,838,048</b>
<b>(Liabilities)</b>		
Policy liabilities:	4,888,353	5,561,432
Outstanding claims	9,605	12,418
Underwriting reserves	4,878,748	5,549,014
Due to agencies	9,668	4,984
Reinsurance accounts payable	3,074	7,199
Other liabilities:	110,019	42,675
Income taxes payable	2,110	2,911
Other payables	77,114	8,672
Accrued expenses	5,086	4,550
Deposits received	19,181	19,343
Derivative financial instruments	36	6
Lease obligations	368	207
Asset retirement obligations	130	132
Suspense receipts	5,990	6,851
Reserves under the special laws:	55,093	84,000
Reserve for price fluctuation	55,093	84,000
<b>Total liabilities</b>	<b>5,066,210</b>	<b>5,700,291</b>
<b>(Net assets)</b>		
Common stock	41,060	41,060
Capital surplus:	24,735	24,735
Additional paid-in capital	24,735	24,735
Retained earnings:	48,686	64,435
Legal earned reserve	859	1,850
Other retained earnings:	47,826	62,585
Retained earnings brought forward	47,826	62,585
Total shareholders' equity	114,481	130,230
Net unrealized gains/(losses) on investments in securities	10,538	7,522
Net deferred gains/(losses) on hedges	–	3
Total valuation and translation adjustments	10,538	7,525
<b>Total net assets</b>	<b>125,019</b>	<b>137,756</b>
<b>Total liabilities and net assets</b>	<b>¥5,191,230</b>	<b>¥5,838,048</b>

## Non-Consolidated Statements of Income

Items	Yen in millions	
	Year ended March 31, 2016	Year ended March 31, 2017
<b>Ordinary income:</b>	¥1,366,244	¥1,272,843
<b>Insurance premiums and others:</b>	1,300,187	1,083,895
Insurance premiums	1,299,457	1,071,113
Reinsurance income	730	12,781
<b>Investment income:</b>	62,867	185,621
Interest and dividends income:	47,603	60,761
Interest on deposits	111	147
Interest and dividends on securities	45,143	53,841
Interest on loans	2,024	6,400
Other interest and dividends	323	371
Investment gains on money trusts	–	14,512
Gains on sales of securities	15,264	1,306
Foreign exchange gains	–	27,658
Investment gains on separate accounts	–	81,380
<b>Other ordinary income:</b>	3,189	3,327
Receipts of annuities with special conditions	2,814	3,313
Reversal of outstanding claims	363	–
Other ordinary income	12	14
<b>Ordinary expenses:</b>	1,326,285	1,215,151
<b>Insurance claims and others:</b>	638,577	469,395
Insurance claims	54,099	58,807
Annuity payments	73,523	82,882
Benefits	201,591	126,563
Surrender benefits	269,732	118,042
Other refunds	3,245	3,357
Reinsurance premiums	36,385	79,742
<b>Provision for underwriting reserves and others:</b>	424,961	673,078
Provision for outstanding claims	–	2,813
Provision for underwriting reserves	424,961	670,265
<b>Investment expenses:</b>	160,486	1,527
Interest expense	3	0
Investment losses on money trusts	16,492	–
Losses on sales of securities	352	1,299
Losses on redemption of securities	0	1
Losses on derivative transactions	93	174
Foreign exchange losses	67,234	–
Other investment expenses	156	51
Investment losses on separate accounts	76,153	–
<b>Operating expenses</b>	90,035	61,328
<b>Other ordinary expenses:</b>	12,224	9,820
Taxes	10,696	8,038
Depreciation	1,526	1,779
Other ordinary expenses	2	2
<b>Ordinary profit</b>	<b>39,959</b>	<b>57,692</b>
<b>Extraordinary income</b>	<b>–</b>	<b>–</b>
<b>Extraordinary losses:</b>	13,327	28,907
Losses on sales of fixed assets	1	1
Provision for reserves under the special laws:	13,326	28,906
Provision for reserve for price fluctuation	13,326	28,906
<b>Income before income taxes</b>	<b>26,631</b>	<b>28,784</b>
Income taxes – current	12,187	16,800
Income taxes – deferred	(3,447)	(8,718)
<b>Total income taxes</b>	<b>8,739</b>	<b>8,081</b>
<b>Net income</b>	<b>¥ 17,892</b>	<b>¥ 20,703</b>

## MITSUI SUMITOMO PRIMARY LIFE INSURANCE CO., LTD. (NON-CONSOLIDATED)

### Business Results

#### Amount of Policies in Force and New Policies

##### (1) Policies in force

	Yen in 100 millions			
	March 31, 2016		March 31, 2017	
	Number of policies (in thousands)	Amount	Number of policies (in thousands)	Amount
Individual insurance	449	¥24,467	597	¥33,352
Individual annuities	325	24,640	323	23,455
Group insurance	—	—	—	—
Group annuities	—	—	—	—

Note: The amounts of individual annuities represent the total sum of (a) the funds to be held at the time annuity payments are to commence (the premium reserves in the case of individual variable annuities) for the policies for which annuity payments have not yet commenced and (b) the underwriting reserves for the policies for which annuity payments have commenced.

##### (2) New policies

	Yen in 100 millions							
	Year ended March 31, 2016				Year ended March 31, 2017			
	Number of policies (in thousands)	Amount	New policies	Net increase by conversion	Number of policies (in thousands)	Amount	New policies	Net increase by conversion
Individual insurance	205	¥10,965	¥10,965	—	158	¥9,026	¥9,026	—
Individual annuities	29	1,660	1,660	—	24	1,296	1,296	—
Group insurance	—	—	—	—	—	—	—	—
Group annuities	—	—	—	—	—	—	—	—

Note: The amounts of individual annuities represent the funds to be held at the time annuity payments are to commence (the premium reserves at the time of enrollment in the case of individual variable annuities).

#### Annualized Premiums

##### (1) Policies in force

	Yen in 100 millions	
	March 31, 2016	March 31, 2017
Individual insurance	¥1,598	¥2,217
Individual annuities	3,242	3,104
Total:	4,840	5,321
Medical coverage, living benefits, etc.	0	0

##### (2) New policies

	Yen in 100 millions	
	Year ended March 31, 2016	Year ended March 31, 2017
Individual insurance	¥ 736	¥ 667
Individual annuities	1,060	922
Total:	1,796	1,589
Medical coverage, living benefits, etc.	—	—

Notes: 1. An annualized premium is the annual total of premiums that is obtained by multiplying the amount of a single payment with the number of payments per year in accordance with the premium payment method. An annualized premium for a lump-sum payment policy is the premium divided by the number of years of coverage.

2. "Medical coverage, living benefits, etc." represents the portion of annualized premiums that corresponds to medical coverage benefits (for hospitalization, surgeries, etc.), living benefits (for specified diseases, nursing care, etc.) and premium waiver benefits (excluding those for disability, but including those for specified diseases, nursing care, etc.).

#### Non-Consolidated Business Performance

	Yen in millions		
	Year ended March 31, 2016	Year ended March 31, 2017	Change
Fundamental profit	¥ 14,311	¥ 52,644	¥ 38,333
Fundamental revenues:	1,368,535	1,265,024	(103,510)
Insurance premiums and others	1,300,187	1,083,895	(216,292)
Fundamental expenses	1,354,224	1,212,379	(141,844)
Capital gains/(losses)	27,637	6,344	(21,292)
Non-recurring gains/(losses)	(1,988)	(1,296)	692
Ordinary profit	39,959	57,692	17,732
Extraordinary income	—	—	—
Extraordinary losses	13,327	28,907	15,579
Provision for reserve for dividends to policyholders	—	—	—
Income taxes	8,739	8,081	(657)
Net income	17,892	20,703	2,811

#### Non-Consolidated Solvency Margin Ratio

	Yen in millions	
	March 31, 2016	March 31, 2017
(A) Total amount of solvency margin	¥438,444	¥558,542
Total capital	110,384	126,749
Reserve for price fluctuation	55,093	84,000
Contingency reserve	73,159	74,456
General bad debt reserve	—	—
Net unrealized gains/(losses) on investments in securities and net deferred gains/(losses) on hedges (prior to tax effect deductions) × 90%	13,173	9,402
Net unrealized gains/(losses) on land × 85%	—	—
Excess of continued Zillmerized reserve (a)	169,946	241,219
Subordinated debts, etc. (b)	—	—
Amount excluded from the margin, out of (a) and (b)	—	—
Brought in capital	—	—
Deductions	—	—
Others	16,687	22,714
(B) Total amount of risks $\sqrt{(R_1+R_3)^2+(R_2+R_3+R_7)^2}+R_4$	88,978	108,399
Insurance risk (R <sub>1</sub> )	55	89
Insurance risk of third sector insurance contracts (R <sub>2</sub> )	7	5
Assumed interest rate risk (R <sub>3</sub> )	36,504	41,902
Minimum guarantee risk (R <sub>7</sub> )	4,218	3,722
Asset management risk (R <sub>3</sub> )	46,509	60,647
Business administration risk (R <sub>4</sub> )	1,745	2,127
(C) Solvency margin ratio $[(A) / \{(B) \times 1/2\}] \times 100$	985.5%	1,030.5%

## ESG Evaluation

The MS&AD Insurance Group utilizes the assessments provided by global ESG evaluation organizations to improve its efforts in CSR. As of July 2017, the MS&AD Insurance Group was included in the following ESG-related indices.

<p><b>Dow Jones Sustainability Indices (World / Asia Pacific)</b></p>  <p>MEMBER OF <b>Dow Jones Sustainability Indices</b> In Collaboration with RobecoSAM</p>	<p><b>FTSE4Good Index Series</b></p>  <p><b>FTSE4Good</b></p>	<p><b>FTSE Blossom Japan Index</b></p>  <p><b>FTSE Blossom Japan</b></p>
<p><b>MSCI Japan ESG Select Leaders Index*</b></p>  <p>2017 Constituent MSCI Japan ESG Select Leaders Index</p>	<p><b>ECPI Indices</b></p>  <p><b>ECPI</b> Sense in sustainability</p>	<p><b>Morningstar Socially Responsible Investment Index</b></p>  <p><b>MS-SRI</b></p>

The MS&AD Insurance Group received the “Bronze Class” CSR rating by RobecoSAM, a global ESG investment ratings company. RobecoSAM also designated the MS&AD Insurance Group as an “Industry Mover,” indicating that the Group achieved the strongest improvement in the world’s insurance industry compared to the previous year.



\*The inclusion of MS&AD Insurance Group Holdings Inc. in any MSCI Index, and the use of MSCI logos, trademarks, service marks or index names herein, do not constitute a sponsorship, endorsement or promotion of MS&AD Insurance Group Holdings Inc. by MSCI or any of its affiliates. The MSCI Indexes are the exclusive property of MSCI. MSCI and the MSCI Index names and logos are trademarks or service marks of MSCI or its affiliates.

## Participation in Initiatives

The MS&AD Insurance Group takes its social responsibilities and roles as a global financial institution seriously and accordingly participates in a variety of domestic and international initiatives with a view toward strengthening efforts to ensure environmental and social sustainability, and spreading the results of these efforts to society at large.

### Participation in the UN Global Compact

In June 2004, MSI was the first financial institution to announce support for the UN Global Compact and the MS&AD Insurance Group has followed through with this commitment by working to make certain corporate activities respect the Compact’s 10 basic principles with regard to human rights, labor, the environment and Anti-Corruption. The Group also actively participates in the management of Global Compact Network Japan.



### Signatory to the Principles for Sustainable Insurance (PSI)

The MS&AD Insurance Group is signatory to the “Principles for Sustainable Insurance” formulated under the UN Environment Programme Finance Initiatives (UNEP FI). The Group has been active in the formulation of the Principles, which call on insurance companies to consider in their business activities issues related to the environment, society and governance, and to play active roles in the sustainable development of the world.



### Other initiatives

- Principles for Responsible Investment (PRI)—[MS&AD Insurance Group]  
Signatory of:  
 Principles for Responsible Investment
  - Natural Capital Declaration— [MS&AD Insurance Group]  
 Natural Capital Finance Alliance  GCP
  - CDP—[MS&AD Insurance Group]
  - Principles for Financial Action towards a Sustainable Society—[MSI, ADI, Mitsui Sumitomo Aioi Life Insurance, InterRisk Research Institute & Consulting]
  - Japan Business Initiative for Biodiversity (JBIB)—[MSI]
- \* Signatories are indicated in brackets.

## Third-Party Assurance

To improve the objectiveness and accuracy of our MS&AD Integrated Report 2017, the MS&AD Insurance Group has engaged KPMG AZSA Sustainability Co., Ltd. to perform third-party assurance on the following information included in this report.

### The third-party assurance process



### Information subject to the assurance engagement

- CO<sub>2</sub> emissions, total energy consumption (P. 21)\*
  - Number and ratio of female managers (P. 21)
  - Number and ratio of global employees (P. 21)
  - Ratio of employees with disabilities (P. 36)
- \* Details regarding the method for calculating data can be found on our official website.  
[www.ms-ad-hd.com/en/csr/data/index.html](http://www.ms-ad-hd.com/en/csr/data/index.html)

**KPMG**  
Independent Assurance Report

To the President and CEO of MS&AD Insurance Group Holdings, Inc.

We were engaged by MS&AD Insurance Group Holdings, Inc. (the “Company”) to undertake a limited assurance engagement of the environmental and social performance indicators marked with ✓ for the period from April 1, 2016 to March 31, 2017 (the “Indicators”) disclosed in the Company’s MS&AD Integrated Report 2107 (the “Report”) for the fiscal year ended March 31, 2017.

**The Company’s Responsibility**  
The Company is responsible for the preparation of the Indicators in accordance with its own reporting criteria (the “Company’s reporting criteria”) as described in the Report.

**Our Responsibility**  
Our responsibility is to express a limited assurance conclusion on the Indicators based on the procedures we have performed. We conducted our engagement in accordance with ‘International Standard on Assurance Engagements (ISAE) 3000, Assurance Engagements other than Audits or Reviews of Historical Financial Information’, ‘ISAE 3410, Assurance Engagements on Greenhouse Gas Statements’, issued by the International Auditing and Assurance Standards Board, and the ‘Practical Guidelines for the Assurance of Sustainability Information’ of the Japanese Association of Assurance Organizations for Sustainability Information. The limited assurance engagement consisted of making inquiries, primarily of persons responsible for the preparation of information presented in the Report, and applying analytical and other procedures, and the procedures performed vary in nature from, and are less in extent than for, a reasonable assurance engagement. The level of assurance provided is thus not as high as that provided by a reasonable assurance engagement. Our assurance procedures included:

- Interviewing with the Company’s responsible personnel to obtain an understanding of its policy for the preparation of the Report and reviewing the Company’s reporting criteria.
- Inquiring about the design of the systems and methods used to collect and process the Indicators.
- Performing analytical reviews of the Indicators.
- Examining, on a test basis, evidence supporting the generation, aggregation and reporting of the Indicators in conformity with the Company’s reporting criteria, and also recalculating the Indicators.
- Visiting to the Company’s Surugadai Building selected on the basis of a risk analysis.
- Evaluating the overall statement in which the Indicators are expressed.

**Conclusion**  
Based on the procedures performed, as described above, nothing has come to our attention that causes us to believe that the Indicators in the Report are not prepared, in all material respects, in accordance with the Company’s reporting criteria as described in the Report.

**Our independence and Quality Control**  
We have complied with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which includes independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior. In accordance with International Standard on Quality Control 1, we maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

KPMG AZSA Sustainability Co., Ltd.  
KPMG AZSA Sustainability Co., Ltd.  
Tokyo, Japan  
September 21, 2017

## On the Issuance of MS&AD Integrated Report 2017

Since fiscal 2015, the MS&AD Insurance Group has published the Integrated Report to provide readers with a deeper understanding of the Group's commitment to medium- to long-term value creation. We believe the issuance of the Integrated Report can contribute to enhanced opportunities for dialogue with many stakeholders, including shareholders and investors, in regard to the Group's story of value creation.

MS&AD Integrated Report 2017 marks our third Integrated Report, and to promote greater understanding of the Group's concrete initiatives by each business for value creation we have included in this report a Special Feature section showing concrete examples of how we are working to solve a variety of social issues, including through roundtable discussions involving employees from locations around the world. We have also updated and expanded the content on "management that leverages diversity," a defining feature of the Group while taking stock of the Group's strengths.

With the goal of further improving objectivity and accuracy in the Integrated Report, we have in the current fiscal year engaged the services of a third-party assurance firm to independently verify the non-financial data indicated to the left. Moreover, President and CEO as a representative of the management team has included a signed message at the beginning of the report. As CFO, I am

responsible for the editing process and, accordingly, reiterate the importance of ensuring that the assembly process for the Integrated Report is carried out responsibly and that content in the report is indeed accurate.

With this year's Integrated Report, we hope to promote amicable feelings for the Group by creating even greater understanding of it among stakeholders such as customers, shareholders and investors. We continue to value dialogue with all our stakeholders, and with the aim of further improving disclosure and enhancing transparency we invite our stakeholders to share with us their frank opinions.

Because our editorial policy places particular emphasis on the most concise presentation possible in MS&AD Integrated Report 2017, for those who wish to have more detailed information, please also access the Company's official website. (For a guide to the relationship between this report and our website, please refer to the explanation at the beginning of this report.)

September 2017



**Shiro Fujii**

Director, Executive Vice President, CFO

※In preparing this report, we have made reference to The International Integrated Reporting Framework issued by the International Integrated Reporting Council (IIRC).

### Group Slogan

Advancing with you

**MS&AD**

INSURANCE GROUP

- **The challenge of corporate change**

The Group companies and each staff member will continue to pursue rapid and dynamic change in response to shifts in social and business trends.

- **The challenge of providing new insurance products**

Providing products and services in anticipation of new risks, the Group will consistently seek to provide maximum security to its customers.

- **The challenge of competing globally**

To develop the strength to compete in the highly competitive international arena, the Group will continue to grow, aspiring to become a world-leading insurance and financial services group.

Aspiring to become a world-leading insurance and financial services group, the MS&AD Insurance Group will continue to take on these challenges.

### Contact Information

(Securities code: 8725)

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<http://www.ms-ad-hd.com/en/ir/contact/index.html>

### <Forward-looking statements>

These materials contain future plans, strategies, and earnings forecasts for MS&AD Insurance Group Holdings, Inc. and Group companies.

They are based on information available to the Group at the present time. Investors are advised that actual results may differ substantially from our forecasts, for various reasons. Actual performance could be adversely affected by (1) economic trends surrounding our business, (2) fierce competition within the insurance sector, (3) exchange rate fluctuations, and (4) changes in tax and other regulatory systems.

This report was prepared pursuant to Article 271-25 of the Insurance Business Act and Article 210-10-2 of the Insurance Business Act Enforcement Regulations.