Advancing with you

MS&AD Holdings

MS&AD Integrated Report 2018

The MS&AD Insurance Group's

Mission, Vision & Values

Our Mission

The Group's Raison d'être

To contribute to the development of a vibrant society and help secure a sound future for the planet, by enabling safety and peace of mind through the global insurance and financial services business.

Our Vision

The Group's aspirations for the medium term

To create a world-leading insurance and financial services group that consistently pursues sustainable growth and enhances corporate value.

Our Values

The credo for all employees aimed at realizing the Group's mission

CUSTOMER FOCUS	Striving to provide security and satisfaction to our customers
INTEGRITY	Being sincere, kind and fair in our dealings with people
TEAMWORK	Growing together as a team by respecting one another's individuality and opinions and sharing knowledge and ideas
INNOVATION	Always improving the way we work while responding to stakeholders' interests
PROFESSIONALISM	Providing high-quality services by constantly enhancing our skills and proficiency

Three Key Concepts of the MS&AD Integrated Report 2018

Creating shared value with society through the insurance business

The primary role of insurance is to help stabilize people's lives and to support the steady progress of corporate activities through the payment of compensation for damages in cases of emergency. Since ancient times, non-life insurance has helped people overcome challenges. In the future, a succession of developing fields can be expected to emerge as successful efforts are made to address a wide range of risks in such areas as new energy development, AI, robotics and regenerative medicine. The MS&AD Insurance Group is committed to supporting people overcome challenges and realizing a resilient and sustainable society.

Aiming to be a resilient and sustainable group by leveraging diversity

In order to realize a resilient and sustainable society, it is imperative that we as a group first possess these same characteristics. Against the backdrop of an operating environment that continues to fluctuate wildly, it is important that we make the most of diversity and stimulate innovation in order to promptly address risks while overcoming uncertainties. Moving forward, we will counter new risks as they arise as well as existing risks that continue to grow in scale and complexity by leveraging the various histories, cultures, characteristics, expertise and other attributes of Group companies.

Realizing sustainable growth by supporting the development of society

Recently, society has been severely affected by such global-scale issues as climate change and an aging population as well as the incidence of massive natural catastrophes and a decline in regional vitality. Our role is to ensure that people can lead safe and secure lives while helping to revitalize the economy by supporting companies in their efforts to engage in vibrant activities. Since its foundation, the MS&AD Insurance Group has maintained the unwavering goal of becoming a world-leading insurance and financial services group. Moving forward, we will work to realize this goal and secure sustainable growth by contributing to the resolution of social issues throughout the world as well as the development of society.

Contents

CEO Message

CEO Message ····· P.004

Who We Are

What the MS&AD Insurance Group is

The MS&AD Insurance Group's Mission, Vision and Values ····· P.000
The MS&AD's Story of Value Creation ·· P.012
Five Business Domains ····· P.016
MS&AD's Strengths: Scale ····· P.018
MS&AD's Strengths: History ····· P.020
MS&AD's Strengths: Diversity ····· P.022
MS&AD's Strengths: Innovation ····· P.024
MS&AD's Strengths: Sustainability ···· P.025

Special Feature

Aiming for a Resilient and Sustainable Society ····· P.060
Creating Shared Value ····· P.062
World Map of Natural Catastrophes in 2017 ····· P.067
Dialogue with Our Stakeholders ·· P.068

Our Way

Where we are heading

MS&AD's Path to Realizing Our Image of Society ····· P.026
Medium-Term Management Plan — Reviewing the previous plans since the Group's founding ··· P.028
Risks and Opportunities ····· P.030
New Medium-Term Management Plan: Vision 2021 ····· P.032
Financial and Capital Strategy ····· P.040
Towards Sustainable Growth and Achieving Targets for Group Adjusted ROE and Group Adjusted Profit ····· P.042
Financial and Non-Financial Highlights ··· P.044
Key Management Indicators and Total Shareholder Return (TSR) ····· P.046
Strategies by Business Domain ····· P.048
- Domestic Non-Life Insurance Business ·· P.048
- Domestic Life Insurance Business ·· P.050
- International Business ····· P.052
- Risk-Related Services Business ···· P.056
- Financial Services Business ····· P.058

Asset Management Strategy ····· P.059

Our Platform

Frameworks and systems supporting our value creation

ERM

ERM and Risk Management ····· P.070
Promotion of Compliance ····· P.073

Human Asset Development and Quality Improvement

Promoting Diversity in Human Assets ····· P.074
Quality That Earns the Trust of Society ····· P.076

Corporate Governance

Corporate Governance ·· P.077
Introduction to Directors ·· P.081
Message from Outside Director ····· P.084
Dialogue with Shareholders and Investors ····· P.086

Appendix

Basic Knowledge about the Insurance Industry ···· P.088
Glossary of Insurance Terminology ···· P.092

Data Section

Corporate Profile ····· P.098
History of the MS&AD Insurance Group in Japan ····· P.104
Group Network ····· P.106
Credit Ratings ····· P.112
Group Company Data Sheets ·· P.113
Short Commentary: Group Financial Statements ··· P.120
Performance Record ····· P.121
ESG Evaluation ····· P.187
Third-Party Assurance ····· P.188

Editorial Policy

The MS&AD Group publishes the Integrated Report to provide customers, shareholders, investors, and all other stakeholders with a deeper understanding of our initiatives aimed at solving the challenges faced by society and at increasing corporate value throughout the business. This Report was edited based on the International Integrated Reporting Framework provided by the International Integrated Reporting Council (IIRC) and the Guidance for Collaborative Value Creation provided by the Ministry of Economy, Trade and Industry in order to explain our business model-based story of value creation and the Group strengths that serve as the source of our competitive ability in an easy to understand manner.

The MS&AD Integrated Report 2018 takes up the new medium-term management plan "Vision 2021," which was launched in the current fiscal year, in order to explain our strategies and specific initiatives designed to facilitate sustainable growth towards realizing the image of society for which we are aiming. At the same time, the Report provides an explanation of the management platforms that support these initiatives. For further detailed information, please visit the MS&AD official website. (For a guide to the relationship between this report and our website, please refer to the explanation on the following page)

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.

MS&AD Integrated Report

CEO Message

Who We Are
What the MS&AD Insurance Group is

Our Way
Where we are heading

- New Medium-Term Management Plan: Vision 2021
- Strategies by Business Domain

Our Platform
Frameworks and systems supporting our value creation

- ERM
- Human Asset Development and Quality Improvement
- Corporate Governance

Data Section

- Corporate Profile
- Performance Record

MS&AD Official Website

https://www.ms-ad-hd.com/en/index.html

About MS&AD Group
https://www.ms-ad-hd.com/en/group.html

- Message from the President
- MS&AD's Story of Value Creation
- Who We Are
- Our Strengths
- Management Plans and Policies

Company Information
https://www.ms-ad-hd.com/en/company.html

- Holding Company
- Group: Group Structure ⇒Official website of each group company
- Frameworks and systems supporting our value creation

Sustainability
https://www.ms-ad-hd.com/en/csr.html

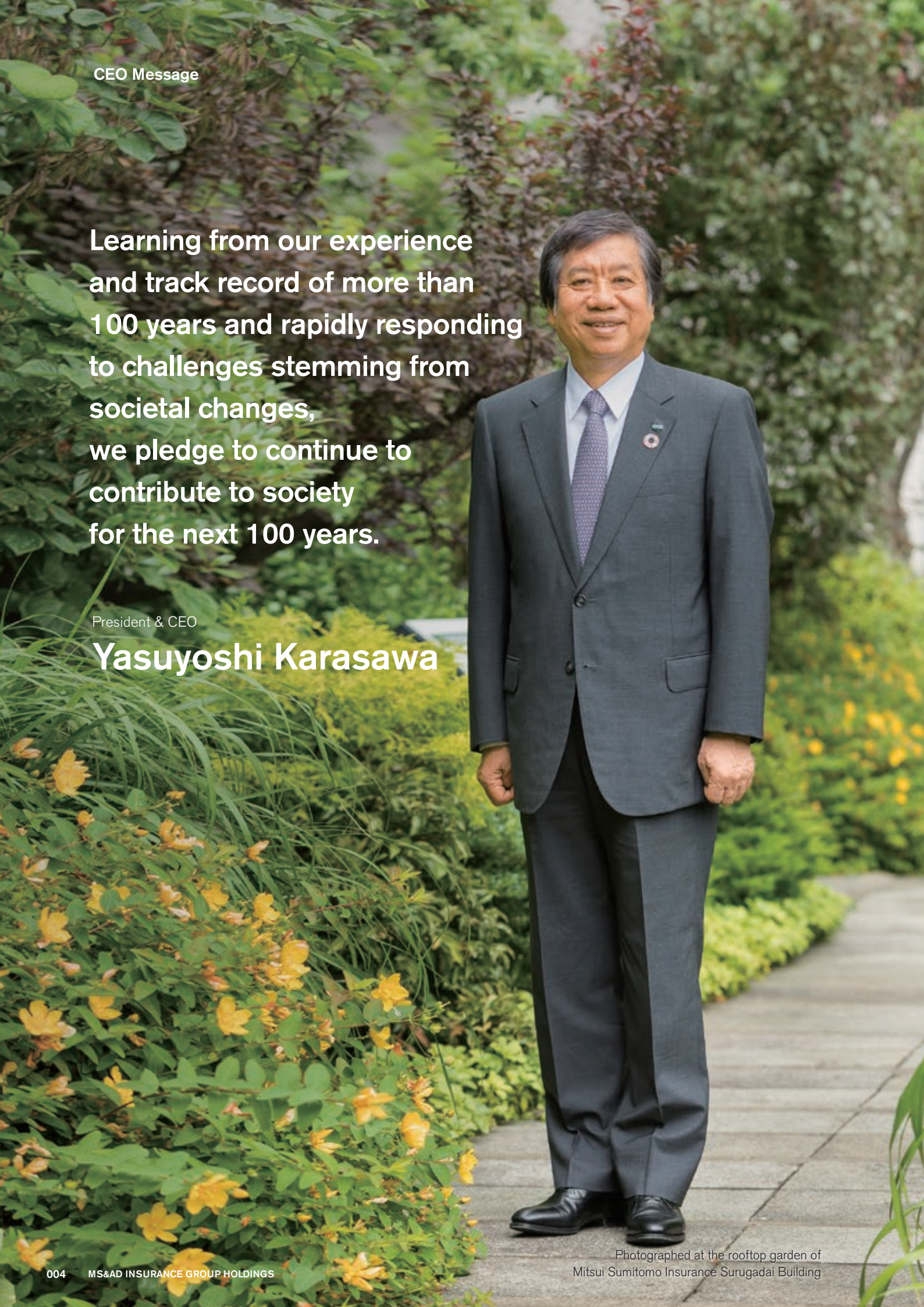
- Contributing to Resolution of Social Issues through the Business
- Enhancing the Quality of Products and Services
- Respect for Human Rights
- Promoting Diversity in Human Assets and Health Management

Investor Relations
https://www.ms-ad-hd.com/en/ir.html

Learning from our experience and track record of more than 100 years and rapidly responding to challenges stemming from societal changes, we pledge to continue to contribute to society for the next 100 years.

President & CEO

Yasuyoshi Karasawa



Photographed at the rooftop garden of Mitsui Sumitomo Insurance Surugadai Building

Two goals in the medium-term management plan, "Vision 2021"

What the Group aims at in order to realize "a resilient and sustainable society"

The MS&AD Insurance Group was founded in April 2010 with the objective of "creating a world-leading insurance and financial services group". Subsequently, we experienced the Great East Japan Earthquake in March 2011, there were devastating floods in Thailand where many Japanese firms have factories, and the Group saw its first loss in fiscal 2011. At the time, as the combined ratio of domestic non-life insurance business exceeded 100% and insurance underwriting did not yield profits, the occurrence of such massive natural disasters led the ESR (economic solvency ratio), which is an index of financial soundness, to fall below 150%, reaching a dangerous zone.

In the previous medium-term management plan "Next Challenge 2017", which tried to extricate the Group from such a situation, profits from domestic non-life insurance businesses improved markedly. As for integration within the Group, we opted for "reorganization by function" in order to simultaneously achieve growth and efficiency. To this end, we clarified the concept of each company. Thus, while Mitsui Sumitomo Insurance has a global and comprehensive business model, Aioi Nissay Dowa Insurance's model is based on close relationships with local communities. Through the division of roles, including class of insurance, sales channels, and sales territories, coupled with overseas expansion, the Group has been able to amplify its comprehensive strength. As a result, last year, which was the final year of our management plan "Next Challenge 2017", the combined ratio of the domestic non-life insurance business recovered to 92%. In addition, while the insurance market as a whole experienced historic high insurance claims due to hurricanes in North America and typhoons in Japan, our Group's ESR maintained about 200%, enhancing financial soundness to a level that will be unshaken even under considerable stress.

In the Group's new medium-term management plan "Vision 2021", which builds on such results, two big goals are set. One is to become a world-leading insurance and financial services group, which the Group has been aiming at since its birth. Specifically, this means achieving a scale that is consistently ranked among the top ten non-life insurance groups by income in the property & casualty insurance category of the Fortune Global 500. This also means achieving a quality with a certain level of capital efficiency (Group Adjusted ROE of 10%) and financial soundness (ESR of 180-220%). As an insurance company, in order to underwrite various risks and prepare to meet claims in case of emergency, it is necessary to secure sufficient capacity. Currently, the scale of the MS&AD Group is ranked 8th in the world, which is the highest ranking among Japan's non-life insurance groups. While maintaining this position, we would like to steadily boost quality-related KPIs.

The other goal is to create resilient systems that can swiftly respond to any change in these times of rapid environmental flux. Due to the sudden emergence of new risks, existing risks becoming big not to mention complex, and changes in social structure, the needs of society change. Here, our mission is to support the development of a vibrant society and help secure a sound future for the planet through insurance and financial services business. Needless to say, to quickly detect changes in the world and to be able to appropriately respond to them, we ourselves have to become a resilient and sustainable group.

Key strategies to achieve the two goals

Pursuing the Group's comprehensive strengths —

Finding the optimal solution for the Group as a whole that realizes growth and efficiency simultaneously

We have three non-life insurance companies (including direct type insurance) and two life insurance companies in Japan, and networks of subsidiaries, affiliates, and others in 47 countries and regions. Each company, under a clear business concept, gauges respective customer needs and aims at realizing seamless growth — this was the concept of Group integration in the form of reorganization by function.

ESR (Economic Solvency Ratio)

A solvency ratio based on economic value, ESR is an indicator of capital adequacy with respect to the risk amount.

> See the "Establishment of financial soundness" section (P. 28) for details

Historically High Damage from Natural Disasters

In fiscal 2017, considerable damage was caused by natural disasters around the world, with several typhoons and torrential rainfall in Japan, hurricanes in the U.S., wildfires in California, and massive earthquakes in Mexico. (According to a survey by Swiss Re, insured loss totaled ¥15 trillion.)

> See the "World Map of Natural Catastrophes" section (P. 67) for details

Fortune Global 500

A ranking of global companies by gross income that is released every year by Fortune magazine.

> See the "Positioning in Each Business Domain" section (P. 18) for details

Resilient Systems

A posture with the ability to flexibly and adroitly respond to changing situations and unforeseen circumstances, reduce adverse effects and speedily recover.

Reorganization by Function

Reorganization by function is an unprecedented style of restructuring for achieving growth and higher efficiency concurrently for the entire Group, including Mitsui Sumitomo Aioi Life Insurance, while mutually leveraging individual strengths and clarifying the business concepts of Mitsui Sumitomo Insurance and Aioi Nissay Dowa Insurance.

> See the "Glossary of Insurance Terminology" section (P. 95) for details

Based on this concept, we have mostly completed system integration, shared back offices, integrated bases and sales networks in specific regions, and reorganized the international business and marine insurance between the two core non-life insurance companies during the first half of the management plan "Next Challenge 2017" . In the second half, we promoted the sharing of products and operating procedures as well as the integration of claims service systems, all in the pursuit of further efficiency. Steps have been taken to consolidate long-term third-sector policies in force on Mitsui Sumitomo Aioi Life Insurance.

In the new medium-term management plan "Vision 2021", we will expand such developments to the entire Group and, through exercising the Group's comprehensive strength, realize further cost reductions and qualitative improvements. We will pursue a business model of total optimization which simultaneously realizes growth and efficiency of the Group.

Integration of Claims Service Systems

This initiative is a part of reorganization by function that commenced in stage 2 of Next Challenge 2017. Plans call for rolling out the new claims service system (BRIDGE), which was jointly developed by Mitsui Sumitomo Insurance and Aioi Nissay Dowa Insurance, from fiscal 2019.

Promotion of digitalization —

Real-time and tailor-made insurance products and services reflecting the customer perspective

One purpose in promoting digitalization is to raise productivity, but we believe it is rather more important "to deliver greater 'value' to the customer experience". In offering products and services and expanding sales channels, we will pursue real-time and tailor-made features for customers. For example, we expect to build even better and closer relationships with customers when digitalization enables us to create mechanisms to customize types of insurance, the scope of compensation, and insurance premiums. To that end, it is crucial to take a futuristic approach such as open innovation. We intend to accelerate productivity improvement and raise the level of services by forming alliances with external institutions and different businesses, including industry-government-universities, investing in startups in Silicon Valley, and conducting joint research with our overseas partner companies.

To pursue these initiatives, speedy decision making is required. To promote digitalization strategy more effectively throughout our Group, we have appointed a Group CDO (Chief Digitalization Officer) from this fiscal year. Through this arrangement, we will rapidly propel initiatives that lead to reform of the entire business.

Digitalization

Digitalization is an initiative to use digital technology to improve the efficiency and convenience of processes and services, with the aim of transforming all the businesses of the Group.

Group CDO (Chief Digitalization Officer)

The Group CDO oversees departments in charge of promoting digitalization at each Group company around the world, sets up projects, and promotes initiatives to transform businesses through mutual collaboration across the Group.

Reforming our portfolio —

Aiming at diversifying regions and businesses from the perspective of risk diversification

During the period of our management plan "Vision 2021", we intend to diversify our business portfolio by initially aiming at achieving 50% profit from the domestic non-life insurance business and 50% from the domestic life insurance and international businesses combined; and, as a next step, we aim at raising the profit of our international business to 50% of Group profit.

The domestic non-life insurance business, which generates most of the Group's profit as of now, will aim at keeping a combined ratio of 95% or lower and maintain and expand the profit level to secure about 50% of entire Group profit during this medium-term management plan period.

In the future, transitioning to a portfolio from which 50% of profits are generated through the international business will become vital in maintaining a sound financial platform and earnings power.

In the domestic life insurance business, profits of the two life insurance companies have become stable through aggressively developing and selling products that meet market needs, and they are expected to generate about ¥45 billion on an annual basis during the term of the management plan "Vision 2021".

The international business is expected to achieve annual profit of more than ¥100 billion through organic growth by fiscal 2021. Although MS Amlin registered severe financial results in fiscal 2017, the sum of profit of Amlin/Lloyd's syndicate and the reinsurance subsidiary of Mitsui Sumitomo Insurance before integration was about ¥40 billion. While not a simple calculation as the risk amount of natural disasters was restrained because of integration, we can foresee that MS Amlin business will generate profit of about ¥45 billion considering cost reductions, initiatives currently being pursued to recover profitability, and synergies with Asian and US businesses.

In addition, the Toyota retail business, being undertaken by Aioi Nissay Dowa Insurance, will see profit expand, and, through a close relationship with Toyota Motor Corporation, steadily develop international business. In such a manner, the growth platform of international business to meet the target has already been put firmly in place.

Three perspectives and disciplines in conducting M&A

Insurance is a business of trust; it requires sustained determination; it is essential to have a mission at the core

In the management plan "Vision 2021," we have laid the foundations for 50% of Group Adjusted Profit to be generated from international business in succeeding medium-term management plans, including both organic growth and inorganic growth.

We have three requirements in conducting M&A. The first is that a counterpart should share the same values as us. It is important for each firm to have empathy for the principles and philosophy (such as the actual aims of insurance business) of the other.

The second is that a counterpart should have a sustainable growth model. The investment in China's BoCommLife Insurance, announced in May 2018, is a good example. In the case of China's life insurance business, it was important to have a solid sales structure. Because BoCommLife Insurance is an affiliate of the Bank of Communications, it can offer sales through the bank's branch network. If we provide good products using our know-how and create a good training system, it can surely achieve growth through its own network. Also, since it is a bank affiliate, the risk of itself exiting is low and therefore it is considered a sustainable business model.

The third is the diversification of risks. It is important whether risks are diversified according to domestic or overseas, non-life or life insurance, regions, and perils.

Meeting these three requirements is essential, and, if there is a good project with economic rationality, we will deal with it pro-actively. Also, from perspectives of capital leeway and the effective utilization of capital, M&A is a strategically high priority option for our Group.

Focus on Asia is a key of the Group's growth strategy

Position in Asia that has been built over many years leads to global development

The original role of insurance is to support stability in people's lives and dynamic business activities by compensating for economic losses when risks actually manifest themselves. Our Group has contributed to the development of the non-life insurance industry in Asia by making early advances into the area and transferring technology/know-how related to pricing and claims payments to the insurance industry in each particular country. Currently, we do underwriting business in all 10 ASEAN countries and have the largest network as a non-life insurance group. The population of ASEAN is about 640 million now, but, from a medium- to long-term perspective, the growth potential of ASEAN due to population growth and the formation of a middle class is considered quite large. In preparation for that time, in our view there is significant meaning behind the Group's growth strategy

Close Relationship with Toyota Motor

Aioi Nissay Dowa Insurance aims to establish a business model that taps into new needs and markets, and regards its relationship with the Toyota Motor Group as an important growth strategy. For example, the company is working with Toyota Motor to jointly develop attractive products and services in tune with changes in the automobile industry, including the use of telematics and advanced safety technologies.

Investment in BoCommLife Insurance Company Limited of China

Mitsui Sumitomo Insurance has reached an agreement with the life insurance subsidiary of a leading Australian bank to purchase 37.5% of shares in BoCommLife Insurance Company Limited, a subsidiary of Bank of Communications Co., Ltd. in China. Growth is expected in China, the third largest life insurance market in the world, after the U.S. and Japan.

Peril

Peril is a specific cause of loss covered by an insurance policy.

to be among the top three non-life insurers in major ASEAN countries, solidly supporting each country's insurance system and securing a firm presence.

These strengths in Asia will also benefit business expansion in other countries and regions where we do not have our own network. For example, in Latin America, the alliance with Mapfre, which is the largest non-life insurance company in Spain, enabled us to develop business that mutually utilizes our facilities in Asia and those of Mapfre in Latin America. We have been running similar business in alignment with QBE, Australia's largest insurance company, in the Oceania region; with AXA, France's largest insurance company, in Francophone Africa; and with Generali, Italy's largest insurance company, in Central and Eastern Europe. The reason these alliances work well is that our Group has strengths in Asia, and each partner provides its facilities in each region to our Group and in return can utilize the facilities of our Group in Japan and Asia. By making full use of this strength, we believe we can pursue efficient global development.

Facility

Facility is often used to mean physical facilities, equipment and machines. Here, facility refers to the systems and organizations for insurance underwriting.

And, what we cannot ignore is China and India, which play a central role in the global economy. Both countries are incorporating digitalization technology into their markets at a tremendous speed and have huge growth potential. In order to develop life and non-life insurance business in these two countries and build firm footholds, it is important to form alliances with good local partners and steadily manage business. Indeed, as for non-life insurance in China, our group has a local subsidiary which has an established presence among foreign insurance companies in China, and we have been forming alliances with China's domestic second largest Ping An Insurance and third largest China Pacific Insurance. As for life insurance in China, we will develop business together with the Bank of Communications. In India, we will develop non-life insurance business through teaming up with the southern business conglomerate Murugappa Group and develop life insurance business with the New Delhi business conglomerate Max Group. China and India are each expected to be among the largest gigantic markets in the world in the future, and we would like to team up with partners which have a solid foundation backed by local capital, and together develop non-life insurance and life insurance businesses from a leading position in the respective markets.

Positioning of Sustainable Development Goals (SDGs) in "Vision 2021"

Realizing our mission

We have been pursuing our mission "to contribute to the development of a vibrant society and help secure a sound future for the planet by enabling safety and peace of mind through the global insurance and financial services business". What further embodies our mission is "the MS&AD story of value creation". This is a common understanding among all staff and helps us appreciate what our jobs mean in society.

We will contribute to realizing "a resilient and sustainable society" through our initiatives to resolve four issues: 1) diversified/large-scale accidents and disasters, 2) the global environment approaching the limit, 3) mounting burden of nursing/medical care associated with aging population, and 4) a decline in social vitality due to widening inequalities. Based on a view that these initiatives will increase the Group's corporate value, we have been developing our business activities in five business domains (domestic non-life insurance, domestic life insurance, international business, financial services, and risk-related services).

Sustainable Development Goals

In 2015, the United Nations adopted Sustainable Development Goals (SDGs) as targets that should be achieved by 2030 in order to sustain the development of international society. There are 17 goals and 169 targets that the world should prioritize as issues to be tackled, such as eliminating poverty and countering climate change.

> See P. 13 for details

Such a line of thought squares with 'sustainable development goals', or SDGs, that the United Nations set in 2015 to be achieved by 2030. Therefore, in order to advance value sharing with various stakeholders, we have incorporated SDGs as our milestones with which to align the Group's business.

Since olden times, insurance has existed to help people, businesses, and local communities to be resilient and sustainable.

For example, while claims payments stemming from earthquakes and typhoons served as funds for restoring damaged property, what is important is that such payments were indispensable for rehabilitating the livelihoods of those affected and restoring local communities.

To begin with, insurance exists only if there is a sustainable society. For example, among the UN's SDGs, there is one to "end poverty in all its forms everywhere". At first glance this appears to have nothing to do with insurance. After all, those who are busy making ends meet on a daily basis and do not have anything they need to protect will not have any strong need for insurance. But, with poverty diminishing and the middle classes increasing, there will be increasing opportunities in which the insurance industry and our Group can offer shared value.

Moreover, what is wonderful about SDGs is the participation by everyone. Everyone participates, sets goals, and moves toward them, through which overall optimization will be achieved. We feel strong empathy for the SDG message of "Leaving no one behind" and the basic ideas of universality (every country can change), inclusion (eradicate discrimination), impartiality (consideration for the weak), integration (achieve a balance among the economy, environment, and society), and transparency.

Setting SDGs as milestones will be quite meaningful for realizing the society that we should aim for.

Human assets that realize the story of value creation

Promotion of 'diversity and inclusion' (D&I)

To realize our mission, vision, and values, creation of shared value (CSV), and the story of value creation, it is necessary to nurture a good environment where employees can play active roles in a resounding fashion. For this purpose, we must seriously think about our management platforms and various systems and mechanisms. In the sense of preparing platforms to establish D&I, what is most important will be 'work style reforms'. Building a platform by which diversified employees can play active roles in a fair manner will be crucial for enhancing corporate competitiveness. To this end, it is vital to not only reduce working hours but also create a mechanism to raise productivity through utilizing digitalization to the utmost. If the improvement of business processes increases productivity and shifts employees to more value-added work, all employees will be able to feel they are achieving 'decent work' goals, namely, more job satisfaction.

A multinational team in Silicon Valley, consisting of three residential representatives from Japan and other members — including residential representatives and short-stay — from our overseas subsidiaries, has been promoting various activities. The other day, the person in charge of the multinational team asked us to think about further diversification of the team in terms of gender, age and nationality. As there are so many female heads and leaders in Silicon Valley, an organization with no women or only consisting of the Japanese, only young people, or only elderly is seen as odd.

At our Group's ASEAN entities, the nationality of employees is diverse, half of all employees are women, and half of management positions are also occupied by women. If this tendency becomes conspicuous in our locations in strategically important Asia, some will point out the contrast with our headquarters in Japan, where management positions are still mainly occupied by men, and overseas, where half of such positions are taken by women. Unless human assets that reflect diversity of age, careers, nationalities, and gender are able to play active roles, it is difficult to do business overseas. We should make better use of different ideas beyond borders to bolster the comprehensive strengths of the Group; furthermore, we should proactively incorporate wide and more universal ideas from employees, including those with disabilities, in the Group as a whole – such initiatives are essential. For this, we ourselves need to become a flexible organization that can accept diversity, and we need to

Diversity & Inclusion (D&I)

In order to maximize the MS&AD Group's strengths in diversity and diverse values, we believe it is essential that each person's individuality is respected, regardless of outward characteristics such as race, gender, age and physical appearance, nor inward characteristics such as religion, creed, background and values. While recognizing we are all different in some way, we will focus on the best parts of everyone.

> See P. 74 for details

CSV (Creating Shared Value)

CSV means creating economic value and shared value with society through corporate activities.

Decent Work

Decent work is defined as work that people are motivated to do. It refers to productive work in which human rights are protected, sufficient pay is earned, and social protections are properly afforded.

have a culture that includes diverse human assets, each enhancing the other. To nurture such a corporate culture, from this fiscal year we have assigned an executive officer to be in charge of D&I and who will robustly promote D&I initiatives groupwide.

In promoting actual D&I initiatives, we believe it effective to set a numeric target first and use a backcasting approach. So as to achieve the numeric goal, it is important to thoroughly consider what type of human assets should be recruited, inclusive of mid-career recruitment, what training plans can be offered, and what career paths can be drawn. While Japan is still based on lifetime employment, the mobility of human assets in a good sense, namely, a person changes jobs, gains experience, and returns to the old job, could be advanced. In our Group, there are employees returning to us after leaving for a while, and we think that people who have business experience in other companies are also precious human assets.

To entrench D&I, we must be an organization in which mission, vision, and values are shared among all employees.

Backcasting

Originally used in the environmental field, backcasting starts with defining a desirable future and then works backwards to identify policies that will connect that specified future to the present.

Appointment of future management

Next generation who will lead the Group should also be resilient and sustainable

While leaders in each Group company and the holding company might be required to have different qualities in some aspects, it is important for all to be able to flexibly respond to the rapidly changing environment, and thus it might be difficult for those trapped in old ideas to become leaders. In addition, it will be necessary to have a capacity to be on the front line, leading the company, as well as tolerance to firmly recognize diversity, and adaptability to convert such diversity into strengths.

Moreover, it is important to be evaluated by different people and from different perspectives. And, while we recognize that all current executive officers have the capacity to work at the top, we expect them to try to improve themselves by learning from others. Furthermore, in the future we might consider recruiting executive officers from other companies or our overseas subsidiaries. We need to receive feedback from various viewpoints, including those from outside, and identify human assets that suit the times and situation.

Image of the Group eyeing the future

Creating shared value (CSV) through insurance business model

In our management plan “Vision 2021”, our target is to have a presence in terms of scale and quality as “a world-leading insurance and financial services group”. The reason we focus on scale and quality is that we need to cover new risks and also current risks that have become enormous and complex. Unless we ourselves have scale and quality, we cannot respond to such diverse risks. To achieve “a resilient and sustainable society”, we need to always challenge risks using scale and quality comparable to rival companies.

For example, in the course of evolution in the automobile arena, such as automated driving, it is necessary to have insurance that actually corresponds to risks that newly arise. And, in the development of medical technology, such as advanced medical treatment, it is necessary to have insurance to transfer risks. To support someone who is challenging something we as a Group need to be resilient, and being resilient underlines the importance of maintaining a high level of quality. By 2030 and after, we will be required to always challenge various risks that arise in the process of aiming at achieving “a resilient and sustainable society”, and we have to build up our strength to fully bear such risks.

We will generate global-scale value that leads to a bright future.

Sensing the emergence of risks beforehand and informing customers and giving advice to prevent or reduce such risks is also, like providing risk cover through insurance, an important role we fulfill. For example, thrashing out risks surrounding business activities and providing a risk map, providing know-how regarding initiatives for disaster prevention and reduction will lead to realizing a society in which companies can develop stably. The lowering of insurance premiums coupled with disaster prevention and reduction activities, and a mechanism like telematics which provides incentives to drive safely, will contribute to realizing a society with fewer accidents. And, incentives to stop smoking through lower life insurance premiums will lead to longevity and a healthier society and support realizing a sustainable society. Along with our Group's value creation story, if we can detect risks and make them known, prevent accidents and losses, develop a system to minimize damage, and utilize digital technologies, we will be able to continue to provide insurance and financial services that contribute to a resilient and sustainable society.

From a global perspective, mainly in emerging economies, it is important to consider and make proposals as to what kind of insurance is necessary under each country's system. Through explaining Japan's residential earthquake and compulsory automobile liability insurance systems as well as operations of the General Insurance Rating Organization of Japan, making proposals as to how to construct a mechanism corresponding to the situation for each country, and advising how to set up self-help efforts and disaster prevention and reduction measures, we can contribute to resolving societal issues each respective country faces.

Concluding remarks

Looking globally, the environment surrounding companies has recently been changing every second, such as changes in the global environment, demographics, and industrial structure, the emergence of populism and widening inequalities in society, the evolution of IT, and emergence of new risks. In the business world, we need to promptly sense such changes and convert risks into opportunities. As was implied by Sun Tzu that it is sometimes better to be brisk and slapdash than painstaking but slow, it is important to take the first step ahead of competitors on a global basis. While it is not easy to step into uncharted territory, we have a history of more than 100 years and we will be able to predict the future through experience and track record of those years. We believe our group can contribute to society for the next 100 years centering on a strong sense of values built on past successes and lessons.

Old Proverb:
Kochi ha Sessoku ni Shikazu

"It is better to be fast, even if performance is poor, than slow with good performance." This proverb came from the wise words of military strategist Sun Tzu, "In war, it is better to move quickly and finish quickly, even if tactics are poor." This means that depending on the situation, it may be preferable to move things forward quickly, even without skill, instead of sitting still.

The MS&AD's Story of Value Creation

"Contribute to the Development of a Vibrant Society and Help Secure a Sound Future for the Planet"

The MS&AD Insurance Group was formed with three groups of insurance companies being integrated with the mission "to contribute to the development of a vibrant society and help secure a sound future for the planet, by enabling safety and peace of mind through the global insurance and financial services business."

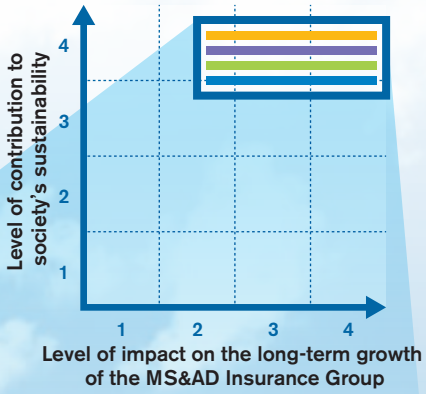
To fulfill our aim to "contribute to the development of a vibrant society and help secure a sound future for the planet," we need to promptly identify various risks stemming from social issues and provide information on these risks. Then, through a variety of products and services, we need to prevent risks from occurring or minimize the impact of those risks and to reduce the economic burden when those risks materialize. By doing so, we help create an environment where customers around the globe, who face various challenges, can live and conduct business in a secure manner. That is our story of value creation.

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

Four Social Issues

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 value creation.



* 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. 96.

1. Diversified/large-scale accidents and disasters
2. Global environment approaching the limit (Climate change and depletion of resources, etc.)
3. Mounting burden of nursing/medical care associated with aging population
4. Decline in social vitality due to widening inequalities

Initiatives for Seven Key Issues (Creating Shared Value)

- Deal with new risks
- Create a safer mobility society
- Strive for resilient community development
- Support "good health and longevity"
- Contribute to climate change mitigation and adaptation
- Strive to improve the sustainability of natural capital
- Work toward realization of "leaving no one behind"

*See P. 27 for examples of specific initiatives.
Please refer to details of analysis on the Company's official website: https://www.ms-ad-hd.com/en/csr/summary/materiality.html.

The MS&AD's Story of Value Creation

Resources Supporting MS&AD

Financial Capital

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

Consolidated net assets (as of March 31, 2018): ¥2,968.3 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, 2018): 41,295

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 (FY2017): 1,189

Social and Relationship Capital

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

Number of individual customers in Japan*1: Approx. 42 million

Number of corporate customers in Japan*1: Approx. 2.4 million

- 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*1: 88,532

Domestic marketing bases*2: 263 branches/1,036 offices

Domestic claims handling service centers*3: 431

- Overseas bases*4: 47 countries/regions

*1 Simple sum of the number of customers and the number of agents at MSI and ADI (as of March 31, 2018)
*2 Simple sum of the number of bases at domestic insurance companies (as of April 1, 2018)
*3 Simple sum of the number of claims handling service centers at domestic non-life insurance companies (as of April 1, 2018)
*4 Includes SLI Cayman Limited (financial services business) in the Cayman Islands (as of April 1, 2018)

- 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

Scale
Adequate capacity derived from scale

History
Past experience and lessons are the seeds of the future

Diversity
Creativity and synergies derived from diversity

Innovation
Realizing growth in tune with the times

Sustainability
Always align with society

Contributing to the Development and Helping Secure a

Social Issues

Diverse risks surrounding society

1. Diversified/large-scale accidents and disasters
2. Global environment approaching the limit (Climate change and depletion of resources, etc.)
3. Mounting burden of nursing/medical care associated with aging population
4. Decline in social vitality due to widening inequalities

MS&AD's Business Model

Reduce the economic burden

Identify and inform on risks

Prevent risks from occurring/ minimize the impact

Systems Supporting

Resilient systems that can respond to changing environment	Optimum resource allocation and appropriate risk management
Medium-Term Management Plan P. 32	ERM PP. 38, 70

# of a Vibrant Society Sound Future for the Planet

Resilient and sustainable society

- Stability in people's lives
- Dynamic business activities

Provision of safety and peace of mind

Global insurance / financial services business

Five Business Domains

- Domestic Non-Life Insurance Business P. 48
- Domestic Life Insurance Business P. 50
- Financial Services Business P. 58
- Risk-Related Services Business P. 56
- International Business P. 52

Initiatives for Seven Key Issues

- Deal with new risks
- Safer mobility society
- Strive for resilient community development
- "Good health and longevity"
- Climate change mitigation and adaptation
- Improve the sustainability of natural capital
- "Leave no one behind"

Corporate Value Creation

Management platforms that enable employees to play active roles; and quality improvement	Strengthening corporate governance
Human Asset Development and Quality Improvement P. 74	Corporate Governance P. 77

Creating Value in Cooperation with Stakeholders (results of FY2017)

Customers | Shareholders | Agents | Business Partners | Employees | Local Communities/International Society | Environment

Financial Capital

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

Group Core Profit: ¥105.1 billion (Group Adjusted Profit ¥201.0 billion)

Group ROE: 3.7% (Group Adjusted ROE 6.4%)

TSR* of past 5 years: 84.7%

* 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:*1 4.4 points

Days of paid vacation used per employee/year:*2 16.0

*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 surveys and research results

Research reports issued:*1 72

Number of actuaries:*2 100

*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, 2018)

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*1 ¥2,311.2 billion

Customer satisfaction:*2 96.0%

*1 This represents the sum of net claims paid and life insurance claims. (FY2017)
*2 Ratio of customers satisfied with accident response for automobile insurance (MSI and ADI) (FY2017)

Natural Capital

- Reduce CO_2 emissions to slow the pace of climate change
- Contribute to the preservation of biodiversity
- Reduce the burden to allow sustainable use of natural resources

Amount of paper reduced by web policy clauses*1 and eco insurance policies: 981,984 kg

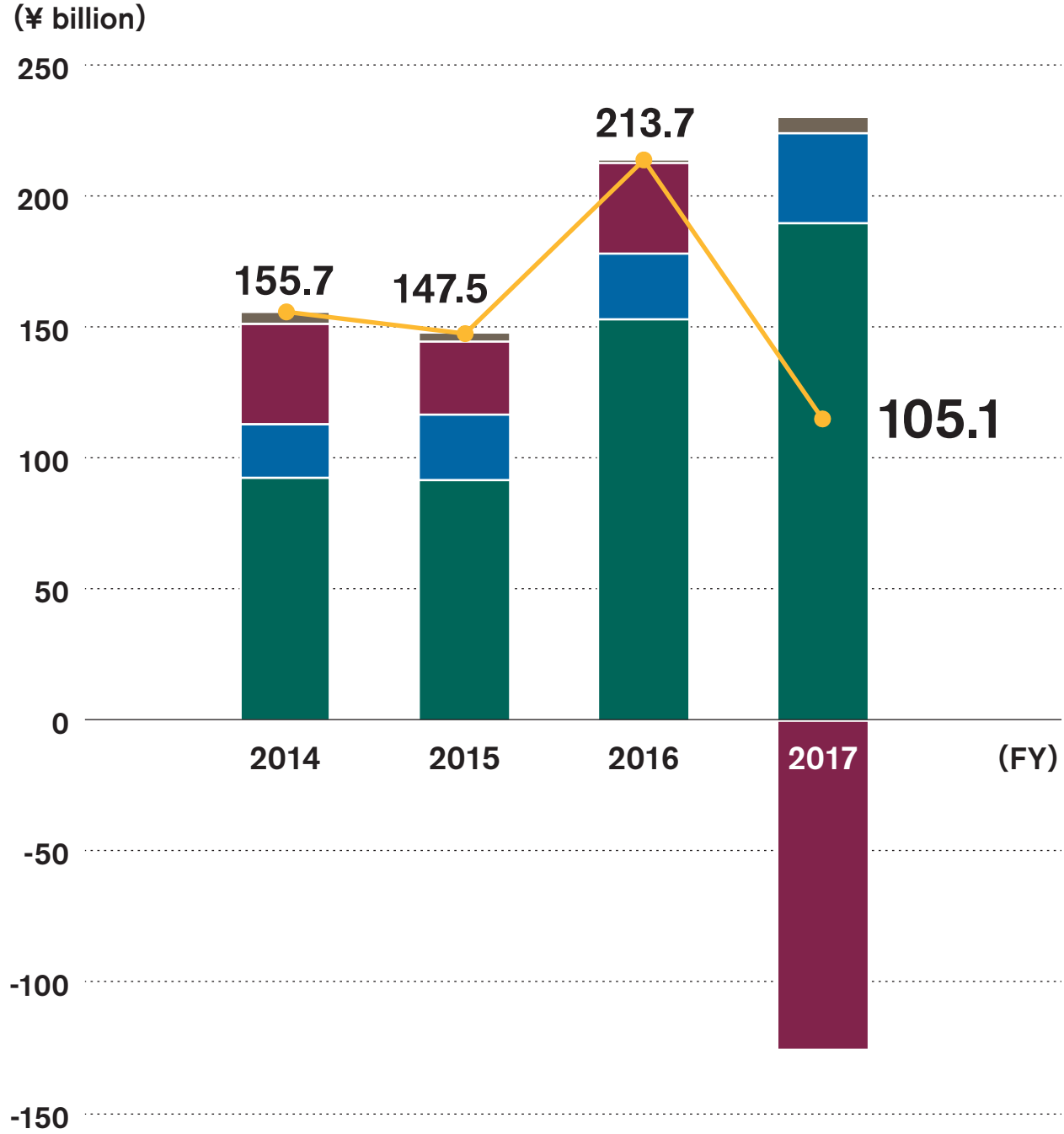
Employees participating in social contribution activities*2: 20,022

*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

Group Core Profit



Domestic Non-Life Insurance Business

P. 48

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

Domestic Life Insurance Business

P. 50

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

International Business

P. 52

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

Box Innovation

MSIG

MS Amlin

* Excluding the Cayman Islands, where SLI Cayman Limited (Financial Services Business) is located. (As of April 1, 2018)

Financial Services Business

P. 58

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

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

MS&AD MITSUI SUMITOMO INSURANCE Venture Capital Co., Ltd.

SMAM Sumitomo Mitsui Asset Management

Risk-Related Services Business

P. 56

Creating synergies with the insurance business by deploying global risk solution services

MS&AD InterRisk Research Institute & Consulting, Inc.

ANSHIN DIAL Co.,Ltd.

MITSUI SUMITOMO INSURANCE Care Network 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 Business Service Co., Ltd.

MS&AD MS&AD Staffing Service Co., Ltd.

MS&AD MS&AD ABILITYWORKS Company, Limited

MS&AD MS&AD Systems Co., Ltd.

Scale

Adequate capacity derived from scale

MS&AD's Strengths: Scale

Positioning in Each Business Domain

Groupwide

No. 8 in the world

No. 8 among non-life insurance groups in the world

▶Fortune Global 500: 2017 Income Ranking

(Ordinary income basis for Japanese insurance groups)

(US$ million)

	Company/Group Name	Income
1	Berkshire Hathaway	$223,604
2	Allianz	$122,196
3	State Farm Insurance Cos.	$76,132
4	Munich Re Group	$68,700
5	Zurich Insurance Group	$67,245
6	People's Insurance Co. of China	$66,732
7	AIG	$52,367
8	**MS&AD Insurance Group Holdings**	**$49,239**
9	Tokio Marine Holdings	$48,292
10	Swiss Re	$43,786

Source: Fortune Global 500 2017 Insurance Property & Casualty (Stock + Mutual)

Domestic Non-Life Insurance Business

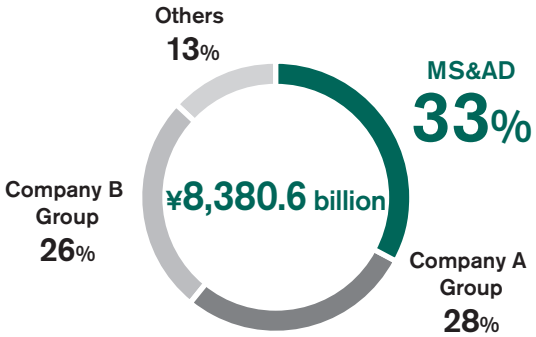
No. 1 Share

No. 1 Underwriting profit

The insurance group most chosen by customers in Japan

No. 1 share in all lines of business in Japan

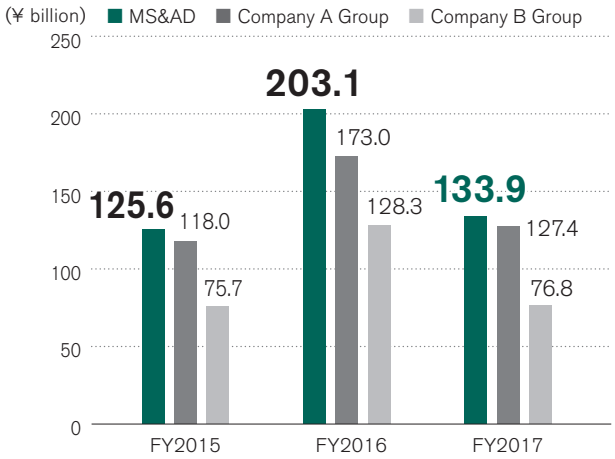
▶Share of Net Premiums Written* (FY2017)



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).

▶Underwriting profit

(prior to reflecting catastrophe reserves)*



*Figures for MS&AD are the simple sum of the non-consolidated figures for MSI and ADI; simple sum of non-consolidated group figures excluding direct insurance companies of each group
Source: Prepared by MS&AD based on the publicly announced information from each company

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. See P. 14 for details.

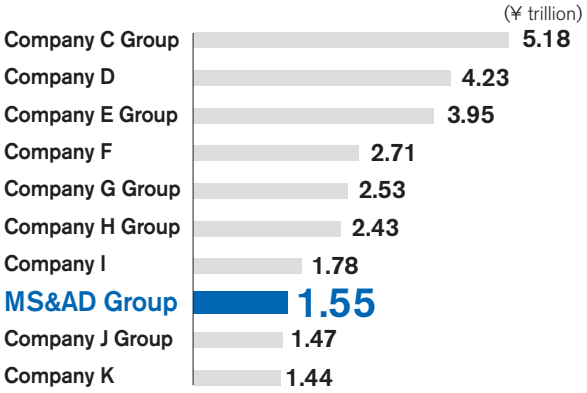
Domestic Life Insurance Business

No. 8 among 29 companies and groups

No. 1 Net income among life insurance companies under non-life insurance groups

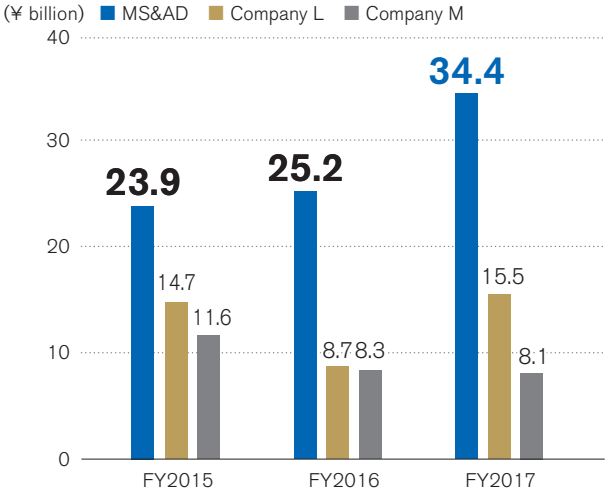
No. 8 in premiums income among domestic life insurance companies/groups

▶ Domestic life insurance companies/groups' premiums and others ranking (FY2017)



Source: Prepared by MS&AD based on the publicly announced information from each company
*Values for groups are calculated based on the non-consolidated sums of each group company

▶ Net income of life insurance companies under three non-life insurance groups



Source: Prepared by MS&AD based on the publicly announced information from each company

International Business

No. 1 in gross written premiums in the ASEAN region

No. 2 in Lloyd's Insurance Market

・With global business expansion to 46 countries and regions*1, 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 gross written premiums in the ASEAN region.

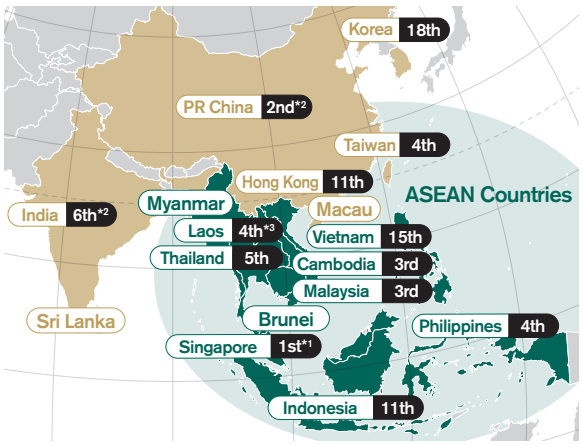
* 1 Excludes SLI Cayman Limited (financial services business) in the Cayman Islands

・As the Group's U.K.-based insurance holding company, MS Amlin is a principal player as a syndicate*2 with Lloyd's of London*3, the world's most-influential insurance market, where it is ranked second (among 95 syndicates) with respect to gross written premiums

*2 *3 See Terminology P. 94

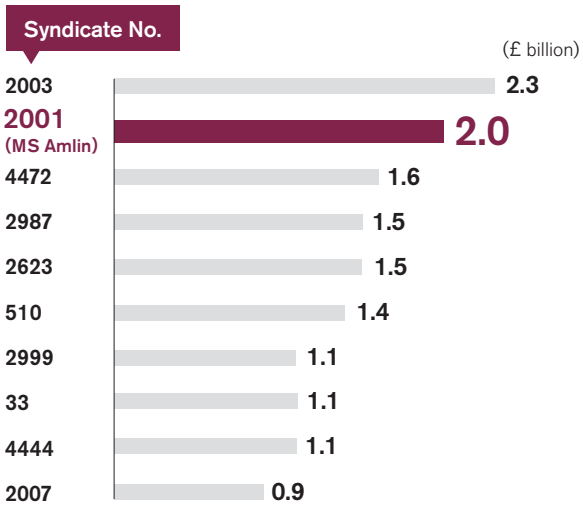
▶ Positioning in non-life insurance market in ASEAN and Asian countries (FY2016)

FY2016 Gross Written Premiums Ranking in ASEAN Countries	No.1	No.2	No.3
	MS&AD	Company N	Company O



Source: Prepared by MS&AD based on the publicly announced corporate information from each country and region (reinsurance companies excluded)
*1 Simple sum ranking for FY2016 results with First Capital
*2 Ranking for foreign-based insurance companies
*3 Because data for FY2016 was not publicly available, the FY2015 ranking for Laos is shown

▶ Lloyd's syndicate Gross Written Premiums ranking



Source: Lloyd's Annual Report 2017
Based on gross written premiums for FY2017

History

Past experience and lessons are the seeds of the future

MS&AD's Strengths: History

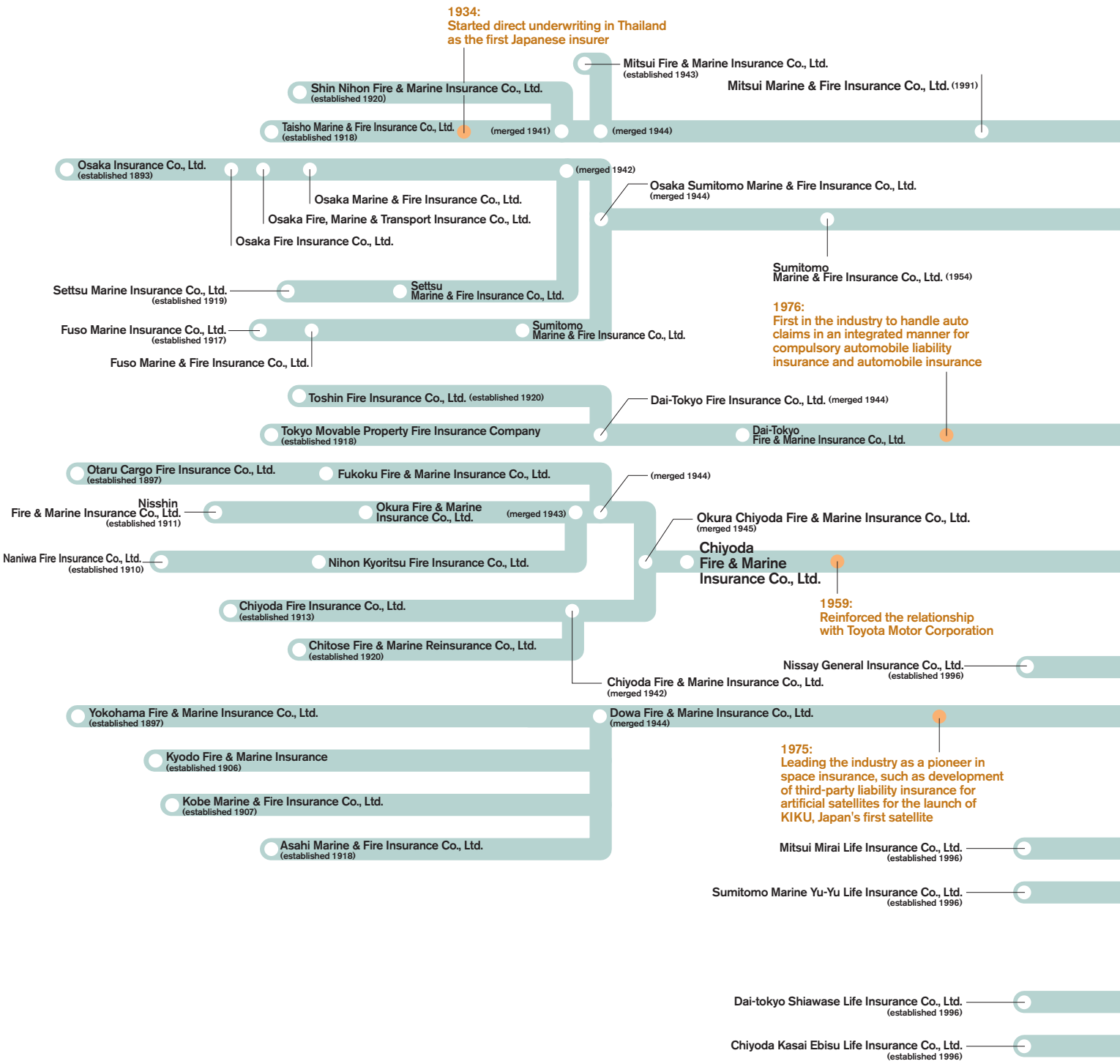
- Greatest accumulation of risk related data in Japan and the ASEAN region
- Expertise and data acquired through experience with the large natural disasters to date

Expertise and trustworthiness supported by 125 long years of history and experience

- Partnerships with leading companies in other sectors, including the Toyota Group, the Nippon Life Group, the Mitsui Group and the Sumitomo Group
- Partnerships with insurance agents and insurance brokers supported by long-standing relationships of trust

Robust customer and marketing base founded on long-term relationship building

Past and seeds



experience lessons are the of the future

- First Japanese non-life insurance company to start direct underwriting in Thailand, in 1934
- Operations have expanded along with growth in the ASEAN region, ultimately achieving the No. 1 position in the region in terms of scale

Network of trust built over a long history in the Asian region

- First Japanese non-life insurance company to enter Lloyd's insurance market in 2000
- Acquisition of Amlin, founded in 1903*1 at the Lloyd's insurance market in 2016

110 years of experience and results in the Lloyd's insurance market

Mitsui Sumitomo Insurance Group Holdings, Inc. established in 2008

Mitsui Sumitomo Insurance Co., Ltd., Mitsui Sumitomo Kirameki Life Insurance Co., Ltd., Mitsui Sumitomo MetLife Insurance Co., Ltd., and Mitsui Direct General Insurance Co., Ltd. became the subsidiaries of MSIGHD.

MS&AD Insurance Group launched in 2010

- **MS&AD Insurance Group Holdings**
  - 2013: Started reorganization by function
  - 2017: Invested in ReAssure, U.K.-based closed book*2 life insurance business
  - 2017: Capital participation in Challenger, the largest provider of individual annuity insurance in Australia
- **Mitsui Sumitomo Insurance Co., Ltd.**
  - 2016: Acquired U.K.-based Amlin, ranked No. 2 at the Lloyd's insurance market
  - 2017: Acquired First Capital, ranked No. 1 in Singapore
- **Aioi Nissay Dowa Insurance Co., Ltd.** (inaugurated 2010)
  - 2015: Acquired U.K.-based Box Innovation Group, a leading telematics automobile insurer
  - 2018: Launched first driving behavior-based telematics auto insurance for Toyota's connected cars
- **Mitsui Direct General Insurance Co., Ltd.**
- **Mitsui Sumitomo Aioi Life Insurance Co., Ltd.** (inaugurated 2011)
- **Mitsui Sumitomo Primary Life Insurance Co., Ltd.** (name changed in 2011)

Mitsui Sumitomo Insurance Co., Ltd. (merged 2001)
- 2000: Established Lloyd's syndicate as the first Japanese insurer
- 2005: Acquired Taiwan-based Mingtai Fire and Marine Insurance ranked No. 2 in the Taiwanese insurance industry
- 2004: Acquired the whole Asian non-life insurance business of U.K.-based Aviva (making us the largest in the ASEAN region)

Aioi Insurance Co., Ltd. (merged 2001)
- 2004: Developed Pay As You Drive (PAYD) type auto insurance for Toyota cars

Nissay Dowa General Insurance Co., Ltd. (merged 2001)
- 2001: Promoted the Life and Non-life Comprehensive Insurance Strategy using the Nissay Insurance Account as a platform

Mitsui Direct General Insurance Co., Ltd. (inaugurated 2000)

Mitsui Sumitomo Kirameki Life Insurance Co., Ltd. (merged 2001)

Aioi Life Insurance Co., Ltd. (merged 2001)

Mitsui Sumitomo CitiInsurance Life Insurance Co., Ltd. (started 2002)

Mitsui Sumitomo MetLife Insurance Co., Ltd. (2005)

*1 See P. 118 for the history of Amlin (currently, MS Amlin).
*2 The closed book life insurance business is a type of life insurance whereby a company purchases and acquires policies in force held by other life insurance companies instead of acquiring new policies on their own.

Diversity

Creativity and synergies derived from diversity

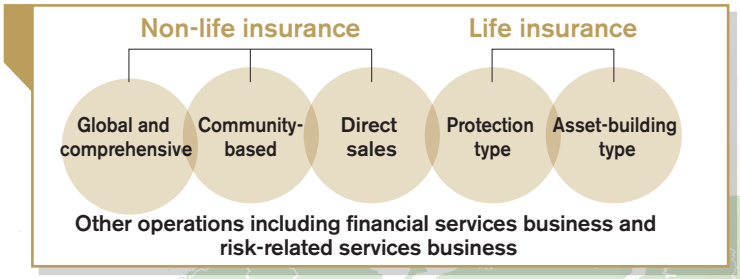
MS&AD's Strengths: Diversity

Enhancing the comprehensive strengths of the Group through management that leverages the history, culture and characteristics of each Group company

The needs of customers and demands of society constantly change as time passes. Vigilant of these changes, our diversity is a true strength that enables us to stay one step ahead of change and serve our customers.

Diversity in operating companies

Responding to various needs, from non-life insurance to life insurance, and from local communities to global scope



Diversity in products and services

In tune with rapid changes in society, a wide range of products and services cover all sorts of risks for companies and individuals

Diversity in human assets

A corporate culture that respects differences and creates innovation that turns this into a strength

Ratio of overseas employees in consolidated subsidiaries	22.2%
Gender composition of employees	48.9% male 51.1% female
Ratio of employees with disabilities*	2.37%

* Employees at the holding company and five Group domestic insurance companies

Robust customer base with the largest network of agencies in Japan through leading corporate groups and financial institutions

Toyota Group | Mitsui Group | Sumitomo Group | Nippon Life Insurance Group

Number of domestic non-life insurance agents: **88,532**

Diversity in partnerships

Diversity in sales channels

Biggest sales channel in the industry provides points of access anytime, anywhere via various opportunities

- Professional insurance agents
- Financial institutions
- Digital / mobile
- Partner companies
- Automobile sales dealers and motor channels

Diversity in global networks

High-quality products and services with a strong presence in key overseas markets

Overseas consolidated subsidiaries that share our values: Total of 85 companies

Drive growth for the Group by harnessing strengths in their businesses and regions

MSIG | MS amlin | MS FirstCapital | DTRIC | Aioi Nissay Dowa Insurance Europe (MS&AD INSURANCE GROUP) | insure the box

Alliances with major global insurance companies

Tie-ups that leverage market characteristics and local needs, collaborate on digitalization

- Generali, the largest insurer in Italy
- AXA, the largest insurer in France
- Mapfre, the largest insurer in Spain and Latin America
- Fairfax, a major insurance and financial group with global reach

Innovation

Realizing growth in tune with the times

MS&AD's Strengths: Innovation

Providing innovative products and services in tune with changes in society

The MS&AD Insurance Group has been providing products and services that satisfy customer needs in a constantly changing society. We continue to create innovative risk solutions by staying one step ahead of changes in the social landscape and changes in the mindsets and lifestyles of our customers.

Frameworks Sensitive to Changes in Society

Silicon Valley

Fund of Funds

Net Service Ventures Group

Acquire ideas and digital technologies through investments in NSV, a diversified investment fund that invests in several venture capital firms

Corporate Venture Capital

MS&AD VENTURES

Pursue joint development with start-ups through venture investments

MS&AD Garage

Develop an environment that helps employees at Group companies in Japan and overseas to make business trips to identify advanced technologies and services in Silicon Valley

Group companies around the world

MS&AD Insurance Group

Industry-academia collaboration

Big Data

Shiga University

Tokyo Denki University

Self-driving cars

Gunma University

RobiZy

Saitama Prefecture

Kanagawa Prefecture

Trading company

Manufacturer

Healthcare

Osaka University

Osaka University's Cross-Innovation Initiative

Disaster prediction based on climate change

The University of Tokyo

Shibaura Institute of Technology

Practical Example

Change in society: **Advances in telematics technology and upheaval in new mobility**

+

Group strengths: **Partnership with Toyota Motor**

Develop telematics services business

Sharing economy

Tie-up with Grab (Asia)

Investment in MaaS Global (Europe)

April 2004

Japan's first mileage-linked car insurance "PAYD*1" launched

March 2015

Acquired Insure The Box Limited, a leading telematics car insurance company in the U.K.

April 2015

Launched "Connected Car Insurance," based on Toyota Motor's T-Connect, as an evolved form of "PAYD*1"

April 2016

Established telematics car insurance services company, Toyota Insurance Management Solutions USA, LLC (TIMS) in the U.S. in cooperation with Toyota Motor

April 2018

Released Japan's first "PHYD*2" type telematics car insurance

Vehicle operation data, etc. → Data communications network provider → Data needed to calculate insurance premiums and provide services

Company-approved car navigation systems

Company-approved data communication module (DCM)

Customers

TOUGH

Enjoy

Benefit

Protect

Aioi Nissay Dowa Insurance

*1 Pay As You Drive
*2 Pay How You Drive

Sustainability
Always align with society

MS&AD's Strengths: Sustainability

Helping improve the sustainability of society through partnerships

The MS&AD Insurance Group is strengthening various business initiatives in line with its aim for a "resilient and sustainable society."

Practical Example: Providing safety and peace of mind

Identify and inform on risks → Prevent risks from occurring/ minimize the impact → Reduce the economic burden

Support Corporate Management

Risk management

- Natural capital risk in supply chains
- Climate change risk in business activities
- BCP proliferation initiatives

Risk surveys and communication

With an eye on the future, we notify about risks to sustainability and help solve these risks.

Risk management journal quarterly published by MS&AD InterRisk Research Institute & Consulting, Inc.

Support for Local Governments

Initiatives for regional revitalization through partnership agreements

The Group advances initiatives for regional revitalization through partnerships with local governments, municipalities, local commerce groups and local financial institutions. Across the entire group, we have formed 306*1 partnerships to provide risk assistance and consulting for regional revitalization.

Partnership-based revitalization support market

*1 As of May 31, 2018. Simple total for Mitsui Sumitomo Insurance and Aioi Nissay Dowa Insurance

Supporting Businesses and Livelihoods

Insurance and services for companies

- Consulting and insurance for cyber risk
- Weather derivatives utilizing satellite data
- "Kokokaradiary" smartphone app for helping companies with health management and employees with getting heathier

Insurance and services for individuals

- "Connected Car Insurance," a PHYD automobile insurance that encourages eco-driving
- "ASHITA NO YOROKOBI," a tontine-type annuity*2 that supports people who live long lives
- "Karada-Care Navi," an information service that encourages healthy lifestyles

*2 See the "Special Feature" section (P. 63) and the "Glossary of Insurance Terminology" section (P. 96) for details)

Participation in Initiatives to Create a Framework for Pursuing Sustainability

Corporate Governance

We engage in corporate activities that refer to the Ten Principles of the UN Global Compact, encompassing human rights, labor, and the environment. As a domestic financial institution, MS&AD initially declared its support of the UN Global Compact in 2004 and has participated in its administration as a director of Global Compact Network Japan.

Economy

As a member of the United Nations Environment Programme, Finance Initiatives (UNEP FI), MS&AD participated in the formulation of the Principles for Sustainable Insurance (PSI). We aim to improve the sustainability of society through insurance and financial services that follow these principles.

Society

Mitsui Sumitomo Insurance promotes disaster prevention and reduction using natural resources, as well as regional revitalization, by participating in working group (WG) activities with the Resilience Japan Association, which engages in initiatives for disaster prevention and mitigation with industry, academia, governments and private sector (Green Resilience WG).

Environment

As the company heading the Japan Business Initiative for Biodiversity (JBIB) since its establishment in 2008, MS&AD has worked to spread awareness of biodiversity activities among companies. We are the only non-life insurer in Japan to have signed the UN Natural Capital Declaration.

See the Company's official website for more details about these initiatives.
https://www.ms-ad-hd.com/en/csr/summary/initiative.html

MS&AD's Path to Realizing Our Image of Society

The MS&AD Insurance Group is on the verge of creating a world-leading insurance and financial services group, a medium-term vision that the Group has pursued since it came into existence, through the story of value creation with its customers, shareholders and other stakeholders.

When formulating the new medium-term management plan that began in fiscal 2018, the Group set forth the goal of "a resilient and sustainable society" as its image of society in 2030.

The MS&AD Insurance Group will continue creating shared value through its corporate activities, to sustain development and earn the broad support of stakeholders in society.

New Frontier 2013

(FY2010–FY2013)

Founding of the Group

The MS&AD Insurance Group was founded with the mission of "contributing to the development of a vibrant society and helping secure a sound future for the planet"

- Improve profitability in the domestic non-life insurance business
- Ensure financial soundness

Next Challenge 2017

(FY2014–FY2017)

Development of the Story of Value Creation

Advance Group integration based on the story of value creation and realizing our mission

- Enhance earning power in the domestic non-life insurance business
- Improve capital efficiency

Restore profitability in the domestic non-life insurance business, the biggest issue since Group business integration, and establish a stable earnings foundation

Reduce strategic equity holdings while investing in the international business to improve capital efficiency and build a platform for growth

Vision 2021

(FY2018–FY2021)

Development of management based on CSV*

Realize sustainable growth creating shared value through corporate activities

*CSV: Creating Shared Value

- Achieve medium-term aspirations
- Build resilient systems that can respond to changes in the environment

Building a foundation for the next stage and creating a world-leading insurance and financial services group based on our Vision

Medium-term aspirations
(A world-leading insurance and financial services group)

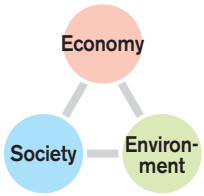
Scale	Within the top 10 non-life insurance groups in the world
Capital efficiency	Group Adjusted ROE 10%
Financial soundness	ESR 180% - 220%
Portfolio diversity	50% (profit basis) in other than the domestic non-life insurance business
Risk assets	Strategic equity holdings below 30% of integrated risk amount and below 10% of consolidated total assets
Profitability	Combined ratio in the domestic non-life insurance business stable at 95% or less

Image of Society in 2030

"Resilient and sustainable society"

Resilient — Able to respond to unforeseen circumstances

Sustainable — Win-win-win relationship among the economy, environment and society instead of trade-offs



Balance of economy, environment and society

MS&AD's Role

Examples of Initiatives for Seven Key Issues

Safer mobility society

- Provide products and services with mechanisms that help prevent accidents (safe driving assistance with telematics)
- Provide products and services for the next-generation mobility society
- Continue initiatives for traffic safety

Strive for resilient community development

- Support regional revitalization to create vibrant communities
- Promote disaster prevention and mitigation using natural capital (Green Resilience)

Deal with new risks

- Create a business model that changes anticipated emerging risks into opportunities
- Provide products and services that respond to new risks such as cyber and new lifestyles

Good health and longevity

- Provide products and services that support a healthy, long life
- Provide products and services that can contribute to the development of advanced medicine and regenerative medical treatment

Leave no one behind

- R&D in insurance and financial services that help support primary industries and low-income families in developing countries
- Support the creation of government-managed insurance systems in developing countries

Climate change mitigation and adaptation

- Enhance preparedness for large-scale climate disasters
- Provide products and services that assist the penetration of renewable energy
- Compensate for climate risks

Improve the sustainability of natural capital

- Provide services for risk evaluation of natural capital
- Implement activities to preserve biodiversity (Ramsar Supporters), and to regenerate tropical forests in Indonesia

* See the "Special Feature" section (PP. 60-66) for more details.

Medium-Term Management Plan

— Reviewing the previous plans since the Group's founding

Under "New Frontier 2013," the Group's first management plan that had begun in 2010, we steadily deployed initiatives geared toward returning the domestic non-life insurance business to profitability, which had presented the biggest challenge. While also making progress with Group business integration, including the building of common platform systems for the domestic non-life insurance business, we clarified the shape of Group business integration as a result of reorganization by function in 2013.

New Frontier 2013 (FY2010-FY2013)

- On account of greater-than-expected losses due to large-scale natural disasters, including the Great East Japan Earthquake and floods in Thailand in 2011, the Group Core Profit target for FY2013 was revised downward in November 2011.
- Steady progress was being made in achieving the revised target, but in the fourth quarter of the last year of the plan (February 2014), greater-than-normal snow in the Kanto Koshinetsu region caused massive damage, and the Company missed the targets for the Group Core Profit and Group ROE.

(¥ billion)

	FY2010 Results	FY2011 Results	FY2012 Results	FY2013		
				Results	Initial targets	Revised targets
Group Core Profit	14.5	(87.5)	87.4	94.8	150.0	110.0
Domestic Non-Life Insurance Business	6.5	19.7	61.9	47.8	100.0	60.0
Domestic Life Insurance Business	4.1	4.3	9.8	24.4	15.0	15.0
International Business	1.8	(112.3)	13.5	18.0	30.0	30.0
Financial Services Business and Risk-Related Services Business	1.9	0.7	2.0	4.4	5.0	5.0
Group ROE	0.8%	(5.6%)	5.0%	4.5%	7%	7%
Consolidated Net Premiums Written	2,541.4	2,558.8	2,639.4	2,809.5	2,700.0	2,700.0
Annualized Premiums of Policies in Force (life insurance)*	278.0	294.7	317.4	333.5	330.0	330.0

* Figures for MSI Aioi Life (excluding group insurance). The figure for FY2010 is the total for MSI Kirameki Life and Aioi Life.

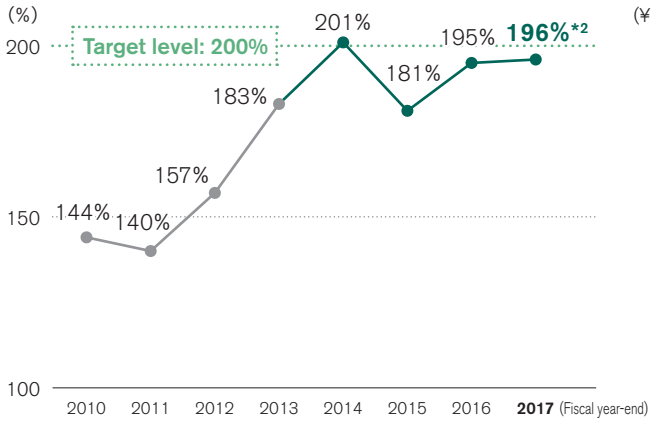
Plan to reduce strategic equity holdings

FY2011-FY2013 (three years)	Plan	Actual	Achievement ratio
	¥300.0 billion	¥376.4 billion	125.5%

Achieved 1 — Establishment of Financial Soundness

Even if a natural disaster that caused all-time high amounts of damage was to occur, the target level for financial soundness has been secured.

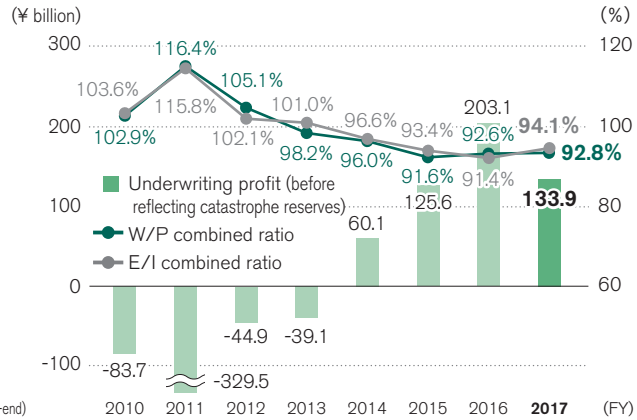
ESR*1



Achieved 2 — Solidification of Earning Power of Domestic Non-Life Insurance Business

Stably achieved a combined ratio of 95% or less, set new profit record

Underwriting Profit and Combined Ratio



*1 ESR: Economic Solvency Ratio = Net Asset Value ÷ Integrated Risk Amount
*2 Although we are working on a more sophisticated method for calculating ESR from the current fiscal year, this figure is based on the calculation method used up to FY2017 (see the "Group Management Based on ERM" section (PP. 38–39) for details).

"Next Challenge 2017" was positioned as the stage for solidifying the progress made in business integration while continuing to advance reorganization by function. Having restored profitability in the domestic non-life insurance business, a stable earnings foundation was put in place. We also worked to improve capital efficiency and diversified the business portfolio by instilling ERM as the foundation of management, accelerating the sale of strategic equity holdings and investing in overseas businesses. We reached the point where the realization of a "world-leading insurance and financial services group," which we had adopted as an aspiration in the medium term, was in sight.

Next Challenge 2017 (FY2014-FY2017)

In FY2017, which was the final year of the plan, international business profits declined sharply, and the Group Core Profit and Group ROE targets were missed on account of the large-scale natural disasters (including hurricanes in North America) that occurred and amounted to the greatest ever in the history of non-life insurance.

In contrast, the domestic non-life insurance business set a new profit record and formed the foundation of the Group's stable earnings.

Despite the occurrence of the high severity events, the Group's ESR was maintained at roughly the target level, and the establishment of financial soundness confirmed.

(¥ billion)

	FY2014 Results	FY2015		FY2016 Results	FY2017		
		Results	Initial targets		Results	Initial targets	Revised targets
Group Core Profit	155.7	147.5	120.0	**213.7**	**105.0**	**160.0**	**220.0**
Domestic Non-Life Insurance Business	92.4	91.9	76.0	**153.3**	**190.1**	**100.0**	**135.0**
Domestic Life Insurance Business	20.4	25.0	13.0	**25.1**	**34.3**	**16.0**	**15.0**
International Business	38.2	27.9	27.0	**34.6**	**(125.0)**	**39.0**	**66.0**
Financial Services Business and Risk-Related Services Business	4.6	2.6	4.0	**0.5**	**5.6**	**6.0**	**5.0**
Group ROE*1	5.9%	5.2%	5.4%	**7.9%**	**3.7%**	**7.0%**	**7.5%**
Consolidated Net Premiums Written	2,940.7	3,078.9	3,000.0	**3,406.9**	**3,446.9**	**3,100.0**	**3,570.0**
Combined Ratio (Domestic Non-Life Insurance)	96.0%	91.6%	95%	**92.6%**	**92.8%**	**95% or below**	**93% range**
Increase in EV*2 of MSI Aioi Life	59.7	(52.0)	40.0 or more	**198.4**	**41.3**	**45.0 or more**	**50.0 or more**

*1 The definitions for Adjusted Profit and Adjusted ROE identified as numerical management targets have been revised under the new medium-term management plan "Vision 2021." See P. 32 for FY2017 actual data under the new definitions.
*2 "EV" stands for embedded value (See the "Glossary of Insurance Terminology" section (P. 92) for details.)

Plan to reduce strategic equity holdings

Actual sales to FY2016	Actual sales in FY2017	Period total	Revised plan to reduce*	Achievement ratio
¥405.1 billion	**¥151.3 billion**	**¥556.6 billion**	**¥500.0 billion**	**111.3%**

*In November 2015, the plan to reduce was raised from ¥300 billion to ¥500 billion.

Achieved 3

Promotion of ERM

Ensured soundness, improved profitability and put in place a Group management foundation that realizes capital efficiency

Achieved 4

Completion of reorganization by function

Progress also made in areas other than those originally planned. Domestic non-life insurance companies reduced their business expenses by around ¥60.0 billion, which exceeded the original target, and concurrently achieved growth and increased efficiency.

Ongoing Tasks 1

Portfolio Diversification

Regional diversification from domestic to overseas, business investment to diversify business from non-life insurance business to life insurance business
Ongoing tasks toward achievement of targeted international business profit ratio of 50%

Ongoing Tasks 2

Enhance Ability to Respond to Environmental Changes

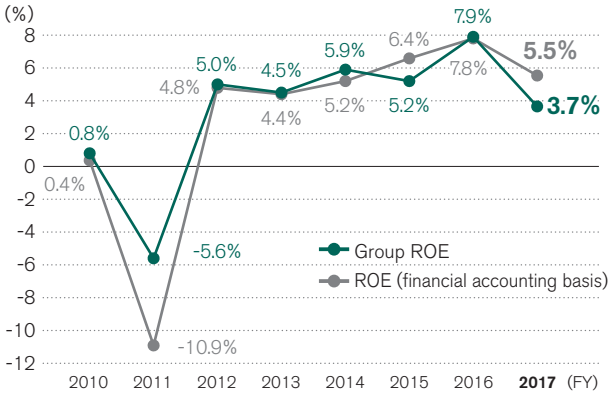
Adoption of new technologies, the conducting of all kinds of demonstration experiments and research through industry-academia cooperation, etc., to respond to the digital society
Ongoing tasks toward further quality and productivity improvements

Ongoing Tasks 3

Improve Capital Efficiency

ROE rose to approximately 8% in FY2016, but suffered a decline in FY2017 due to the occurrence of the large-scale natural disasters
Ongoing tasks toward targeted 10% level

ROE



Risks and Opportunities

When formulating "Vision 2021," we reassessed the business environment surrounding the Group and identified noteworthy risks within the context of four social issues, as well as growth opportunities for the Group.

Recognition of the Business Environment

Society

- Increase in natural disasters such as wind and flood damage and major earthquakes
- Expansion of regional conflicts
- Expansion of the "sharing economy"
- Expansion and consolidation of disparities such as that between poverty and wealth
- Increase in momentum of global-scale initiatives aimed at resolving social issues
- Aging populations around the world
- Decrease in total population, advancement of regional depopulation
- Economic expansion and its recoil associated with Tokyo Olympics and Paralympics

Politics

- Change in regulatory environments inside and outside Japan (stricter capital regulations, consumption tax hike and revisions to Civil Code in Japan)
- Britain's exit from the European Union (Brexit) / rise of protectionism and populism
- Legalization of human rights protections, tougher decarbonization and other ESG regulations
- Introduction of systems that encourage long-term investing (Corporate Governance Code, Stewardship Code, etc.)

Economy

- U.S. interest rate hikes and capital outflows from emerging nations
- Progress of ESG investment
- Expansion of infrastructure demand in developing countries
- Decrease in car sales and number of vehicles owned, housing construction in Japan due to shrinking population
- Increase in foreign visitors to Japan

Technology

- Progress of advanced digital technology such as AI and increasingly sophisticated cyber attacks
- Advances in new automobile technologies (e.g., automatic braking, autonomous driving)
- Advances in regenerative medical technologies
- Progress of clean energy technologies
- Threat of Big Data monopoly
- Advances in welfare and nursing care robots

Four Social Issues

- Diversified/ large-scale accidents and disasters
- Global environment approaching the limit
- Mounting burden of nursing/ medical care associated with the aging population
- Decline in social vitality due to widening inequalities

Issues related to management foundations

- Growing demands on companies by society

Based on this perception of the environment, and in light of performance during previous medium-term management plans, MS&AD has identified six issues to address under "Vision 2021," and formulated basic strategies, key strategies and strategies for each business domain.

Through initiatives based on these strategies, we aim to realize sustainable growth and enhance corporate value while contributing to the resolution of these four social issues.

Risks

- Changes in the nature of existing businesses (e.g., conventional automobile insurance), possibility of contraction
- Tougher competition in shrinking markets (direct non-life insurance market, bank over-the-counter life insurance market, etc.)
- Emergence of new risks that require strengthening of risk management as a result of innovation, such as digitalization and regenerative medical treatment

- Increase in scale and frequency of damage caused by large-scale natural catastrophes
- Erosion of business environment foundation due to depletion of natural capital
- Softening in reinsurance market (e.g., for major natural disasters) due to capital inflows from asset management market

- Maturation of domestic insurance markets (slower growth)
- Increase in automobile accidents caused by elderly drivers
- Need to change solicitation methods as policyholders age

- Potential for slower growth in emerging country markets due to capital outflows and social instability
- Contraction in rural markets due to advancement of regional depopulation

- Uncoupling of demands from stakeholders for creating shared value with society
- Persistent demands for improvement in ROE and reduction in strategic equity holdings
- Stricter assessment standards for soundness of financial institutions

Opportunities

- Creation of new markets from emergence of new risks (new technological development risk, cyber risk, regenerative medicine-related risk, etc.)
- Emergence of new business models (telematics insurance, InsurTech, etc.)
- Possible emergence of new sales channels

- Growing needs for advice about climate change risk and natural capital risk
- Needs for new insurance arising from growth in new businesses related to decarbonization and resource efficiency
- Development of new insurance schemes to compensate for loss caused by large-scale natural catastrophes
- Increase in new ESG-friendly asset management products, such as Green Bonds

- Emergence of new customer needs in an aging society, such as risk associated with living longer and transferring assets to the next generation
- Increase in needs for medical insurance due to changes in the social security system and advances in medical technology

- Stronger demand for insurance due to the development of emerging economies and a growing middle class
- Stronger needs for services that support regional revitalization

- Increase opportunities for constructive dialogue with stakeholders from a long-term perspective, and reinforce the management foundation with this feedback

Vision 2021 Issues and Strategies

Six issues	Strategies
Universal issue	
1 Harmony with society	Concept of "Vision 2021" (= business development based on CSV)
Unsolved issues from previous medium-term management plan	
2 Improve capital efficiency vis-à-vis global competitors	Group management based on ERM
3 Change the business portfolio	Reform portfolio (key strategy 3)
4 Improve responsiveness to changes in the environment	Promote digitalization (key strategy 2)
Issues for further strengthening	
5 Harness diversity better as a Group strength	Pursue the Group's comprehensive strengths (key strategy 1)
6 Maintain and expand the domestic non-life insurance business's advantages in scale and profitability	Strategies for each business domain

New Medium-Term Management Plan: Vision 2021

Vision 2021 (FY2018-FY2021)

Numerical Management Targets

The MS&AD Insurance Group has set numerical management targets for fiscal 2021, namely Group Adjusted Profit of ¥350 billion and Group Adjusted ROE of 10%, as the level necessary to attain its medium-term aspirations.

In addition, we have created the Sustainability Medium-Term Plan and will monitor non-financial indicators.

With an eye on the adoption of IFRS, MS&AD has changed the definition of targeted Adjusted Profit and Adjusted ROE as follows.

Financial Targets

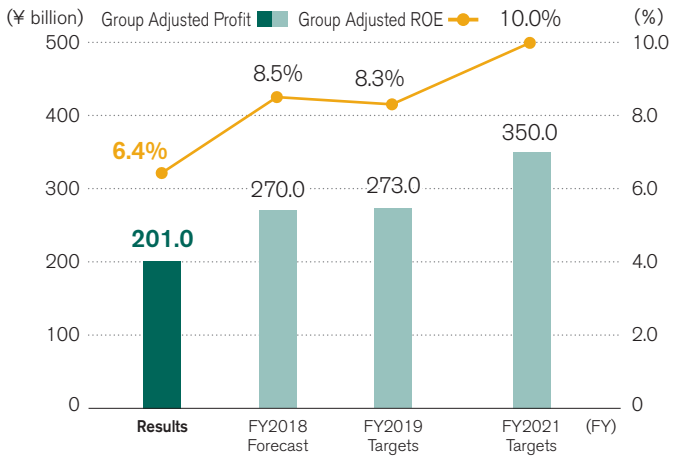
(¥ billion)

	FY2017 Results (Converted to new standards)	FY2018 Forecast	FY2019 Targets	FY2021 Targets
Group Adjusted Profit	**201.0**	270.0	273.0	350.0
Domestic non-life insurance business (Excluded gains/losses on sale of strategic equity holdings)	**287.8 (202.4)**	207.0 (166.0)	174.0 (139.0)	182.0 (142.0)
Domestic life insurance business	**32.6**	22.0	28.0	45.0
International business	**(125.0)**	37.0	66.0	117.0
Financial services business/ Risk-related services business	**5.6**	4.0	5.0	6.0
Group Adjusted ROE	**6.4%**	8.5%	8.3%	10.0%
Consolidated net premiums written	**3,446.9**	3,480.0	3,530.0	3,710.0
Life insurance premiums (Gross premiums)	**1,508.1**	1,496.8	1,540.0	1,600.0
EEV of MSI Aioi Life	**835.5**	865.0	970.0	1,050.0
ESR (Economic Solvency Ratio)	**211%**	201%	180%～220%	

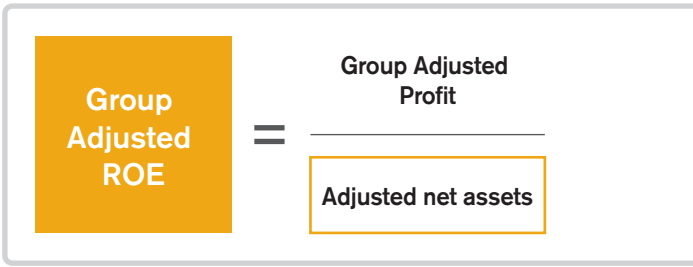
Sales Target of Strategic Equity Holdings

Total sales target (FY2017-2021)	**¥500.0 billion**
Risk weight to integrated risk amount (before risk diversification effect)	**Less than 30%**
Fair value weight in consolidated total assets	**Less than 10%**

Group Adjusted Profit and Group Adjusted ROE



Definition of Group Adjusted Profits and Group Adjusted ROE



KPIs in the Sustainability Medium-Term Plan (Key Non-Financial Indicators)

A Resilient and Sustainable Society

Creating Shared Value with Society (CSV Initiatives)

Indicator	Fiscal 2017 Achievements	Group Targets for Fiscal 2018 Onward
Development and improvement of products for creating shared value with society	• Special Feature (PP. 60-66) • MS&AD Sustainability Report 2018	For the seven key issues (P. 13), decide on four methods of approach and periodically ascertain progress qualitatively. **Four methods of approach** Provision of products and services / Investments and financing / Research and policy recommendations / Contributions to society
Key related SDGs	1, 2, 3, 6, 7, 8, 9, 11, 13, 14, 15, 17	

Initiatives supporting CSV

Quality that earns the trust of society

Indicators (related pages)	Fiscal 2017 Achievements	Group Targets for Fiscal 2018 Onward
Quality improvement (P. 45, P. 76)		
Customer satisfaction survey about insurance contract procedures	95.2%	The same level or higher compared to the previous year
Customer satisfaction survey about payment of insurance claims	96.3%	The same level or higher compared to the previous year
Reduction of environmental burden (P. 45)		
CO_2 emission reduction rate	-6.8%	Reduce CO_2 emissions by 30% by 2020 and by 70% by 2050 versus base year (fiscal 2009)
Total energy consumption	1,017,853 GJ (-28.1%)	
Paper consumption	11,085 t (-14.8%)	Equal or greater than the previous year
Key related SDGs	10, 12, 13, 16, 17	

Management platforms that enable employees to play active roles

Indicators (related pages)	Fiscal 2017 Achievements	Group Targets for Fiscal 2018 Onward
Diversity & inclusion (P. 45, PP. 74-75)		
Share of management positions occupied by women	9.9%	Plan to create target in FY2018
Employee satisfaction ("working vigorously")	4.3 points	The same level of higher compared to the previous year
Key monitoring indicators other than sustainability KPIs • Number and ratio of global employees • Ratio of employees with disabilities		
Health management (P. 46, PP. 74-75)		
Employee satisfaction "Pride, job satisfaction"	4.4 points	The same level or higher compared to the previous year
The number of annual paid holidays taken	16.0 days	The same level or higher compared to the previous year
Ratio of taking fully paid paternity/secondary leave	58.0%	The same level or higher compared to the previous year
Number of employees participating in social contribution activities	20,022 people	The same level or higher compared to the previous year
Key related SDGs	3, 4, 5, 8	

= Consolidated net income + [Provisions*3 for catastrophe loss reserve and others*2] − Other incidental factors (amortization of goodwill and other intangible fixed assets and others) + Equity in earnings of the non-consolidated Group companies

= Consolidated net assets*1 + [Catastrophe loss reserves and others*2] − [Goodwill and other intangible fixed assets]

* Parts enclosed in rectangles indicate changes to replace Group Core Profit and Group ROE, targets from the previous medium-term management plan
* Each adjustment amount is on after-tax basis. *1 Excluding non-controlling interests and stock acquisition rights, *2 Catastrophe reserves, contingency reserves and reserve for price fluctuation of domestic non-life insurance business and MSA Life, * 3 Subtraction in case of reversal

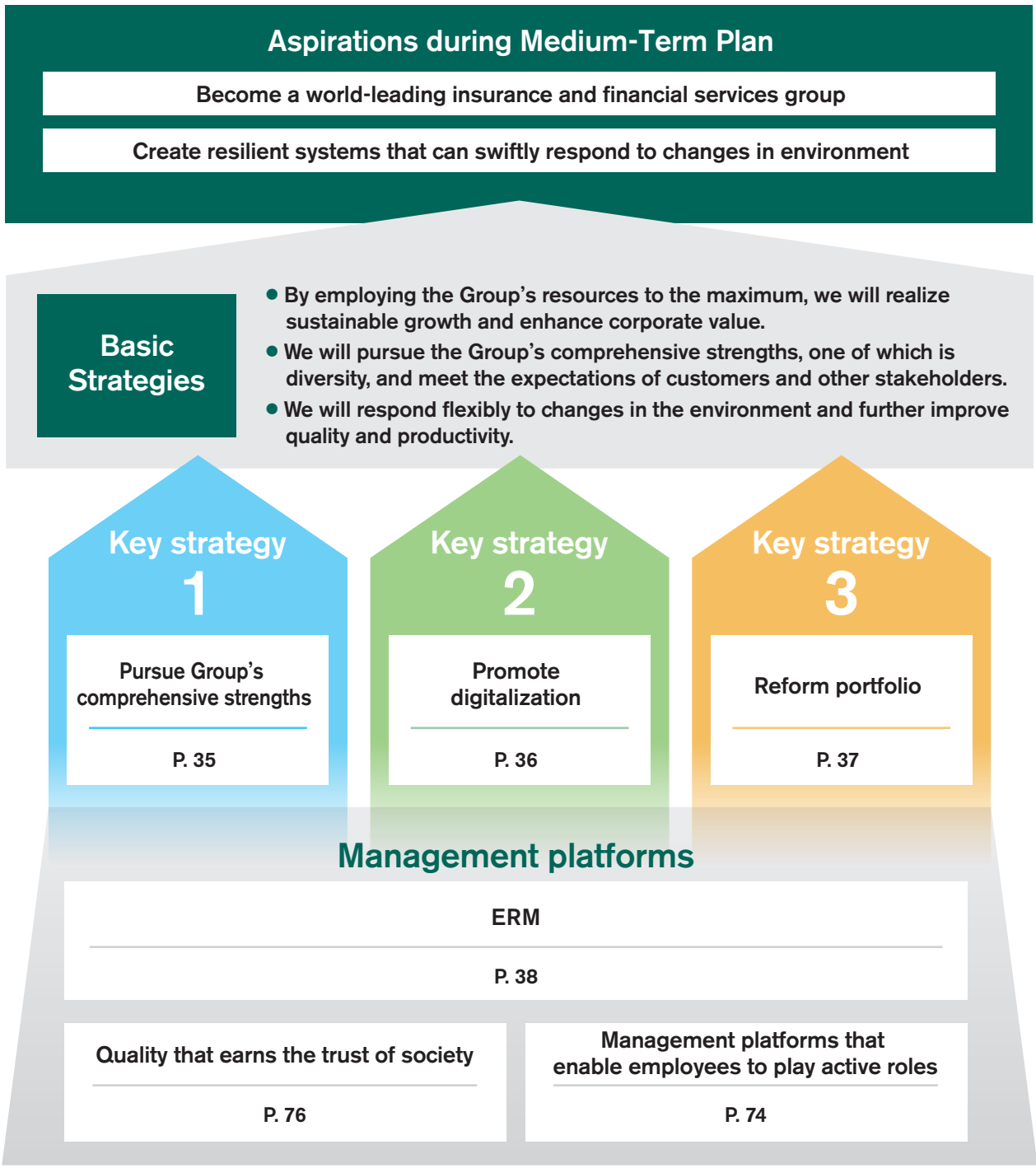
Vision 2021

Basic Strategies and Three Key Strategies

With work environments that enable employees to play active roles, the MS&AD Insurance Group aims to offer quality that earns the trust of its customers while flexibly adapting to changes in the environment and maximizing Group resources.

In addition, we aim to realize sustainable growth and enhance corporate value by working to increase profitability and capital efficiency while ensuring soundness with ERM.

By steadily implementing basic strategies and three key strategies being tied up with basic strategies, we are poised to achieve our medium-term aspirations, which have entered the realization phase.



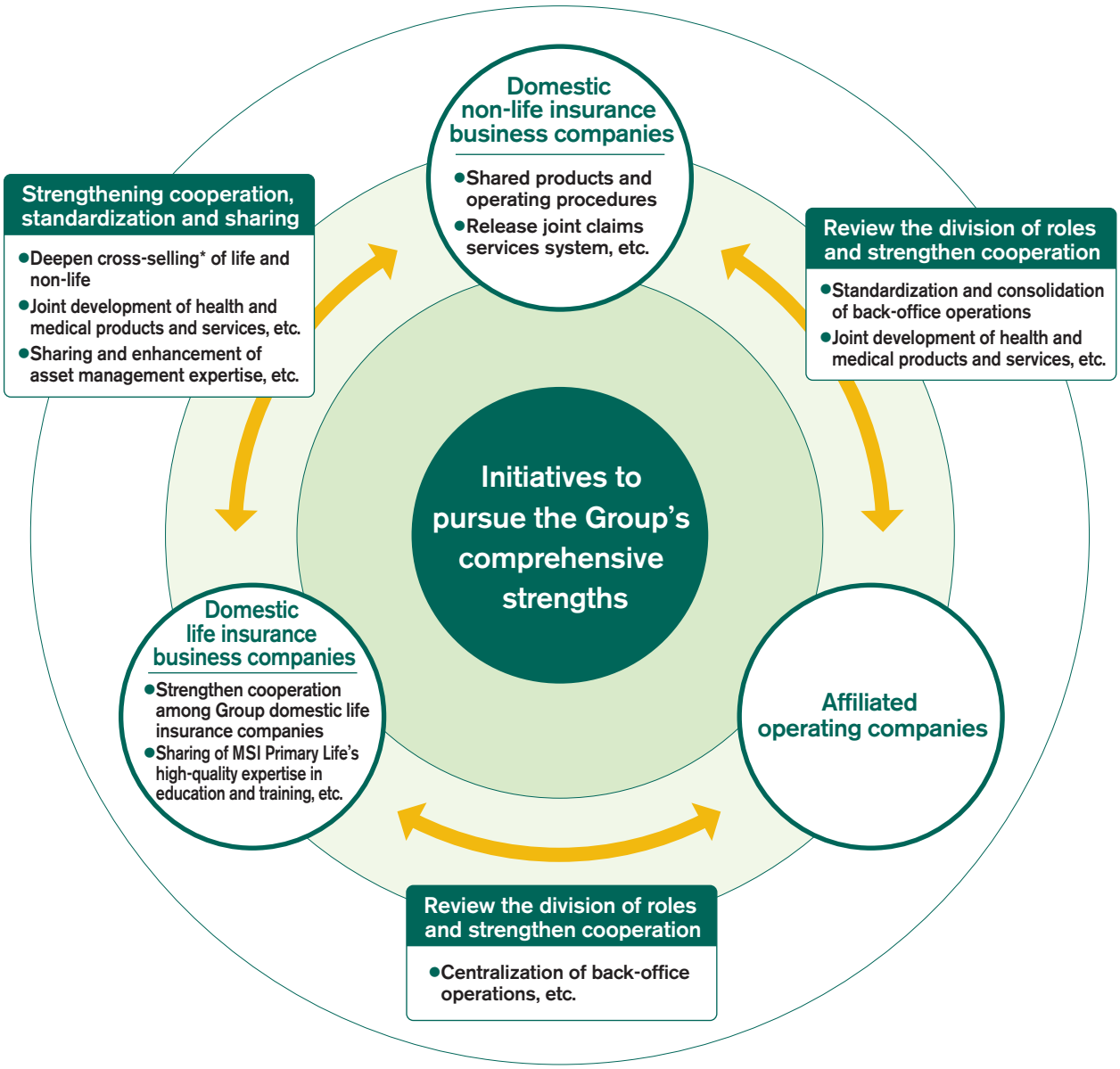
Vision 2021 Key Strategy 1

Pursue Group's Comprehensive Strengths

The MS&AD Insurance Group will enhance its competitiveness while responding to rapid changes in an uncertain environment by making the most of the Group's greatest strength—diversity.

Under "Vision 2021," we aim to improve quality and business efficiency by reviewing the division of roles and strengthening cooperation within the Group, and further advance reorganization by function that was accomplished under the previous medium-term business plan, "Next Challenge 2017."

1. Maximize Group's strengths (diversity, capital, human assets, customer base, etc.)
2. Review division of roles and strengthen cooperation among group companies
3. Promote standardization and sharing (standardization of products and operating procedures, joint claims services system, joint development of health and medical products and services)



*See the "Glossary of Insurance Terminology" section (P. 92) for details.

Vision 2021 Key Strategy 2

Promote Digitalization

Rapid advances in digital technology have led to dramatic changes in lifestyles and business models. It is now possible to do what was previously unthinkable.

With the CDO (Chief Digitalization Officer) playing a central role, the entire MS&AD Insurance Group is working on "digitalization*1" and connecting it to a transformation of our entire businesses. We aim to enhance the value of customer experience when they contact individual Group companies, and improve the business productivity of the MS&AD Group at the same time.

Objectives

Enhance the value of customer experience + Improve business productivity

Promotion Measures

- Reform business processes
- Enhance channel competitiveness
- Digitalize products and services

Promotional Platforms

- Enhance use of data
- Reform systems
- Foster Group culture

Europe

MS Amlin

- Increase business efficiency with RPA*2, AI, data analytics, etc.
- Strengthen customer contact through the introduction of blockchain technology for marine insurance

ASEAN

MSIG Holdings (Asia)

- Create seamless user experience for the connected customers of today through innovation and digitalization by utilizing RPA, AI, and blockchain in the largest retail market in MS&AD's international business

U.S.

Silicon Valley Project

- Invest in fund of funds
- Establish CVC (Corporate Venture Capital)
- Implement MS&AD Garage Program

* See the "MS&AD's Strengths: Innovation" section (P. 24) for an outline of each initiative.

Japan, other

MS&AD Group companies

- Automate business processes with RPA
- Use AI to help agents with customer support
- Strengthen customer contacts using digital technology
- Provide products and services that promote health and productivity management by using wearable devices
- Develop automobile insurance that uses telematics technology, etc.

Japan

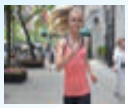
Robotics

Silicon Valley

Digital Tech.

AI

Data Analytics


Healthcare

Telematics

*1 "Digitalization": An initiative to not only improve the efficiency and convenience of processes and services through digital technology, but also lead the reform of the Group's overall business.
*2 RPA (Robotic Process Automation): Using cutting-edge software, automated robotic processes perform work on PCs instead of people.

Vision 2021 Key Strategy 3

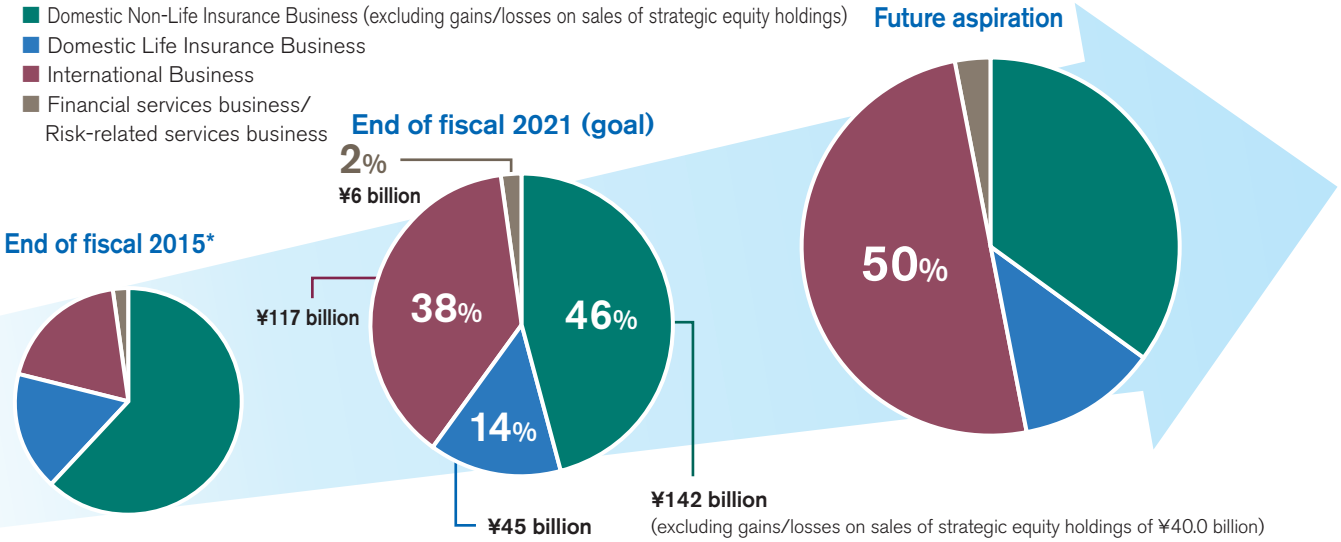
Reform Portfolio

The MS&AD Insurance Group's current earnings structure is dependent on the domestic non-life insurance business. We are transforming our earnings structure into one able to steadily generate profits by working to increase geographic and business diversification in the international business and the life insurance business.

Moreover, the Group's risk portfolio currently has a high ratio of risk in strategic equity holdings, which cause high exposure to fluctuations in share prices. We will continue reducing strategic equity holdings in a bid to transform into a more stable risk portfolio.

Reform business portfolio (geographic and business diversification)

Goals		Future initiatives
Medium-term goals	50% of profits to come from businesses other than the domestic non-life insurance business	• Expand domestic life insurance business by increasing cross-selling of life and non-life insurance • Strengthen existing international business by aggressively investing management resources • Invest in businesses inside and outside Japan (new and growth)
Future aspiration	50% of profits to come from international business	



*At starting point of the portfolio reform

Reform risk portfolio

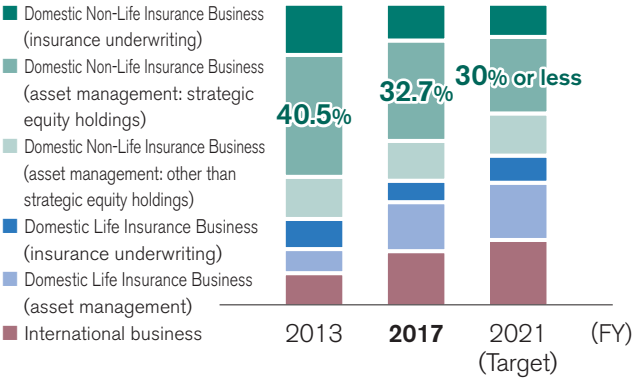
- **Exercise appropriate risk control based on cycle management of natural catastrophe risks.**
- **Continue reduction of strategic equity holdings and keep weighting vs. consolidated total assets to less than 10% and weighting vs. risk amount to less than 30%.**

Fair value weight of strategic equity holdings in consolidated total assets*

March 31, 2014	March 31, 2018	Medium- to long-term target
14.9%	12.7%	10% or less

* Weight of all strategic equity holdings including unlisted stocks

Risk Portfolio



Vision 2021

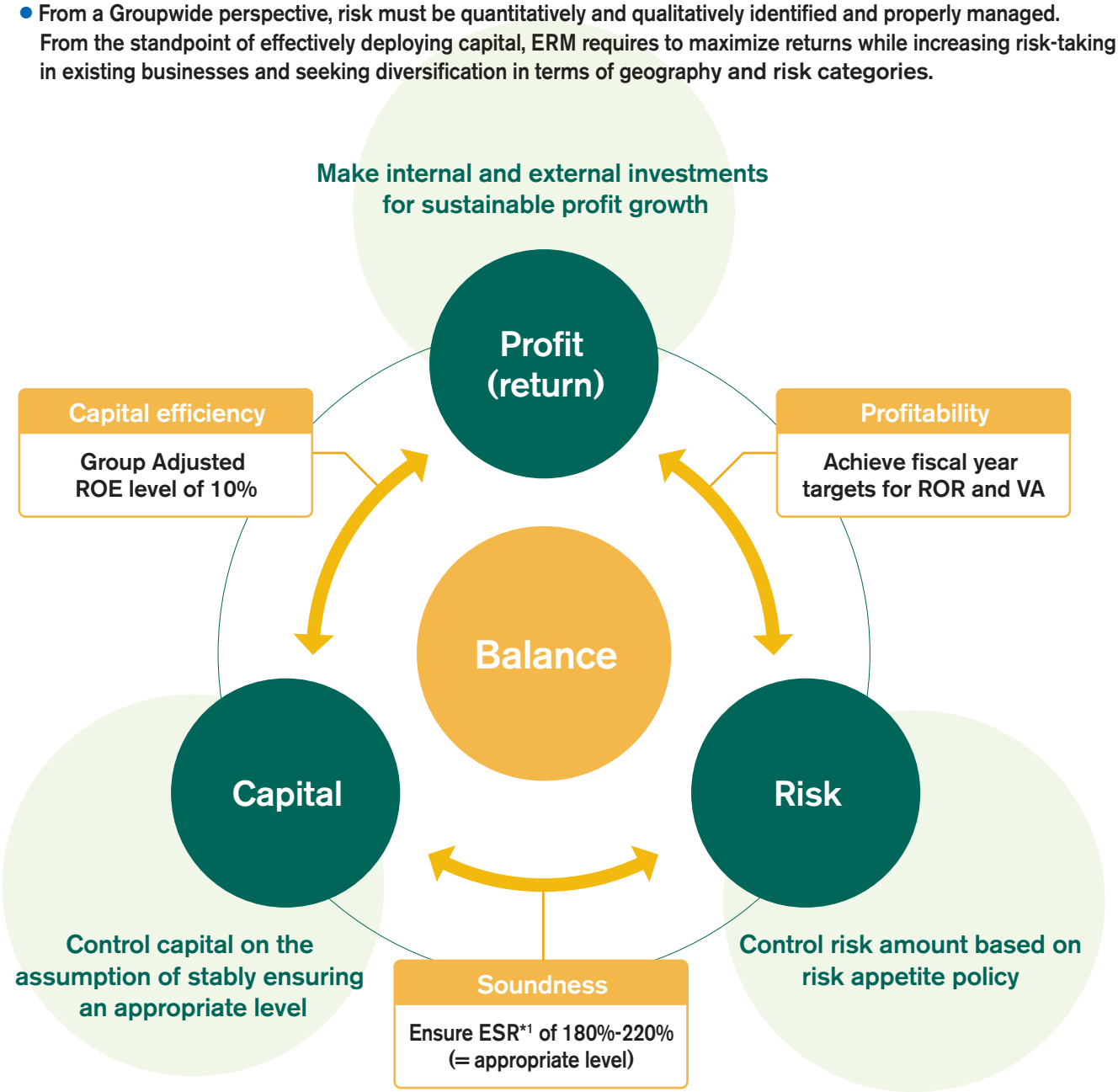
Group Management Based on ERM

The function of ERM (Enterprise Risk Management) is to control the balance among three key management indicators: profit (return), risk and capital. The MS&AD Insurance Group promoted ERM as a driver in the previous medium-term management plan, "Next Challenge 2017," establishing a platform for Group management.

Under the new medium-term management plan "Vision 2021," MS&AD will push forward with initiatives to improve profitability and capital efficiency, while ensuring soundness, and base Group management on the ERM cycle.

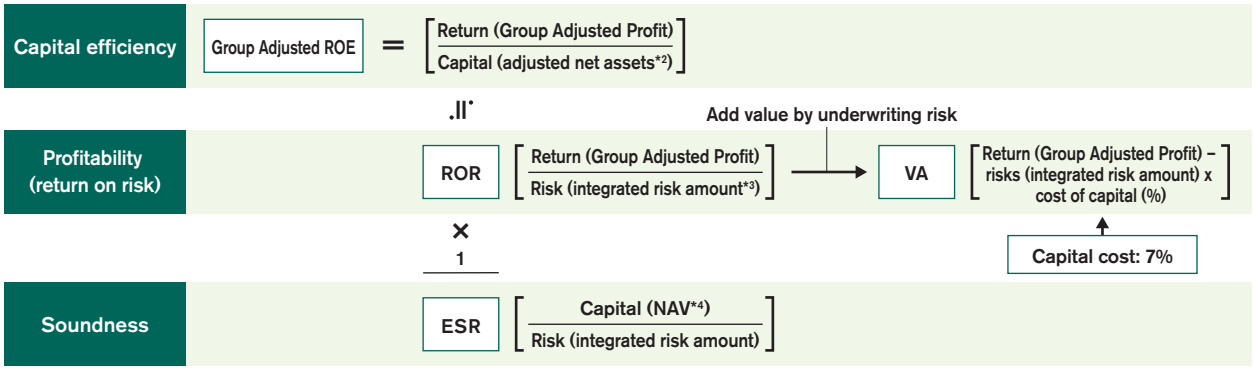
Function and Role of ERM

- **ERM requires measuring net asset value (capital) and risk amount, and maintaining a balance between capital and risk.**
  In particular, because fluctuations of financial markets, etc., cause changes in capital and risk, it is important to maintain soundness based on understanding of those situations.
- **From a Groupwide perspective, risk must be quantitatively and qualitatively identified and properly managed.**
  From the standpoint of effectively deploying capital, ERM requires to maximize returns while increasing risk-taking in existing businesses and seeking diversification in terms of geography and risk categories.



*1 ESR: Economic Solvency Ratio (economic value-based solvency ratio) = NAV / integrated risk amount

Indicators Emphasized in ERM



*2 NAV used to calculate Group Adjusted ROE is equal to consolidated net assets plus catastrophe reserves and others minus goodwill and other intangible fixed assets.
*3 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. It is marked to market value.
*4 Net asset value is an indicator used as a management buffer to enable thorough net asset management. In addition to adjusted net assets, it includes such items as unrealized insurance liabilities, other equity liabilities, etc.

ESR (Economic Solvency Ratio)

- 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. The Group uses a probability of once in 200 years for estimating the probability of loss amounts.
- Starting with the new medium-term management plan "Vision 2021," a more sophisticated formula is used to calculate ESR, following the integration of after-tax value of taxable items and changes to the method of weighing risks from natural disasters in Japan.
- Aiming to ensure financial soundness equivalent to an AA rating, based on the new formula, MS&AD prepares capital roughly equivalent to double the losses that would be incurred statistically by a once-in-200-year event with ESR at an appropriate level of 180%-220%. (For ESR trends, see the "Medium-Term Management Plan--Reviewing the previous plans since the Group's founding" section (P. 28).)

Enhancement of calculation method for ESR

(1) NAV
- Application of after-tax value of taxable items
- Changes in insurance liabilities associated with the enhancement of measurement method of the natural catastrophe risk amount in Japan

(2) Integrated risk amount
- Deduction of tax, reduction effects associated with the manifestation of risks from the integrated risk amount
- Enhancement of the measurement method of domestic natural catastrophe risks and asset management risks

(¥ billion)

	Before change	After change	Impact
ESR (March 31, 2018)	196%	211%	+15 pt
NAV	5,800.0	4,800.0	(1,000.0)
Integrated risk amount	3,000.0	2,200.0	(800.0)

ROR (Return on Risk)

- ROR is an indicator that expresses how much profit can be obtained with respect to the subject risks assumed.
- 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.

VA (Value Added)

- 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.

Financial and Capital Strategy

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

Director, Executive Vice President, CFO
Shiro Fujii

Financial Position

ESR is 211% and will be maintained at an appropriate level for continuing the current capital strategy.

The MS&AD Insurance Group's basic financial strategy is to create a financial foundation that will sustain growth and improve corporate 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, 2018, the MS&AD Insurance Group reported net income attributable to owners of the parent of ¥154.0 billion, which is 37% lower than initially forecast due to unprecedented insured losses arising from hurricanes in North America and other natural disasters. Group Core Profit totaled ¥105.1 billion, ROE was 5.5% on financial accounting terms and Group ROE came to 3.7%.

Nonetheless, ESR* was maintained at 196% based on the previous calculation method (200% target for financial soundness), and at 211% under the new calculation method beginning this fiscal year (180%-220% is an appropriate level).

* See the "Group Management Based on ERM" section (P. 38) for details.

Financial Soundness

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

The Group has set a goal for 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 views an ESR in the 180%-220% range as appropriate. (See the "ERM" section (P. 70) for details on actual measures and the "Credit Ratings" section (P. 112) for current credit ratings.

Furthermore, a majority of the Group's liabilities are policy liabilities. From the viewpoint of ALM*, it is desirable to hold corresponding assets that match the characteristics (currency, duration, etc.) of liabilities. The Group fully considers risk and return through ERM and makes decisions on actual investments and methods for funding based on the analysis of whether the return is appropriate for the risk (ROR*) and the return is greater than the cost of capital (VA*).

* ALM refers to asset liability management. (See the "Glossary of Insurance Terminology"section (P. 92) for details.)

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 (Stable)	AA+ (Stable)

* ROR: Return on Risk, VA: Value Added (See the "Group Management Based on ERM" section (P. 39) for details)

Capital Efficiency

The Group aims to achieve ROE at the 10% level, as a world-leading insurance and financial services group.

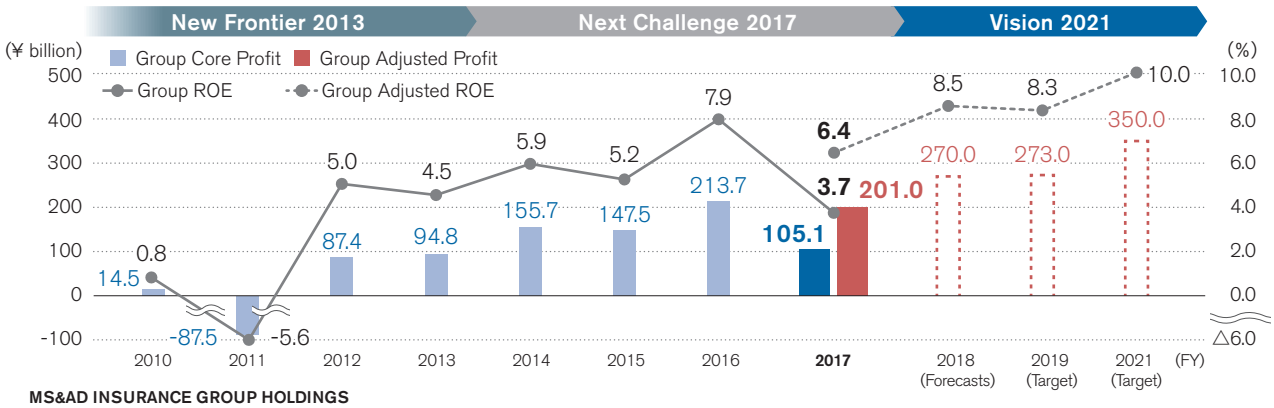
Although Group ROE of 7.5%, the target under "Next Challenge 2017," was achieved in fiscal 2016, Group ROE fell to 3.7% in fiscal 2017 due to large-scale natural disasters.

Under "Vision 2021," since MS&AD plans to transition to IFRS in fiscal 2021, the definition of numerical management targets (Group Adjusted Profit*1 and Group Adjusted ROE*1) has been changed.

Aware of the cost of capital, we aim for a Group Adjusted ROE of 10%, a level that is on a par with that of major insurance companies in Europe and the U.S., and will optimally allocate resources in addition to growth and portfolio diversification. We estimate 7% for the cost of capital based on the capital asset pricing model (CAPM).

*1 For definitions of Group Adjusted Profit and Group Adjusted ROE, see PP. 32-33.

Group Core Profit / Group Adjusted Profit



Shareholder Return Policy

We will return approximately 40%-60% of Group Adjusted Profit to shareholders through dividends and share buybacks.

Under "Vision 2021," the MS&AD Insurance Group has adopted a policy of aiming to return approximately 40%-60% of Group Adjusted Profit to shareholders through dividends and share buybacks over the medium term. The policy aims to achieve a steady increase in shareholder value by appropriately allocating profit to shareholder returns and internal reserves, while aggressively returning value to shareholders and building internal reserves for future growth investments.

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. In fiscal 2016, a dividend of ¥120 per share was distributed, ¥30 higher than the previous fiscal year. For fiscal 2017, the dividend was increased by ¥10 to ¥130 per share. MS&AD plans to distribute a dividend of ¥130 per share again in fiscal 2018.

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

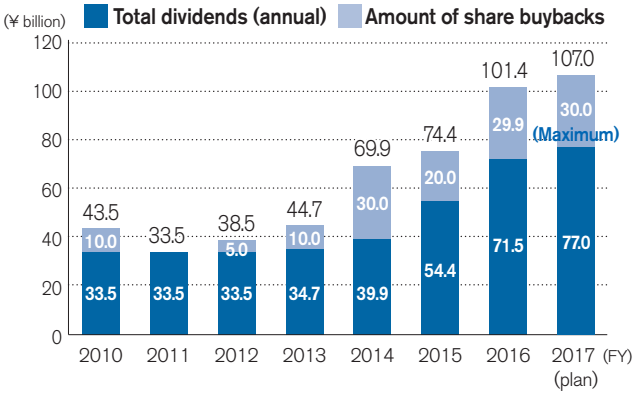
In May 2018, the MS&AD Insurance Group announced a ¥30 billion (maximum) share buyback, and it was flexibly implemented with due consideration paid to market conditions.

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

Shareholder Return Performance (by Fiscal Year)

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017*1	Aggregate total
Group Core Profit (¥ billion)	14.5	(87.5)	87.4	94.8	155.7	147.5	213.7	105.1	731.3
Total returns (¥ billion)	43.5	33.5	38.5	44.7	69.9	74.4	101.4	107.0	513.2
Shareholder return ratio*2	300%	–	44%	47%	45%	50%	47%	102%	70%
Dividend per share (¥)	54	54	54	56	65	90	120	130	–
Returns per share (¥)	69.8	54.0	62.0	72.0	113.5	122.5	169.1	180.6	–

*1 FY2017 shows planned amounts for shareholder returns, shareholder return ratio and shareholder return per share.
*2 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



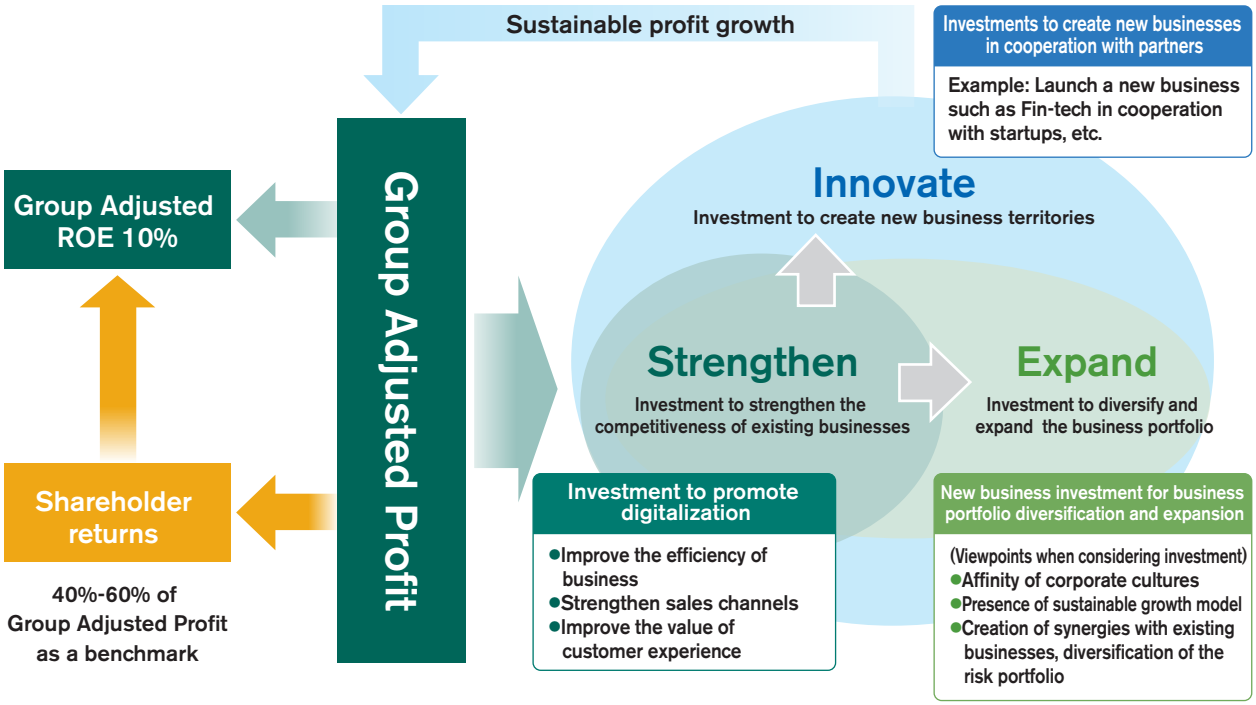
Our Approach to Internal Reserves

We will achieve sustainable growth, even in uncertain business environments, by investing to strengthen, expand and create businesses.

Internal reserves after shareholder returns are used for investments that aim to improve the competitiveness of existing businesses, for investments to diversify and expand the business portfolio, and for investments to create new business territories in cooperation with partners, with the ultimate aim of sustaining growth and increasing shareholder value.

For business investments, acquisition candidates are screened for their affinity with our corporate culture, having sustainable growth models, and operations that can generate synergies with existing businesses while dispersing risk, in order to contribute to sustained improvement in the Group's capital efficiency.

Through these investments, we aim to accelerate improvements in capital efficiency and secure competitiveness in the future, even in uncertain business environments.



Towards Sustainable Growth and Achieving Targets for Group Adjusted ROE and Group Adjusted Profit

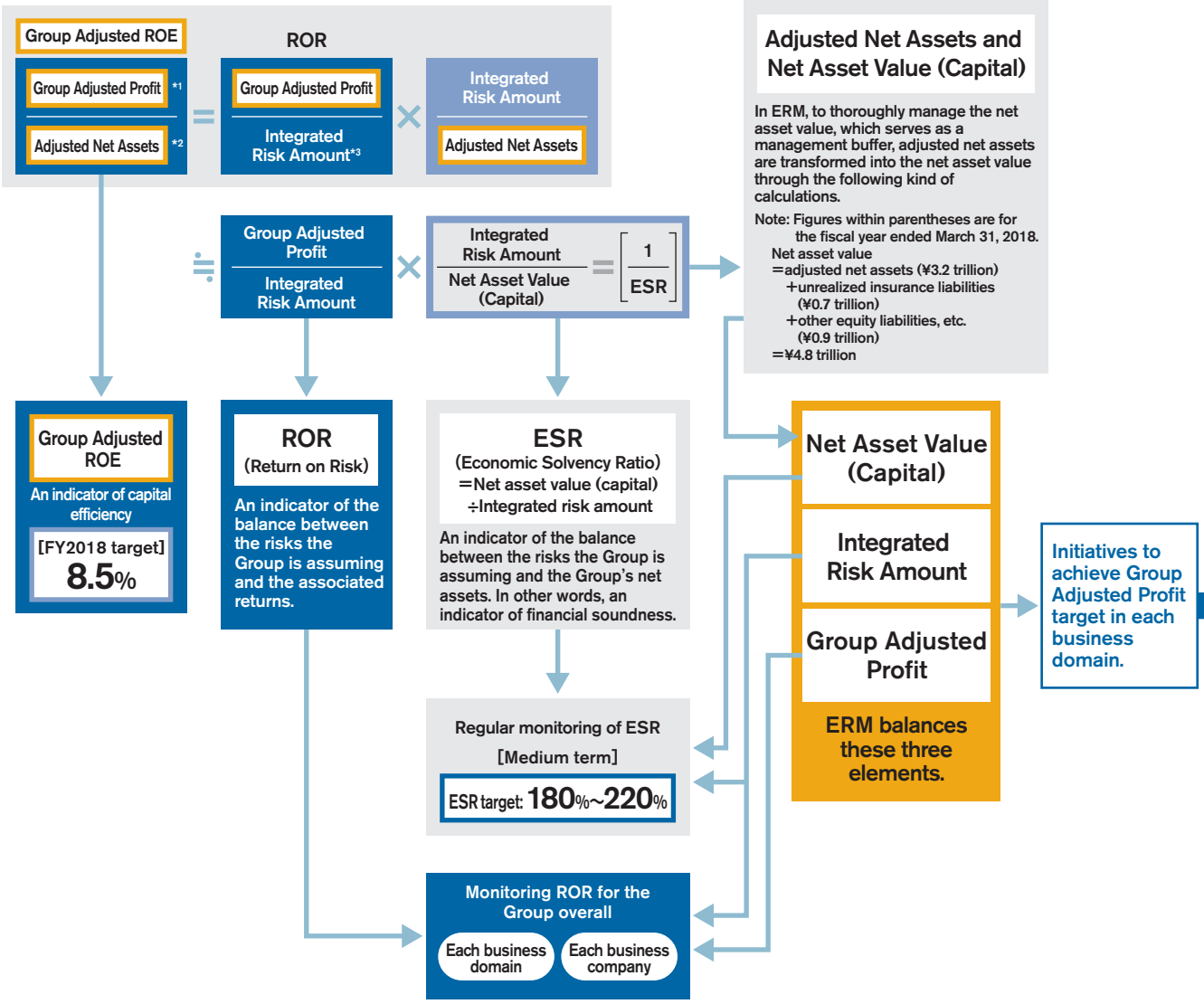
Components of Group Adjusted ROE

Breakdown of Group Adjusted ROE

Group Adjusted ROE, one of the numerical management targets in "Vision 2021," can be explained in terms of the two indicators shown in the chart below, namely ESR, which represents financial soundness, and ROR (Return on Risk), which expresses the balance between the returns and risks that the MS&AD Insurance Group assumes. These indicators can be further broken down into three elements comprising Group Adjusted Profit, integrated risk amount and net asset value (capital).

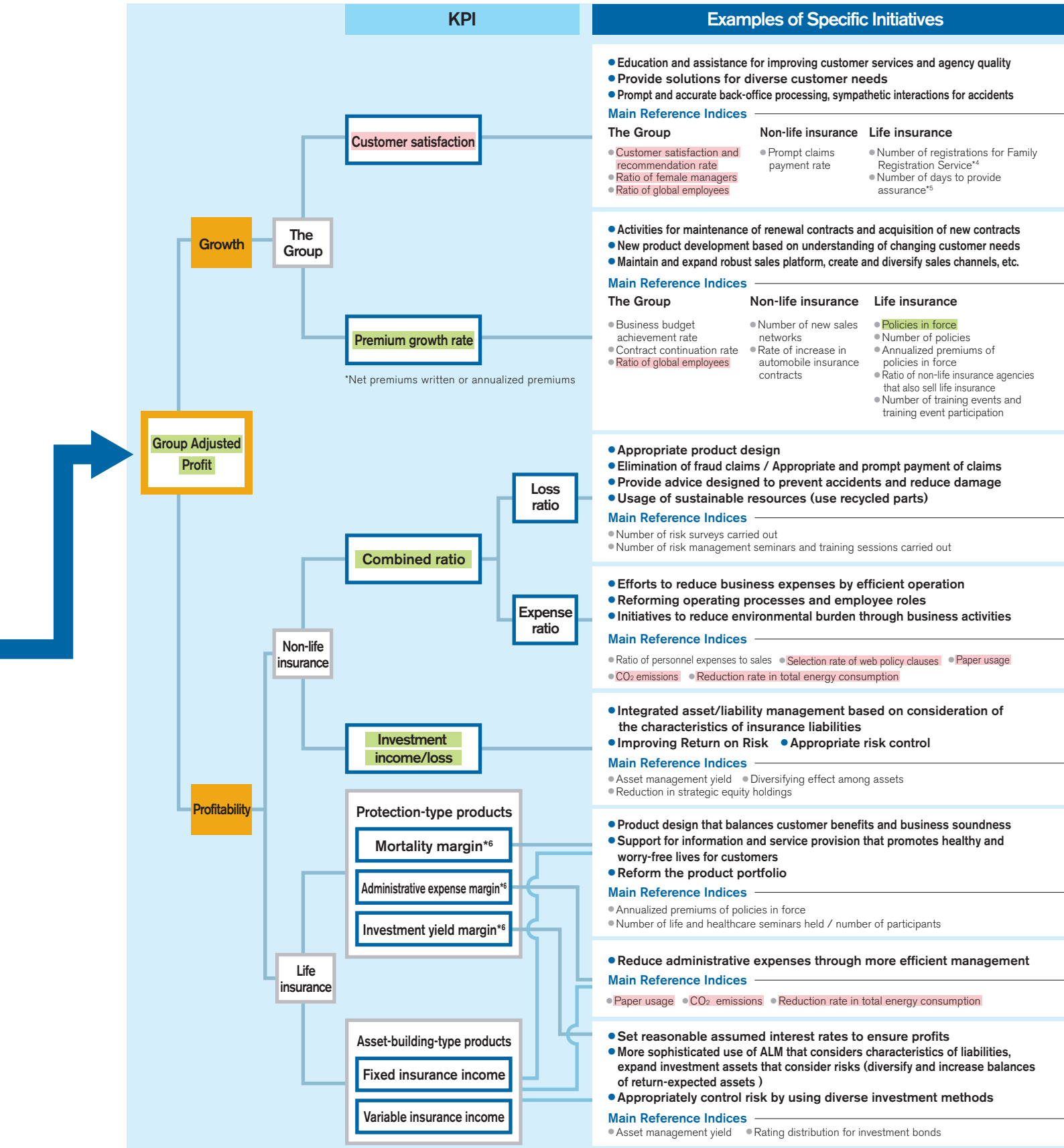
Ensuring Balance by ERM Management

While striving to increase Group Adjusted Profit through 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 Adjusted Profit, integrated risk amount, and net asset value (capital). (See the "Group Management Based on ERM" section (P. 38) for details.)



*1 Group Adjusted Profit = consolidated net income + net provision for catastrophe loss reserve and others − other incidental factors (amortization of goodwill and other intangible fixed assets and others) + equity in earnings of non-consolidated Group companies
*2 Adjusted net assets = consolidated net assets + catastrophe loss reserve and others − goodwill and other intangible fixed assets (remaining balance)
*3 The integrated risk amount represents insurance underwriting risk, asset management risk, operational risk, etc., quantified by means of stochastic methods.
*4 The Family Registration Service is a service that allows pre-registered family members, in addition to the policyholder, to receive information about the insurance policy just like the actual policyholder.
*5 Number of days to provide assurance is an indicator of how long it takes for the Company to complete administrative tasks for customers, such as applications for new insurance contracts, applications to cancel policies, claims for insurance payments, and claims for other benefits. It is broken down into (1) number of days to provide assurance (new business), (2) number of days to provide assurance (maintenance) and (3) number of days to provide assurance (insurance payments)
*6 Mortality margin, administrative expense margin, and investment yield margin are indicators for core profit, which represents the fundamental profitability of life insurance companies. Together, these terms are referred to as the "three surplus factors ." Mortality margin is the profit or loss on the difference between projected insurance benefits payments, based on assumed mortality rates, and actual insurance benefits payments. Administrative expense margin is the gain or loss on the difference between projected business expenditures, based on assumed expense ratios, and actual business expenditures. Investment yield margin is the gain or loss on the difference between projected investment income, based on assumed interest rates, and actual investment income. (See the "Glossary of Insurance Terminology" section (P. 96).)

KPI and Specific Initiatives to Achieve Group Adjusted Profit Target and Sustainable Growth

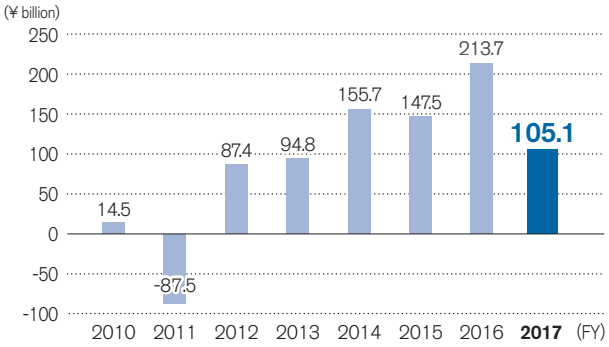


See Financial Highlights on P. 44. See Non-Financial Highlights on P. 45.

Financial and Non-Financial Highlights

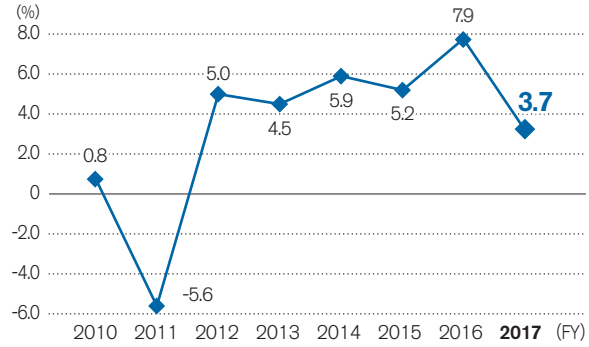
Financial Highlights

Group Core Profit



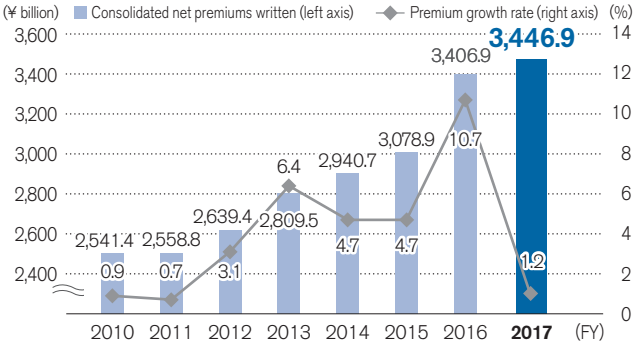
Group Core Profit is a representation of underlying Group profits for external stakeholders, including shareholders and investors. It was included in the numerical management targets in medium-term management plans up to FY2017. Group Core Profit is calculated by deducting non-recurring profits (i.e., net capital gains, other incidental factors) from accounting profits. (See the "Glossary of Insurance Terminology" section (P. 93) for details.)

Group ROE



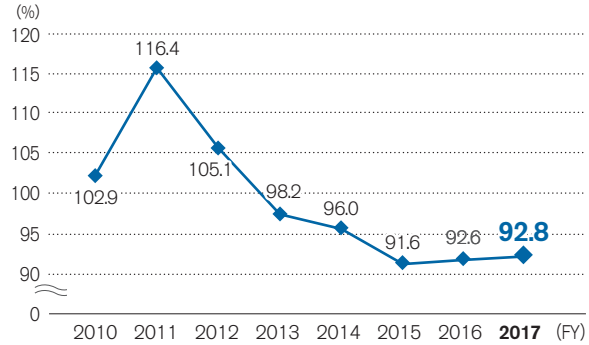
Group ROE is the ratio of Group Core Profit to consolidated net assets. It was a numerical management target in medium-term management plans up to FY2017.
(See the "Glossary of Insurance Terminology" section (P. 93) for details.)

Consolidated net premiums written*1 and premium growth rate (non-life insurance business)



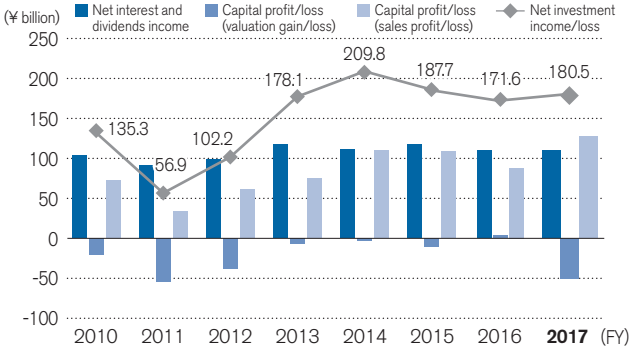
Consolidated net premiums written is a numerical management target in medium-term management plans. A premium growth rate indicates growth potential in premium income in domestic non-life insurance business and international non-life insurance business.

Combined ratio (domestic non-life insurance business)



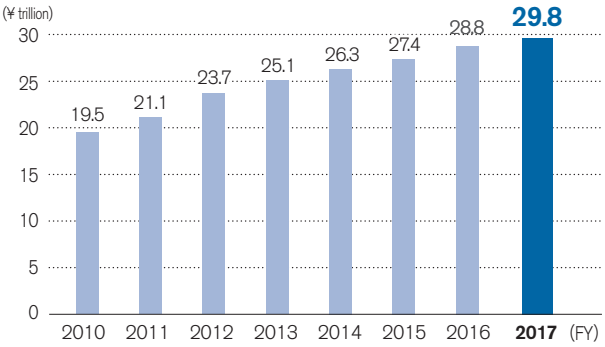
The combined ratio is a key indicator of profitability in underwriting in the non-life insurance business. It was a numerical management target in medium-term management plans up to FY2017.
(See the "Glossary of Insurance Terminology" section (P. 92) for details.)

Net investment income (domestic non-life insurance business*2)



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*3 (domestic life insurance business)



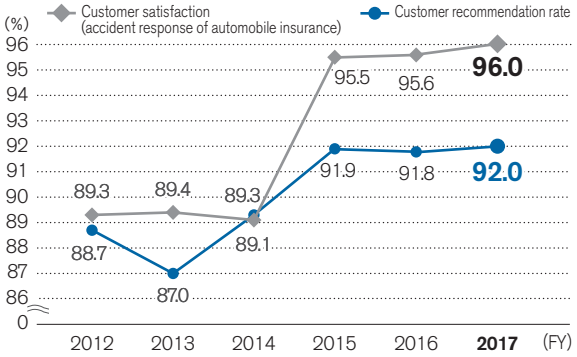
Policies in force is a basic performance indicator for life insurance companies that are the outstanding amount of valid insurance policies owned by insurance company at the end of fiscal year, and the grand total amount guaranteed to policyholders.
(See the "Glossary of Insurance Terminology" section (P. 95) for details.)

*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.

Non-Financial Highlights

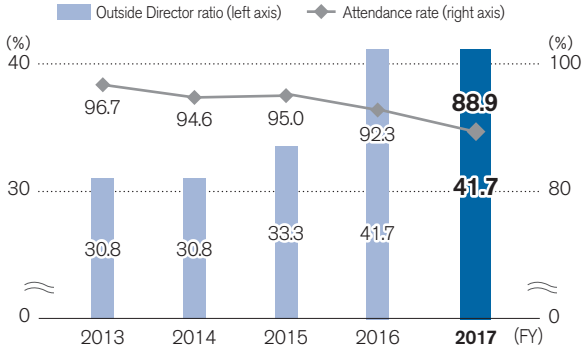
A checkmark (✓) indicates that FY2017 figures have been assured by KPMG AZSA Sustainability Co., Ltd.

Customer satisfaction and customer recommendation rate*4



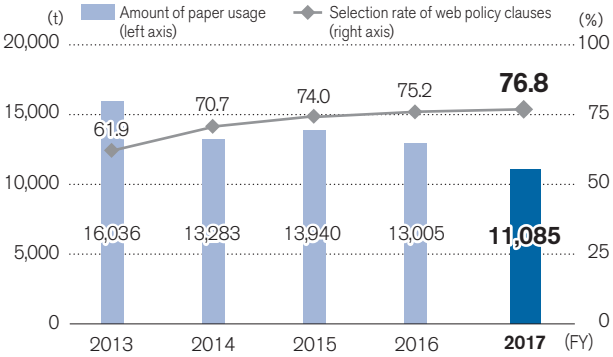
Our growth potential depends on improving customer satisfaction and customer recommendation rates. Along with these indicators, customer opinions are helpful in improving quality.

Outside Director ratio and the Board of Directors attendance rate



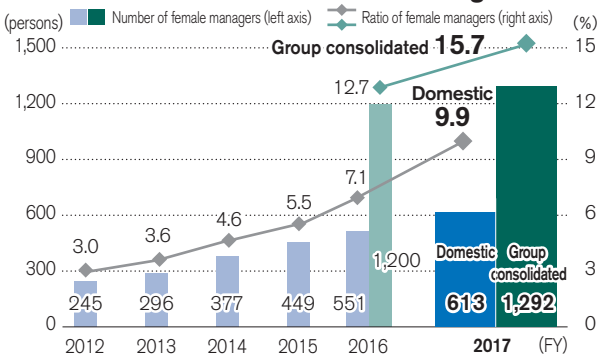
Outside directors independent from management strengthen monitoring and oversight functions for highly transparent management. More than one-third of the Board of Directors are independent Outside Directors.

Selection rate of web policy clauses*5 and amount of paper usage



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.

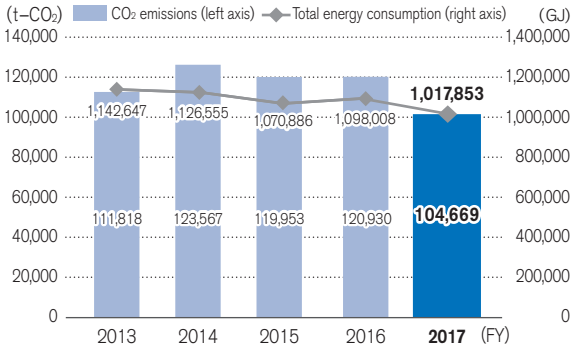
✓Number and ratio of female managers*7



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.

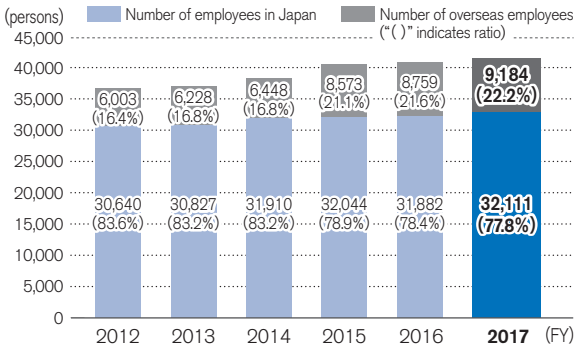
We began tallying this data on a Group consolidated basis, including overseas, in FY2016.

✓CO_2 emissions and total energy consumption*6



Reducing CO_2 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.

*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 website rather than being written in a booklet. FY2016 figures were modified.
*6 Total energy consumption is calculated based on the energy conversion coefficient from the Law Concerning the Promotion of Measures to Cope with Global Warming. Electric power energy use, however, is 3.6GJ/MWh. Also, from FY2017, the energy for the parts of Company buildings leased to tenants is excluded.
*7. Results as of April 1 of subsequent fiscal year.

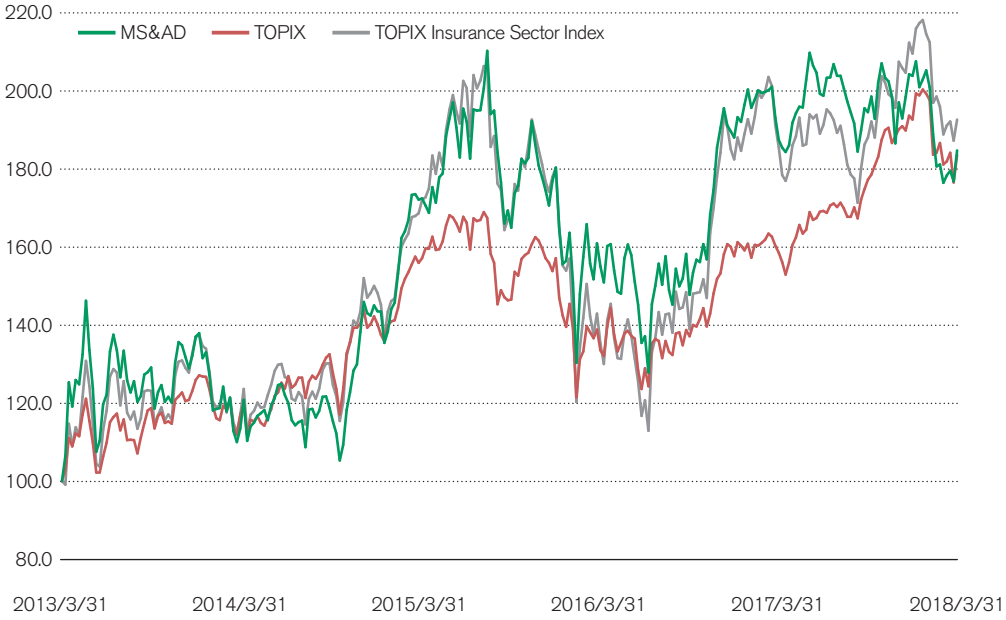
Key Management Indicators and Total Shareholder Return (TSR)

Key Management Indicators for the Last Eight Years

	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
Consolidated financial data (¥ million)							
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]
Insurance claims paid (non-life + life)	1,646,851	2,133,440	1,961,399	2,025,545	1,996,675	2,023,599	2,162,773
Ordinary profit/(loss)	21,005	(96,211)	150,300	190,259	287,061	291,578	352,612
Net income attributable to owners of the parent*2	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	1,663,381	1,512,134	2,021,625	2,285,832	3,036,663	2,725,274	2,734,432
Total assets	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*3	–	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*4 (domestic non-life insurance)	102.9%	116.4%	105.1%	98.2%	96.0%	91.6%	92.6%
Group Core Profit*5	14,500	(87,500)	87,400	94,800	155,700	147,500	213,700
Group ROE*6	0.8%	(5.6%)	5.0%	4.5%	5.9%	5.2%	7.9%
Per share data (yen)							
Net income per share (basic)*7	8.68	(272.49)	134.46	150.58	221.34	298.72	350.94
Net income per share (diluted)*8	–	–	–	–	–	–	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
Stock price-related data							
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)*9 (times)	218.06	–	15.36	15.70	15.23	10.50	10.09
Price book-value ratio (PBR)*9 (times)	0.73	0.71	0.64	0.65	0.69	0.70	0.77
Dividend yield*9	2.9%	3.2%	2.6%	2.4%	1.9%	2.9%	3.4%
Annual total shareholder return (TSR)*10	(24.9%)	(7.4%)	24.8%	17.1%	45.3%	(4.9%)	16.7%
Stock price volatility (annual rate)*11	32.3%	26.6%	35.8%	39.0%	25.3%	41.0%	36.9%
Capital management policy data (¥ millions)							
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*12	9,999	0	4,996	9,997	29,992	19,996	29,938
[Average repurchase price]*13	[¥2,012]	–	[¥2,565]	[¥2,523]	[¥3,373]	[¥3,044]	[¥3,738]
Shareholder return ratio*14	300.2%	–	44.1%	47.2%	44.9%	50.4%	47.7%
Non-financial data							
Customer satisfaction (accident response for automobile insurance)*15	–	–	89.3%	89.4%	89.1%	95.5%	95.6%
Customer recommendation rate*16	–	–	88.7%	87.0%	89.3%	91.9%	91.8%
Number of employees	36,538	36,929	36,643	37,055	38,358	40,617	40,641
[Average number of temporary employees]	[8,060]	[8,022]	[7,833]	[8,746]	[8,996]	[10,173]	[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*17(domestic)	–	–	245	296	377	449	551
Number of employees participating in social contribution activities (domestic)	–	–	16,142	11,373	15,124	16,507	19,861

	FY2017
	5,217,835
	3,440,976
	[3,446,940]
	2,311,295
	211,548
	154,057
	311,096
	2,968,387
	22,472,927
	819.3%
	13.09%
	5.45%
	92.8%
	105,100
	3.7%
	260.04
	259.98
	177.47
	130.00
	4,964.64
	3,355
	12.90
	0.68
	3.9%
	(1.6%)
	19.7%
	77,014
	50.0%
	(upper limit) 30,000
	–
	(plan) 101.8%
	96.0%
	92.0%
	41,295
	[9,745]
	9,184
	613
	20,022

TSR for the Last Five Years



	Past 1 Year	Past 2 Years		Past 3 Years		Past 4 Years		Past 5 Years	
MS&AD	(1.6%)	15.0%	[7.2%]	9.6%	[3.1%]	59.1%	[12.3%]	84.7%	[13.1%]
TOPIX	15.9%	32.9%	[15.3%]	18.5%	[5.8%]	54.9%	[11.6%]	83.6%	[12.9%]
TOPIX Insurance Sector Index	3.8%	36.6%	[16.9%]	15.3%	[4.9%]	59.8%	[12.4%]	92.6%	[14.0%]

Notes:

1. The graph above shows the profit margin where an investment is made at the end of March 2013, taking into consideration dividends and share prices as of the end of March 2018. 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 2013 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.
2. The table above shows the investment return (including dividends) as of the end of March 2018, for investments from one year earlier (end of March 2017) to five years earlier (end of March 2013).
3. 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

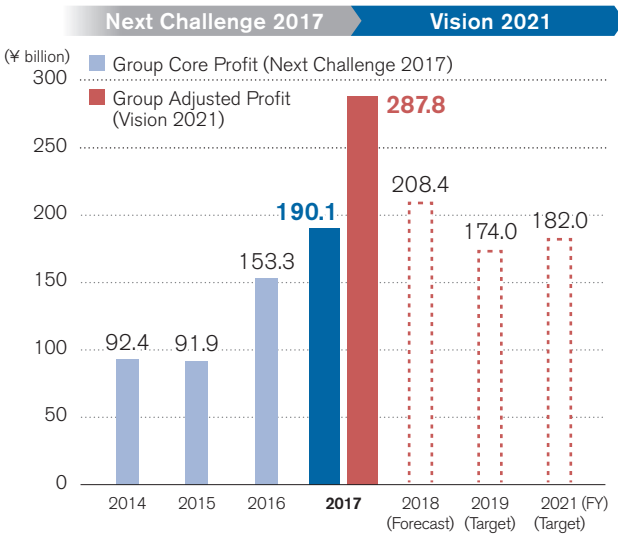
*1 Figures are presented exclusive of the Good Results Return premiums of Mitsui Sumitomo Insurance's proprietary automobile insurance product "ModoRich," which contains a special clause for premium adjustment and refund at maturity.
*2 The net income or net loss attributable to the parent company shareholder is disclosed.
*3 Consolidated solvency margin ratios have been calculated for years beginning from FY2011 reflecting the revision of the Insurance Business Act, etc.
*4 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.
*5 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
*6 Group ROE = Group Core Profit ÷ Consolidated total net assets (average of beginning and ending amounts excluding stock acquisition rights and non-controlling interest)
*7 Net income/(loss) per share (EPS) disclosed.
*8 Net income per share (EPS)–Diluted (EPS) disclosed. Diluted net income/(loss) per share data prior to FY2015 is not disclosed because there was no potential dilution during that period.
*9 Stock price-related indicators are based on the market price of the stock at the end of the fiscal years.
*10 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
*11 Stock price volatility is the annualized standard deviation of returns based on daily closing prices.
*12 The aggregate amount of repurchase for FY2017 was ¥30.0 billion (upper limit), the acquisition period is from May 21, 2018, to September 14, 2018 (resolved at the Board of Directors' meeting held on May 18, 2018)
*13 Since share buybacks were not completed, the average repurchase price in FY2017 is not disclosed.
*14 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.
*15 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.
*16 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 and MSI Aioi Life was included in the survey.
*17 Number of female managers in positions of section manager or higher. (Figures are for April 1 of the subsequent fiscal year.)

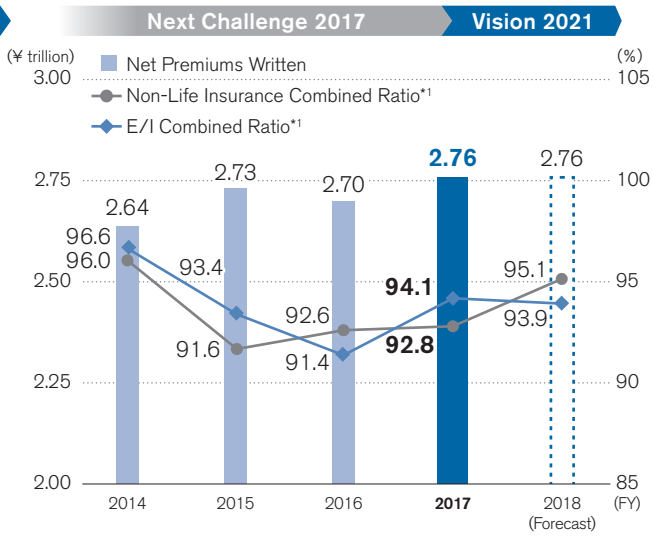
Domestic Non-Life Insurance Business

The Domestic Non-Life Insurance Business is the MS&AD Group's core business and boasts the largest scale in Japan.
The Group's three unique non-life insurance companies leverage a variety of sales channels and partnerships, address the new kinds of risks arising from changes in the social environment and progress in technological innovation, and provide safety and peace of mind.

Group Numerical Management Targets

(Simple sum of non-consolidated figures for Mitsui Sumitomo Insurance, Aioi Nissay Dowa Insurance and Mitsui Direct General Insurance)





*1 Please see the "Glossary of Insurance Terminology" on P. 92 for details.

Business Strategies

1 Leveraging Diversity

The Group leverages diversity, which is one of its strengths, in responding to changes in the social environment and technological innovation.

Diversifying Customers' Risks and Needs with Changes in the Social Environment

	Mitsui Sumitomo Insurance	Aioi Nissay Dowa Insurance	Mitsui Direct General Insurance
Business concepts	● Leveraging comprehensive strengths ● Global business development	● Unique company with its own distinctive character ● Seeking a close relationship with local communities	● Direct sales of automobile insurance for individual clients ● High-quality products and services, low-price premiums
Diverse partnerships	● Broad partnership centered on the Mitsui Group and the Sumitomo Group	● Partnerships centered on the Toyota Group and the Nissay Group	—
Product development leveraging special strengths	● New product development based on a wide range of business-to-business transactions Example: 1DAY leisure insurance (on-demand leisure insurance)	● Development of innovative products that leverage ties with partners Example: Connected Automobile Insurance (Pay How You Drive type telematics automobile insurance for Toyota vehicles)	● Development of enhanced products and services unique to customer-oriented, direct non-life insurance Example: eService discount (insurance certificates not issued), Internet contract discount

2 Vision 2021 Domestic Non-Life Insurance Business Strategy

Pursue the Group's Comprehensive Strengths

Maximize further synergies by leveraging the Group's comprehensive strengths along with utilizing the unique characteristics of each Group company

- Standardize products/operations, launch the "BRIDGE" jointly developed non-life insurance claims services system (from 2019)
- Deepen life/non-life insurance product cross-selling, jointly develop health-/medical-related products/services
- Standardize/consolidate back-office operations

Promote Digitalization

Accelerate the digitalization of business processes through R&D*2 investment and work to improve value of customer experience and business productivity

- Digitize the policy and claims payment administrative processes
- Accelerate initiatives for automobile insurance using telematics technology and respond to autonomous driving technology
- Use AI to support agent operations, etc.

Reform Product Portfolio

Reform product portfolio by improving fire insurance underwriting profit and expanding casualty insurance while maintaining automobile insurance earnings

- Strengthen initiatives expanding casualty insurance (responses to cyber and other new risks) and cultivate the small and medium-sized enterprise market
- Develop products to meet the sharing business and on-demand needs (release individual liability insurance for business operators), etc.

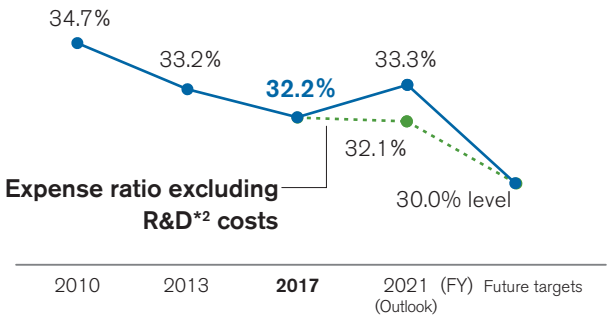
Reinforce R&D

Continue to proactively invest in R&D that addresses environmental changes and increases productivity/quality

Realize an expense ratio excluding R&D-related expenses*2 of 32.1% in FY2021 and the 30.0% level thereafter

*2. Costs that contribute to enhancing competitiveness (e.g., productivity/quality improvement) and address environmental changes
*3. Simple sum of the expense ratios of Mitsui Sumitomo Insurance and Aioi Nissay Dowa Insurance

Expense Ratio Trend and Outlook*3



3 Vision 2021 Core Strategies by Operating Company

Mitsui Sumitomo Insurance

- Pursue growth strategies, address environmental changes
- Proactively respond to new risks facing companies, etc.
- Leverage the products/services development and underwriting expertise of overseas partners

Aioi Nissay Dowa Insurance

- Establish brand value through telematics strategies and ICT technologies
- Accelerate partnerships in different industries beginning with Toyota, Nissay and closely affiliated companies
- Strengthen contributions to local communities by leveraging strengths in the retail market

Mitsui Direct General Insurance

- Deepen marketing activities using digitalization
- Gain new customers through increasingly sophisticated mass marketing/online advertising
- Undertake measures to expand direct markets, which the other two companies being focused on agent channels have been unable to penetrate

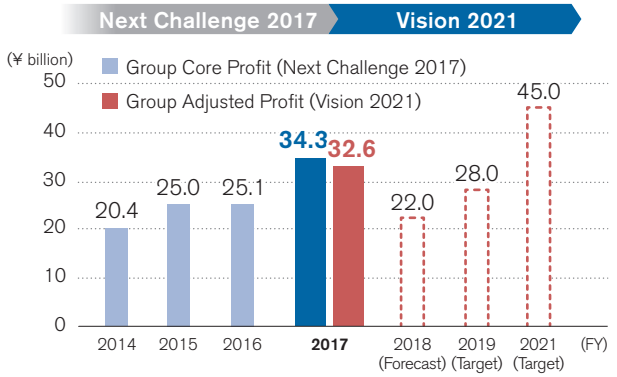
Domestic Life Insurance Business

The Domestic Life Insurance Business is a key growth business that supports the MS&AD Insurance Group's sustained enhancement of corporate value.

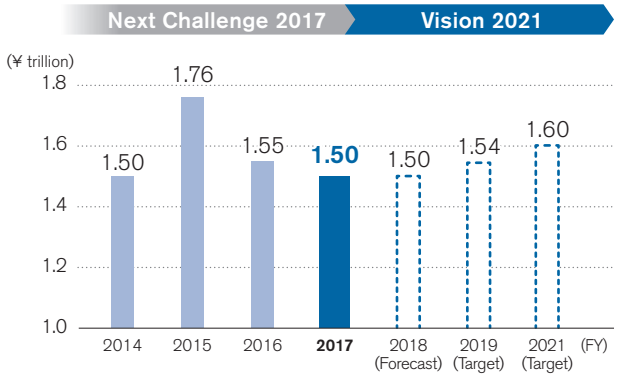
Industry-leading growth and earnings potential will be realized by Mitsui Sumitomo Aioi Life Insurance, which offers medical/nursing care products as well as death benefit and other protection-type life insurance products, and Mitsui Sumitomo Primary Life Insurance, which offers asset-building-type products designed to support retirement lifestyles.

Group Numerical Management Targets

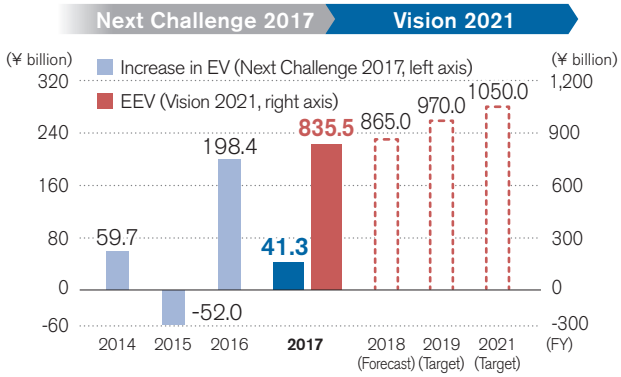
Group Core Profit, Group Adjusted Profit



Life Insurance Premiums (Gross Premiums)



Increase in EV*1, EEV*2 (Mitsui Sumitomo Aioi Life Insurance)



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

In addition, Mitsui Sumitomo Aioi Life Insurance EV in principle conforms to European Embedded Value (EEV).

Note: See the "Glossary of Insurance Terminology" on P. 92 for details.

•2 Next Challenge 2017 used an increase in EV as a numerical management target, but Vision 2021 has switched to EEV.

Business Strategies

1 Leveraging Diversity

Meeting increasingly diversified customer needs accompanying changes in the structure of society and customer lifestyles through these two life insurance companies that feature different business models (e.g., products, sales channels)

	Mitsui Sumitomo Aioi Life Insurance	Mitsui Sumitomo Primary Life Insurance
	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、未来への贈り物。
Products	**Protection-type products** Given the aging society, there is an increasing need for medical/nursing care products as well as death benefit and other protection-type products (e.g., term life insurance, income guarantee insurance, medical insurance).	**Asset-building-type products** Asset-building-type insurance products (variable/fixed individual annuity insurance, variable/fixed whole life insurance) for which the need is expanding due to the progression of an aging society address the diversification of asset management to build retirement living funds.
Sales channels	Develop diverse sales channels centered on cross-selling through the agents of the Group's two core non-life insurance companies, financial institutions, professional life insurance agents and direct sales personnel.	Over-the-counter sales by financial institutions (e.g., banks, securities companies)

2 Vision 2021 Domestic Life Insurance Business Strategies

- Develop/provide products and services that meet customer needs through an accurate understanding of the progress of medical treatment and changes in the social structure, etc.
- Further strengthen marketing capability through our sales base as the largest non-life insurance group in Japan and our OTC channel, which holds the leading position in the industry.
- Build systems that can respond flexibly to changes in the environment such as the advance of the falling birthrate and aging population, the continuation of ultra-low interest-rate policies and the advance of digitalization.
- Extensively promote a customer-first policy in operations to improve quality and customer satisfaction.

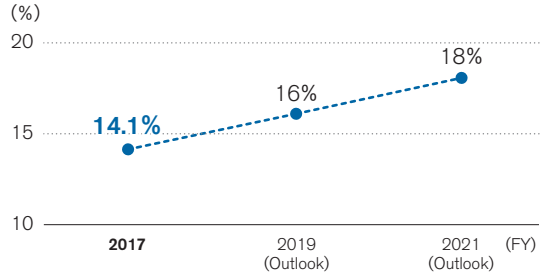
Mitsui Sumitomo Aioi Life Insurance

- Provide protection-type products and services that help resolve social issues, such as the increasing burden of nursing care and medical care, and support health promotion
- Further strengthen marketing capability through diverse channels, with a focus on cross-selling based on integrated life/non-life operations
- Build a system to respond to changes in the environment (infrastructure development and reform of the earnings structure)

Mitsui Sumitomo Primary Life Insurance

- Expand asset-building-type products and services that meet the needs of society, such as responding to longevity risks
- Strengthen the support system for OTC sales at financial institutions by promoting digitalization, etc.
- Enhance ALM that captures changes in investment markets and liability structures

Life Insurance Cross-Selling Ratio*1
(Mitsui Sumitomo Aioi Life Insurance)



*1. Cross-selling channels (professional, corporate, automobile sales dealers): The number of Mitsui Sumitomo Aioi Life Insurance in-force policy holders divided by the number of Mitsui Sumitomo Insurance/Aioi Nissay Dowa Insurance automobile and fire insurance policy holders

Products and services that meet the needs of society and customers (Mitsui Sumitomo Primary Life Insurance)

- Expand the lifetime gift market and develop the new longevity needs market

3 Vision 2021 Key Strategy Initiatives

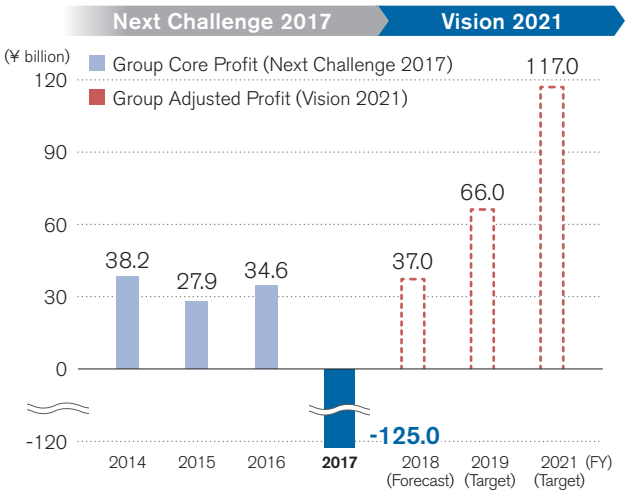
	Mitsui Sumitomo Aioi Life Insurance	Mitsui Sumitomo Primary Life Insurance
Pursue the Group's Comprehensive Strengths	Deepen further cross-selling channels via integrated life and non-life operations	Share high-quality know-how of education and training for sales and marketing within the Group
	Strengthen collaboration between Mitsui Sumitomo Aioi Life Insurance and Mitsui Sumitomo Primary Life Insurance	
	Strengthen internal Group collaboration for product development and services in the health and medical fields	
	Increase efficiency by reviewing the division of roles within the Group such as sales administration	
Promote Digitalization	Strengthen customer contacts by promoting digitalization Support agent activities	Improve contact center operations mainly by using voice-recognition technologies
	Increase the sophistication and efficiency of product development and underwriting operations by using digital technologies that include big data analysis	Further enhance the ease of understanding and convenience for customers by improving paperless operations in cooperation with agents
	Optimize administrative processes (increase productivity by using RPA (Robotic Process Automation) for routine tasks)	
	Increase sophistication and efficiency for the insurance claims and benefits payment processes	
Reform the Product Portfolio	Develop products based on advances in medical technology such as advanced medicine and address nursing care/dementia-related needs	Develop products that address the age of greater longevity

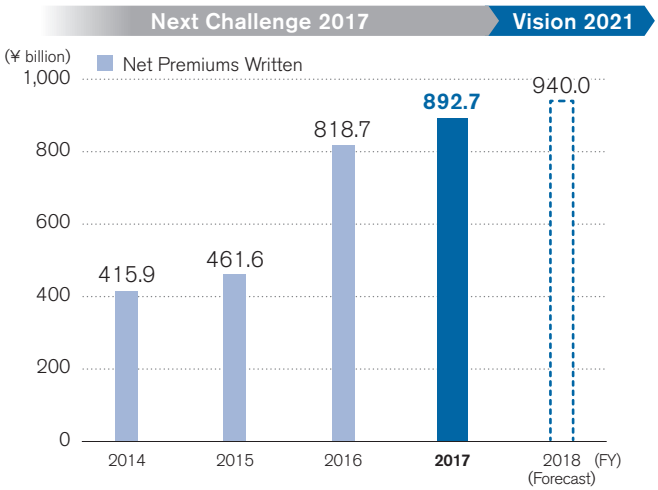
International Business

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* to provide insurance products and services that meet diverse customer needs.

* Excluding the Cayman Islands, where SLI Cayman Limited (financial services business) is domiciled.

Group Numerical Management Targets





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, the telematics business, and the Head Office reinsurance business) and the international 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. In February 2016, the MS&AD Insurance Group welcomed Amlin, a company with a global insurance business centering on the Lloyd's of London insurance market in the U.K., putting into place a balanced portfolio spread across Asia, Europe and the Americas. Additionally, First Capital Insurance Limited, the largest non-life insurance company in Singapore, joined the Group in December 2017. MS&AD is now the No. 1 non-life insurance group in the Singapore market, solidifying its leading position in the ASEAN region.

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 U.K. and the U.S. Business is conducted based on the idea of being a good corporate citizen in each country and region. Especially in the high-growth-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 support for government policy on insurance and the 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

MS Amlin, an insurance holding company with three core business segments of Lloyd's, Reinsurance and Continental Europe Primary Insurance, is the core company in the international non-life insurance business. Growth synergies have materialized among its existing local companies in Asia and the Americas, thanks in part to joint efforts to create new insurance underwriting schemes, and the exchange of human assets has led to the more sophisticated management of risk on a group level.

Toyota Retail Business and Telematics Business

Aioi Nissay Dowa Insurance leverages our strong partnership with the Toyota Group to develop the retail insurance business internationally, focusing on sales of automobile insurance through Toyota dealerships. We currently have insurance underwriting operations in 17 countries and regions, including most European countries, as well as China, Thailand and Australia. We are leveraging the telematics know-how of Insure The Box Limited, a core managing general agent for Box Innovation Group Limited in the U.K., which joined the Group in FY2015, to develop the telematics business under a four-region global structure centered on Japan, Europe, the Americas and Asia. We expect synergies to emerge in the Toyota retail business as well through the provision of new value added.

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 Groupwide risks.

2 International 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 2017, the MS&AD Insurance Group invested in Challenger Limited in Australia (annuity insurance business) and ReAssure Jersey One Limited in the United Kingdom (closed book life insurance business*), in order to secure stable profits and acquire business know-how.

* See the notes on P. 21.

3 Net Premiums Written and Net Income by Region and Business

(¥ billion)

		FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018 (Forecast)
Net Premiums Written	Asia	142.8	173.1	215.7	237.1	257.7	240.6	268.1	287.9
	Europe	60.9	64.4	85.4	99.6	121.1	499.6	498.7	522.6
	(of which: MS Amlin)	–	–	–	–	–	391.1	430.2	450.1
	Americas	43.7	41.4	56.4	66.2	69.4	66.4	71.1	68.2
	Reinsurance Business	16.8	15.6	16.7	19.1	18.6	16.8	–	–
	Head Office Reinsurance Business	–	–	–	–	–	–	57.9	64.4
	International Business Total	262.2	287.8	369.0	415.9	461.6	818.7	892.7	940.0
Net Income	Asia	(89.6)	28.8	16.3	26.0	12.7	16.7	11.1	17.9
	Europe	(16.1)	(11.9)	1.8	5.7	(3.1)	2.2	(116.2)	11.0
	(of which: MS Amlin)	–	–	–	–	–	6.1	(109.3)	18.5
	Americas	0.1	(7.7)	(3.3)	(7.9)	8.1	0.8	4.7	3.1
	Reinsurance Business	(6.3)	5.1	8.5	11.0	10.7	12.4	–	–
	Head Office Reinsurance Business	–	–	–	–	–	–	(26.0)	2.6
	International Life Insurance Business	3.0	1.3	(1.2)	5.4	5.7	8.4	6.4	7.4
	International Business Total	(112.3)	13.5	18.0	38.2	27.9	34.6	(125.0)	37.0

* International Business figures are aggregates of the results for overseas consolidated subsidiaries, non-life insurance companies' overseas branches, and overseas non-consolidated affiliates, etc. Figures for business in each region include figures for the Toyota retail business.
* Figures in the "Total" rows include head office adjustments and others. and are not equal to the sum of figures for each segment and each region.
* Net income is on a Group Core Profit basis (Group Adjusted Profit basis in FY2018). The international 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.
* International life insurance business includes Challenger and ReAssure in addition to the former Asian life insurance business.

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.

International Non-Life Insurance Business

<Shared Strategies>

- ✓ Promote digitalization in tune with the characteristics of the region
- ✓ Strengthen ties with global major insurance companies and local partners
- ✓ Increase profitability through risk and earnings diversification

<Regional Strategies>

【Asia】

- Reinforce No. 1 position in ASEAN region
- Tap into growth markets, including India and China (Expand sales channels, strengthen ties with partners, etc.)
- Steady growth and enhancing synergies with MS First Capital

【Europe】

- Continue underwriting with emphasis on soundness and profitability in accordance with market cycles, mainly centered on MS Amlin
- Steadily expand earnings

【Americas】

- Maintain prudent underwriting policy matching with business environment
- Diversify business portfolio further

【Toyota Retail Business】 【Telematics Business】

- Strengthen business in existing countries and develop business in new countries to reliably earn profits
- Develop the telematics business and create business models in the mobility service field with Toyota Motor based on a four-region global structure in Japan, Europe, the Americas and Asia

【Head Office Reinsurance Business】

- Build inward reinsurance portfolio that helps global risk diversification and underwrite business focusing on profitability
- Maintain integrated operations for both inward and outward reinsurance and continue business with selected partner reinsurance companies

International Life Insurance Business

- In Asia life insurance, steadily expand profits, and pursue synergies between life and non-life insurance through OTC, sales agent and other channels, launching products matching with customer needs and improving governance
- Steadily expand profits at and acquire business know-how from Challenger in Australia and ReAsssure in the U.K.

Discussion on International Business Strategy by Global Leaders

International Business Drives Growth at the MS&AD Group

In 46 countries and regions, the Group's international business provides a broad range of insurance-related services to local companies and individual customers, in addition to Japanese companies doing business globally.

In Asia, we are the only non-life insurance group that engages in direct underwriting business in all 10 ASEAN member countries. In 2017, we acquired First Capital, the largest player in Singapore, solidifying our position as the largest non-life insurance group in the ASEAN region. Our operations have grown considerably in the massive markets of China and India.

In Europe, MS&AD does business with more than half of the major listed companies in Germany and France. In the Americas, we have authorized licenses in all 50 states. Across the Americas, including Mexico and Brazil, profits have steadily increased.

In 2016, MS&AD acquired Amlin, which had the second-largest syndicate at Lloyd's, nearly doubling the size of the Group's international business. At the same time, the acquisition brought balance to the geographic breakdown of the international business, with Asia/4, Europe/4, and the Americas/3.

This fiscal year, MS&AD launched its new medium-term management plan "Vision 2021." The international business is positioned within "Vision 2021" as an important driver of growth for the Group, as seen in our target for increasing the profit contribution of the international business to roughly 40% of Group Adjusted Profit in the next four years. While considering the characteristics and growth potential of markets in each country and region, we aim to disperse risks and improve capital efficiency in the provision of high-value-added products and services, while promoting digitalization based on regional characteristics and strengthening our response to global programs that originate overseas. In order to support sustained growth, we will reinforce governance in the international business and develop and retain global human assets.

Masahiro Matsumoto

Executive Officer (International Business)
MS&AD Holdings

Simon Beale

CEO (concurrently serving as Executive Officer at Mitsui Sumitomo Insurance)
MS Amlin plc

Contributing to MS&AD Group's Growth as the Core Company in International Business

2018 marks the two-year anniversary of MS&AD welcoming MS Amlin into the Group. We have broadened the geographical footprint of the Group, with our core business divisions of Lloyd's, Reinsurance and Continental Europe Primary Insurance producing approximately 50% of the Group's overall international business. As such, we relish the opportunity to be the driver of MS&AD's international growth.

Through strength in both the insurance and reinsurance markets, MS Amlin continues to contribute to the Group's growth on both a qualitative and quantitative basis. We play an essential role in the expansion of MS&AD's international presence, and support the Group in reaching its goal of increasing the share of the international business in Group Adjusted Profit to about 40%, as defined in the new medium-term management plan "Vision 2021".

In today's rapidly-changing marketplace, responding to our clients' evolving needs in both an agile and dedicated way is crucial to the achievement of sustainable future growth. As a Lloyd's business, we are committed to developing the innovative, cutting-edge specialty risk solutions for which our market is renowned. We continue to attract and retain talented people who share our vision and have the sophisticated underwriting expertise needed to maintain the high-quality service synonymous with the MS Amlin name.

2017 was an exceptional year, and our market was heavily impacted by the combination of very high levels of natural catastrophes and already challenging market conditions. However, MS Amlin is making steady progress with its profitability remediation programme. Through combining our traditional market expertise with forward-looking innovation through new technologies and process optimization, MS Amlin aims to contribute to MS&AD becoming the "Insurer of the future".

Reinforcing Our No. 1 Position in the ASEAN Region

Our ambition in Asia is to reinforce our position as the leading non-life insurer in the ASEAN region, a market that is expected to grow and is of considerable strategic importance to the Group. Working through our insurance business activities, our goal is to contribute to the ongoing development of countries throughout Asia.

With this in mind, we have identified four key priorities: market leadership, sustainable profitability, business excellence as well as Enterprise Risk Management (ERM) and governance.

On our acquisitions, MS First Capital has solidified our market leadership in both Singapore and ASEAN's non-life insurance markets, while results from synergies with MS Amlin have been encouraging and will continue to expand.

Under its new medium-term management plan "Vision 2021", the MS&AD Insurance Group is looking to its international business to generate an estimated 40% of Group Adjusted Profit. To this end, we believe that expanding earnings through digitalization and reducing costs are key. We are promoting our initiatives in each market through our website and social media channels to reach, engage and serve the needs of our customers better. We will also continue to invest in enhancing our IT infrastructure and online capabilities to provide a seamless digital experience for the connected customers of today.

Within MSIG, we are creating a culture of innovation and digital excellence. Several internal awards across the region encourage innovation and we continue to invest in employee development ensuring that they are well equipped to tackle any challenges ahead, and at the same time manage to meet the growing expectations of our customers.

Governance and compliance, embedded with ERM in our business operations is also something that we will continue to strengthen. ERM and Compliance are a continuous journey for our 5,000 employees to be aware of the risks and the impact that they can have on business.

Alan Wilson

CEO (concurrently serving as Executive Officer of Mitsui Sumitomo Insurance) MSIG Holdings (Asia) Pte. Ltd.

Naomi Ito

Managing Executive Officer (Telematics Business) Aioi Nissay Dowa Insurance

Contributing to a Safe and Secure Mobility Society through Telematics Insurance

In March 2015, MS&AD acquired Box Innovation Group Limited (BIG), the largest telematics insurance company in the United Kingdom, entering into the telematics automobile insurance market in the United Kingdom. Thereafter, using BIG's know-how, MS&AD established Toyota Insurance Management Solutions USA, LLC (TIMS) in April 2016 in a joint venture with the Toyota Group to develop the telematics business in the US. By providing local insurance companies with services to acquire and analyze driving data from Toyota's connected cars, we aim to develop operations across the US in Toyota telematics insurance that reflects driving behavior. In October 2017, we established AIS Asia (Aioi Nissay Dowa Insurance Services Asia Pte. Ltd.) in Singapore as a base for the telematics business in Southeast Asia, and began collaborating with Toyota Motor in the ride sharing field. The Group aims to further develop its telematics know-how under the four-region global structure of Japan, Europe, the Americas and Asia. We are also taking on the challenge of developing insurance products and services for new mobility services, such as car sharing, ride sharing and multi-modal operations, by utilizing our expertise in data analysis that we have accumulated in telematics.

Through collaboration with Toyota Motor and by using our expertise in the telematics business, we are keen to take on new challenges in the new mobility services field with the aim of contributing to a safe and secure mobility society through telematics insurance.

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 the insurance and financial services businesses, and thereby making 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 the risk management, nursing care, and assistance businesses.

Risk Management Business

Overview of Risk Management Business

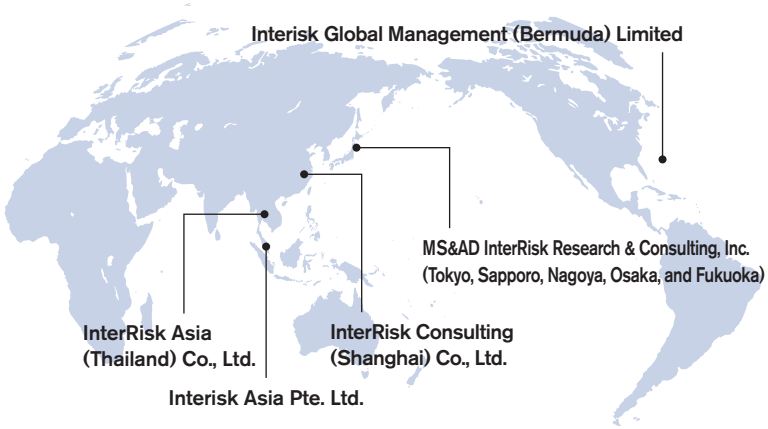
The Group's risk management business is developing its operations based on a business model that emphasizes three concepts – "(1) early risk discovery, (2) risk magnitude and incidence frequency reduction, and (3) eventuated risk impact minimization." Insurance and other financial products are employed 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 MS&AD InterRisk Research & Consulting, Inc., which is the largest risk consulting companies in Japan. Utilizing its bases in Singapore, Thailand, China, and Bermuda, MS&AD InterRisk Research Institute & Consulting is globally developing its risk solution services business.

MS&AD InterRisk Research & Consulting's Global Network

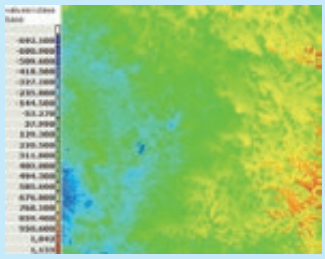


TOPICS **Multifaceted Support for ESG Investment at Corporations**

ESG investment, which entails making investment decisions based on information about the environment (E), society (S) and corporate governance (G), has been expanding rapidly around the world. Appropriately responding to trends in ESG investment has become an urgent issue for all layers of management at corporations.

In light of this situation, MS&AD InterRisk Research Institute & Consulting, Inc., has begun to offer support services for planning and implementing corporate ESG strategies, bundling together an expanded list of optional services that include consulting services for water risk assessments, assistance with human rights risk management and assistance for refinement of risk management preparedness.

Example of analysis: Change in volume of hydrological balance due to climate change



Business Performance

	FY2014	FY2015	FY2016	FY2017
Number of risk surveys conducted	1,009 Domestic 526 Overseas 483	1,092 Domestic 500 Overseas 592	1,031 Domestic 468 Overseas 563	1,189 Domestic 506 Overseas 683
Number of risk-related reports issued	75	68	84	72
Number of trainings/ seminars arranged	3,873	4,199	3,997	4,720
Number of media appearances	232	306	377	386
Group Core Profit	¥200 million	¥200 million	¥300 million	¥100 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, 2018) 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, 2018).

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.

Major Operating Companies

MS&AD InterRisk Research & Consulting, Inc.

MS&AD InterRisk Research & Consulting, Inc. 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: 240 (As of April 1, 2018)
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: 283* (As of April 1, 2018)
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: 948 (As of April 1, 2018)
MS&AD Insurance Group shareholding: 57.55%
URL ▶ https://www.anshin-dial.jp/ (Japanese language only)

Fureai Do-Life Services Co., Ltd.

Fureai Do-Life Services operates 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 preventive 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: 67 (As of April 1, 2018)
MS&AD Insurance Group shareholding: 100%
URL ▶ http://www.fureai-do.co.jp/ (Japanese language only)

Financial Services Business

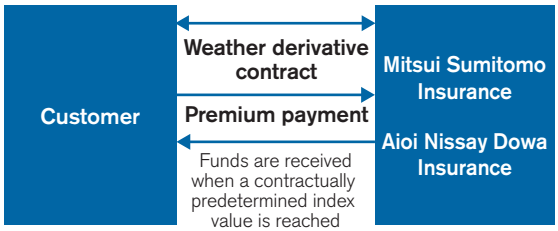
In its Financial Services Business, the MS&AD Insurance Group offers various financial solutions and services that make use of its strengths. The Group is developing and providing various new financial products and services to address increasingly diverse customer needs, leveraging the full range of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

Overview of Financial Services Business

The MS&AD Insurance Group offers the following kinds of financial products and services.

ART Business	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.
Defined Contribution Pension Business	We encourage the spread of individual defined contribution pension plans (iDeCo), 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.
Asset Management Business	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.
Venture Capital Business	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



See the "Special Feature" on P. 65 for details.

Group Core Profit

(¥ billion)

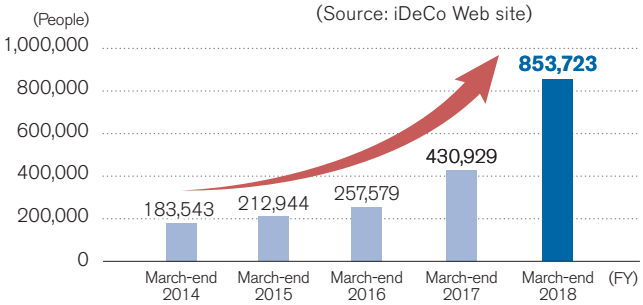
FY2014	FY2015	FY2016	FY2017
4.3	2.6	0.2	5.4

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

Defined Contribution Pensions: Initiatives with iDeCo

Number of iDeCo subscribers in overall market

(Source: iDeCo Web site)



Sharp growth in iDeCo subscribers due to expansion in the subscriber pool in January 2017

- Sales via major partners and agencies
- Broad comprehensive proposals that leverage the diversity of the Group

Support "good health and longevity"

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: ¥11,545.3 billion (As of March 31, 2018)
Date established: December 2002
Number of employees: 643 (As of April 1, 2018)
MS&AD Insurance Group shareholding: 20% (As of April 1, 2018)
URL ▶ https://www.smam-jp.com/english/index.html

* Sumitomo Mitsui Asset Management Company, Limited has announced a basic agreement to merge with Daiwa SB Investments Ltd. After the merger, the MS&AD Group is scheduled to hold a 15% interest in the merged company, which will continue to remain an equity-method affiliate.

MITSUI SUMITOMO INSURANCE Venture Capital Co., Ltd.

Date established: December 1990
Number of employees: 12 (As of April 1, 2018)
MS&AD Insurance Group shareholding: 100%
URL ▶ 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: 162 (As of April 1, 2018) 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 to prepare for the payment of insurance claims and 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.

*ALM: Asset Liability Management. See the "Glossary of Insurance Terminology" on P. 92 for details.

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 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.

FY2017 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
Foreign bonds	+119.1	+55.0	+48.6	+15.5
Of which, corporate bonds	+33.4	+24.8	+8.5	+0.0
Foreign stocks	+13.4	+11.7	-2.9	+4.6
Alternative investments	+29.2	+8.4	+10.9	+9.9
Total	+161.7	+75.1	+56.7	+30.0

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.

Signatory of: PRI Principles for Responsible Investment

Actual Examples of ESG Investments

In November 2017, Mitsui Sumitomo Aioi Life Insurance invested in Industrialize Africa bonds issued by the African Development Bank.

Investment **AUD 30 million** (about ¥2.6 billion)

→ **Used within the Industrialize Africa framework, a project that aims to industrialize Africa and achieve sustainable economic and social development across Africa**

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.

Investment **USD 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

→
- **Help accelerate innovation by investing in funds that support companies driving growth toward a future society, such as in AI technology, robotics and technologies that contribute to the realization of a hydrogen society**
- **Support for revitalizing regional economies by investing in funds established to support growth at companies that play key roles in local communities**

Implementation of Japan's Stewardship Code

In May 2014, Mitsui Sumitomo Insurance and Aioi Nissay Dowa Insurance declared their acceptance of Japan's Stewardship Code and have since engaged in constructive dialogue about ESG with the companies in which they have invested.

Number of companies in which we have invested and engaged in dialogue (July 2016–June 2017)

	Mitsui Sumitomo Insurance	Aioi Nissay Dowa Insurance	Total (simple sum)
Dialogue with major invested companies	258	157	415
Dialogue about the exercise of voting rights	33	66	99

Examples of Disapprovals in the Exercise of Voting Rights

Proposal	Reason for disapprovals
Appropriation of surplus (low dividend payout ratio)	The dividend payout ratio was at a low level despite strong earnings, as indicated by record-high profits for several terms, and sufficient resources for returning value to shareholders. Despite engaging in dialogue, management showed little awareness of dividends and it was uncertain if dividends would improve in subsequent years. (Disapproval)
Nomination of director (no outside directors)	An outside director candidate was not selected, despite communicating the importance of outside directors and requesting the nomination of an outside director since before. (Disapproval)
Nomination of director (scandal)	The company proposed to nominate a director who had been deeply involved in management during multiple violations of the Anti-Monopoly Act and several administrative penalties against the company. Management did not provide a logical explanation for the proposal despite discussions about these concerns. (Disapproval)

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 ▶https://www.ms-ins.com/english/company/aboutus/stewardship/
https://www.aioinissaydowa.co.jp/english/pdf/stewardshipcode.pdf

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

Special Feature

Aiming for a Resilient and Sustainable Society

Remarkable advances in the fields of science technology and medicine have enriched our lives, starting the era of a 100-year life span.

Meanwhile, new social issues have emerged, such as human impact on the global environment dramatically increasing and disasters and accidents growing in scale and severity.

Through the insurance and financial services business, the MS&AD Insurance Group aims to realize a resilient and sustainable society by solving these social issues while supporting our customers around the world who face various challenges.

Story of Our CSV

Creating Shared Value (CSV) through the MS&AD Business Model

1 Deal with new risks
→ P. 62

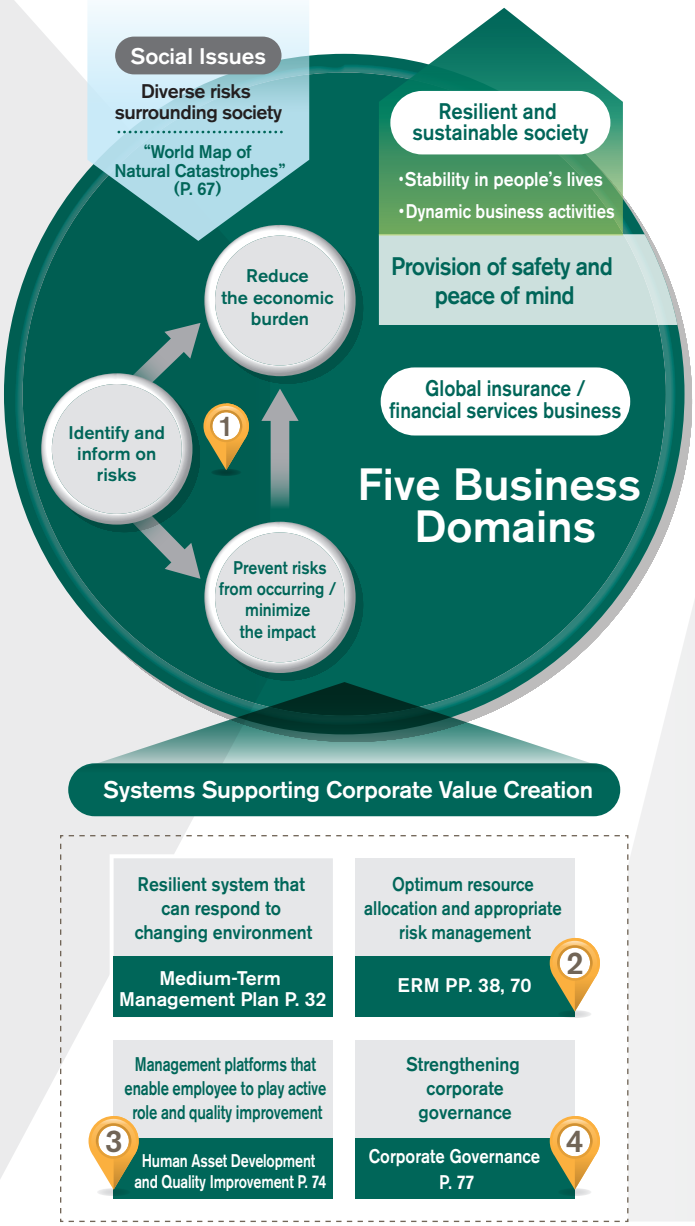
2 Support "good health and longevity"
→ P. 63

3 Contribute to climate change mitigation and adaptation
→ P. 64

4 Work toward realization of "leaving no one behind"
→ P. 66

* See P. 13 for Initiatives for Seven Key Issues (Creating Shared Value).

Contributing to the Development of a Vibrant Society and Helping Secure a Sound Future for the Planet



Voices of Our Colleagues

2 Julianna Shing

Risk Management, MS Amlin

My main task is to support the continued enhancement of ERM (Enterprise Risk Management), specifically to support the enhancement of the governance around the Internal Model (which is a key element of the ERM framework in MS&AD). This involves the exchange of opinions and information on ERM with Japanese colleagues in Tokyo, and together we are enhancing the design and implementation of the governance framework around the Internal Model.

By ensuring that the Company has an appropriate amount of capital in relation to the risks that it takes underwriting insurance policies and managing assets, we are providing the policy holders with the assurance that the Company is sufficiently financially sound to pay claims as they fall due.

3 Wanda Irawan Anwarsyah

Human Resources & Learning Development, MSIG Indonesia

I am in charge of the Company's Learning & Development Program, which includes training management, employee skill development plans, talent management, and the performance management system. The main objective of my job is to make sure everyone in the Company creates their own development plan and participates in at least one development program every year, which as a result enables every employee to contribute to the Company's performance.

I believe that perhaps someday my efforts to nurture many insurance experts in our Company will help raise awareness of the importance of insurance among people in Indonesia. Beyond generating profits for the Company, I think these actions will also realize a society able to provide people with the financial security that allows them to live worry free.

3 Pasquale Carlucci

Social Media and Communications, Aioi Nissay Dowa Europe

One of my roles is supporting internal communications such as engaging all employees across Europe around key issues that are important to the business, and increasing interaction and dialogue between our colleagues and senior management. This is because we believe that an engaged workforce strengthens the brand and our services offered, which in turn improves the resilient and sustainable development of society. In fact, we have worked on internal communication around special projects and campaigns including Diversity & Inclusion in the workplace, Wellbeing week for employees' health and productivity management; and GDPR as a key regulatory development in Europe.

4 Karnkitti Patanasuthikul

Corporate Planning, MSI Thailand Branch

My responsibilities include corporate functions such as corporate planning, supporting governance and internal control processes, overseeing internal and external communication, as well as company activities such as human resource development, quality management, and CSR activities. My work at the Thailand Branch specifically revolves around corporate governance improvement along with compliance and risk.

I am proud that my daily work contributes to the Company's transparency and its sound decision making. An insurance company should create trust among the people, and I believe we work every day to fulfill our roles and responsibilities.

Special Feature

Creating Shared Value 1

Deal with new risks

According to a survey by the National Institute of Information and Communications Technology (NICT), cyberattack-related communications targeting networks in Japan have escalated annually, reaching 150.4 billion incidents in 2017, a level that is 2.7 times higher than in 2015. Moreover, it has become essential for companies that conduct business globally to design sophisticated countermeasures on a global scale that can address the surge in diversity and complexity of these cyber risks.

150.4 billion incidents

Addressing the new needs of our customers

Our customers' needs have changed and diversified along with the emergence of new risks resulting from changes in the social environment. The MS&AD Insurance Group has worked to rapidly incorporate these changes in society by investing in industry-academia collaborations and start-up companies in Silicon Valley. In this way, the Group has been advancing initiatives that can deliver optimal risk solutions to our customers.

Story of my CSV

MSI and ADI provide jointly developed cyber insurance in preparation for cyber risks, but it has become necessary for us to go beyond insurance-based economic compensation in response to the more advanced and sophisticated cyberattacks of today. We must now provide support in terms of services, including preventing cyberattacks. Therefore, we have joined forces with a cyber-security firm that offers the latest expertise in this field to deliver services designed to evaluate cyber risks from a multitude of angles, as well as to provide support when cyber-attacks occur for the initial response and for minimizing and mitigating damage.

Aioi Nissay Dowa Insurance
Commercial Product Underwriting Department
Cyber Insurance Underwriting Division

Nozomi Kanematsu

Challenging the Future of Insurance from Silicon Valley

1 MS&AD Garage Program

This program dispatches employees directly to Silicon Valley from the individual operating companies in Japan and overseas, and provides support for introducing and collaborating with venture companies that hold the latest technologies and business models with the potential to solve the pain points of the individual companies.

2 MS&AD Ventures (Newly established)

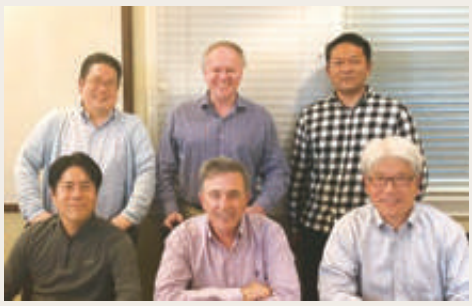
By investing in start-up companies that have taken leadership roles in advanced technologies and business models, and by pursuing strategic successes while collaborating with operating companies in Japan and overseas, this program contributes to the sustainable growth and earnings of the Group on a global basis.

Naoya Osugi, Product Department, Mitsui Sumitomo Aioi Life Insurance

In order to unearth advanced technologies and new services that deliver solutions for business-related challenges, MSI Aioi Life participated in the MS&AD Garage Program. Upon meeting directly with multiple venture companies from Silicon Valley and participating in seminars primarily related to Insurtech, we were able to link the latest valuable information to the Head Office. In this way, we are also tackling ways to change the mind-set within the organization as a breath of fresh air for the Head Office that will instill the sense of speed, innovative conception, and other aspects of how Silicon Valley conducts business.

Takashi Sato, Corporate Planning Department (Silicon Valley overseas representative), Holding Company

"Silicon Valley is not a place one comes to find the right answers; it is a place for taking action under one's own initiative to create the right answers." Following my appointment as the first overseas representative in Silicon Valley in May 2017, this is the most common piece of advice I have received here. We are not searching for the future of insurance; rather, the 47 countries and regions in which the Group operates are striving together as one to create the future of insurance on our own.



Special Feature
Creating Shared Value 2

Support "good health and longevity"

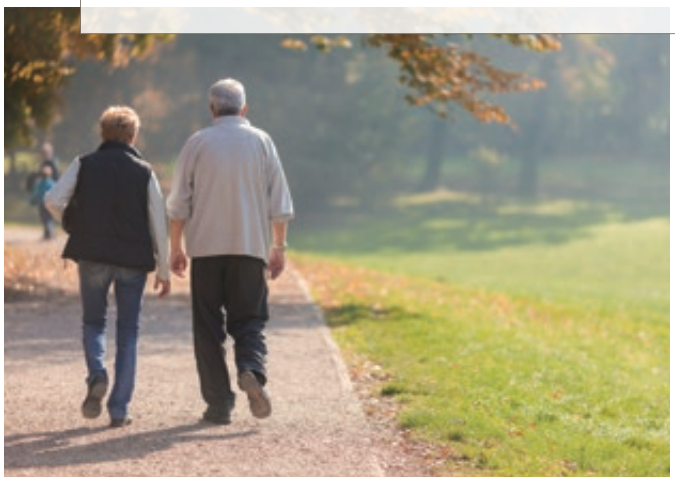
3 GOOD HEALTH AND WELL-BEING

The average life span in Japan has continued to rise steadily, and is expected to reach 84.02 years for males and 90.40 years for females in 2050. The peak age of death is approaching 87 for males and 93 for females, however, indicating that we have entered an era where it is no longer rare for people to live past the average lifespan.

As Japan approaches this super-aging society, there has been a growing demand for asset building schemes that supplement public pensions, as well as for gifting and inheritance schemes that transfer assets seamlessly to the next generation.

100 Years

Source: National Institute of Population and Social Security Research "Population Projection for Japan (2017 estimates)" / Ministry of Health Labour and Welfare "Abridged Life Table for Japan 2016 "



Supporting the "100-year life" society

Mitsui Sumitomo Primary Life Insurance is working to enhance its lineup of products and services so that it can address the various needs required for our customers to live a more enriching life after retirement.

In February 2018, they began selling a new tontine-type* annuity insurance product, the first of its kind in the industry, as a lump-sum payment foreign currency denominated annuity insurance product aimed at supporting enjoyable lifestyles in the "100-year life" society. Since operations began in 2002, they have acquired know-how through our continuous support for asset building among our customers via over-the-counter sales at financial institutions. By utilizing this know-how to manage good yield foreign currency assets and improve the tontine-type aspect, they have made this the first such product in the industry that enables annuities to be received "immediately" starting one month after signing and "throughout" the policy holder's entire life. As such, it has received the support of our customers.

*Tontine refers to a system for transferring annuities whereby protections for the deceased parties are curbed and the difference is transferred to the surviving parties, thereby enabling those living longer lives to receive a greater annuity. The name of this system originates from the insurance scheme proposed by Lorenzo de Tonti of Italy.

Preparing for dementia and nursing care

The number of persons certified for support and long-term care under the public nursing care insurance system as publicized by the Ministry of Health, Labour and Welfare has increased annually ever since the system was launched in 2000. In fact, by 2015 this number reached a level that was approximately 2.5 times higher than that of the year the system began. In consideration of this situation and in order to further enhance preparations for the economic burden related to nursing care, MSI Aioi Life renewed its "Whole Life Care Protection Policy." Specifically, we added protection for dementia care, which imparts the greatest burden of all types of nursing care, thereby enabling more generous preparations for uncertainty regarding the growing social problem of nursing care.

Story of my CSV

My job is to make product pamphlets and explanatory materials. It is important for us to utilize the expertise that is unique to the Group and deliver helpful information of which our customers are unaware, such as that our customers themselves are increasingly likely to live longer and information regarding what they should do to prepare for living a long, enriching life. Because many of our customers are elderly, we prepare materials that explain the product features in easy-to-understand terms and that also consider visual aspects. We also work together with financial institution-affiliated agencies to provide information that is easy to understand from the perspective of our customers.

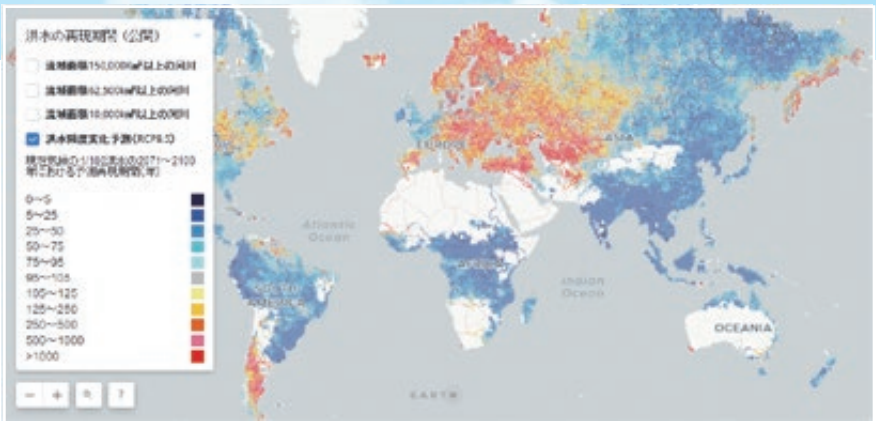
Mitsui Sumitomo Primary Life Insurance
Product and Marketing Department
Marketing Group

Makiko Watanabe

Special Feature

Creating Shared Value 3

Contribute to climate change mitigation and adaptation



Prediction Map Showing Changes in Flood Frequencies

Predicting the impact of climate change

As climate change progresses, the risk of physical damage and profit loss, such as that from floods and drought, is expected to increase in the future. With the adoption of Paris Agreement in 2015, risks that emerge during the process of shifting to a carbon-free society (stricter regulation of existing products and services, and reputation risks, such as the loss of support from customers for business models that emit high volumes of CO_2, etc.) may also have a major impact on business activities. Understanding the management risks related to climate change is essential to formulating corporate management strategies and is, at the same time, important information for investors when making long-term investments. As such, it is now of utmost importance for companies to analyze the impact that climate change will have on their own business activities.

As an initiative to "identify and inform on risks," the MS&AD Insurance Group launched a platform in May 2018 that enables users to view the results of long-term forecasts regarding changes in flood frequencies that will coincide with climate change on a free web-based geographic information (web-GIS) system. This "Large-Scale Risk Assessment of Climate Change for Flood (LaRC-Flood(TM)) Project" has received the cooperation of Professor Hirabayashi of Shibaura Institute of Technology, and Associate Professor Yamazaki of the Institute of Industrial Science, at the University of Tokyo, and is based on the research results of "Global Flood Risk under Climate Change."* This research was also mentioned in the UN Intergovernmental Panel on Climate Change (IPCC) Fifth Assessment Report.

Companies with operational bases throughout the world can utilize this map to generally grasp the impact of long-term flood damage that they might incur.

Scientific analysis of the impact to weather disaster that will be brought about by these climate change is still in the on-going research phase. Together with these two universities, MS&AD InterRisk Research & Consulting is also advancing research to elucidate the causal relationship between climate change and flood risk. The MS&AD Group is pouring its energy into solving social issues by tackling the risk of climate change continuously through collaborations of industry, government and academia.

*Hirabayashi Y, Mahendran R, Koirala S, Konoshima L, Yamazaki D, Watanabe S, Kim H and Kanae S (2013) Global flood risk under climate change. Nat Clim Chang., 3(9), 816-821. doi:10.1038/nclimate1911

Story of my CSV

Over the past year through the consulting work for our customers, I have recognized that many companies have defined climate change as a major management risk. (Mr. Echizenya)

As a member of the environment section, I was able to help launch this project by working with Mr. Echizenya and other members from the section on natural disasters. I hope that we can continue working together on this challenge. (Mr. Terasaki)

MS&AD InterRisk Research & Consulting
Risk Management Third Department
CSR & Environment Section
Senior Consultant
Kousuke Terasaki

MS&AD InterRisk Research & Consulting
Corporate Planning Department
Risk Measurement and Assessment Section
Consultant
Wataru Echizenya

13 CLIMATE ACTION

The IPCC Fifth Assessment Report predicts that under the worst-case scenario where no effective measures are taken, average global temperatures will rise by a maximum of 4.8°C by the end of this century as compared with the present. Given the understanding that there is a close relationship that exists between climate change and abnormal extreme weather, weather disasters are also expected to become more severe and frequent.

+4.8°C

Hedging against management risks resulting from extreme weather

In addition to weather disasters such as floods and typhoons, other unseasonable weather, such as long rainfall and unusually high and low temperatures, hold the potential to bring about significant losses to business activities. Upon clearly defining the risks that coincide with this type of abnormal weather, the Group has sophisticated methods for "reducing the economic burden caused when risks occur". One of these methods is weather derivatives. Weather derivatives are effective in avoiding and mitigating losses caused to businesses and stabilizing earnings by automatically transferring the right to receive compensation if certain conditions exceed (or fall below) the baseline temperature, precipitation, wind speed, snow fall, hours of sunlight, or some other predefined weather indicator.

MSI works with MSI GuaranteedWeather, LLC, a wholly owned MSI subsidiary and global weather risk management company located in Kansas, USA, to sell weather derivatives in Japan and overseas. Since December 2016, MSI Guarnateed-Weather has operated a system that utilizes satellite observation data from NASA and other sources to design products that suit the actual risks to the individual business locations of our customers. This move has enabled us to offer weather derivatives even in regions where detailed ground-based observation data are not available and where underwriting has typically been difficult.

Transaction Examples

Industries	Climate Risk	Purpose of Weather Derivatives
Agriculture	Drought	Risk of reduced crop yields caused by droughts
Solar Power Generation	Insufficient sunlight	Risk of reduced power generation caused by insufficient sunlight
Power Company	Mild winter	Risk of profit loss caused by decreased power demand

Story of my CSV

Even for areas where reliable ground-based observation data cannot be acquired, we can still provide weather risk products by utilizing satellite observation data. In recognition of the increased interest of our customers in the weather risks that will result from climate change, we are utilizing our weather-related expertise to deliver optimal weather risk solutions to our customers.

MSI GuaranteedWeather, LLC

Bradley Davis

Special Feature

Creating Shared Value 4

Work toward realization of "leaving no one behind"

10%

As of 2015, 10% of the global labor force and their families lived on less than US$1.90 per day, which is defined as the extreme poverty line. Along with breaking the cycle of poverty and providing solutions that lead to economic independence, there is a need for initiatives that improve accessibility to financial services.

Microinsurance for the poor

Expanding social security has been a major challenge in India. In 2016, the government set out to expand systems for protecting the lives and incomes of farmers during times of poor yield caused by natural catastrophes and droughts, and started a new agricultural insurance scheme with a low premium burden on farmers (PMFBY). Cholamandalam MS General Insurance Company Limited (hereafter, Chola MS), a local MSI subsidiary in India, has participated in this scheme since its start. Currently, Chola MS also sells livestock insurance for low-income groups in addition to the PMFBY.

Increasing accessibility to financial services: Deployment of the Smart Office

Within the vast land of India, penetration of insurance in rural areas is also a challenge. Since October 2015, Chola MS has established small-scale offices ("Smart Offices") equipped with insurance policy certificate issuing machines in small and medium-sized cities, as well as towns and villages, where the penetration of insurance has been slow compared to large metropolitan areas (390 offices are established as of March 31, 2018). When a customer visits an office, a policy certificate can be issued on the spot. The fact that actual offices are located in familiar locations, such as local marketplaces, garners trust, has led to a steady increase in the number of insurance policies issued. This move has contributed to the penetration of insurance in regions where access to insurance has been inconvenient in the past.

Creating employment opportunities in rural areas of India

In 2013, Chola MS began contracting out its insurance policy issuing services to an association that tackles job creation in rural areas. This was made for the purpose of creating jobs among women living in rural areas for whom there are few job opportunities other than agriculture. Having undergone continuous training that provides an understanding of insurance products and terminology, approximately 80 staff members are now involved in insurance policy issuing services for automobile and personal medical insurance. This staff has issued approximately 810,000 insurance policies per year.

By advancing initiatives that increase motivation, such as presenting gifts to staff who have improved quality to a significant degree, the project has also contributed greatly to improving the skills of women in the workforce.

Comments from employees at a rural policy issuing contractor

- I would like say thanks for giving this opportunity for part of the employees in Chola MS.
- Good learning experience and helps us achieve better career growth.

Special Feature

World Map of Natural Catastrophes in 2017*1

In recent years, the effects of climate change have been felt around the world, with powerful typhoons, hurricanes and cyclones, torrential rainfall, drought, heat waves, and other abnormal weather causing damage more frequently and on a larger scale. Last year particularly, three hurricanes in North America and the Caribbean Sea, as well as forest fires in the State of California in the US, caused insured losses exceeding ¥15 trillion, making this the most devastating year in history in terms of natural catastrophes.

The MS&AD Insurance Group has helped its customers mitigate economic 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 five most costly insurance market losses in 2017 for the USA (some losses include those from countries along the Caribbean Sea coast) and the five most costly insurance market losses outside of the USA (Non-USA) from natural catastrophes according to Swiss Re's sigma No 1/2018 "Natural catastrophes and man-made disasters in 2017: a year of record-breaking losses"
*2 Insured Loss: Estimated amount of insurance market loss covered by non-life insurance companies around the world (source: Swiss Re's sigma No 1/2018). Exchange rate: US1$=¥112.04 (used for internal purposes in FY2018).
*3 As of December 31, 2017. Total 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 and their overseas subsidiaries. Excludes claims less than ¥50 million at entities outside the affected countries.
*4 Ratio of total net incurred loss of Mitsui Sumitomo Insurance, Aioi Nissay Dowa Insurance and their overseas subsidiaries to the insured loss.
*5 As of March 31, 2018. Total net incurred loss of Mitsui Sumitomo Insurance and Aioi Nissay Dowa Insurance.
*6 As of March 31, 2018. Insurance claims paid in Japan (includes estimates) (Source: The General Insurance Association of Japan).
*7 Ratio of total incurred losses by Mitsui Sumitomo Insurance and Aioi Nissay Dowa Insurance to *6 above.

Special Feature

Dialogue with Our Stakeholders

Aiming for a Resilient and Sustainable Society: New Medium-Term Management Plan "Vision 2021"

Director, Vice President, CFO	Nissay Asset Management Corporation Chief Corporate Governance Officer General Manager of the Equity Investment Department (investment research)	CSO Network Japan Executive Director	President & CEO
Shiro Fujii	**George Iguchi**	**Kaori Kuroda**	**Yasuyoshi Karasawa**

In FY2018, the MS&AD Insurance Group launched the medium-term management plan "Vision 2021." In the plan, we set a resilient and sustainable society to realize by 2030, and we intend to make it happen by continuing to create shared value with stakeholders.

To gain stakeholders' insight, we invited two professionals for a discussion to get feedback for "Vision 2021." We spoke with George Iguchi of Nissay Asset Management Corporation, an industry leader in promoting ESG investment, who serves as a committee member for the Ministry of Economy, Trade and Industry Study Group on Investment for Sustainable Value Creation, and Kaori Kuroda of CSO Network Japan, an organization that promotes initiatives to achieve the SDGs, who serves as a committee member for the Cabinet Office SDGs Promotion Round Table Meetings.

Karasawa: We introduced a resilient and sustainable society as an image of future society we are aiming to realize in the plan. Based on the story of value creation we established in the previous medium-term management plan, we will make further advances in pursuing our group's mission, vision and values by utilizing SDGs as guideposts.

Please tell us about your opinions and impressions regarding this direction for the Group.

Kuroda: We are now in an era of growing uncertainty. With the frequent occurrence of unusual weather, Brexit, and the rise of protectionism, the resulting political friction, severe refugee problems, and the security environment are also very unstable. Given this situation, it is likely that the role of insurance will continue to gain in importance. The special feature in the previous MS&AD Integrated Report introduced a couple of business cases as a story of value creation, including risk surveys for ensuring safety at factories in Thailand, an initiative for telematics technology-based driving safety, and training to reduce accidents. What impressed me was that MS&AD is deploying both its core insurance business and social contribution activities towards providing solutions to the challenges faced by society along the same direction and through the same strategy.

Iguchi: Investors are not only interested in balance sheets or other charts and figures, but must discover how the company achieved these figures and what lies behind them. For example, when we hear an earnings increase, we verify factors involved with the increase as well as its sustainability. If the factors are short-term, then an impact on stock price is small, but if it is long-term, we can see a factor only when we connect financial performance with non-financial aspects, such as customer satisfaction, relationship with society, and employee motivation. In this respect, I think that MS&AD's KPI Tree*, which displays both financial and non-financial indicators and initiatives, is an extremely good example. MS&AD is probably the only company in the financial industry that has made this kind of KPI breakdown.

Fujii: Because the Group was formed from several companies, I think it has been important for us to cultivate a sense of unity using our story of value creation as a common thread. As with Mr. Karasawa, the management class talks about the story of value creation during every opportunity, and we distribute pamphlets and have taken other initiatives in order to explain the relationship between the SDGs and day-to-day business activities so that our employees can recognize the value of working for the Group. We also conduct employee surveys to grasp the degree to which these ideas have penetrated the company and make reports to the Board of Directors, for example.

*See "KPI and Specific Initiatives to Achieve Group Adjusted Profit Target and Sustainable Growth" on P. 43.

Kuroda: In the case of some European companies, outside-in approaches have been taken where these companies create opportunities to link major global challenges to their businesses, and utilize the SDGs as a tool to advance the initiatives of each individual employee. Meanwhile, other companies have reevaluated routine tasks using the SDGs' philosophy as one of their benchmarks. MS&AD's initiatives seem to take a similar approach.

Iguchi: Investors are also keen to know the way in which this concept is being instilled in the mind of employees. In last year's MS&AD Integrated Report, employees from countries around the world talked about how they practiced value creation. The KPI Tree also listed the number of employees participating in social contribution activities. What MS&AD designs as linkage of these figures and financial figures is very unique among Japanese companies.

Kuroda: International research has publicized data showing the positive correlation between social contribution activities and the sense of belonging and loyalty to one's company among the employees. I like the fact that MS&AD has released such information.

Iguchi: I think it is also extremely important that MS&AD shares the results of employee satisfaction surveys with its outside directors and receives feedback. Such action gives rise to feelings of trust in the company, and conveys the company's seriousness. In regard to the recent topic of work-style reform, having a thorough conversation about the reasons why work-style reform is necessary is first and foremost. Although the background and goals for the reform might vary for each company, simply stating that the company will reduce overtime is not enough. Rather, I feel that it is necessary to clarify company's goals for the reform and build a framework to make it happen.

Karasawa: One of the goals of the Group's work-style reforms is to improve labor productivity. The issue of labor shortages has arisen amid Japan's declining population, but the only solution is to increase productivity. Another one of our goals is innovation. Innovation only comes about when work is undertaken with a margin of freedom. So it is important to cultivate a culture in which employees can be active and work creatively.

Kuroda: I also think it is important to communicate to clarify the reasons for work style reforms, empowering women at work, and respecting diversity. In terms of the labor productivity and innovation you mentioned, human assets development likely holds an important key.

Fujii: Finally, we would like to have your views or comments for the Group management plan "Vision 2021."

Iguchi: From an investor's perspective, I think that the relationships between corporate management strategies, numerical targets, and ESG initiatives are inseparable, so I support the direction taken by the medium-term management plan with its basis in the concept of CSV. Listening to what you have said, I feel that MS&AD's various initiatives for working towards the creation of shared value, and having the Board of Directors monitor and discuss these initiatives, are ahead of their time. Going forward, I believe that informing investors of these initiatives will increase MS&AD's value in terms of credibility and transparency.

Kuroda: I highly respect MS&AD's various social contribution activities, including its contribution to the development of local communities and its holding of seminars related to ESG... Such social contribution activities can also connect to business in the future when seen from a long-term perspective. I expect that advancing a best mix of existing core business and social contribution activities, which might one day become core business activities, will perfectly match the CSV concept being prioritized here. I also respect the fact that MS&AD places importance on this kind of dialogue and collaboration with its stakeholders. The SDGs used as guideposts for Vision 2021 are emerging as a common theme and common language that supersedes national borders and business sectors, so I hope MS&AD continues to further strengthen cooperation with its many stakeholders as a means of solving the challenges faced by society.

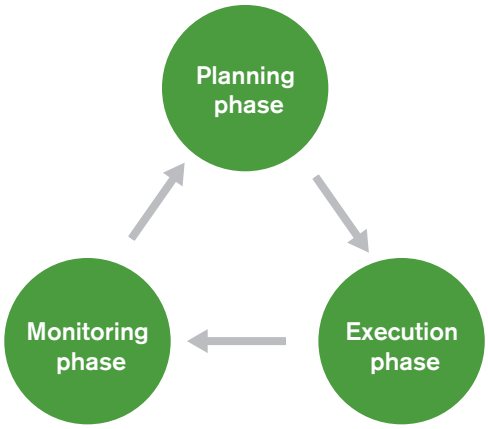
ERM and Risk Management

The MS&AD Insurance Group formulates management plans in accordance with the Group Risk Appetite Statement with the aim of improving profitability and enhancing capital efficiency while ensuring soundness based on the ERM cycle. Capital is allocated in accordance with the ERM cycle and the risks assumed, and by monitoring return on risk (ROR) for the risks assumed, we take steps to strengthen our risk controls and underwriting.

ERM Cycle

ERM is implemented through planning, execution and monitoring phases.

Planning phase	1. Formulate strategies based on the Group Risk Appetite Statement, and establish capital allocation amounts based on the level of assumable risk.
Execution phase	2. Take risks within the risk limits based on capital allocation amounts.
Monitoring phase	3. Conduct regular monitoring of financial soundness, profitability and capital efficiency. 4. Based on the outcome of monitoring, examine and implement any necessary measures.



Initiatives to Improve ROR

Trends in return on risk (ROR), which are an indicator of the profits that can be earned on risks assumed, are a proxy for the earnings power of the Group's risk portfolio. The MS&AD Insurance Group aims to continue improving ROR by setting targets for ROR in each business domain, periodically checking ROR and taking initiatives to improve ROR. Although each business domain has performed differently, Groupwide ROR*1 has been on a steady uptrend.

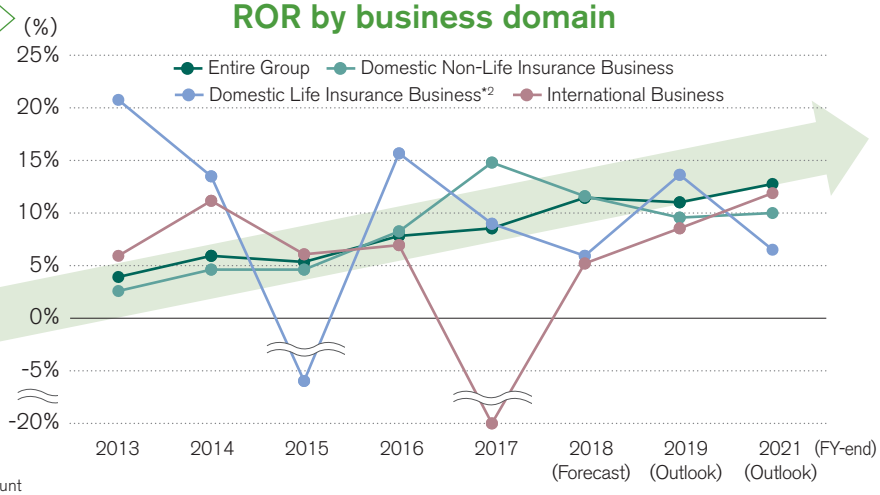
Analyze and manage ROR by line of business and product
Manage budgets based on expected values

Implement growth strategies based on the medium-term management plan
Implement and continue measures to improve lines of business with low ROR
Diversify the portfolio, including business investments
Reinforce controls on natural disaster risks

Set fiscal year targets for each business domain
Allocate capital with consideration paid to ROR and other factors

Improve ROR

ROR by business domain



1. ROR = Group Adjusted Profit / integrated risk amount
2. Within domestic life insurance, return is calculated as the amount of increase in EEV at Mitsui Sumitomo Aioi Life Insurance. The return of the entire Group is calculated using the Group Adjusted Profit of Mitsui Sumitomo Aioi Life Insurance.

Control of Risk

The MS&AD Group has established the MS&AD Insurance Group Risk Management Basic Policy, which underpins the common risk management exercised throughout the Group. Specifically, the policy identifies the principal types of risk with an 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 information on the Group's risk management systems is posted on the Group's official Web site.

Please refer to the Group's official website for more risk management information.

Website Content

- **Risk management**
  (https://www.ms-ad-hd.com/en/company/value/erm/risk.html)
- Risk management basic policy
- Risk management structure
- Insurance business risks
- Risk management in the international business
- Crisis management system
  (including the Business Continuity Management System)

Specifying Risks

Group Material Risks (FY2018)

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

1. Occurrence of a large-scale natural disaster in Japan or overseas
2. Sharp fluctuations in financial markets in Japan or overseas
3. Increase in credit risk and nonperforming loans
4. Occurrence of behavior that loses interest for customers or behavior that violates laws and regulations and is detrimental to the corporate value of the Group
5. Occurrence of cyberattacks that cause large-scale and serious impediments to operations, information leaks, the payment of insurance, and frequent occurrence of large-scale leaks and illicit use of personal information and confidential information
6. Frequent occurrence of IT system failures and the occurrence of critical IT system failures
7. Pandemic of a new highly toxic strain of influenza
8. Occurrence of a serious labor problem (e.g., long working hours, harassment), loss of social credibility

Group Emerging Risks

Group Emerging Risks are defined as **1) events that could affect the Group business from a medium- to longer-term perspective and 2) events that could affect the Group business that management should be aware of but are difficult to measure in terms of scale and timing.** By quickly grasping when such risks rise, we can take specific steps to address them with an eye on the future. Group Emerging **Risks are viewed** as not only threats but also **potential business opportunities** for solving environmental and social issues. Group Emerging Risks are reflected in developing products and services and formulating management strategies.

Examples of Initiatives

1. Declining Birthrate and Aging Population

The domestic insurance market is anticipated to contract, but growth in the elderly population and longer life spans have created new needs for insurance. The Group is creating new markets by researching and developing insurance products, such as "Tontine Annuities," while addressing the increasing frequency of car accidents caused by elderly drivers by offering new insurance products that utilize telematics technology. In addition, we are strengthening our international business and moving forward with reforms to our business portfolio.

2. Climate Change

The occurrence of unprecedentedly large natural disasters has led to considerable amounts of insurance payments. The Group maintains adequate financial soundness by refining its natural disaster risk analysis model, conducting stress tests and arranging reinsurance protections. In addition, we support the promotion of renewable energy with risk solutions and insurance to mitigate climate change. As a measure to address climate change, we provide risk assessment and consulting services to mitigate customers' losses, and in 2018 we started collaborative research on future disaster risk prediction based on climate change with the University of Tokyo and the Shibaura Institute of Technology.

We aim to advance ERM to address the emergence of new accumulation risks, such as the risk of multiple natural disasters and cyberattacks.

Senior Executive Officer, CRO
Fumiaki Ohkawabata

Strengthening Natural Disaster Risk Management

In 2017, a number of natural disasters struck, including several massive hurricanes and widespread wildfires in North America, resulting in the largest amount of insured losses in the history of the non-life insurance industry.

The MS&AD Insurance Group has built a system able to ensure the soundness of the entire Group by performing stress tests versus large-scale insured losses caused by earthquakes, windstorms and floods in Japan, as well as hurricanes in the United States, while securing the necessary capital based on event probability of once in 200 years to calculate estimated loss amounts. In FY2017, the Group was able to reliably sustain operations while maintaining a proper level of financial soundness.

Recently, however, major hurricanes, typhoons and heavy snowfalls like those seen in FY2017 have occurred with greater frequency, increasing the scale and frequency of natural disasters. Under these circumstances, the Group intends to advance the level of its natural disaster risk management by refining methods for measuring risks related to windstorms, floods and heavy snow in Japan, as well as windstorms and floods in the United States, enhancing stress tests, and promoting research and assessments of natural disaster risks in Asia.

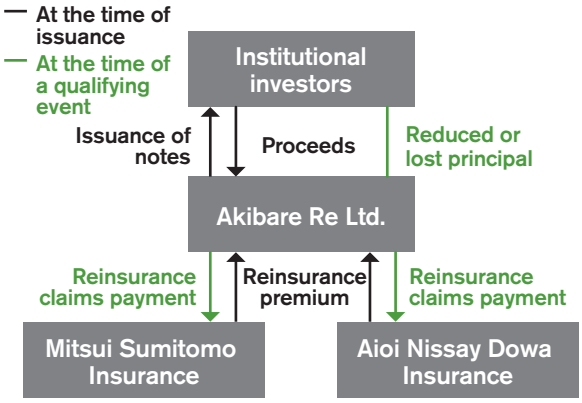
Controlling the Retained Amount of Natural Disaster Risk

In FY2017, although our financial soundness was not affected, the Group's fiscal year earnings were severely affected by large-scale losses caused by natural disasters. Accordingly, we redoubled our efforts to control the retained amount of risk for natural disasters.

Specifically, we 1) strengthened Group management of risks related to windstorms, floods and heavy snow in Japan and windstorms and floods in the United States; 2) began monitoring the amount of risk with reoccurrence intervals of 10 years; and 3) our two Group domestic non-life insurance companies jointly issued catastrophe bonds to cover the domestic risks of windstorms and floods.

Outline of the Catastrophe Bond "Akibare Re 2018-1"

	Class A Notes	Class B Notes
Sponsor	Mitsui Sumitomo Insurance	Aioi Nissay Dowa Insurance
Covered event	Event of typhoons, floods and earthquake fire expenses in Japan	Event of typhoons and floods in Japan
Issuance size	USD 220 million	USD 100 million
Risk spread	1.9% per annum	
Issuer	Akibare Re Ltd.	
Risk period	Four years (from March 31, 2018, to March 31, 2022)	



Strengthening Management of Cyber Risks (Underwriting Risk)

The threat of cyber risks has grown rapidly in the past few years alongside advances in digital technology and the proliferation of products that use this technology. Multiple cyber risks can emerge simultaneously around the world, making it imperative that we strengthen our accumulation management of insurance underwriting risk that covers damages caused by cyberattacks.

The Group has to date viewed information leaks caused by cyberattacks as a material risk for the Group. From FY2018, the Group is reinforcing its accumulation risk management system by adding the risk of insurance payments due to cyberattacks and assessing the scale of cyber risk through stress testing.

ERM

Promotion of 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.

Mechanism to Ensure the Effectiveness of Rules and Systems

The MS&AD Insurance Group Compliance Basic Policy is shared across the entire Group as the basis for our approach to compliance. The Compliance Program is a companywide plan of action for compliance that was approved by the Board of Directors of each group company. Status updates and issues that need to be addressed for the action plan are reported to the Compliance Committees and Board of Directors of each Group company.

The Quality Improvement and Compliance Committee was formed to improve quality across the Group, ensuring thorough compliance and the monitoring of established corporate ethics.

Important matters are reported to the Board of Directors.

Initiatives to Protect Customer Information

Based on the MS&AD Insurance Group Basic Policy for Management of Customer Information, internal rules have been created for the proper acquisition, use and storage of customer information, while related security measures have been implemented with employee training and internal inspections as well. Our personal information protection policy is published on the official website as the MS&AD Insurance Group Holdings, Inc., Declaration of Personal Information Protection (Privacy Policy). Group companies are prepared to take appropriate courses of action in the event of an information leak or other incident and have created measures to respond rapidly to incidents and prevent their reoccurrence.

Initiatives for Anti-Money Laundering and Countering the Financing of Terrorism Fair Operating Practices

Group companies take steps to prevent the use of their products and services from being used in money laundering and the financing of terrorism, and pursue Fair Operating Practices including the “prevention of corruption including bribes” and “compliance with laws and regulations regarding political activities and political funds.” Given tighter regulations overseas, we are strengthening related initiatives at overseas entities, including the updating of necessary systems and training based on compliance manuals used at overseas entities.

Please see our official website for more information on compliance.

Compliance

https://www.ms-ad-hd.com/en/company/value/compliance.html

- Compliance Basic Policy
- Compliance promotion structure
- Activities (Compliance Program, Compliance Manual, compliance-related training, compliance-related inspection, monitoring activities and Speak-up system (internal reporting system)
- Anti-Money Laundering and Countering the Financing of Terrorism
- Prevention of Corruption and Bribery
- Compliance promotion structure in the International Business
- Tax compliance efforts (basic approach to taxation)

Information Security

http://www.ms-ad-hd.com/en/company/value/information.html

- Basic View and Policy
- Structure of Information Security Management and Monitoring Activities
- Declaration of Personal Information Protection (Privacy Policy)

TOPICS

Response to Global Regulations for Personal Information Protection

As companies around the world share information about individuals amid increasing globalization, governments have moved to strengthen regulations that protect individual rights.

One example is the General Data Protection Regulation (GDPR) that was enacted by the European Union in May 2018. Japanese companies are also subject to the GDPR, exposing them to high financial penalties if found in violation of the regulations. For this reason, MS&AD Insurance Group Holdings put together a project to examine how the entire Group should respond. We are striving for proper management by putting into place a global management structure, forging agreements within the Group on how to transfer data and setting rules for handling data at subsidiaries in Japan and around the world.

Promoting Diversity in Human Assets

Under its medium-term management plan "Vision 2021," the MS&AD Insurance Group is positioning initiatives for the creation of management platforms that enable employees to play active roles as the support for putting into practice of stories of value creation. At the same time, the Group is working on human asset* training and diversity & inclusion as sources of the Group's comprehensive strength.

* 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."

▶ Diversity & Inclusion

To enhance the Group's comprehensive strength, under the executive officer in charge of diversity & inclusion, we work to create the management platforms, so that employees with various backgrounds, individuality and a sense of values are able to maximize their abilities and actively demonstrate those abilities.

Promoting the career development of women

The Group actively promotes women, and with 613 women in management positions and a ratio of female managers now at 9.9%,* their numbers are steadily increasing each year. To foster female managers we are holding training sessions and seminars on an ongoing basis and working to improve their leadership skills and awareness of career advancement. In addition, each Group company will continue to provide environments in which women are able to continue to work and actively participate after and during life events, such as childbirth and child rearing.

* The five domestic Group insurance companies + the holding company (as of April 2018)

Promoting career development of global human assets

Possessing a network covering 47 countries and regions, the Group employees at its overseas bases number approximately 9,000 people. To train specialists equipped with an abundance of cosmopolitan sense and expertise, the Group has created systems to promote mutual exchanges between Japan and its various locations throughout the world.

Systems	Content
System for training overseas Secondment system	・Training system for studying international business skills, languages, etc., at overseas subsidiaries, local insurance companies and universities ・Secondment system to obtain MBA No. of employees who participated in system in fiscal 2017: 55
Global trainee system	Headquarters employees are given work experience at overseas bases, and employees of overseas bases can gain work experience in Japan for short periods. No. of employees who participated in system in fiscal 2017: 67 headquarters employees and 51 overseas employees.
Headquarters postings for overseas base local employees	A system for temporarily posting overseas local employees to the headquarters in Japan. A total of 78 overseas local employees had engaged in business at the Group's headquarters in Japan up to and including fiscal 2017.

Overseas employees participating in a program in Japan.

Employment of people with disabilities

In June 2018, we established a subsidiary, MS&AD ABILITYWORKS Co., Ltd., to promote the employment and active participation of people with disabilities.

Group companies are also promoting the hiring of para-athletes (sports athletes with disabilities) and providing support for their activities as athletes.

Total number and ratio of domestic employees* with disabilities in fiscal 2017

Ratio of domestic employees with disabilities	Number of employees with disabilities
2.37% ✓	719 ✓

* The five domestic Group insurance companies + the holding company (as of June 2018)
The ✓ symbol for fiscal 2017 figures indicates a third-party assurance from KPMG AZSA Sustainability Co., Ltd.

TOPICS

Employee Satisfaction

To connect the power of diverse employees to the Group's comprehensive strength centered on the Group's Mission, Vision, and Values, we are conducting awareness surveys of all Group employees.

Indicator		Fiscal 2016	Fiscal 2017	
		Score*	Target	Score*
Employee satisfaction (pride, job satisfaction)	Level of pride or job satisfaction	4.4 points	Same or higher level compared with previous fiscal year	4.4 points
Employee satisfaction (working vigorously)	Level of feeling free and lively at workplaces regardless of gender and age	4.2 points	Same or higher level compared with previous fiscal year	4.3 points

* All-employee average on a six-point scale

Promoting Diversity & Inclusion, Building a Solid Foundation to Generate Innovation

As we promote Diversity & Inclusion (D&I) throughout the Group, each Group company takes joint ownership of initiatives and works to provide mutual encouragement. Although we have endeavored thus far at individual Group companies to establish environments in which employees can continue to work and participate, going forward we will strive for greater heights by leveraging the diversity of the Group.

Eliminating "unconscious bias" is also important. We must recognize our preconceived notions, such as the belief that "demanding work is men's work," and consciously change our behavior. Women with the preconceived notion that managerial positions are demanding tend to hesitate when offered the opportunity for promotions, but serving as leaders of small projects, for example, to gain experience in decision-making ought to lower the psychological barriers for women when accepting managerial positions.

The most important aspects are, however, an environment in which a diverse range of employees can express their own opinions under their own initiative and a corporate culture in which everyone can state their objections without fear. It is my firm belief that this type of environment will serve as a foundation for generating innovation and will help the Group to grow. D&I is not a matter that is to be advanced solely by the HR Department. Instead, it is something that we will labor, contemplate, and act on together so that every department throughout the Group can undertake this challenge as their own.

Naomi Motojima
Executive Officer in charge of Diversity & Inclusion

▶ Human Asset Development

Envisioning ideal employees as those "who learn and think by themselves, take up challenges and continue to grow," the MS&AD Insurance Group educates and supports its staff through measures such as training, OJT and self-education programs.

Groupwide human asset development

While conducting collective training sessions that are shared by the Group, human asset exchanges within the Group, and an exchange training system (trainee system), we are working on improving the skills of our human assets throughout the Group.

Fiscal 2018 Collective training session for newly hired employees from eight group companies

Development of professional human assets

To respond to changes in the social structure, such as advances in digitalization and exposure to new risks, we are systematically cultivating human assets with specialized skills and those capable of excelling on the world stage.

	Fiscal 2015	Fiscal 2016	Fiscal 2017
Number of actuaries*	86	94	100

* Number of professional actuaries employed by the MS&AD Group with specialized skills for making full use of probability, statistical and other mathematical techniques used in product development, risk management, and other processes (as of April 1 of the subsequent fiscal year).

▶ Work-Style Reform and Health Management

To enable our diverse employees to continue working while responding flexibly to life events, we are promoting "Work-Style Reform" that will be beneficial to health, make working easier and increase the sense of job satisfaction as well as enhance productivity. We are working on improving the workplace environment and installing systems that allow employees to work flexibly, such as by deploying thin-client PCs so that they can work from home.

We will also encourage employees to take allotted time off and promote self-development during the created time.

Days of paid vacation used per employee/year*

(Day)

Fiscal 2015	Fiscal 2016	Fiscal 2017
15.7	15.7	16.0

*Average number of vacation days acquired by all employees with respect to "regular/carryover vacation days" as well as "special vacation days"

Such initiatives received high praise

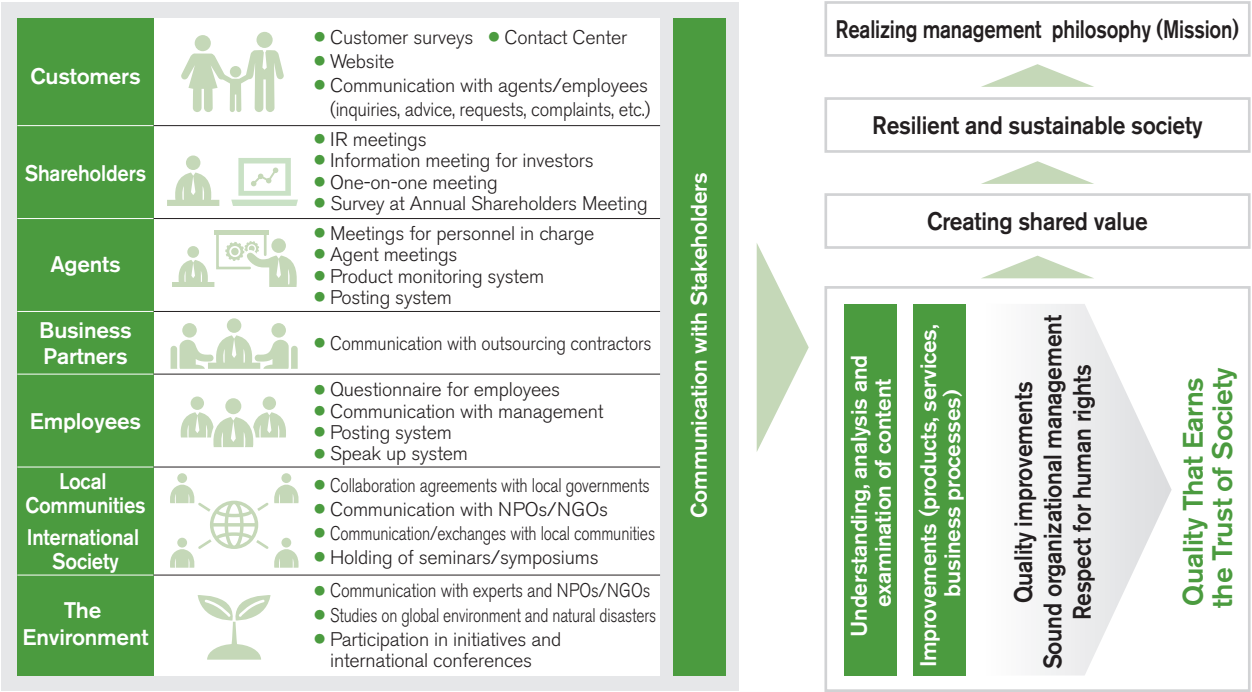
- Awards for Enterprises and Workplaces with Pleasant Working Environments and High Productivity, "Highest award (Minister of Health, Labour and Welfare Award") (Mitsui Sumitomo Insurance [MSI])
- 10th Work Life Balance Awards (First prize) (Organizer: Japan Productivity Center, Work-Life Balance Promotion Council) (Aioi Nissay Dowa Insurance [ADI])
- Certified as an Excellent Enterprise of Health and Productivity Management under the large enterprise category (White 500) (Holding company, MSI, ADI)

Quality That Earns the Trust of Society

As an initiative to support the creation of shared value, the MS&AD Insurance Group will ensure quality that earns the trust of society based on its communications with its stakeholders.

▶ Quality Improvements through Communications with Stakeholders

Establishing mechanisms and providing opportunities to listen to the opinions of its customers and other stakeholders, the Group analyzes and examines the information it obtains. In addition to improving the quality of its products and services, the Group also makes use of the information in initiatives relating to, for example, compliance, respect for human rights and the environment.



▶ Customer-First Business Operations

To continue growing as a company that customers choose based on trust, the Group strives to further promote business operations on a customer-first basis by treating each customer individually.

The six domestic insurance companies in the Group* formulated their "customer-first policy in the operation of their businesses" and released details together with status reports of specific initiatives for fiscal 2017. Having as a Group reviewed the KPIs relating to sustainability in accordance with the medium-term management plan "Vision 2021," from fiscal 2018 we have set customer satisfaction levels based on questionnaires at the time of the insurance contract procedure or the claim payment as one of the KPIs.

* For details on policies and activities, please see the official websites for each company.
MSI, ADI, Mitsui Direct General, MSI Aioi Life, MSI Primary Life, au Insurance

TOPICS

The Group's domestic insurance companies specify a period every year for all employees to look back on quality improvement and have employees confirm the importance of the customer-first policy at workplace meetings and other venues, thereby providing opportunities for them to think about putting the policy into practice in the course of their daily tasks.

(Left): Aioi Nissay Dowa Insurance workplace meeting tools
(Right): Mitsui Sumitomo Insurance display booth for employees

Corporate Governance

Having adopted the "strengthening of Group governance" as one of the four drivers of implementation in its basic strategy for Next Challenge 2017, the previous medium-term management plan, the MS&AD Insurance Group took a number of initiatives that included the improvement of the Board of Directors' effectiveness.

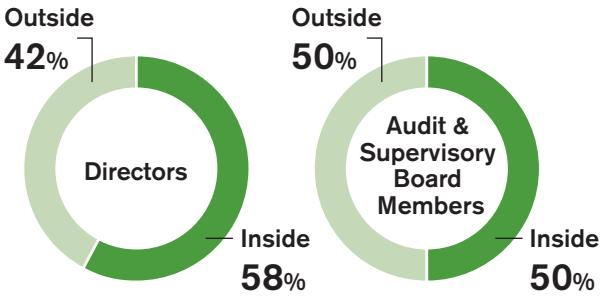
The focus of our coverage includes an evaluation of the effectiveness of the Board of Directors and a status report on the efforts geared toward improving its operations.

In aiming to promote the Group's sustainable growth and increase its corporate value, we will conduct transparent, fair, swift and decisive decision-making processes and, under the medium-term management plan "Vision 2021," will also work to strengthen our corporate governance system.

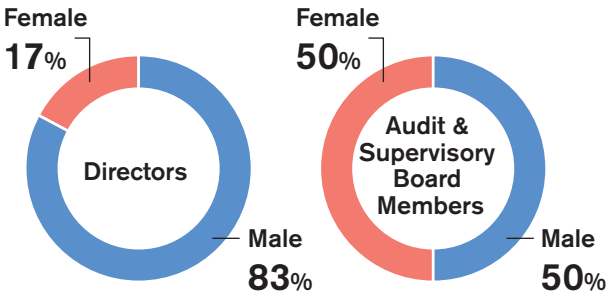
For our basic approach and an overview of our corporate governance structure, please visit our official website: https://www.ms-ad-hd.com/en/company/value/corporate.html

Director/Audit & Supervisory Board Member Composition (as at July 1, 2018)

Ratio of Outside Directors

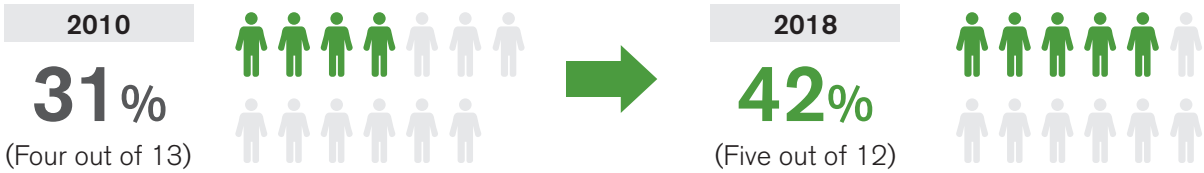


Ratio of Females

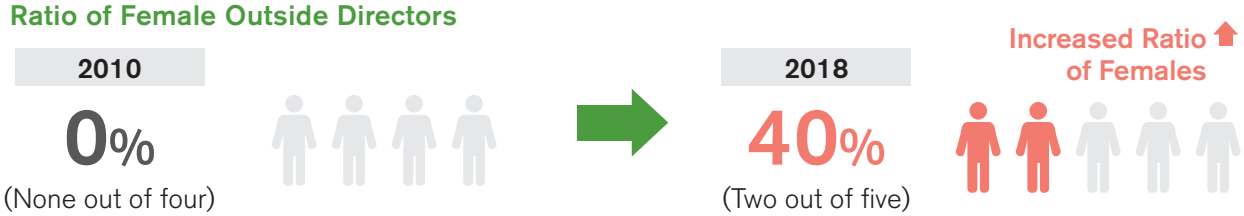


Changes in Outside Director Composition (as at July 1, 2018: compared with July 1, 2010)

Ratio of Outside Directors



Ratio of Female Outside Directors



Selection Process for Newly Appointed Outside Director Candidates

At the 10th Ordinary General Meeting of Shareholders, which was held on June 25, 2018, three new outside directors (Mr. Akira Arima, Mr. Kazuhito Ikeo, and Mr. Junichi Tobimatsu) were appointed. The process leading up to this appointment is as follows.

Fiscal 2016	**September 2016 Nomination Committee meeting*** ● Decision taken to proceed with nomination of, for example, "an executive (or experienced person) knowledgeable about international business" or "a non-Japanese national knowledgeable about Japanese companies," taking diversity into consideration.
Fiscal 2017	In addition to the candidate list up to fiscal 2016, we drew up a candidate list that included recommendations from outside directors. **September 2017 Nomination Committee meeting** ● With the goal of them being appointed at the Ordinary General Meeting of Shareholders in June 2018, decision taken to proceed with selection from the viewpoints of expertise and diversity, with (1) an executive (or experienced person) knowledgeable about international business; (2) a person of learning or experience; (3) an attorney at law or; (4) a non-Japanese national knowledgeable about Japanese companies regarded as ideal candidates. **December 2017 Nomination Committee meeting** ● Based on candidates' backgrounds and other factors, we selected the final candidates **February 2018 Nomination Committee meeting** ● We tentatively decided on the final candidates and, after a resolution of the Board of Directors, announced them on March 1.

* Composed of all outside directors, the Chairman of the Board and the President & CEO.
The chairperson is an outside director (as at July 1, 2018, director Ms. Mari Matsunaga)

Director evaluations

Outline of the Analysis and Evaluation

Discussion Content and Functions at the Board of Directors	
Points of improvement	• Held discussions focusing on notable technological innovations while formulating the new medium-term management plan "Vision 2021." • While maintaining focus on future changes in the operating environment, actively promoted new business investment to achieve medium-term plan targets. • Reduced number of annual agenda items while increasing time devoted to key proposals relating to strategic decisions. • Entrenched operations quickly providing information on new risk-taking projects such as overseas investment projects. • Promoted the "story of value creation" both within and outside the Group, which illustrates how the daily activities of our employees contributed to the realization of the Group's mission. • Achieved progress in sustainability (CSR) initiatives, including assessments provided by external ESG evaluation organizations.
Points requiring further reinforcement moving forward	• Given the pace of change in both the environment and technological innovations, there needs to be deeper discussions on how to adapt to a changing operating environment to achieve Vision 2021 goals. • Management needs to deepen among all employees an understanding of the significance of the Group's sustainability initiatives, the "story of value creation", the corporate mission, and the Group's contribution to SDGs by providing a clear explanation of the medium-term management plan "Vision 2021." • There needs to be greater awareness of the system for letting internal and external voices be heard, including the internal reporting system. The Group needs to create an environment in which employees feel free to speak up and be frank in expressing their concerns.
Board of Directors Management	
Points of improvement	• There has been an increase each year in the average amount of time spent discussing each agenda item at regularly scheduled meetings. • Notable progress in the use of visualization, including the use of a graph for agenda items, as well as efforts to reduce page count.
Points requiring further reinforcement moving forward	• The Board of Directors needs to be provided with a clear explanation of items covered in past meetings, particularly to new external members. • Explanations of agenda items for the Board of Directors need to be narrowed down to the most concise points.
Other (information and training for Outside Directors)	
Points of improvement	Expanded opportunities for training and the distribution of information • Conducted four study sessions on themes requested by Outside Directors in fiscal 2017 • Conducted tours of operating companies

Analysis and evaluation process

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

- Interview conducted by the secretariat
- With an eye toward the PDCA cycle, the survey focused on whether measures for functional improvement in the 2016 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

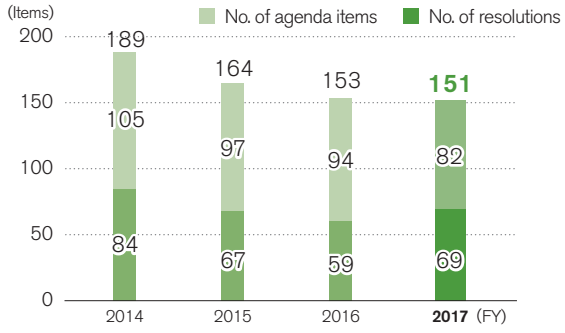
- The Governance Committee, composed of all Outside Directors, the Chairman of the Board, and the President & CEO, conducts analysis and evaluation, followed by the compilation of a functional improvement plan aimed at further strengthening governance in fiscal 2018.

Implementing Functional Improvement Measures Based on the Results

Efforts aimed at improving the operation of the Board of Directors

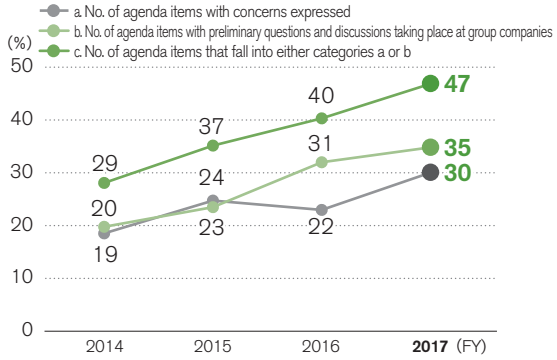
Trends in the number of agenda items

- Thanks to the January 2015 introduction of the so-called package deliberation system simplifying the explanation for some items up for discussion, the January 2016 expansion of items applicable to the package deliberation system, and the April 2016 revision to item selection standards for the Board of Directors, there has been, with the exclusion of package deliberation items, a decline each year in the number of items discussed at Board of Directors meetings.
- This has largely been in line with the initial aim of increasing the amount of time devoted to key proposals relating to strategic decisions.



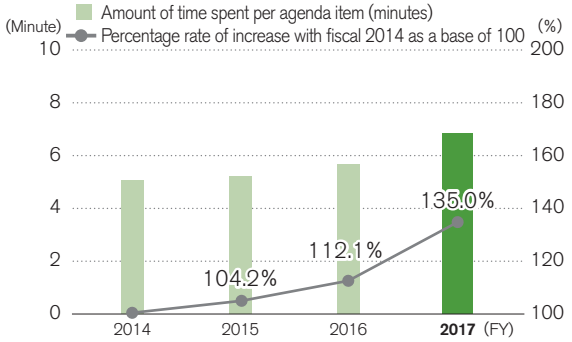
Trends in the number of agenda items where concerns were expressed and the number of agenda items with preliminary questions and discussions taking place at group companies

- The Company in 2014 began implementing measures allowing the questions and opinions of Outside Directors prior to the meeting as well as content from group management meetings and operating company management meetings to be aired at the Board of Directors' meetings.
- The ratio of agenda items where either concerns were expressed or preliminary questions were aired moved from 29% in fiscal 2014 to 40% in fiscal 2016 and 47% in fiscal 2017.



Trends in the average amount of time spent per agenda item at regularly scheduled Board meetings

- The average amount of time spent per agenda item at regularly scheduled Board meetings has continued to increase with each passing year (excluding so-called package deliberation items.)



Implementation of meetings, study sessions, and visits including Outside Directors

In addition to Board of Directors' study sessions, the Company Conducted operating company visits in fiscal 2017.

Date	Name	Content
May 2017	Outside Executives Study Group	• Next medium-term management plan, other topics
July 2017	Joint Council of Outside Directors and Audit & Supervisory Board Members	• Stress scenario and group impact (major earthquake, deterioration in the US economy), other topics
October 2017	Visit to Operating Company	• Visit to domestic group insurance companies (sales and claim services divisions)
October 2017	Outside Directors Council	• Changing work-styles and operations in the sales and claim services divisions, and the outlook moving forward • Changes and issues in the internal auditing division moving forward
November 2017	Visit to the project site of the Paliyan Wildlife Sanctuaries in Indonesia	• Visit to elementary school where overseas group company is involved in CSR activities • Visit to area undergoing afforestation • Commemorative tree planting
November 2017	Group Executives Seminar	• Discussion led by external instructor of the evolution of the automobile and the connected car society
December 2017	Outside Executives Study Group	• Current conditions and issues for the group's internal reporting system (MS&AD Helpline)
February 2018	Outside Executives Study Group	• Exchanging opinions with and receiving information from accounting auditors
March 2018	Outside Executives Study Group	• Survey of employee attitudes, other topics

Strategies for functional improvements in fiscal 2018

Theme	Strategies for functional improvements in fiscal 2018 (key points)
Deliberations on management plans and strategies, commitment to the medium-term management plan	• The unusually rapid pace of technological change, including the introduction of autonomous driving vehicles and the electrification in vehicles, makes it necessary for the Group to discuss in-depth how to deal with the changing operating environment. These discussions would include Outside Director Council and focus on topics such as how loss ratios might change and what the corresponding impact on the Group would be.
Deliberations on risk-taking projects	• In regard to risk-taking projects, we will strive at Executive Study Group to better understand trends in competing and related businesses (non-life insurance, life insurance or banking).
Supervising the promotion and practice of the company's code of conduct and management philosophy	• We will deepen among all employees an understanding of the significance of the Group's initiatives, the "the story of value creation ", the corporate mission and the Group's contribution to SDGs by providing a clear explanation of the medium-term management plan "Vision 2021".
Appropriate cooperation with non-shareholder stakeholders (ensuring the voices of those inside and outside the company are heard)	• We are working to improve environment which enables employees to speak up in frank and positive manner about their questions and concerns by establishing a so-called "speak up" system as part of the internal reporting system to receive input from all our employees.
Report on the issues regarding ESG (Environment, Society and Governance)	• Given the importance of measures aimed at promoting and entrenching the understanding and significance of new terms such as "sustainability", "SDGs" and "CSV" (creating shared value) among all employees, we are employing a variety of communicative methods, including executive messages, training sessions, integrated reports, and media releases.
Management of the Board of Directors	• We are focused on a thorough explanation of agenda items for the Board of Directors for the sake of clarification and simplification. • In particular, Board of Director management is aimed at encouraging remarks from the Chairman on important items up for discussion.
Others (providing ongoing training opportunities for executives, etc.)	• We will establish themes for Outside Executives Study Groups based on requests from the Outside Executives. • We will continue to create opportunities to visit operating company sites in fiscal 2018. • We will identify and discuss measures for future consideration based on the June 2018 revisions to Japan's Corporate Governance Code.

▶ Directors' and Audit & Supervisory Board Members' Remuneration

Remuneration Breakdown

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

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

Total Amount of Remuneration (FY2017)

Remuneration by Category and the Number of Recipients

	Total Remuneration	Total Amount of Remuneration by Category	
		Basic	Stock Option
Directors (8*)	¥199 million	¥188 million	¥10 million
Audit & Supervisory Board Members (3*)	¥51 million	¥51 million	–
Outside Directors/ Audit & Supervisory Board Members (9)	¥70 million	¥70 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 Amount of Remuneration by Category	
		Basic	Stock Option
Director Yasuyoshi Karasawa	¥103 million	¥95 million	¥7 million
Director Noriyuki Hara	¥103 million	¥95 million	¥7 million

- Given the enhanced responsibilities expected of Outside Directors in line with the aim to bolster corporate governance and the increase of one Outside Director in fiscal 2017, the company on June 25, 2018, decided to lift annual remuneration for Outside Directors from ¥60 million or less to ¥100 million or less.

Corporate Governance

Introduction to Directors

(As of June 25, 2018, except for the number of Company shares owned, which is as of the end of March 2018)

Directors

Hisahito Suzuki

Representative Director
Chairman of the Board

Number of Company shares owned
36,970

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
18,700

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
25,608

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

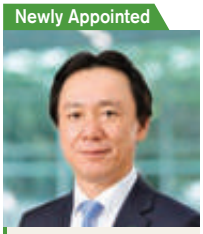
Director
Executive Vice President,
CFO

Number of Company shares owned
29,015

Important concurrent positions
—

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

Newly Appointed



Masahiro Higuchi

Director
Executive Officer

Number of Company shares owned
9,160

Important concurrent positions
Director, Senior Executive Officer, ADI

Biography
April 1982 Entered Dai-Tokyo Fire and Marine Insurance Co., Ltd.
Has business experience in corporate planning, investment planning, human resources, etc.

Newly Appointed

Takashi Kuroda

Director
Executive Officer

Number of Company shares owned
17,900

Important concurrent positions
Director, Executive Vice President, MSI

Biography
April 1979 Entered the Sumitomo Marine and Fire Insurance Co., Ltd.
Has business experience in sales, corporate planning, claims services, etc.

Mari Matsunaga

Outside Director
(Independent Director)

Meeting attendance (FY2017)
15 of 15 Board of Directors' meetings (100%)

Number of Company shares owned
1,100

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 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 Rohto Pharmaceutical Co.
Outside Director of Seiko Epson Corporation

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)

Mariko Bando

Outside Director
(Independent Director)

Meeting attendance
12 of 13 Board of Directors' meetings held after appointed date (92.3%)

Number of Company shares owned
200

Reason for appointment
She previously served as Director General of the Gender Equality Bureau of the Cabinet Office and currently serves as President of Showa Women's University. We elected her to 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

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
April 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
April 2007	President, Showa Women's University
April 2014	Chancellor (Rijicho), Showa Women's University (present)
July 2016	Chancellor (Socho), Showa Women's University (present)
June 2017	Director, the Company (present)

Newly Appointed

Akira Arima

Outside Director
(Independent Director)

Meeting attendance
No record due to new appointment

Number of Company shares owned
0

Reason for appointment
He has been a Director of Nippon Telegraph and Telephone Corporation and President Chief Executive Officer of NTT Communications Corporation. We elected him to reflect his broad knowledge and experience from the information and communication business in the management of the Company.

April 1973	Entered Nippon Telegraph and Telephone Public Corporation
June 2002	Director and General Manager, Planning Dept., Nippon Telegraph and Telephone East Corporation
April 2003	Director and General Manager of Corporate Planning Dept., Nippon Telegraph and Telephone East Corporation
June 2005	Director, Nippon Telegraph and Telephone Corporation
June 2007	Executive Vice President, Head of Internet Business Division NTT Communications Corporation
June 2010	President, Chief Executive Officer, NTT Communications Corporation
June 2015	Director and Advisor, NTT Communications Corporation
June 2017	Advisor, NTT Communications Corporation (present)
June 2018	Director, the Company (present)

Newly Appointed

Kazuhito Ikeo

Outside Director
(Independent Director)

Meeting attendance
No record due to new appointment

Number of Company shares owned
1,000

Reason for appointment
He has experienced a number of posts, including university professor, member of the Financial Services Agency's Financial System Council, and chairman of the Council of Experts Concerning the Corporate Governance Code and has broad knowledge and experience in the economic and fiscal fields as well as financial administration. We elected him to reflect his knowledge and experience in the management of the Company.

Important concurrent positions
Professor Emeritus, Keio University
Professor, Faculty of Economics, Rissho University

April 1984	Associate Professor, Faculty of Economics, Okayama University
April 1986	Associate Professor, Faculty of Economics, Kyoto University
April 1995	Professor, Faculty of Economics, Keio University
April 2018	Professor Emeritus, Keio University (present) Professor, Faculty of Economics, Rissho University (present)
June 2018	Director, the Company (present)

Newly Appointed

Junichi Tobimatsu

Outside Director
(Independent Director)

Meeting attendance
No record due to new appointment

Number of Company shares owned
0

Reason for appointment
He has a wealth of knowledge and experience concerning overall corporate legal affairs including those overseas companies as an attorney-at-law. We elected him to reflect his knowledge and experience in the management of the Company.

Important concurrent positions
Attorney-at-Law, Tobimatsu Law
Outside Corporate Auditor of amana inc.

April 1998	Admitted as Attorney-at-Law Attorney-at-Law, Mori Sogo (currently, Mori Hamada & Matsumoto)
June 2004	Admitted as Attorney-at-Law, N.Y.
April 2010	Associate Professor, Graduate School of Law and Political Science, the University of Tokyo
July 2016	Attorney-at-Law, Tobimatsu Law (present)
June 2018	Director, the Company (present)

Audit & Supervisory Board Members

Hiroshi Miura

Audit & Supervisory Board Member (Full time)

Number of Company shares owned
21,000

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

Tomoko Kondo

Audit & Supervisory Board Member (Full time)

Number of Company shares owned
4,579

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)

Kunio Chiyoda

Outside Audit & Supervisory Board Member (Independent Auditor)

Meeting attendance (FY2017)
15 of 15 Board of Directors' meetings
13 of 13 Audit & Supervisory Board meetings

Number of Company shares owned
1,100

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
Director of Terasaki Electric Co., Ltd. (Outside Director (Audit Committee))

May 1971	Registered Certified Public Accountant
April 1976	Assistant Professor, College of Business Administration, Ritsumeikan University
April 1984	Professor, College of Business Administration, Ritsumeikan University
April 1999	Dean of College of Business Administration, Member of the Board, Ritsumeikan University
April 2009	Professor, Graduate School of Accountancy, Kumamoto Gakuen University
April 2012	Professor of Graduate School of Accountancy, Waseda University
April 2013	Chairperson, Certified Public Accountants and Auditing Oversight Board
June 2016	Audit & Supervisory Board Member, the Company (present)

Kyoko Uemura

Outside Audit & Supervisory Board Member (Independent Auditor)

Meeting attendance
13 of 13 Board of Directors' meetings held after appointed date
11 of 11 Audit & Supervisory Board meetings

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)

Executive Officers

Chairman of the Board

Hisahito Suzuki

President & 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.,
International Life Insurance Business Dept.,
Information Technology Planning Dept.,
International Supervisory Dept.,
Internal Audit Dept.*,
Group Capital Policy,
Sustainability,
Chief Financial Officer

Senior Executive Officer

Fumiaki Ohkawabata
Human Resources and General Administration Dept.,
Accounting Dept.,
Compliance Dept.,
Corporate Risk Management Dept.,
Internal Audit Dept.,
Chief Risk Officer

Executive Officers

Masahiro Matsumoto
International Business

Teruhiko Ito
Financial Services Business

Hidema Jinno
General Manager of Corporate Risk Management Dept.

Masahiro Higuchi
Claims Services

Shinichiro Funabiki
Administration and Information Systems
Chief Information Officer
Chief Information Security Officer
Chief Digitalization Officer

Tetsuji Higuchi
Assist Management

Takashi Kuroda
Marketing & Sales

Yukio Ogata
Products・Reinsurance

Satoru Tamura
Assist Management

Naomi Motojima
Diversity & Inclusion

* Executive Vice President Shiro Fujii is responsible for internal auditing of the departments which Senior Executive Officer Fumiaki Ohkawabata oversees.

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

Website content

●Corporate Governance (https://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

Message from Outside Director

Outside Director (Independent Director)

Mariko Bando

Having completed your first year as an outside director, please tell us your overall impression about the Board of Directors' management and discussions through the year.

It has been challenging to grasp all of the topics on the table to discuss at the Board of Directors because they were from the different operating companies within the Group. That said, detailed explanations provided in advance have been very helpful. I have realized that every proposal was brought from great efforts each operating company made.

For myself, there is nothing more important as an outside director than sharing the Company's overall goals and vision. Since all matters to be discussed by the Board of Directors have already been deliberated at each operating company, our role is to confirm from various angles that each matter aligns with the overall strategy and vision of the Group. All outside directors, therefore, need to understand the Group's mission, vision, and values thoroughly. Based on this, we should evaluate various issues by our own criteria while drawing upon our expertise and insights to convey fresh perspectives to the Company.

Looking back on the past year, proposals on overseas business have definitely involved protracted deliberations to come to conclusions. Various opinions have been expressed about how to manage the acquired overseas operating company with earnings well below forecasts. In general, the Japanese like to strive harder to meet global standards to follow but are not accustomed to lead setting up new rules by leveraging our own strengths. This is an issue that we need to overcome if we work with overseas companies to build mutually positive relationships.

How do you feel about participating in formulating the new medium-term management plan "Vision 2021"?

In the "Vision 2021," the MS&AD Insurance Group clearly set a goal to realize "a world-leading insurance and financial services group" with new management numerical targets to achieve. In addition, one of the features is integrating SDGs (Sustainable Development Goals) initiatives into business activities to realize a resilient and sustainable society which is an image of society in 2030 the Group aims.

While the greatest purpose of companies is to sustainably increase profits, we are now questioned what value we may provide to society at the same time. There are not a lot of companies yet that incorporate social values into company's business strategy to ensure their business activities help make the world a "better place to live," but the MS&AD Insurance Group does.

Based on re-acknowledging that a critical goal as an insurance company is to bring safety and peace of mind to a society, in "Vision 2021" there are three core strategies based on its long-term objectives that plan to make steady progress in achieving. For example, one of these core strategies "promoting digitalization" is not only aimed at improving operational efficiency, but also enhancing customer experience value. Therefore, this initiative will be expanded into global market to improve customer's value as group worldwide. This strategy includes initiatives to solve social issues such as addressing cyber risks and developing next-generation automobile insurance.

What are your thoughts on the Group's D&I initiatives?

From this fiscal year, the Group has placed an executive officer in charge of Diversity & Inclusion (D&I) to strengthen its Groupwide efforts to this end. It will take time to see the actual effect of diversity. Although it is often said that D&I is a social responsibility to respect human rights, I think the essential role of D&I is to enhance a company's reform over the long term. I believe D&I would be one of triggers to generate innovation and that is the intrinsic value of D&I.

Starting with utilizing women employees, it is important to set numeric targets for females in management positions over the medium- to long-term. Besides, it is also effective in the near term to develop practical training program and to design personnel system. The purpose of training programs provides employees with an opportunity to grow themselves. I propose to target 20-30% of participants as women.

Moreover, it should not be over-concerned when it comes to personnel transfer of female employees. It is really depends on the person, not gender whether the person likes to try new challenges. In any case, everyone should have equal opportunities.

In fact, we should create a structure for assigning employees to desired positions through internal job postings that attract motivated individuals by providing them with open opportunities to engage in challenging positions that leverage their abilities.

I would like to see multiple career paths geared toward employees' goals.

In addition, it is critical to foster a more international workforce in light of the Company's goal to derive 50% of its profits from overseas businesses. While fostering global personnel for Japanese is important, the Company needs to hire foreigners as part of its diversity initiatives. A corporate culture fostered solely around Japanese employees will be unable to prevail against international competition. This is why D&I is so important, and on this basis what vital to promote D&I initiatives is transparency by revealing all issues and every process.

Diversity means collaboration among people with different backgrounds and values. Therefore, it is important to share mutual goals, rules, and decision-making processes. For example, even though final decisions are made by top management, the whole process should be disclosed because everyone is well informed with the process and starts working with confident of the decision. The Company must take steps to ensure that information is not compartmentalized among employees based on their position, rank, and employment status within the organization.

What is your expectation for the Group?

In terms of non-monetary corporate value, I would like to see the Group gain a reputation of doing right things for society and people, which contributes to make the world a better place. This is what I call "non-monetary corporate value," which is beyond monetary value such as market capitalization. To pursue this, each employee must perform at full potential to achieve Company's goals, which in turn requires cultivating a working environment to foster the employee's motivation.

While tangible assets are important, it is ideal model for a company to sustainably grow by accumulating intangible assets such as human, intellectual, social, and natural capital. Since people are core value for companies, I truly expect the Group to respect people and to foster employee engagement.

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

- Holding a briefing for the Integrated Report, talked about MS&AD's Story of Value Creation
- 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 2017

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.

We held a briefing about the Integrated Report and talked about MS&AD's Story of Value Creation.

We also held several corporate briefings for individual investors around Japan and participated in the Nikkei IR and Investment Fair for the second consecutive year.

( ) indicates FY2016 figures

Strategy explanation meetings for institutional investors and analysts (Information Meeting)	Twice (Twice)
Telephone conferences (earning results) for institutional investors and analysts	4 (4) times
Telephone conferences for institutional investors and analysts	3 (0) times
Sessions for an exchange of opinions with institutional investors and analysts (MS&AD IR Day)	Once (Once)
Investors' Dialogue on the MS&AD Integrated Report 2017	1 (0) times
Conferences organized by securities companies	5 (6) times
Individual meetings (except conferences)	231 (232) times
Information sessions for individual investors	12 (7) times

Information meeting for institutional investors and analysts

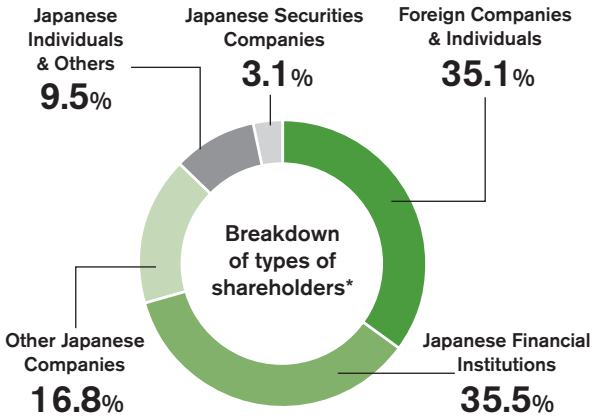
Investors' Dialogue on the MS&AD Integrated Report 2017

IR Activities for Overseas Investors

With foreign investors and foreign corporate investors making up almost 35% 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 website, making concerted efforts to augment information for foreign investors.



*As of March 31, 2018

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 2017"

Integrated Report (Japanese/English)

The MS&AD Integrated Report 2017, published in 2017, received the Award for Excellence and the Special Award, respectively, from the Fifth WICI Japan Integrated Report Awards and the Nikkei Annual Report Awards.

Japanese version

English version

General Shareholders' Meeting

	FY2016	FY2017	FY2018
Held	June 22 (Wednesday)	June 26 (Monday)	June 25 (Monday)
Shareholders attending	654	633	774
Ratio of the exercise of voting rights	85.8%	85.8%	84.3%
Notice of convocation issue date	May 30 (Monday)	June 2 (Friday)	June 1 (Friday)
Notice of convocation notice website announcement date (Japanese/English)	May 24 (Tuesday)	May 23 (Tuesday) (Japanese) May 26 (Friday) (English)	May 22 (Tuesday) (Japanese) May 23 (Wednesday) (English)

For more shareholder and investor information, see the Company's official website.

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

Basic Knowledge about the Insurance Industry

We have prepared this section as 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 content 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 ¥8,243.9 billion in fiscal 2016. (Total for 26 corporate members of the General Insurance Association of Japan)

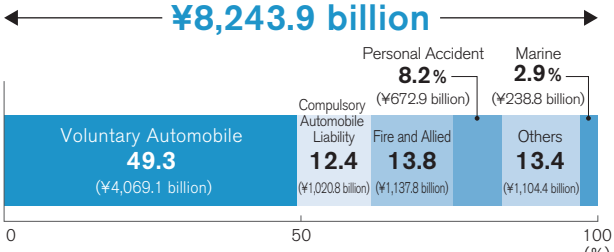
Automobile-Related Insurance Accounts for More than 60%

Together, voluntary automobile insurance (49.3%) 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 2017, including 22 foreign non-life insurers. The three largest non-life insurance groups—the MS&AD Insurance Group, the Tokio Marine Group and the Sompo Japan Nipponkoa Group (currently Sompo Group) — have an 88% combined share of the market.

Net Premiums Written by Class of Insurance (FY2016)



Source: General Insurance Association of Japan, FACT BOOK 2017

Types of Insurance and Related Trends

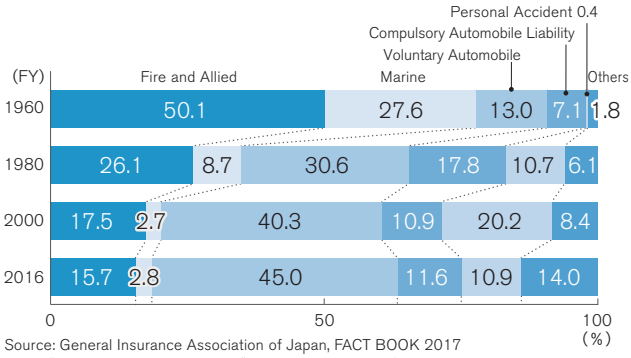
Covering Diverse Risks

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.

Composition of Net Direct Premiums Written by Class of Insurance



Source: General Insurance Association of Japan, FACT BOOK 2017
Note: "Net direct premiums written" represents revenues from insurance policies directly provided by each customer.

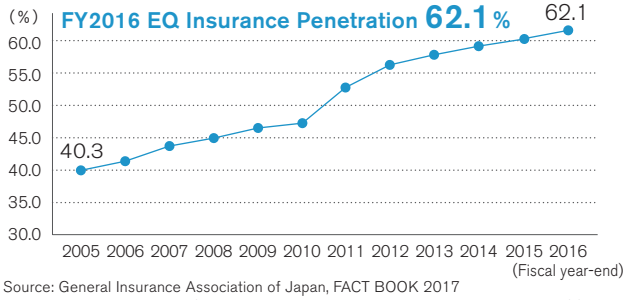
Trend of Increase in Earthquake Insurance

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 62.1% (at the end of FY2016).

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.

Trends in the Penetration Rate of Residential Earthquake Insurance



Source: General Insurance Association of Japan, FACT BOOK 2017
Note: The penetration rate of residential earthquake insurance represents the share of fire and allied policies with earthquake coverage.

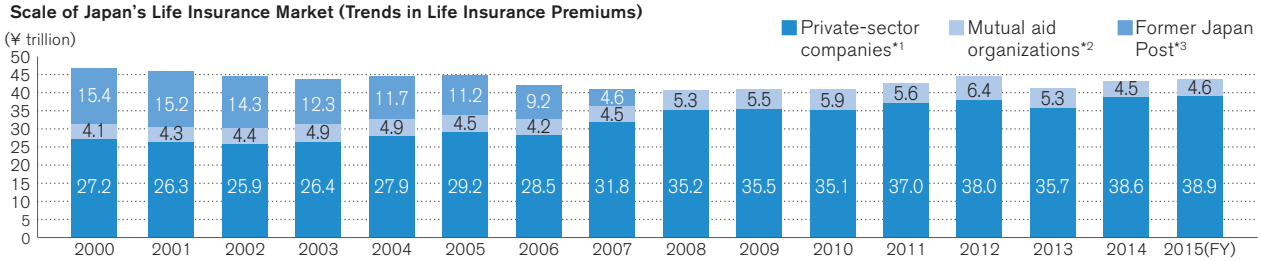
Life Insurance Industry

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)

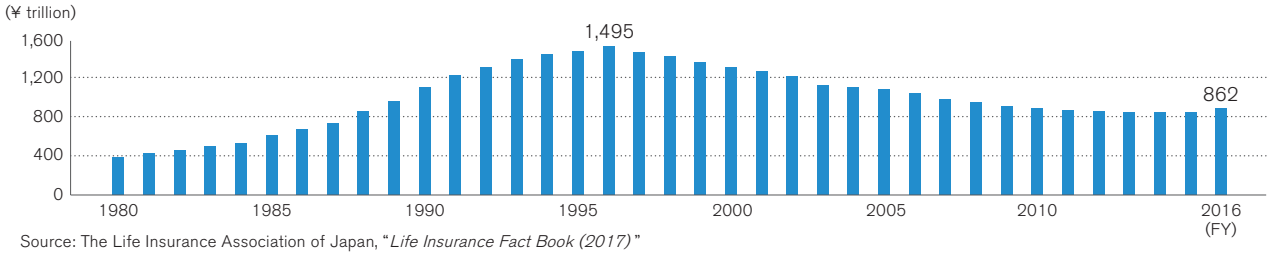
*3 Former Japan Post: Premium income (postal life insurance) during the period through September 2007. Japan Post Insurance is included on and after privatization, from October 2007, in the private-sector companies' figures.

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 (medical and cancer insurance) needs.

Trends in Policies in Force (Individual Insurance)



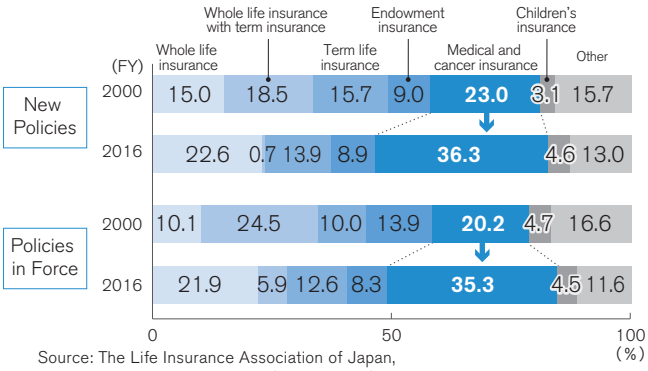
Source: The Life Insurance Association of Japan, "*Life Insurance Fact Book (2017)*"
Note: Figures for 2007 and previous years exclude Japan Post Insurance and the former postal life insurance.

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 36.3% in FY2016 – 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. Most recently, the number of policies written for "Tontine-type annuity" as insurance for longevity risk is also increasing.

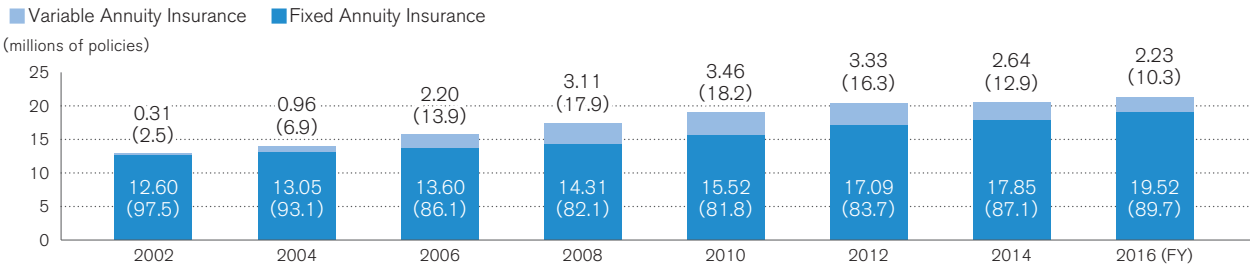
*See the "Glossary of Insurance Terminology" section P. 96

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 (2017 edition)*"

Trends in Policies in Force Individual Annuity Insurance by Type



Source: The Life Insurance Association of Japan, "*Life Insurance Fact Book (2017)*"
Note: Figures in parentheses represent percent shares.

The Insurance Industry Trends and Changes in Japan

Environment of the Insurance Industry in Japan

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 (currently Sompo Group).

Major Events Following Regulatory Liberalization

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 7%-12%. On the other hand, the insurance penetration rate of emerging markets of the Asian region and BRICs is relatively low – in the 1%-4% range – so, those markets can be considered to have considerable growth potential.

Development of Principal Insurance Markets in 2016

(US$ billion)

Market/Country	Ranking by Insurance Premiums	Life Insurance Premiums		Non-Life Insurance Premiums		Total Insurance Premiums		Insurance Density*1 (US$) 2016	Insurance Penetration Rate*2 2016
		2016	Change from 2015	2016	Change from 2015	2016	Change from 2015		
Developed markets		2,111	0.3%	1,688	2.8%	3,799	1.4%	3,505	8.0%
United States	1	559	0.7%	794	3.9%	1,352	2.6%	4,174	7.3%
Japan	2	354	3.9%	117	8.8%	471	5.1%	3,732	9.5%
United Kingdom	4	199	(8.7)%	105	(5.1)%	304	(7.5)%	4,064	10.2%
France	5	153	(0.9)%	85	1.2%	238	(0.2)%	3,395	9.2%
Germany	6	95	(1.8)%	120	1.9%	215	0.2%	2,548	6.1%
South Korea	7	104	2.8%	67	4.8%	171	3.6%	3,362	12.1%
Italy	8	122	(4.0)%	40	(0.6)%	162	(3.2)%	2,499	8.2%
Emerging markets		506	14.2%	427	4.7%	934	9.6%	149	3.2%
Latin America and the Caribbean		69	4.1%	79	(16.0)%	149	(7.7)%	257	3.2%
Brazil	14	41	10.5%	32	(1.1)%	73	5.2%	346	4.0%
Mexico	25	11	(2.4)%	13	(4.0)%	24	(3.3)%	189	2.3%
Europe		859	(2.8)%	611	0.6%	1,470	(1.4)%	1,620	6.7%
Russia	31	3	51.1%	14	(1.9)%	18	4.8%	123	1.4%
Asia and Middle East		1,000	10.6%	493	10.3%	1,494	10.5%	343	5.6%
China	3	263	24.6%	204	15.8%	466	20.6%	337	4.2%
India	13	62	10.3%	17	15.3%	79	11.3%	60	3.5%
United Arab Emirates	39	2	4.2%	8	4.1%	10	4.2%	1,102	2.9%
Africa		41	(5.6)%	20	(3.9)%	61	(5.1)%	51	2.8%
Oceania		40	(13.0)%	53	2.9%	93	(4.6)%	2,343	6.3%
World		**2,617**	**2.8%**	**2,115**	**3.1%**	**4,732**	**2.9%**	**638**	**6.3%**

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. 3/2017)

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 (see the "Glossary of Insurance Terminology" section P. 92) 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 ¥229 trillion in 2016. The largest market is that of the United States (approximately ¥86 trillion), and Japan's market is the fourth largest (approximately ¥12.7 trillion).

Japanese Market Smaller in a Share of GDP

Japan's insurance premiums as a share of GDP are only 2.37% (the 23rd highest), compared to the global average of 2.81%.

Comparison of Non-Life Insurance Premium Income in Principal Countries (2016)

Country/Region	Direct Premiums Written			As a Share of GDP		Per Capital Premiums	
	(¥ million)	Ranking	Share (%)	(%)	Ranking	(¥)	Ranking
United States	86,075,067	1	37.5	4.29	6	265,643	4
China	22,075,272	2	9.6	1.81	45	15,945	55
Germany	13,055,449	3	5.7	3.33	12	151,533	11
Japan	12,717,348	4	5.5	2.37	23	100,660	21
United Kingdom	11,371,886	5	5.0	2.58	21	111,833	18
France	9,201,076	6	4.0	3.17	13	126,693	16
South Korea	7,234,298	7	3.2	4.72	4	142,313	13
Canada	7,001,413	8	3.1	4.22	7	193,294	8
Netherlands	6,914,529	9	3.0	8.27	2	406,979	2
Australia	4,823,335	10	2.1	3.53	10	199,476	6
Italy	4,332,834	11	1.9	2.01	32	66,058	30
Spain	3,703,166	12	1.6	2.77	17	79,942	27
Brazil	3,432,099	13	1.5	1.76	48	16,379	54
Switzerland	2,952,445	14	1.3	4.12	8	350,684	3
India	1,897,466	15	0.8	0.77	76	1,410	83
Taiwan	1,838,783	16	0.8	3.34	11	78,315	28
Belgium	1,808,412	17	0.8	2.64	19	117,690	17
Russia	1,560,883	18	0.7	1.13	70	10,847	62
Mexico	1,433,323	19	0.6	1.27	64	11,172	60
Austria	1,309,884	20	0.6	3.12	14	151,424	12
Other countries (regions)	24,693,738	–	10.8	–	–	–	–
Total/Average	**229,432,707**	**–**	**100.00**	**2.81**	**–**	**30,946**	**–**

Source: Prepared based on data in "sigma No. 3/2017" 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 2016.
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 2016 (US$1=¥108.47).

Life Insurance

Japanese Market Accounts for Approximately 13.5% of the Global Market

According to "sigma No. 3/2017" newsletter of Swiss Re "International Life Insurance Statistics" of the Life Insurance Association of Japan, global life insurance premium income amounted to approximately US$2,620 billion in 2016. The figure for Japan was approximately US$354 billion (¥38 trillion), corresponding to 13.5% of the global figure.

Life Insurance Premium Income/Rankings/ Market Share by Country (Top 10 Countries)

Country	Life Insurance Premiums (2016)		
	Ranking	Premium Income (US$ million)	Share (%)
United States*1	1	558,847	21.4
Japan*2	2	354,053	13.5
China	3	262,616	10.0
United Kingdom	4	199,369	7.6
France	5	152,817	5.8
Italy	6	122,438	4.7
South Korea*2	7	104,169	4.0
Germany	8	94,661	3.6
Taiwan	9	84,493	3.2
India*2	10	61,817	2.4

Source: Prepared based on data in "sigma No. 3/2017" 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, 2016, through March 31, 2017.

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. 97.

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 https://www.jpx.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 PP. 38 and 70.

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 Premiums
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)

Group Adjusted Profit
Group Adjusted Profit, which is a numerical management target within the Vision 2021 medium-term management plan, is calculated as follows.

Group Adjusted Profit = Consolidated net income + provision for catastrophe loss reserve and others - other incidental factors (amortization of goodwill and other intangible fixed assets, etc.) + equity in earnings of the non-consolidated group companies

Group Adjusted ROE
Group Adjusted ROE, which is a numerical management target within the Vision 2021 medium-term management plan, is calculated as follows.

Group Adjusted ROE = Group Adjusted Profit ÷ average of beginning and ending amounts on B/S of adjusted net assets (consolidated net assets + catastrophe loss reserve and others - goodwill and other intangible fixed assets)

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.

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 https://www.fsa.go.jp/en/refer/councils/stewardship/

L

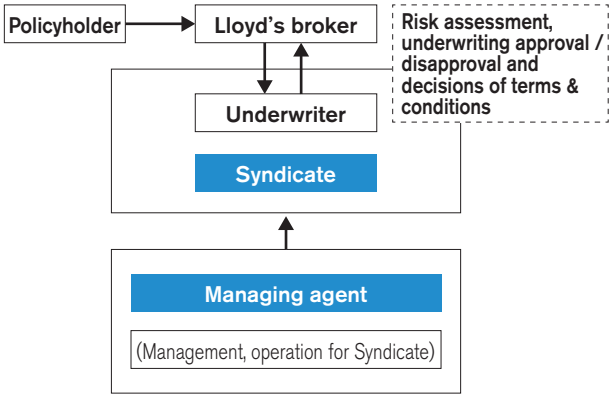
Law of Large Numbers
If you roll a die (1 dice), a "one" may appear by chance, but if you continue to increase the number of times the die is rolled, the ratio of times that "one" appears will approach one time out of six. As in this case, when the number of trials is increased, the law of large numbers 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 2017, Lloyd's had 95 syndicates and 56 managing agents registered. The fiscal 2017 gross written premiums of the Lloyd's market as a whole were approximately 33.5 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 exists 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

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 ❶ to ❹ 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.

❶ Direct claims paid
−) ❷ Reinsurance claims ceded
+) ❸ Reinsurance claims paid
−) ❹ Retrocession claims ceded
❺ 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 ❶ to ❹ listed to the right, and plainly shows the income earned from the non-life insurance business (excluding deposit premiums from policyholders).

❶ Direct premiums written
−) ❷ Reinsurance premiums ceded
+) ❸ Reinsurance premiums written
−) ❹ Retrocession premiums ceded
❺ 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. 97.

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.

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.

Three Surplus Factors (Life Insurance)
The "three surplus factor" refers to three margins: the "administrative expense margin," which is the difference between the planned administrative expense based on the planned expense ratio and the actual administrative expenses; the "risk margin (mortality margin)," which is the difference between the planned payment amounts from insurance, benefits, etc. based on the planned mortality rate and the actual payment amounts from insurance, benefits, etc.; and the "investment yield margin" which is the difference between the planned investment income based on the planned interest rate and the actual investment income. (If the investment yield margin is negative, it will be in a "negative spread" state.) The three surplus factors are breakdown of "core profit," which is an indicator of the periodical profit and loss situation of a life insurance company.

Tontine-Type Annuity
Defined as "a plan whereby the guarantee of someone who has died is controlled and their share in an annuity devolved to the pension of someone living," the tontine-type annuity product offers the benefit of the longer people live, the more pension is received. Its name is derived from an insurance system devised by the Italian Lorenzo de Tonti.

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

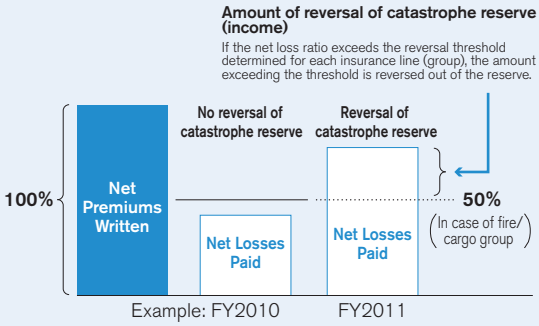
Whole Life Insurance
Of the types of insurance providing for the receipt of death benefits on death, this is a type that is not for a fixed period but continues for a lifetime and does not have benefits on maturity. → Term Insurance

Accounting Line Item Terminology
Please refer to the Guide Book for the Understanding of Disclosure Materials of Non-Life Insurance Companies*1 (prepared by the General Insurance Association of Japan) and the Life Insurance Company Disclosure Notes Glossary*2 (prepared by the Life Insurance Association of Japan for details of accounting line items and other pertinent information.

*1 http://www.sonpo.or.jp/archive/publish/sonpo/pdf/0004/book_kantanguide.pdf
*2 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.

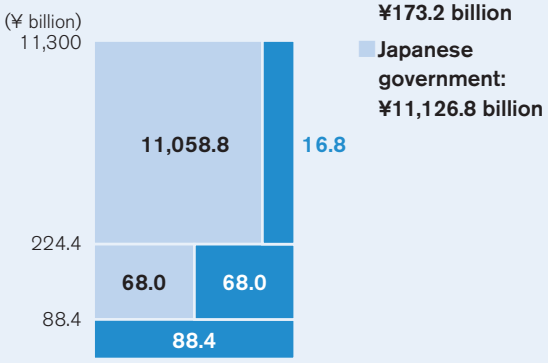


About Residential Earthquake Insurance

Based on Japan's Law Concerning Earthquake Insurance (the Earthquake Insurance Act), residential earthquake insurance is operated jointly by the government and non-life insurance companies. Reflecting the significant impact that earthquakes can have on society, residential 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, residential 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.

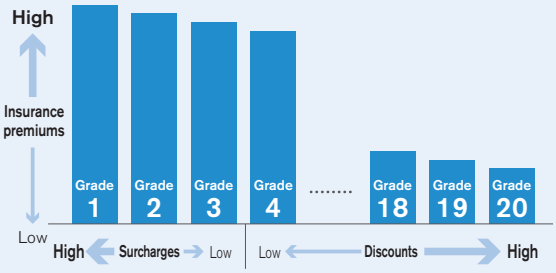
Government and Private-Sector Burdens

Revised April 1, 2017



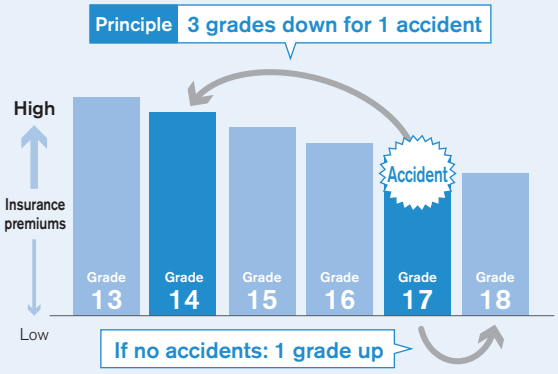
Non-Fleet Grade System (Automobile Insurance)

- This system applies discount percentages to grades defined from Grade 1 to Grade 20.

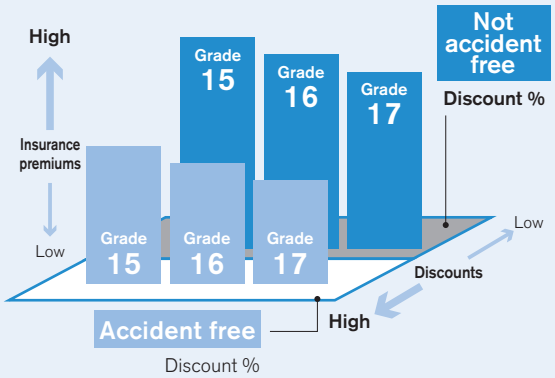


- When the contract is first concluded, the customer starts at Grade 6 (or Grade 7) and then rises by a one-grade increment if there are no accidents.
- If there is an accident, the grade drops by three-grade increments, and, at renewal time, the grade, in principle, drops by three-grade increments per 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."



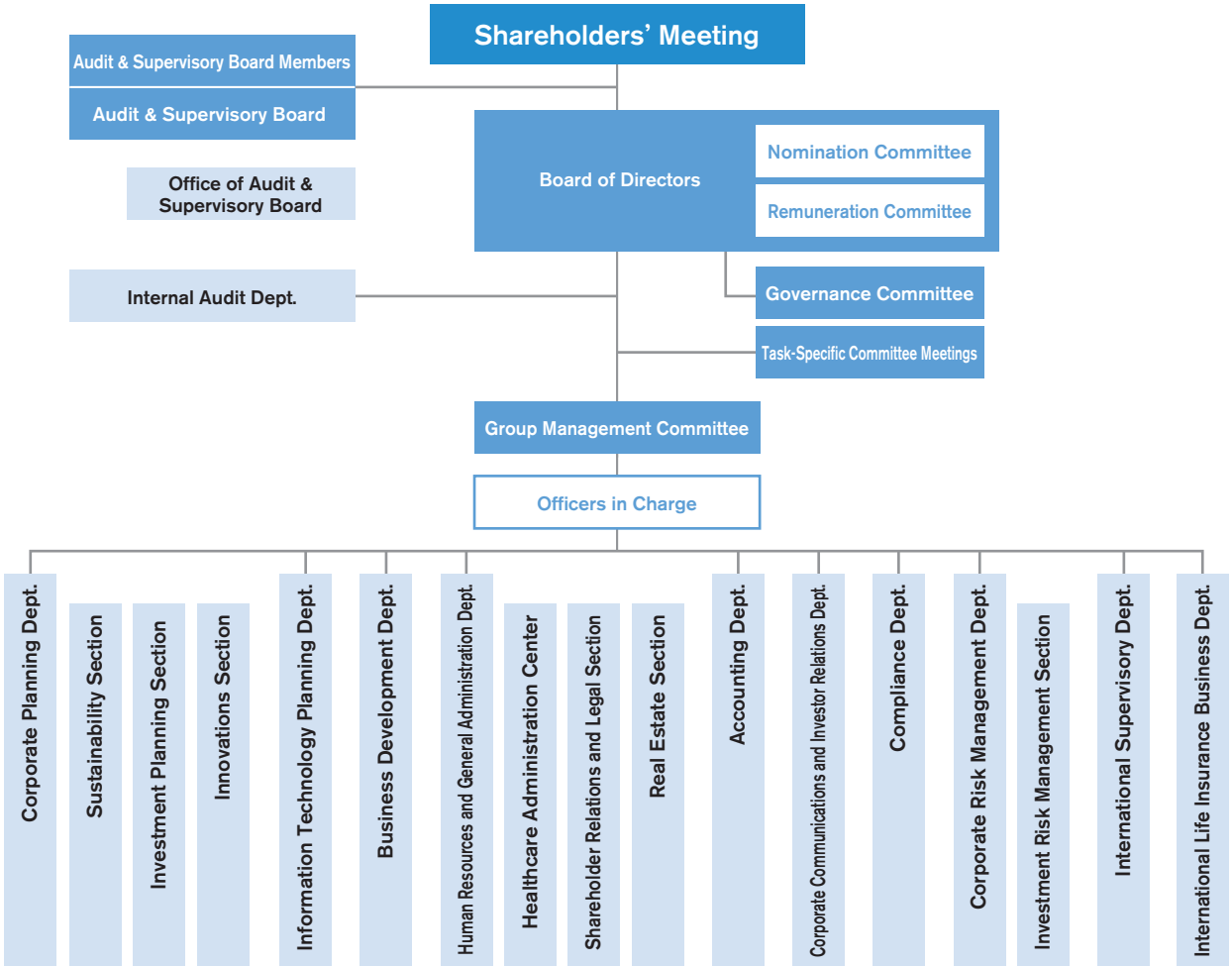
Corporate Profile

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	Yasuyoshi Karasawa, Representative Director, President & CEO
Paid-in capital	¥100,000 million
Number of employees	390 (41,295 on a consolidated basis) (As of March 31, 2018)
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)
Independent auditor	KPMG AZSA LLC

MS&AD Insurance Group Holdings, Inc. / Organizational Chart (As of April 1, 2018)



Stock and Shareholders (As of March 31, 2018)

1. Summary of Issued Shares

Class of Stock	Common stock	**Total Number of Authorized Shares**	900,000,000
Total Number of Issued Shares	593,291,754	**Number of Shareholders**	65,512

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	185	63	1,553	818	62,893	65,512
Number of Shares Held (millions)	210.48	18.40	99.93	208.21	56.24	593.29
Percentage of Shares Issued	35.5%	3.1%	16.8%	35.1%	9.5%	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	18,582	33,640	11,919	966	405	65,512
Percentage of All Shareholders	28.4%	51.3%	18.2%	1.5%	0.6%	100.0%

Breakdown by Region

Item	Hokkaido	Tohoku	Kanto	Chubu	Kinki	Chugoku	Shikoku	Kyushu	Overseas	Total
Number of Shares (millions)	1.08	2.88	286.91	67.04	20.38	2.27	2.35	2.27	208.08	593.29
Percentage of Shares Issued	0.2%	0.5%	48.3%	11.3%	3.4%	0.4%	0.4%	0.4%	35.1%	100.0%

3. Major Shareholders

Shareholder Name	Address	Number of Shares Held (thousands)	Percentage to Shares Issued (%)
Toyota Motor Corporation	1, Toyota-cho, Toyota City, Aichi Prefecture	52,610	8.88
NIPPON LIFE INSURANCE COMPANY	1-6-6, Marunouchi, Chiyoda-ku, Tokyo c/o Nippon Life Securities Operations Department	36,325	6.13
The Master Trust Bank of Japan, Ltd. (Trust account)	2-11-3, Hamamatsu-cho, Minato-ku, Tokyo	33,531	5.66
Japan Trustee Services Bank, Ltd. (Trust account)	1-8-11, Harumi, Chuo-ku, Tokyo	26,685	4.50
JP MORGAN CHASE BANK 380072 (Standing agent: Corporate Financial Sales Div., Mizuho Corporate Bank, Ltd.)	25 BANK STREET, CANARY WHARF, LONDON, E14 5JP, UNITED KINGDOM (2-15-1 Konan, Minato-ku, Tokyo)	13,953	2.36
Japan Trustee Services Bank, Ltd. (Trust account 5)	1-8-11, Harumi, Chuo-ku, Tokyo	9,855	1.66
Japan Trustee Services Bank, Ltd. (Trust account 7)	1-8-11, Harumi, Chuo-ku, Tokyo	9,363	1.58
Japan Trustee Services Bank, Ltd. (Trust account 4)	1-8-11, Harumi, Chuo-ku, Tokyo	9,130	1.54
STATE STREET BANK WEST CLIENT-TREATY 505234 (Standing agent: Corporate Financial Sales Div., Mizuho Corporate Bank, Ltd.)	1776 HERITAGE DRIVE, NORTH QUINCY, MA 02171, U.S.A. (2-15-1 Konan, Minato-ku, Tokyo)	8,869	1.50
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)	8,400	1.42
Total		208,725	35.23

Note: Number of shares held is rounded down; percentage to shares issued is shown as rounded to the nearest hundred percent.
The Company owns 880,702 treasury shares but these are omitted from the table above.

4. Changes in Total Number of Issued Shares, Paid-in Capital, etc.

Date	Issued Shares		Paid-in Capital		Capital Reserves	
	Increase/Decrease	Balance	Increase/Decrease	Balance	Increase/Decrease	Balance
June 30, 2017	(40,000) thousand	593,291 thousand	–	¥100,000 million	–	¥729,255 million

Note: The decrease in the total number of issued shares was due to the retirement of treasury shares.

5. Basic Information

Fiscal Year	April 1 to March 31 of the following year
Annual Shareholders' Meeting	Within three months of the end of each fiscal year
Record Date	Ordinary General Meeting of Shareholders: March 31, every year Year-end dividends: March 31, every year Interim dividends: September 30, every year
Method of Public Notification	Electronic reporting can be found online at https://www.ms-ad-hd.com/ja/ir/notification.html (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.
Stock Exchange Listings	Tokyo Stock Exchange and Nagoya Stock Exchange (First Section)
Administrator of Shareholders' Registry	Sumitomo Mitsui Trust Bank, Limited
Place of Business of Administrator of Shareholders' Registry:	Sumitomo Mitsui Trust Bank, Limited, Stock Transfer Agency Dept. (1-4-1, Marunouchi, Chiyoda-ku, Tokyo, Japan)
Special Account Management Institution:	Sumitomo Mitsui Trust Bank, Limited*
(Postal Address)	Sumitomo Mitsui Trust Bank, Limited, Stock Transfer Agency Dept. (2-8-4, Izumi, Suginami-ku, Tokyo 168-0063, Japan)
Telephone Inquiry	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, 2018)

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.

MS&AD INSURANCE GROUP HOLDINGS, INC.

★ MITSUI SUMITOMO INSURANCE COMPANY, LTD. (Mainly the Domestic Non-Life Insurance Business)

〈International Businesses〉

★ MSIG Holdings (Americas), Inc. <U.S.A.>
★ Mitsui Sumitomo Insurance USA Inc. <U.S.A.>
★ Mitsui Sumitomo Insurance Company of America <U.S.A.>
★ Aioi Nissay Dowa Insurance Company of America <U.S.A.>
★ Mitsui Sumitomo Seguros S/A. <BRAZIL>
★ MS Amlin plc <U.K.> and six other companies
★ Mitsui Sumitomo Insurance Company (Europe), Limited <U.K.>
★ MSIG Insurance Europe AG <GERMANY>
★ MSIG Holdings (Asia) Pte. Ltd. <SINGAPORE>
★ MSIG Insurance (Singapore) Pte. Ltd. <SINGAPORE>
★ MS First Capital Insurance Limited <SINGAPORE>
★ MSIG Mingtai Insurance Co., Ltd. <TAIWAN>
★ Mitsui Sumitomo Insurance (China) Company Limited <CHINA>
★ MSIG Insurance (Hong Kong) Limited <HONG KONG>
★ MSIG Insurance (Vietnam) Company Limited <VIETNAM>
● Cholamandalam MS General Insurance Company Limited <INDIA>
● Max Life Insurance Company Limited <INDIA>
★ PT. Asuransi MSIG Indonesia <INDONESIA>
● PT. Asuransi Jiwa Sinarmas MSIG <INDONESIA>
★ MSIG Insurance (Thailand) Public Company Limited <THAILAND>
● BPI/MS Insurance Corporation <PHILIPPINES>
★ MSIG Insurance (Malaysia) Bhd. <MALAYSIA>
● Hong Leong Assurance Berhad <MALAYSIA>
★ MSIG Insurance (Lao) Co., Ltd. <LAOS>

〈Financial Services Business and Risk-Related Services Business〉

★ MITSUI SUMITOMO INSURANCE Venture Capital Co., Ltd. <JAPAN>
● Sumitomo Mitsui Asset Management Company, Limited <JAPAN>
★ MS Financial Reinsurance Limited <BERMUDA>

★ AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED (Mainly the Domestic Non-Life Insurance Business)

〈International Businesses〉

★ DTRIC Insurance Company, Limited <U.S.A.>
★ DTRIC Insurance Underwriters, Limited <U.S.A.>
★ Aioi Nissay Dowa Insurance Company of Europe Limited <U.K.>
★ Aioi Nissay Dowa Life Insurance of Europe AG <GERMANY>
★ Aioi Nissay Dowa Insurance Company Australia Pty Ltd <AUSTRALIA>
★ Aioi Nissay Dowa Insurance (China) Company Limited <CHINA>

★ MITSUI DIRECT GENERAL INSURANCE COMPANY, LIMITED (Domestic Non-Life Insurance Business)

★ MITSUI SUMITOMO AIOI LIFE INSURANCE COMPANY, LIMITED (Domestic Life Insurance Business)

★ MITSUI SUMITOMO PRIMARY LIFE INSURANCE COMPANY, LIMITED (Domestic Life Insurance Business)

● ReAssure Jersey One Limited <CHANNEL ISLANDS> <International Business>

★ InterRisk Research Institute & Consulting, Inc. <Financial Services Business and Risk-Related Services Business>

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	89.7	—
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 Life Insurance	¥85,500 million	100.0	—
Mitsui Sumitomo Primary Life Insurance Co., Ltd.	Chuo-ku, Tokyo	Sept. 7, 2001	Domestic Life Insurance	¥41,060 million	100.0	—
MITSUI 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$4,500 thousand	—	100.0
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
MSI Corporate Capital Limited	London, U.K.	Jan. 7, 2000	International	UK£5,200 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£39,781 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
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
MS First Capital Insurance Limited	Singapore, Singapore	Dec. 9, 1950	International	S$26,500 thousand	—	97.7
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	MYR1,511 million	—	65.4 [1.4]
MSIG Insurance (Lao) Co., Ltd.	Vientiane, Laos	Sept. 18, 2009	International	US$2,000 thousand	—	51.0
53 other companies						

Notes: 1. Figures in square brackets [ ] represent the percentage of voting rights belonging to closely allied entities or entities that 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
ReAssure Jersey One Limited	Channel, Jersey	July 22, 2011	International	UK£529 thousand	15.0	—
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	—	25.3
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	Kuala Lumpur, Malaysia	Dec. 20, 1982	International	MYR200,000 thousand	—	30.0
Eight other companies						

History of the MS&AD Insurance Group in Japan

Major events in the insurance industry

1996 1997 1998 1999 2000 2001

Start of Japan's Big Bang (financial system reform) → **Development of original products** → **Deregulation of premium rate** → **Diversification of insurance products**

1996 ● Revision of the Insurance Business Act
- Mutual entry into non-life and life insurance business by subsidiaries
- Reform of Insurance Rating Organization system
- Introduction of products and premium rates notification system

1997 ● Approval of risk-subdivision-type automobile insurance

1998 ● Abolition of obligation for members to use the premium rates calculated by the Rating Organization (Transitional Measures: 2 years)

2001 ● Ban on OTC bank sales of insurance partially lifted

History of the MS&AD Insurance Group

Founded in 1918	**Mitsui Marine & Fire Insurance Co., Ltd.**	In 1918, this company was established as Taisho Marine and Fire Insurance Co., Ltd., with the support of a wide range of companies from many industries centered on Mitsui & Co., Ltd. Besides beginning direct underwriting operations in Thailand in 1934 and undertaking other moves to expand its overseas sales systems from an early stage, the company initiated fund procurement through the issuance of depositary receipts in London from 1964 and, otherwise, responded to the era of internationalization. It merged with Shin Nippon Fire in 1941 and with Mitsui Fire in 1944. In 1991, it changed its name to Mitsui Marine & Fire.
Founded in 1893	**The Sumitomo Marine & Fire Insurance Co., Ltd.**	This company was established as Osaka-based Osaka Insurance, in 1893 by interests related to the copper and trading industries. Another predecessor company, Tokyo-based Fuso Marine, was established in 1917. Its management was later transferred to Sumitomo, and it was renamed Sumitomo Marine. Osaka Insurance and Sumitomo Marine merged in 1944, creating Osaka Sumitomo Marine. In 1954, the company's head office was moved to Tokyo, and the company's name was changed to Sumitomo Marine. In response to Japanese companies' moves to establish overseas operations, it progressively built up an overseas sales system.
Founded in 1918	**The Dai-Tokyo Fire & Marine Insurance Co., Ltd.**	Established in 1918 as Tokyo Dosan Fire, which was engaged in basic fire insurance business, this company merged with Toshin Fire, which was engaged in general fire insurance business, in 1944 to create Dai Tokyo Fire. From the early 1960s, Dai Tokyo Fire proactively worked to expand its automobile insurance business. It built one of the industry's top claims handling systems in automobile insurance and organized a network of car repair and maintenance shops, thereby earning the epithet "Dai Tokyo of car repair and maintenance agencies".
Founded in 1897	**The Chiyoda Fire & Marine Insurance Co., Ltd.**	Established in 1897 as Otaru Cargo Fire, this company merged with Okura Fire of the Okura zaibatsu in 1944. In 1945, it merged with the former Chiyoda Fire, which was established as a sister company of Chiyoda Life, and it changed its name to Chiyoda Fire in 1946. After the war, Chiyoda Fire cooperated with Tokai Bank and built strong ties with the financial industry in the greater Nagoya region. After building ties with Toyota Motor Sales Co., Ltd., it developed as a company with particularly strong operations in automobile insurance.
Founded in 1897	**The Dowa Fire & Marine Insurance Co., Ltd.**	Established in 1897 as Yokohama Fire, it merged with three companies based in the Kansai region – Kobe Marine, Kyodo Fire, and Asahi Marine – in 1944 to create Dowa Fire. After the war, it redeveloped aviation insurance and developed satellite insurance products, earning a reputation as being particularly strong in the aerospace field, and it maintained one of the industry's top levels of financial soundness.

Established in 1996 **Nissay General Insurance Co., Ltd.**

Business started in 2000 **Mitsui Direct General Insurance Co., Ltd.**

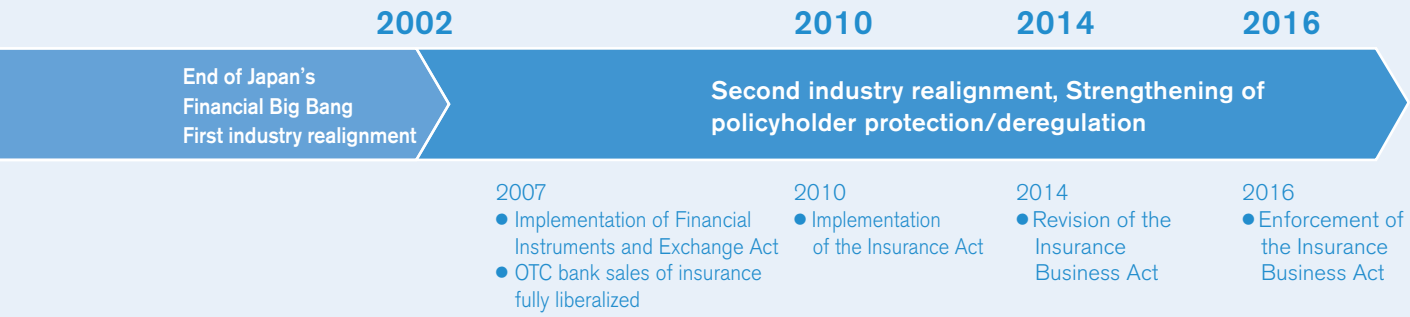
Established in 1996 **Mitsui Mirai Life Insurance Co., Ltd.**

Established in 1996 **Sumitomo Marine Yu-Yu Life Insurance Co., Ltd.**

Established in 1996 **Dai-Tokyo Shiawase Life Insurance Co., Ltd.**

Established in 1996 **Chiyoda Kasai Ebisu Life Insurance Co., Ltd.**

Note: Because the 1996 Revision of the Insurance Business Act removed the prohibition of life and non-life insurance company moves to enter the other insurance sector through subsidiaries, Mitsui Marine & Fire, Sumitomo Marine & Fire, Dai-Tokyo Fire & Marine, and Chiyoda Fire & Marine, each established a life insurance subsidiary and began engaging in life insurance business.



2010 Establishment of the MS&AD Insurance Group

Established in 2008

Mitsui Sumitomo Insurance Group Holdings (MSIGHD)

Mitsui Sumitomo Insurance Co., Ltd., Mitsui Sumitomo Kirameki Life Insurance Co., Ltd., Mitsui Sumitomo MetLife Insurance Co., Ltd., and Mitsui Direct General Insurance Co., Ltd. became the subsidiaries of MSIGHD.

Company name changed in 2010

MS&AD Insurance Group Holdings, Inc.

Inaugurated in 2001

Mitsui Sumitomo Insurance Co., Ltd. → **Mitsui Sumitomo Insurance Co., Ltd.**

Inaugurated in 2001

Aioi Insurance Co., Ltd.

Inaugurated in 2001

Nissay Dowa General Insurance Co., Ltd.

Inaugurated in 2010

Aioi Nissay Dowa Insurance Co., Ltd.

Mitsui Direct General Insurance Co., Ltd.

Inaugurated in 2001

Mitsui Sumitomo Kirameki Life Insurance Co., Ltd.

Inaugurated in 2001

Aioi Life Insurance Co., Ltd.

Inaugurated in 2011

Mitsui Sumitomo Aioi Life Insurance Co., Ltd.

Business started in 2002

Mitsui Sumitomo CitiInsurance Life Insurance Co., Ltd.

Company name changed in 2005

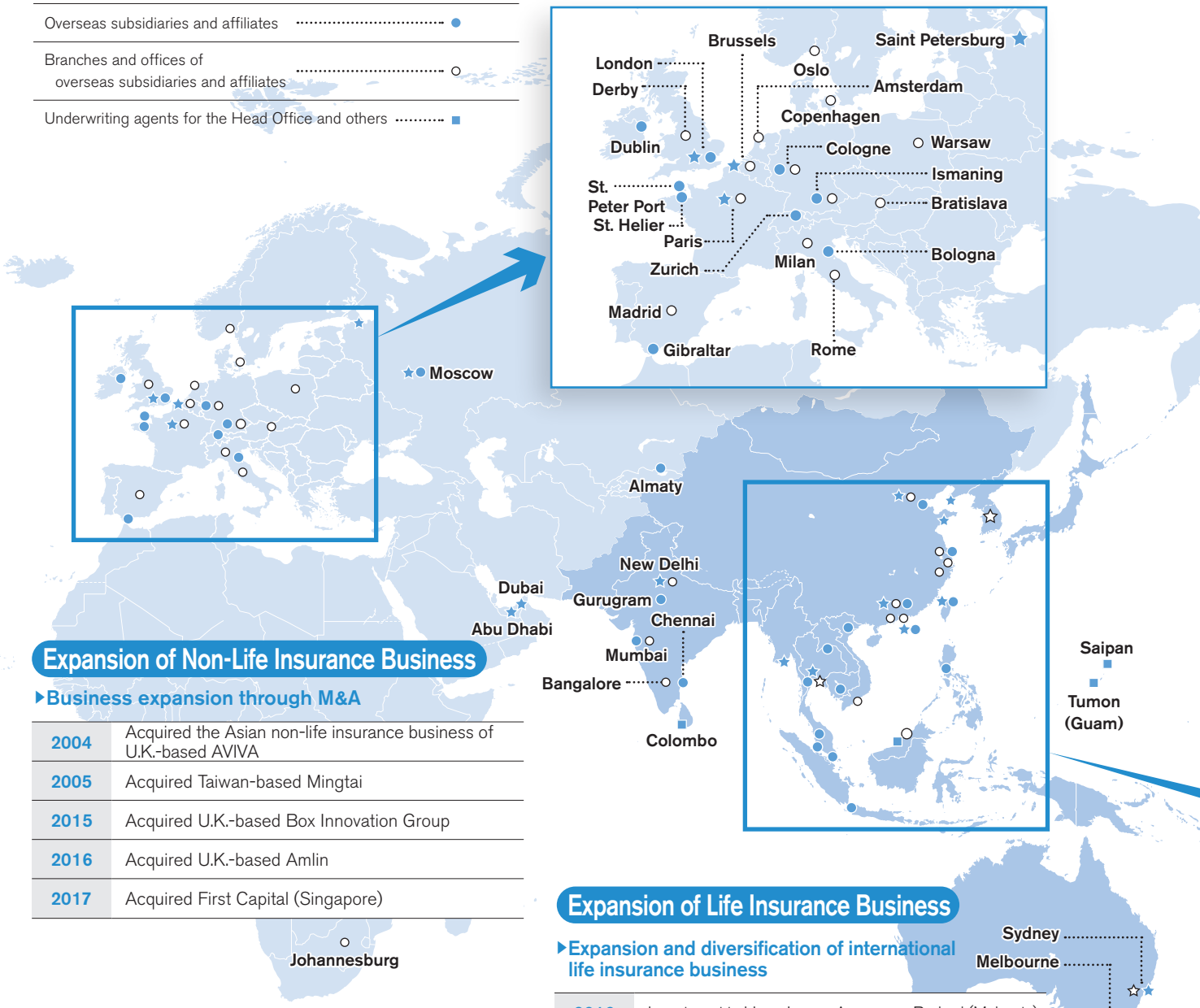
Mitsui Sumitomo MetLife Insurance Co., Ltd.

Company name changed in 2011

Mitsui Sumitomo Primary Life Insurance Co., Ltd.

Group Network and History of International Business (As of July 1, 2018)

Overseas branches and offices	☆ Branches ★ Offices
Overseas subsidiaries and affiliates	●
Branches and offices of overseas subsidiaries and affiliates	○
Underwriting agents for the Head Office and others	■



Expansion of Non-Life Insurance Business

▶Business expansion through M&A

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 Amlin
2017	Acquired First Capital (Singapore)

▶Business initiations through 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 international 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)
2017	Investment in Challenger Limited (Australia)
	Investment in ReAssure (U.K.)

Developing business in major countries/regions

1924	1934	1956	1957	1958	1962	1966	1969	1970
U.K. (Office)*	Thailand	U.K.	U.S./ Hong Kong	Singapore/ Germany	Malaysia	Australia	Indonesia	New Zealand

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

Net Written Premiums and Geographical Dispersion

1974	1977	1978	1997	1999	2001	2003	2005	2010	2015
Brazil	Philippines	France	Vietnam	Taiwan	China (Shanghai)	India	Cambodia	Laos	Myanmar/ South Africa (Office)*

Global Network (As of July 1, 2018)

☆:Overseas Branches ★:Overseas Offices ●:Major Overseas Subsidiaries and Affiliates
△:Major 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. ● MS First Capital Insurance Limited
	ADI	● ADI Aioi Nissay Dowa Insurance Services Asia 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 Chayoratn Company, Limited ● Bangkok Chayolife Company, Limited
MALAYSIA	MSI	● MSIG Insurance (Malaysia) Bhd. ● MSIG Berhad ● Hong Leong Assurance Berhad ● Hong Leong MSIG Takaful Berhad
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 △ Shanghai Marketing Division ★ China General Representative Office ★ Dalian Representative Office ★ Qingdao Representative Office
	ADI	★ China General Representative Office ★ Guangzhou Representative Office ● Aioi Nissay Dowa Insurance (China) Company Limited △ Zhejiang Branch ● 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
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 ● 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
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 plc ● Aioi Nissay Dowa Europe Limited ● Aioi Nissay Dowa UK Limited ● Aioi Nissay Dowa Insurance Management Limited ● Toyota Insurance Management plc ● Box Innovation Group Limited ● Insure The Box Limited △ Insure The Box Limited UK Branch ● 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
	ADI	△ Aioi Nissay Dowa Insurance Company of Europe plc German Branch △ Toyota Insurance Management plc German Branch ● Aioi Nissay Dowa Life Insurance of Europe AG

NETHERLANDS	MSI	△ MSIG Insurance Europe AG The Netherlands Branch
	ADI	△ Aioi Nissay Dowa Insurance Company of Europe plc Netherlands Branch
FRANCE	MSI	△ MSIG Insurance Europe AG France Branch
	ADI	★ Paris Representative Office △ Aioi Nissay Dowa Insurance Company of Europe plc French Branch △ Toyota Insurance Management plc 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 plc Belgian Branch △ Toyota Insurance Management plc Belgian Branch
SWITZERLAND	MSI	● MS Amlin AG
SPAIN	MSI	△ MSIG Insurance Europe AG Spain Branch
	ADI	△ Aioi Nissay Dowa Insurance Company of Europe plc Spanish Branch △ Toyota Insurance Management plc Spanish Branch
ITALY	MSI	△ MSIG Insurance Europe AG Italy Branch
	ADI	△ Aioi Nissay Dowa Insurance Company of Europe plc Italian Branch △ Toyota Insurance Management plc Italian Branch ● Top Class Insurance 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 plc 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 plc Danish Branch
POLAND	ADI	△ Toyota Insurance Management plc Polish Branch
BAILIWICK OF GUERNSEY	MSI	● Arena Holdings Limited
JERSEY	MS&AD Holdings	● ReAssure Jersey One Limited

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, 2018)

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	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 (Stable)	AA (Stable)	—	—
	Insurance Claims Paying Ability	—	—	—	AA (Stable)	AA (Stable)
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, 2018)

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)*1
	Aioi Nissay Dowa Insurance Company of Europe Ltd.	Financial Strength Rating	A+ (Stable)*2
	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	Insurance Financial Strength Rating	A1 (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 Issuer Credit Rating	A+ (Stable) aa (Stable)
	Syndicate 2001	Financial Strength Rating Issuer Credit Rating	A (Stable) a+ (Stable)
	MS Amlin AG	Financial Strength Rating Issuer Credit Rating	A (Stable) a+ (Stable)
	DTRIC Insurance Company Ltd. DTRIC Insurance Underwriters, Ltd.	Financial Strength Rating Issuer Credit Rating	A (Stable) a (Stable)
	Aioi Nissay Dowa Insurance (China) Co., Ltd.	Financial Strength Rating Issuer Credit Rating	A- (Stable) a- (Stable)

*1 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.

*2 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.

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: **14,572** (As of March 31, 2018)
Head Office: **9, Kanda-Surugadai 3-chome, Chiyoda-ku, Tokyo**
URL **https://www.ms-ins.com/english/**

Principal Indicators (Non-Consolidated)

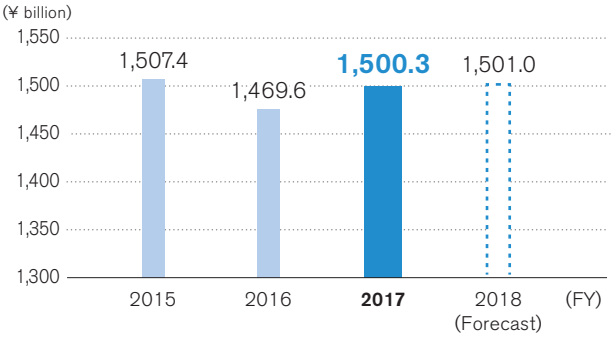
(¥ billion)

Item	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018 (Forecast)
Net premiums written	1,384.5	1,445.8	1,507.4	1,469.6	1,500.3	1,501.0
Growth rate of net premiums written	5.3%	4.4%	4.3%	(2.5%)	2.1%	0.0%
Net loss ratio	65.1%	62.2%	58.9%	61.2%	61.6%	61.2%
Net expense ratio	32.0%	31.8%	31.0%	31.2%	31.3%	32.0%
Combined ratio	97.1%	94.0%	89.9%	92.4%	92.9%	93.2%
Underwriting income/(loss)	(7.3)	14.0	19.1	81.7	84.4	77.0
Investment income	125.1	158.3	152.8	139.4	182.5	118.5
Ordinary profit	101.9	171.3	167.8	215.5	262.5	188.0
Net income	58.0	89.1	113.9	164.5	198.2	141.0
Net assets	1,309.6	1,732.7	1,527.4	1,645.0	1,877.0	–
Total assets	6,098.0	6,790.0	6,786.5	6,777.0	7,098.2	–
Net unrealized gains/(losses) on investments in securities (before tax effects)	1,165.9	1,633.7	1,251.1	1,294.0	1,419.7	–
Solvency margin ratio (non-consolidated)	600.3%	651.5%	585.9%	657.9%	701.1%	–
Number of employees	14,188	14,859	14,691	14,650	14,572	–

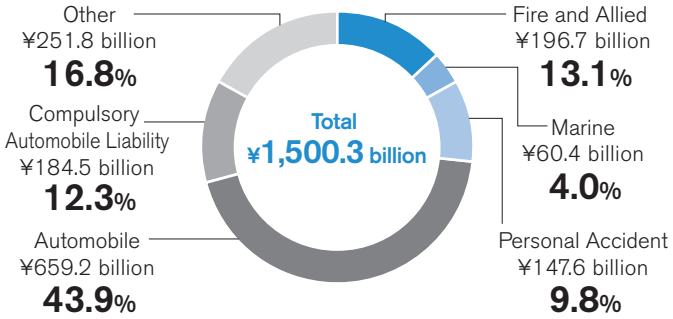
Notes:
1. Net premiums written, net loss ratio, net expense ratio, and combined ratio figures are presented exclusive of Good Result Return premiums of propriety automobile insurance product "ModoRich," which contains a special clause related to premium adjustment and refund at maturity.
2. Net loss ratio = (net claims paid + loss adjustment expenses) ÷ net premiums written × 100
3. Net expense ratio = (commissions and collection expenses + operating expenses and general and administrative expenses for underwriting) ÷ net premiums written × 100
4. Combined ratio = net loss ratio + net expense ratio
5. 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

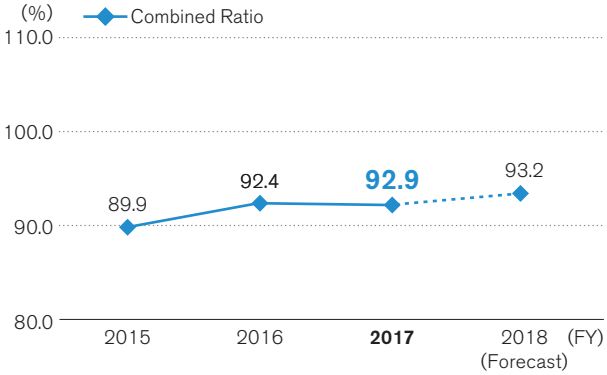
Net Premiums Written



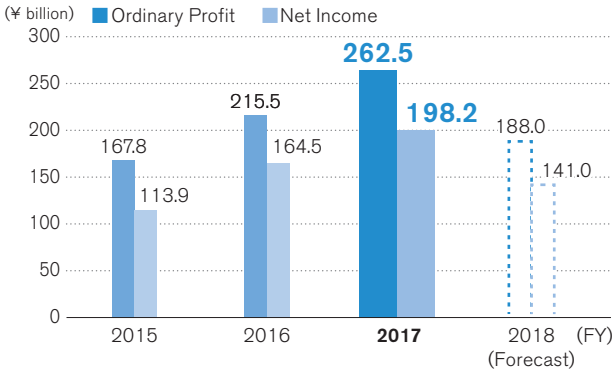
Composition by Class of Insurance (FY2017)



Combined Ratio



Ordinary Profit / Net Income



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: **13,287** (As of March 31, 2018)
Head Office: **28-1, Ebisu 1-chome, Shibuya-ku, Tokyo**
URL **https://www.aioinissaydowa.co.jp (Japanese language only)**

Principal Indicators (Non-Consolidated)

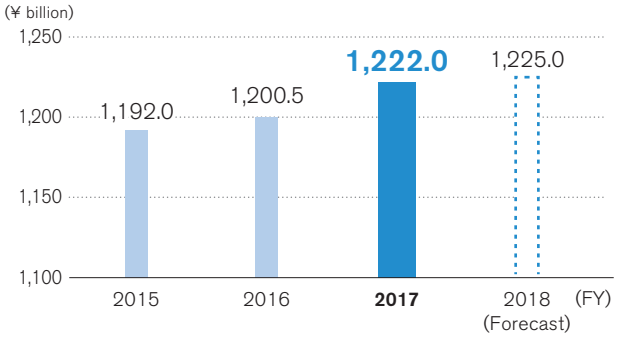
(¥ billion)

Item	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018 (Forecast)
Net premiums written	1,144.6	1,160.8	1,192.0	1,200.5	1,222.0	1,225.0
Growth rate of net premiums written	3.8%	1.4%	2.7%	0.7%	1.8%	0.2%
Net loss ratio	65.0%	63.2%	59.2%	59.1%	59.2%	62.4%
Net expense ratio	34.5%	35.0%	34.3%	33.5%	33.4%	34.9%
Combined ratio	99.5%	98.2%	93.5%	92.6%	92.6%	97.3%
Underwriting income/(loss)	(28.8)	14.7	24.8	39.5	4.8	31.0
Investment income	53.0	51.5	34.9	32.2	(1.9)	33.5
Ordinary profit	27.8	68.9	61.7	75.1	5.6	67.0
Net income	13.1	39.4	31.0	50.3	15.6	36.0
Net assets	600.1	796.9	745.1	793.0	781.0	–
Total assets	3,257.1	3,470.7	3,418.5	3,498.2	3,486.6	–
Net unrealized gains/(losses) on investments in securities (before tax effects)	317.6	555.8	473.7	505.3	578.7	–
Solvency margin ratio (non-consolidated)	754.0%	804.9%	829.3%	851.6%	784.0%	–
Number of employees	12,812	12,973	13,260	13,052	13,287	–

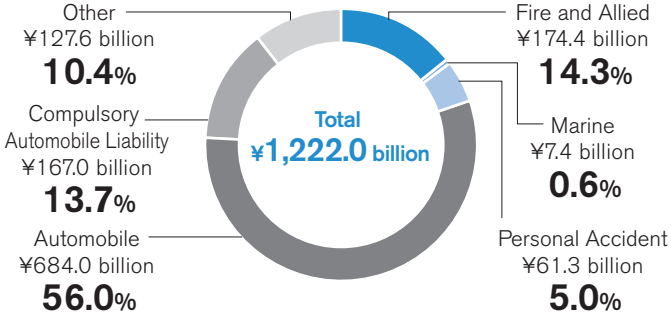
Notes: 1. Net loss ratio= (net claims paid + loss adjustment expenses) ÷ net premiums written × 100
2. Net expenses ratio= (commissions and collection expenses + operating expenses and general and administrative expenses for underwriting) ÷ net premiums written × 100
3. Combined ratio= net loss ratio + net expense ratio
4. 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

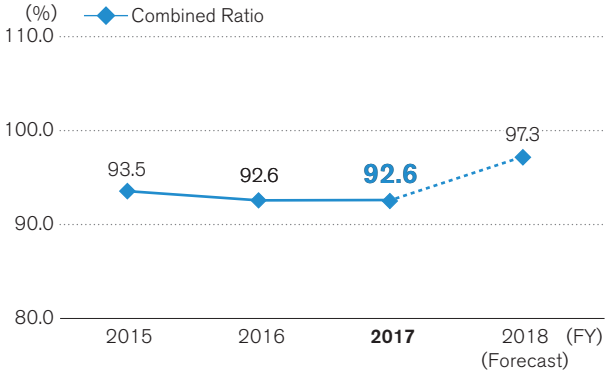
Net Premiums Written



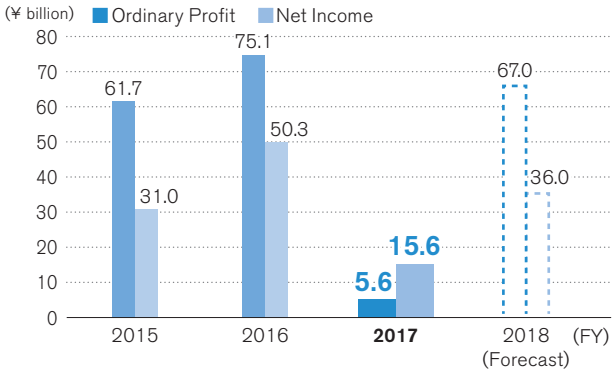
Composition by Class of Insurance (FY2017)



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: **571** (As of March 31, 2018)
Head Office: **5-3, Kouraku 1-chome, Bunkyo-ku, Tokyo**
URL **https://www.mitsui-direct.co.jp (Japanese language only)**

Principal Indicators (Non-Consolidated)

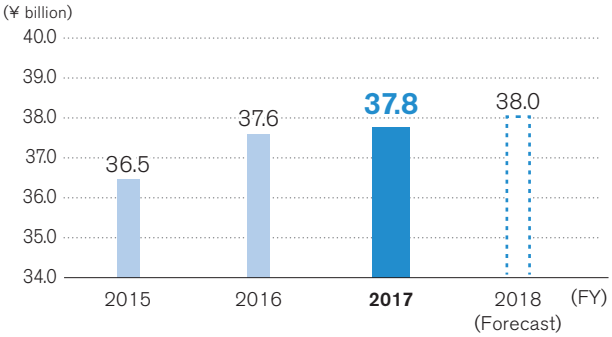
(¥ billion)

Item	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018 (Forecast)
Net premiums written	35.5	35.0	36.5	37.6	37.8	38.0
Growth rate of net premiums written	0.8%	(1.4%)	4.3%	3.0%	0.6%	0.4%
Net loss ratio	76.3%	78.9%	79.0%	75.9%	73.0%	73.7%
Net expense ratio	20.7%	22.8%	21.9%	22.0%	23.3%	23.7%
Combined ratio	97.0%	101.7%	100.9%	97.9%	96.3%	97.4%
Underwriting income/(loss)	0.14	(4.35)	(5.45)	(1.00)	0.38	0.4
Ordinary profit/(loss)	0.29	(4.23)	(5.37)	(0.95)	0.45	0.44
Net income/(loss)	0.23	(4.33)	(5.42)	(1.00)	0.32	–
Net assets	11.2	6.8	6.4	13.3	13.6	–
Total assets	46.5	46.4	51.0	59.9	61.4	–
Solvency margin ratio (non-consolidated)	420.8%	255.9%	230.4%	431.4%	457.5%	–
Number of employees	528	572	563	581	571	–

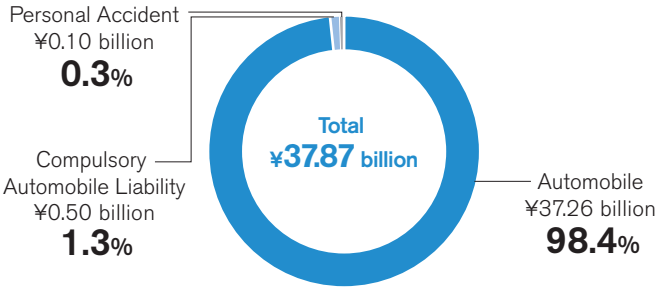
Notes: 1. Net loss ratio= (net claims paid + loss adjustment expenses) ÷ net premiums written × 100
2. Net expenses ratio= (commissions and collection expenses + operating expenses and general and administrative expenses for underwriting) ÷ net premiums written × 100
3. Combined ratio= net loss ratio + net expenses ratio

Principal Management Indicators

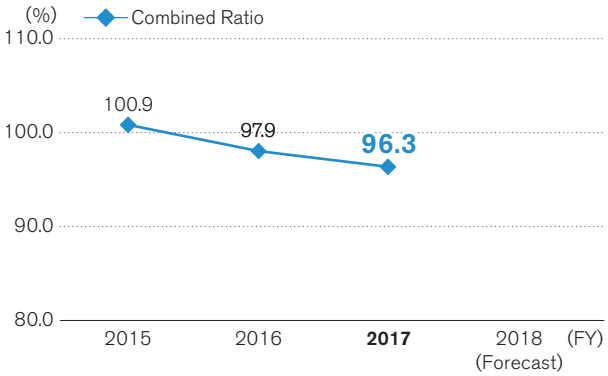
Net Premiums Written



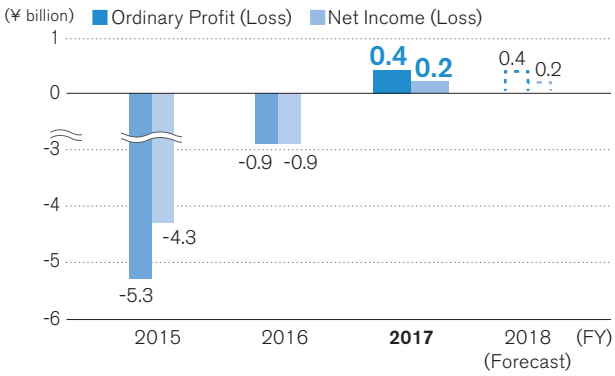
Composition by Class of Insurance (FY2017)



Combined Ratio



Ordinary Profit (Loss) / Net Income (Loss) (per our share)



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: **2,609** (As of March 31, 2018)
Head Office: **27-2, Shinkawa 2-chome, Chuo-ku, Tokyo**
URL **http://www.msa-life.co.jp (Japanese language only)**

Principal Indicators (Non-Consolidated)

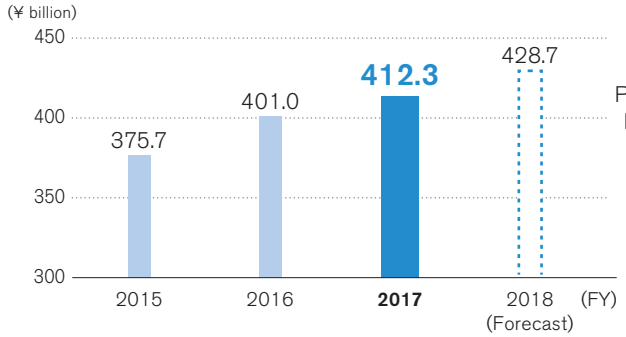
(¥ billion)

Item	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018 (Forecast)
Amount of new policies	2,672.2	2,481.1	2,423.3	2,377.1	2,639.5	2,250.6
Amount of policies in force	21,105.0	21,894.0	22,576.0	23,214.2	23,806.8	23,884.5
Annualized premiums of policies in force	333.5	353.4	375.7	401.0	412.3	428.7
Ordinary profit	17.4	15.9	18.6	16.1	16.9	16.0
Core profit	15.3	16.1	19.4	18.6	12.8	–
Risk differential gains/(losses)	45.6	50.3	51.5	55.8	59.9	–
Expenses differential gains/(losses)	(18.3)	(22.7)	(16.3)	(14.6)	(15.3)	–
Investment income differential gains/(losses)	1.1	1.3	2.0	(0.2)	(2.2)	–
Net income	6.6	4.4	6.0	4.5	5.2	5.0
Net assets	131.9	169.1	199.7	276.2	264.5	–
Total assets	2,636.0	3,009.2	3,229.0	3,619.1	3,869.7	–
Net unrealized gains/(losses) on investments in securities (before tax effects)	89.1	132.6	165.2	126.3	107.5	–
Embedded value (EEV)	588.1	647.8	595.8	794.2	835.5	865.0
Solvency margin ratio	1,264.9%	1,429.9%	1,598.4%	1,893.2%	1,726.7%	–
Number of employees	2,421	2,544	2,554	2,595	2,609	–

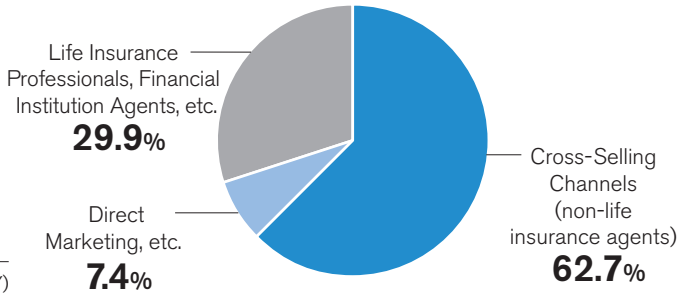
1. Amount of new policies, amount of policies in force, and annualized premiums of policies in force are the total of individual insurance and individual annuity insurance.
2. Core profit is an insurance business profitability indicator that is calculated by deducting capital gains/(losses) and non-recurring 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

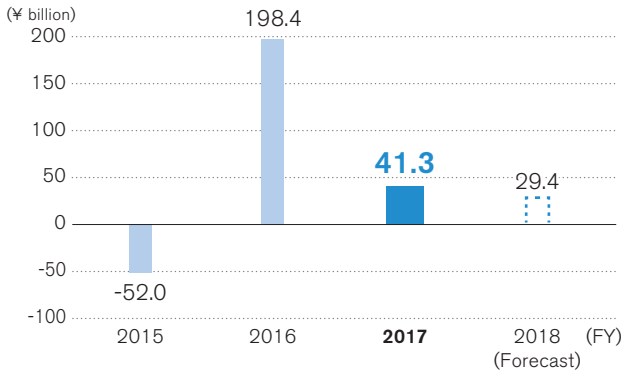


Weight by Type of Sales Channel (FY2017)

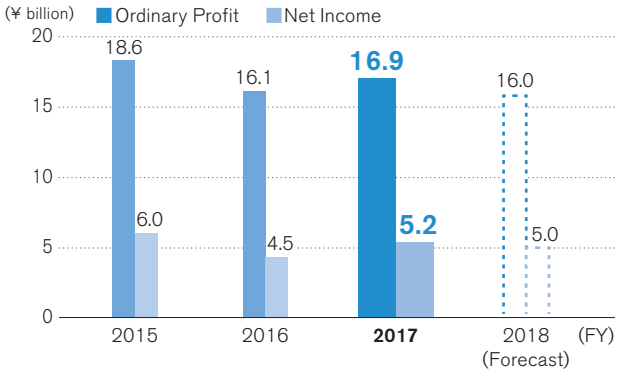


Increase in Embedded Value (EEV)

(Refer to the "Glossary of Insurance Terminology" on P. 92)



Ordinary Profit / Net Income



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: **394** (As of March 31, 2018)
Head Office: **Yaesu First Financial Building, 3-7, Yaesu 1-chome, Chuo-ku, Tokyo**
URL **http://www.ms-primary.com (Japanese language only)**

Principal Indicators (Non-Consolidated)

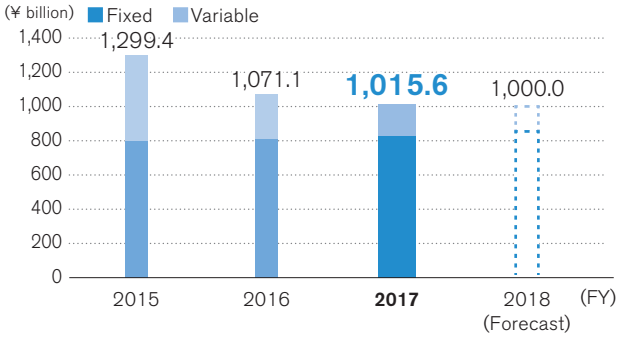
(¥ billion)

Item	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018 (Forecast)
Premiums income	826.4	1,054.0	1,299.4	1,071.1	1,015.6	1,000.0
Amount of new policies	800.5	1,024.7	1,262.6	1,032.2	1,015.6	1,013.6
Amount of policies in force	4,024.3	4,421.0	4,910.8	5,680.7	6,061.8	6,570.0
Ordinary profit	39.8	17.7	39.9	57.6	28.9	27.4
Core profit / (loss)	58.3	(33.4)	14.3	52.7	8.8	–
Core profit + Capital gains	57.6	24.4	41.9	58.9	30.0	–
Net income	17.9	12.4	17.8	20.7	29.2	17.0
Net assets	89.2	109.8	125.0	137.7	164.0	–
Total assets	4,163.6	4,662.0	5,191.2	5,838.0	6,201.7	–
Net unrealized gains/(losses) on investments in securities (before tax effects)	1.0	15.4	14.6	10.4	11.3	–
Embedded value (EEV)	234.8	310.2	333.8	375.3	416.2	–
Solvency margin ratio	1,004.6%	879.7%	985.5%	1,030.5%	992.9%	–
Number of employees	344	363	381	384	394	–

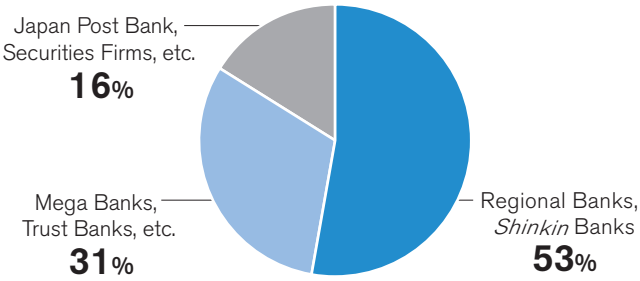
Notes: 1. The amount of new policies and amount of policies in force are the totals of individual insurance and individual annuity insurance.
2. Core profit is an insurance business profitability indicator that is calculated by deducting capital gains/(losses) and non-recurring income and losses from ordinary profit. 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). Meanwhile, the method for disclosing the breakdown of ordinary profit was revised effective from FY2017. As a result of retroactive adjustments to FY2016 data, core profit (fundamental profit) for FY2016 has been revised.
3. Net unrealized gains/(losses) on investments in securities (before tax effects) represent 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

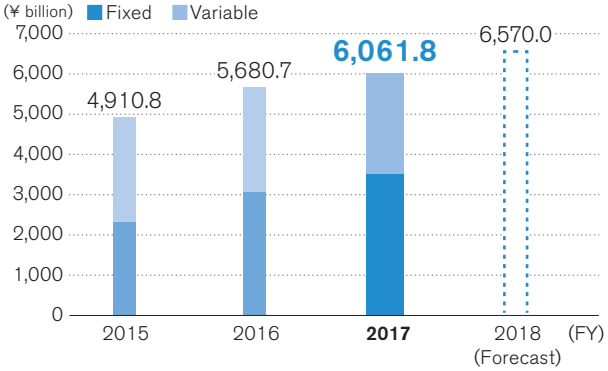
Premiums Income



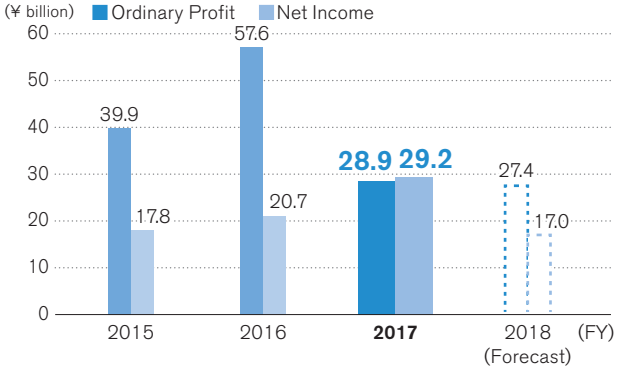
Weight by Type of Sales Channel (FY2017)



Amount of Policies in Force



Ordinary Profit / Net Income



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: **Simon Beale** (concurrently serving as Executive Officer of Mitsui Sumitomo Insurance)
Date Established: **September 17, 1993**
Number of Employees: **2,035** (As of March 31, 2018)
Head Office: **The Leadenhall Building, 122 Leadenhall Street, London EC3V 4AG, U.K.**
URL **https://www.msamlin.com**

Principal Indicators (Non-Consolidated)

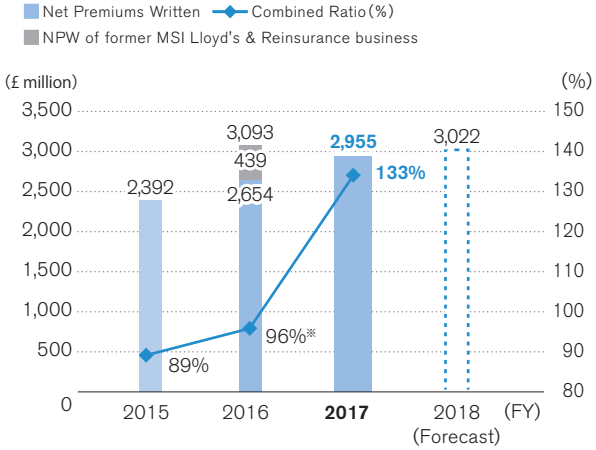
(£ million)

Item	FY2016	FY2017	FY2018 (Forecast)
Net premiums written	3,093	2,955	3,022
Growth rate of net premiums written	–	(4.5%)	2.3%
EI claims ratio	64%	97%	–
EI expense ratio	32%	36%	–
Combined ratio	96%	133%	–
Underwriting income/(loss)	107	(965)	–
Investment income	117	195	–
Net income	83	(759)	124

*1 Figures for FY2016 include figures for MSI's Lloyd's and Reinsurance businesses that were consolidated into MS Amlin at the end of FY2016.
*2 EI expense ratio and EI combined ratio are calculated by taking into account foreign exchange gains/losses (included in underwriting profit) in accordance with calculation in UK.
*3 MS Amlin adopts the accounting method where securities market value fluctuations are reflected in the profit-loss statement.

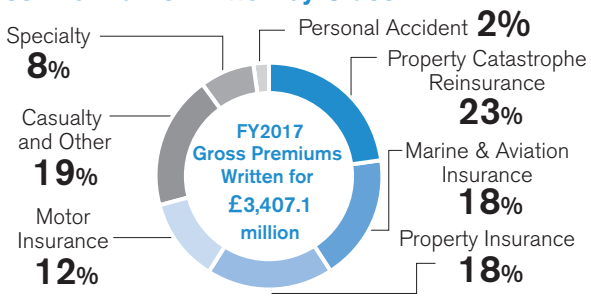
Principal Indicators

Net Premiums Written and Combined Ratio

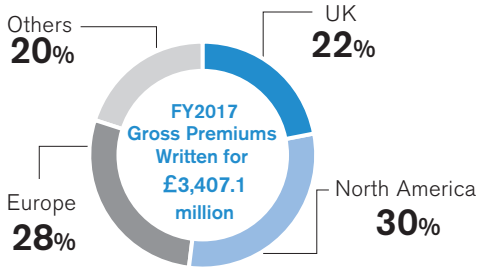


*After consolidation of MSI's Lloyd's and Reinsurance businesses into MS Amlin

Gross Premiums Written by Class



Gross Premiums Written by Geography*



Origin and History

- **2016** — Integration of MSI Lloyd's business and Reinsurance business (2016); Acquisition by MS&AD → MS Amlin plc. (2016)
- **2015** — Formation of Office in Hong Kong (2015)
- **2014** — Formation of Offices in Miami, Dubai, and Shanghai (2014)
- **2013** — Acquisition of ReatsMarine (2013)
- **2012** — Formation of Amlin Reinsurance Managers Inc. in the USA (2012)
- **2011** — Acquisition of J R Clare and Lead Yacht Underwriters (2011)
- **2010** — Acquisition of AUA Insolvency Risk Services; Formation of Amlin Re Europe in Switzerland (2010)
- **2009** — Acquisition of Fortis Corporate Insurance and Crowe Livestock (2009)
- **2008** — Acquisition of Anglo French Underwriters (2008)
- **2007** — Formation of Amlin Singapore (2007)
- **2005** — Formation of Amlin Bermuda (2005)
- **1998** — Merger of Angerstein's and Murray Lawrence –Amlin plc. (1998)
- **1903** — Foundation of Lloyd's syndicates, the K J Coles Syndicate 40 (1903)

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 direct business 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*: **4,815** (As of March 31, 2018)
*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 **https://www.msig-asia.com**

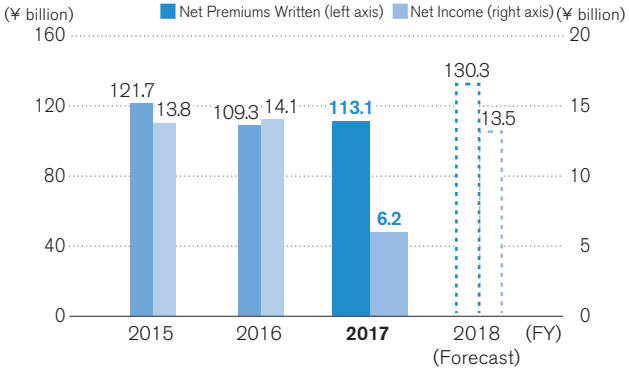
Principal Indicators (Non-Consolidated)*

(¥ billion)

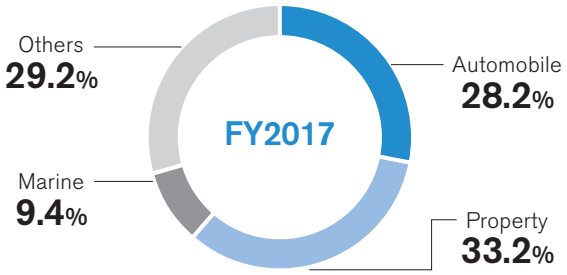
Item	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018 (Forecast)
Net premiums written	111.0	116.9	121.7	109.3	113.1	130.3
Growth rate of net premiums written	30.0%	5.3%	4.1%	(10.2%)	3.5%	15.1%
Net income	14.8	17.9	13.8	14.1	6.2	13.5

Principal Management Indicators*

Net Premiums Written and Net income



Gross Written Premiums by Product Line (FY2017)



* 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 which came under supervision of MSIG Holdings (Asia) from FY2016.
2018 forecast includes the figures of MS First Capital.

Short Commentary: Group Financial Statements

Commentary 1: Balance Sheet (B/S)

On its consolidated balance sheet (P. 134), the Group has total assets of ¥22.4 trillion, and the majority of its liabilities, ¥16.9 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 ¥16.1 trillion. Unrealized gains on securities in excess of the book value (¥1.4 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 FY2017.

(¥ billion)

(Main) assets		(Main) liabilities	
Cash, deposits and savings	1,481.6	Policy liabilities	16,964.5
Money trusts	1,043.5	Bonds issued	558.1
Investments in securities	16,152.9	Other liabilities	1,328.6
(of which: stocks)	2,906.7	Deferred tax liabilities	221.6
Loans	892.5	**Total liabilities**	19,504.5
Tangible fixed assets	459.6		
Intangible fixed assets	549.5	**(Main) Net assets**	
Other assets	1,297.8	**Shareholders' equity**	1,500.7
		Net unrealized gains/losses on investments in securities	1,487.2
		Total net assets	2,968.3
Total assets	22,472.9	Total liabilities and net assets	22,472.9

Commentary 2: Statements of Income (P/L)

①Main components of the statements of income

A summary of the Group's consolidated statements of income (see P. 136) is provided below. It consists primarily of underwriting income and expenses and investment income and expenses.

FY2017

Income (+): underwriting income, ¥4,648.1 billion; investment income, ¥550.8 billion; other ordinary income, ¥18.8 billion
Expenses (-): underwriting expenses, ¥4,157.7 billion (of which ¥558.5 billion is provision for underwriting reserves)
Investment expenses, ¥163.1 billion; operating expenses and general and administrative expenses, ¥669.6 billion; other ordinary expenses, ¥15.6 billion
Ordinary profit: ¥211.5 billion

FY2016

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

②Underwriting profit for domestic non-life insurance companies and catastrophe reserves

Underwriting profit can be dramatically affected by events such as natural catastrophes. 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 catastrophes, and changes in catastrophe reserves (net provision). (See P. 92 of the "Glossary of Insurance Terminology" section for details on the catastrophe reserves and P. 96 for the underwriting profit.)

Impact of natural catastrophes on underwriting profit

(¥ billion)

	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Underwriting profit/(loss)	(83.7)	(190.0)	(3.0)	(36.1)	28.7	43.9	121.3	89.3
Impact on underwriting profit -(A+B)	(65.9)	(172.0)	(13.2)	(93.3)	(58.5)	(149.7)	(132.9)	(159.0)
Incurred losses due to natural catastrophes (A)	65.9	311.5	55.1	96.3	27.2	68.1	51.0	114.3
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	-	-
Large-scale natural catastrophes incl. 2017 hurricanes in North America	-	-	-	-	-	-	-	41.3
Other natural catastrophes	3.2	54.9	53.2	37.1	30.1	67.7	51.0	73.0
Net provision for catastrophe reserves (B)	0	(139.5)	(41.9)	(3.0)	31.3	81.6	81.8	44.6

* Simple sum of MSI and ADI
Example: The impact of loss of ¥311.5 billion from natural catastrophes for FY2011 was mitigated by reversal of catastrophe reserves of ¥139.5 billion and resulted in an underwriting loss of ¥190.0 billion.

Performance Record

Five-Year Summary (Unaudited)	122
Management's Discussion and Analysis	123
Premiums Written and Net Claims Paid—Non-Life Insurance (Unaudited)	130
Policies in Force and New Policies—Domestic Life Insurance (Unaudited)	132
Investment Assets and Investments in Securities (Unaudited)	133
Consolidated Balance Sheets	134
Consolidated Statements of Income	136
Consolidated Statements of Comprehensive Income	137
Consolidated Statements of Changes in Net Assets	138
Consolidated Statements of Cash Flows	141
Notes to Consolidated Financial Statements	142
Independent Auditor's Report	165
Summary of Business Results of Main Consolidated Subsidiaries	166

Five-Year Summary (Unaudited)

	Yen in millions					US$ in millions
	FY2013	FY2014	FY2015	FY2016	FY2017	FY2017
Ordinary income:	¥ 4,362,754	¥ 4,689,658	¥ 5,013,038	¥ 5,335,239	¥ 5,217,835	$ 49,225
Net premiums written	2,811,611	2,939,113	3,078,732	3,407,389	3,440,976	32,462
Ordinary profit/(loss)	190,259	287,061	291,578	352,612	211,548	1,996
Net income/(loss) attributable to owners of the parent	93,451	136,247	181,516	210,447	154,057	1,453
Comprehensive income/(loss)	322,865	807,972	(233,116)	114,294	311,096	2,935
Net assets	2,285,832	3,036,663	2,725,274	2,734,432	2,968,387	28,004
Total assets	16,878,148	18,788,046	20,303,649	21,234,300	22,472,927	212,009

	Yen					US$
Net income/(loss) attributable to owners of the parent per share - Basic	¥ 150.58	¥ 221.34	¥ 298.72	¥ 350.94	¥ 260.04	$ 2.45
Net income/(loss) attributable to owners of the parent per share - Diluted	–	–	–	350.90	259.98	2.45
Net assets per share	3,646.22	4,911.40	4,469.58	4,572.82	4,964.64	46.84
Equity ratio	13.39%	16.00%	13.29%	12.76%	13.09%	–
Return on equity	4.42%	5.18%	6.36%	7.78%	5.45%	–
Price earnings ratio	15.70	15.23	10.50	10.09	12.90	–

	Yen in millions					US$ in millions
Cash flows						
Cash flows from operating activities	¥489,950	¥628,184	¥1,291,017	¥1,086,948	¥ 822,640	$ 7,761
Cash flows from investing activities	(549,136)	(410,671)	(1,217,980)	(614,899)	(963,105)	(9,086)
Cash flows from financing activities	(57,323)	(58,941)	199,075	(100,198)	42,329	399
Cash and cash equivalents at the end of year	625,084	805,455	1,056,407	1,415,903	1,323,506	12,486
Number of employees	37,055	38,358	40,617	40,641	41,295	–

Note: U.S. dollar amounts in this report have been translated from yen, for convenience only, at the rate of ¥106=US$1. For details, see Note 1 of Significant Accounting Policies (p142).

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 (187 subsidiaries and 38 associates as of March 31, 2018), 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

In spite of concerns about the impact of unstable political situations and financial markets, the global economy was generally firm in the fiscal year under review with economic recoveries continuing in the U.S. and Europe. Against such a global economy, the Japanese economy also recovered moderately, reflecting continued improvement in corporate earnings, employment and income conditions among other factors.

In the non-life insurance industry, despite an increase in premium revenue reflecting these economic trends, the results were severely affected by natural disasters such as typhoons in Japan and hurricanes in North America. In the life insurance industry, the amount of policies in force remained at the same level as in the previous year, despite a decline in the amount of new policies for personal insurance due to the impact of the revision of the premium rate.

In such a business environment, during the last year of the medium-term management plan "Next Challenge 2017" that began in FY2014, the Group pursued "Completion of reorganization by function," "Strengthening of Group governance and promotion of ERM (Enterprise Risk Management)," "Transformation of 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" based on the Group's basic strategy to enhance the corporate value of the Group as a whole by focusing on ensuring sustainable growth, improving profitability, securing financial soundness and enhancing capital efficiency.

In regard to reorganization by function, Mitsui Sumitomo Insurance Co., Ltd., Aioi Nissay Dowa Insurance Co., Ltd. and Mitsui Sumitomo Aioi Life Insurance Co., Ltd. pursued initiatives to promote growth and efficiency in the Group as a whole, such as the joint development of non-life claims service systems, transfer of long-term policies in force of the third sector, and consolidation and reorganization of the head office functions.

As a result of these efforts, earnings for the current consolidated fiscal year to date are as follows.

Underwriting income was ¥4,648.1 billion, investment income was ¥550.8 billion and other ordinary income was ¥18.8 billion, resulting in total ordinary income of ¥5,217.8 billion. At the same time, ordinary expenses amounted to ¥5,006.2 billion, including ¥4,157.7 billion in underwriting expenses, ¥163.1 billion in investment expenses, ¥669.6 billion in operating expenses and general and administrative expenses, and other ordinary expenses amounting to ¥15.6 billion.

As a result, affected by incurred losses (total of net claims paid and provision for outstanding claims reserves) from several natural catastrophes in Japan and overseas, the Company posted an ordinary profit of ¥211.5 billion, a decrease of ¥141.0 billion over the previous fiscal year. After factoring in extraordinary income and losses, income taxes and other items, net income attributable to owners of the parent fell by ¥56.3 billion over the previous fiscal year to ¥154.0 billion.

[Key Consolidated Financial Indicators]

(Yen in millions)

	FY2016	FY2017	Change	Change (%)
Net premiums written	¥3,407,389	¥3,440,976	33,586	1.0
Life insurance premiums	1,253,167	1,058,278	(194,888)	(15.6)
Ordinary profit	352,612	211,548	(141,063)	(40.0)
Net income attributable to owners of the parent	210,447	154,057	(56,389)	(26.8)

Net premiums written increased by ¥33.5 billion over the previous fiscal year, to ¥3,440.9 billion. Despite a decrease in revenues from overseas insurance subsidiaries, this increase was mainly due to higher revenues from the Domestic Non-Life Insurance Business.

Life insurance premiums declined by ¥194.8 billion over the previous fiscal year, to ¥1,058.2 billion owing mainly to the downturn in revenues at Mitsui Sumitomo Primary Life Insurance Co., Ltd.

Affected by incurred losses (the total of net claims paid and provision for outstanding claims reserves) from several natural catastrophes in Japan and overseas, the Company posted an ordinary profit of ¥211.5 billion, a decrease of ¥141.0 billion over the previous fiscal year. After factoring in extraordinary income and losses, income taxes and other items, net income attributable to owners of the parent fell by ¥56.3 billion over the previous fiscal year, to ¥154.0 billion.

Insurance premiums written and claims paid by product line of insurance are as follows.

Direct Premiums Written (including Deposit Premiums from Policyholders)

(Yen in millions)

Lines of Insurance	FY2016			FY2017		
	Amount	Share (%)	Change (%)	Amount	Share (%)	Change (%)
Fire and Allied	¥ 602,521	16.7	(8.3)	¥ 627,029	17.2	4.1
Marine	168,715	4.7	27.5	168,602	4.6	(0.1)
Personal Accident	321,055	8.9	0.3	320,764	8.8	(0.1)
Voluntary Automobile	1,524,096	42.1	3.3	1,546,108	42.4	1.4
Compulsory Automobile Liability	366,523	10.1	2.8	343,370	9.4	(6.3)
Other	632,874	17.5	20.0	643,233	17.6	1.6
Total	¥3,615,785	100	4.2	¥3,649,108	100.0	0.9
Deposit premiums from policyholders	98,546	2.7	(15.2)	86,371	2.4	(12.4)

Notes:
1. The figures represent amounts after the elimination of internal transactions between segments.
2. 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

(Yen in millions)

Lines of Insurance	FY2016			FY2017		
	Amount	Share (%)	Change (%)	Amount	Share (%)	Change (%)
Fire and Allied	¥ 540,715	15.9	14.7	¥ 553,183	16.1	2.3
Marine	145,697	4.3	37.3	142,339	4.1	(2.3)
Personal Accident	237,918	7.0	8.9	240,450	7.0	1.1
Voluntary Automobile	1,559,958	45.8	4.3	1,587,008	46.1	1.7
Compulsory Automobile Liability	356,088	10.4	(0.4)	352,063	10.2	(1.1)
Other	567,010	16.6	32.0	565,931	16.5	(0.2)
Total	¥3,407,389	100.0	10.7	¥3,440,976	100.0	1.0

Note: The figures represent amounts after the elimination of internal transactions between segments.

Net Claims Paid

(Yen in millions)

Lines of Insurance	FY2016			FY2017		
	Amount	Share (%)	Change (%)	Amount	Share (%)	Change (%)
Fire and Allied	¥ 297,850	16.3	26.6	¥ 378,241	19.5	27.0
Marine	96,981	5.3	102.0	82,302	4.3	(15.1)
Personal Accident	107,937	5.9	(1.3)	106,233	5.5	(1.6)
Voluntary Automobile	798,736	43.6	2.8	841,807	43.5	5.4
Compulsory Automobile Liability	258,465	14.1	(0.2)	252,990	13.1	(2.1)
Other	271,905	14.8	36.6	273,589	14.1	0.6
Total	¥1,831,876	100.0	12.6	¥1,935,165	100.0	5.6

Note: The figures represent amounts after the elimination of internal transactions between segments.

Segment Information

Performance by segment is as follows.

1) Domestic Non-Life Insurance Business (MSI)

Net premiums written climbed by ¥24.2 billion over the previous fiscal year, to ¥1,494.3 billion, primarily because of the increase in fire insurance revenue.

The net loss ratio came in at 61.8%, 0.6 of a percentage point higher than in the previous fiscal year. This was largely due to the payment of automobile insurance claims. In addition, as a result of increases in commissions and collection expenses as well as operating expenses and general and administrative expenses for underwriting, the net expense ratio was 31.5%, 0.3 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 ¥2.6 billion, to ¥84.4 billion. This mainly reflected such factors as the increase in reversal of underwriting reserves.

Accounting for such factors as the decrease in interest and dividends income by ¥11.6 billion over the previous fiscal year, to ¥105.1 billion, and the increase in gains on sales of securities by ¥50.4 billion, to ¥122.2 billion, total investment income after deducting investment gains appropriated to such items as maturity funds of savings-type insurance grew by ¥40.8 billion, to ¥199.9 billion. Meanwhile, total investment expenses declined by ¥2.5 billion, to ¥9.3 billion owing mainly to the downturn in losses on sales of securities.

As a result, ordinary profit increased by ¥47.0 billion over the previous fiscal year, to ¥262.5 billion and net income climbed by ¥33.6 billion, to ¥198.2 billion.

2) Domestic Non-Life Insurance Business (ADI)

Net premiums written grew by ¥21.4 billion over the previous fiscal year, to ¥1,222.0 billion, primarily because of the increase in fire insurance revenue.

Meanwhile, net claims paid increased by ¥12.0 billion, to ¥660.6 billion. This increase in net claims paid was largely attributable to higher fire insurance payments on the back of natural disasters that occurred in Japan and overseas. The net loss ratio was 59.2%, which was 0.1 of a percentage point higher 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 expenses ratio came in at 33.4%, which was 0.1 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 decreased by ¥34.6 billion over the previous fiscal year, to ¥4.8 billion owing primarily to the increase in incurred losses (the total of net claims paid and provision for outstanding claims reserves) from such natural catastrophes as typhoons in Japan and hurricanes in North America.

Accounting for such factors as the increase in interest and dividends income by ¥3.0 billion over the previous fiscal year, to ¥58.4 billion, and the increase in gains on sales of securities by ¥5.3 billion, to ¥18.7 billion, total investment income after deducting investment gains appropriated to such items as maturity funds of savings-type insurance grew by ¥8.9 billion, to ¥61.0 billion. Meanwhile, total investment expenses climbed by ¥43.4 billion,

to ¥57.8 billion owing mainly to the upswing in impairment losses on securities by ¥44.1 billion over the previous fiscal year.

As a result, ordinary profit decreased by ¥69.5 billion over the previous fiscal year, to ¥5.6 billion. While extraordinary income increased owing to the reversal of reserve for price fluctuation, after taking into account other factors, net income declined by ¥34.7 billion, to ¥15.6 billion over the previous fiscal year.

3) Domestic Non-Life Insurance Business (Mitsui Direct General)
Net premiums written increased by ¥0.2 billion over the previous fiscal year, to ¥37.8 billion.

Meanwhile, net claims paid declined by ¥0.9 billion, to ¥24.8 billion. The net loss ratio was 73.0%, which was 2.9 of 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 ¥0.5 billion, to ¥8.8 billion. As a result, the net expenses ratio came to 23.3%, which was 1.3 of percentage points higher than in the previous fiscal year.

Underwriting profit was ¥0.3 billion, a turnaround of ¥1.3 billion. This largely reflected the decrease in incurred losses (the total of net losses paid and provision for outstanding claims reserves). On this basis, net income came to ¥0.3 billion, again a turnaround of ¥1.3 billion over the previous fiscal year.

As a result, and after taking ownership interests into account, net income for the fiscal year under review increased by ¥1.2 billion over the previous fiscal year, to ¥0.2 billion.

4) Domestic Life Insurance Business (MSI Aioi Life)
Insurance premium and others rose by ¥13.4 billion over the previous fiscal year, to ¥493.7 billion, mainly due to an increase in individual insurance premiums.

Ordinary profit climbed by ¥0.8 billion, to ¥16.9 billion, primarily because of the increase in investment income.

Net income grew by ¥0.6 billion over the previous fiscal year, to ¥5.2 billion.

5) Domestic Life Insurance Business (MSI Primary Life)

Insurance premium and others decreased by ¥24.3 billion over the previous fiscal year, to ¥1,059.5 billion. This was mainly attributable to the decline in variable whole-life insurance premiums.

Ordinary profit decreased by ¥28.7 billion, to ¥28.9 billion. Despite the steady increase in interest and dividends income, this decrease largely reflected the impact of foreign currency exchange rates.

Net income climbed by ¥8.5 billion, to ¥29.2 billion owing primarily to the reversal of the reserve for price fluctuation of ¥11.5 billion.

6) International Business (Overseas Insurance Subsidiaries)
Net premiums written declined by ¥10.7 billion over the previous fiscal year, to ¥682.3 billion, primarily because of the downturn in revenues in Europe.

Affected by incurred losses (the total of net claims paid and provision for outstanding claims reserves) from several overseas natural catastrophes, this segment posted an ordinary loss of ¥104.3 billion, a negative turnaround of ¥144.3 billion over the operating profit of the previous fiscal year. After taking ownership interests into account, this segment incurred a net loss for the fiscal year under review of ¥104.6 billion. This too was a negative turnaround of ¥128.7 billion over the net income of the previous fiscal year.

4. CASH FLOW ANALYSIS

With regard to cash flows in the fiscal year under review, net cash flows provided by operating activities decreased by ¥264.3 billion over the previous fiscal year, to ¥822.6 billion, mainly due to a decrease in life insurance premiums. Net cash flows from investing activities decreased by ¥348.2 billion from the previous fiscal year, mainly due to an increase in purchase of securities, to ¥ (963.1) billion. In addition, net cash flows from financing activities were ¥42.3 billion, an increase of ¥142.5 billion over the previous fiscal year, which mainly reflected a decline in repayments of borrowings. As a result, the balance of cash and cash equivalents at the end of the fiscal year under review stood at ¥1,323.5 billion, a decrease of ¥92.3 billion from the end of the previous fiscal year.

5. BUSINESS ENVIRONMENT AND ISSUES TO BE ADDRESSED FROM THE BUSINESS AND FINANCIAL PERSPECTIVES

It is expected that the global economy will continue to expand steadily in the future, although uncertainty remains, such as protectionist policies and Brexit negotiations. The Japanese economy is also expected to continue to recover because of increases in external and internal demand against the background of the global economic recovery and the Tokyo Olympics.

Regarding the insurance industry, the market is expected to expand backed by the positive flow-on effects of the economic recovery. On the other hand, the business environment is anticipated to remain unpredictable, due to such factors as the aging society and low birth rate, the population decline, increased risk of natural disasters, and future policy trends in Japan and overseas. In addition, it is becoming increasingly important to contribute to sustainable growth by supporting a rapidly changing society, which is witnessing the utilization of AI and big data, and the expansion of a sharing economy.

In fiscal 2018, we launched a new medium-term management plan "Vision 2021". The four years to fiscal 2021 are positioned as a "period to achieve the medium-term aspirations of the Group" and a "period to create resilient[*1] systems that can respond swiftly to changes in the environment." At the same time, we will promote the basic strategy and key strategies shown in the following figure.

Vision 2021 Basic strategy

- By employing the Group's resources to the maximum, we will realize sustainable growth and enhance corporate value.
- We will pursue the Group's comprehensive strengths, one of which is diversity, and meet the expectations of customers and other stakeholders.
- We will respond flexibly to changes in the environment and further improve quality and productivity.

Key strategies

1. Pursue Group's comprehensive strengths
   - Make maximum use of Group's strengths (diversity, capital, human assets, customer base, etc.)
   - Review division of roles by each Group company and strengthen cooperation
   - Promote standardization and sharing
2. Promote digitalization
   - Work on "digitalization" across entire Group and connect it to transformation of entire business.
   - Improve value of experiences when customers contact individual Group companies and improve business productivity of MS&AD Group at the same time.
3. Reform portfolio
   - We will reform the Group's business portfolio and risk portfolio, etc., to create a stable earnings base.

We will also strive to realize a resilient and sustainable society[*2] through our corporate activities by leveraging our inherent characteristics of

diversity, and by supporting social life and vigorous business activities. Through these initiatives, we aspire to create a world-leading insurance and financial group with a global business reach.

*1 Resilient
Having the power to adapt flexibly and skillfully, reduce impact and recover quickly in against changing circumstances and unexpected events
*2 Sustainable society
A vibrant society that spans several generations, where anyone can live securely and safely while resolving issues related to the global environment, society and human beings

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 change in the value of the Group's assets, including bonds and loans as well as insurance liabilities requiring future payments to policyholders of savings-type insurance, long-term third-sector insurance, or life insurance attributable to changes in interest rates.

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. Under these circumstances, there is a risk that the Group's business results could be negatively impacted from intensified competition due to a variety of factors including further deregulation, increased entry of new participants, the emergence of new technologies, and shrinkage of the insurance market and others.

(vii) Risk associated with domestic life insurance business

While working to expand its domestic life insurance business as one of the growth areas, domestic life insurance business has inherent risks, such as changes in market base due to intensifying competition, uncertainty in occurrence of insurance benefit and claims and surrender trends given the long-term nature of insurance policies. Taking each of the aforementioned into consideration, 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

The Group is striving to undertake the management processes necessary to prevent the occurrence or minimize the impact of such situations as administrative errors, legal or regulatory violations, impropriety by employees, criminal conduct by outside parties, and disasters. Despite these undertakings, however, there is a risk that the Group will lose the trust of customers and society, be prevented from properly carrying out its business operations, incur sanctions from supervisory authorities, and ultimately have its business performance negatively impacted should any of these situations in fact arise.

(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 to 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 is as follows.

MS&AD
Consolidated Solvency Margin Ratio

(Yen in millions)

	FY2016	FY2017
(A) Solvency margin total amount	¥4,875,444	¥5,067,184
(B) Risk amount	1,117,406	1,236,932
(C) Solvency margin ratio (A/(B × 1/2)) × 100	872.6%	819.3%

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.

The solvency margin ratio decreased by 53.3 percentage points over the previous fiscal year-end, to 819.3% on the back of such factors as the year-on-year increase in the total amount of risks by ¥119.5 billion. This largely reflected the increase in asset management risk.

MSI
a. Non-Consolidated Solvency Margin Ratio

(Yen in millions)

	FY2016	FY2017
(A) Solvency margin total amount	¥2,840,438	¥3,293,687
(B) Risk amount	863,472	939,444
(C) Solvency margin ratio (A/(B × 1/2)) × 100	657.9%	701.1%

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.

The solvency margin ratio improved by 43.2 percentage points over the previous fiscal year-end, to 701.1% on the back of such factors as the year-on-year increase in the solvency margin total amount by ¥453.2 billion. This largely reflected the increase in shareholders' equity attributable to net income and the issuance of domestic subordinated bonds.

b. Consolidated Solvency Margin Ratio

(Yen in millions)

	FY2016	FY2017
(A) Solvency margin total amount	¥2,497,621	¥2,714,894
(B) Risk amount	722,818	809,237
(C) Solvency margin ratio (A/(B × 1/2)) × 100	691.0%	670.9%

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.

The solvency margin ratio decreased by 20.1 percentage points over the previous fiscal year-end, to 670.9% on the back of such factors as the year-on-year increase in the total amount of risks by ¥86.4 billion. This largely reflected the increase in asset management risk.

ADI
a. Non-Consolidated Solvency Margin Ratio

(Yen in millions)

	FY2016	FY2017
(A) Solvency margin total amount	¥1,332,714	¥1,268,359
(B) Risk amount	312,981	323,538
(C) Solvency margin ratio (A/(B × 1/2)) × 100	851.6%	784.0%

Note: See the note for MSI "a. Non-Consolidated Solvency Margin Ratio" regarding the non-consolidated solvency margin ratio calculation method.

The solvency margin ratio decreased by 67.6 percentage points over the previous fiscal year-end, to 784.0% on the back of such factors as the year-on-year decrease in the solvency margin total amount by ¥64.3 billion. This largely reflected dividends paid and the redemption prior to maturity of subordinated bond.

b. Consolidated Solvency Margin Ratio

(Yen in millions)

	FY2016	FY2017
(A) Solvency margin total amount	¥1,305,152	¥1,284,815
(B) Risk amount	298,961	319,689
(C) Solvency margin ratio (A/(B × 1/2)) × 100	873.1%	803.7%

Note: See the note for MSI "b. Consolidated Solvency Margin Ratio" regarding the consolidated solvency margin ratio calculation method.

The solvency margin ratio decreased by 69.4 percentage points over the previous fiscal year-end, to 803.7% on the back of such factors as the year-on-year decrease in the solvency margin total amount by ¥20.3 billion. This largely reflected dividends paid and the redemption prior to maturity of subordinated bonds.

Mitsui Direct General
Non-Consolidated Solvency Margin Ratio

(Yen in millions)

	FY2016	FY2017
(A) Solvency margin total amount	¥14,705	¥14,992
(B) Risk amount	6,817	6,553
(C) Solvency margin ratio (A/(B × 1/2)) × 100	431.4%	457.5%

Note: See the note for MSI "a. Non-Consolidated Solvency Margin Ratio" regarding the non-consolidated solvency margin ratio calculation method.

The solvency margin ratio improved by 26.1 percentage points over the previous fiscal year-end, to 457.5% on the back of such factors as the year-on-year increase in the solvency margin total amount by ¥0.2 billion. This largely reflected the increase in total net assets attributable to net income.

MSA Life
Non-Consolidated Solvency Margin Ratio

(Yen in millions)

	FY2016	FY2017
(A) Solvency margin total amount	¥487,958	¥484,904
(B) Risk amount	51,546	56,163
(C) Solvency margin ratio (A/(B × 1/2)) × 100	1,893.2%	1,726.7%

Note: See the note for MSI "a. Non-Consolidated Solvency Margin Ratio" regarding the non-consolidated solvency margin ratio calculation method.

The solvency margin ratio decreased by 166.5 percentage points over the previous fiscal year-end, to 1,726.7% on the back of such factors as the year-on-year increase in the total amount of risks by ¥4.6 billion. This largely reflected the increase in asset management risk.

MSP Life
Non-Consolidated Solvency Margin Ratio

(Yen in millions)

	FY2016	FY2017
(A) Solvency margin total amount	¥558,542	¥605,676
(B) Risk amount	108,399	121,997
(C) Solvency margin ratio (A/(B × 1/2)) × 100	1,030.5%	992.9%

Note: See the note for MSI "a. Non-Consolidated Solvency Margin Ratio" regarding the non-consolidated solvency margin ratio calculation method.

The solvency margin ratio decreased by 37.6 percentage points over the previous fiscal year-end, to 992.9% on the back of such factors as the year-on-year increase in the total amount of risks by ¥13.5 billion. This largely reflected the increase in asset management risk due to increase in asset under management.

Premiums Written and Net Claims Paid — Non-Life Insurance (Unaudited)

(a) Direct Premiums Written (including deposit premiums from policyholders)

(Yen in millions)

Lines of Insurance	FY2013 Amount	FY2013 Change (%)	FY2013 Share (%)	FY2014 Amount	FY2014 Change (%)	FY2014 Share (%)	FY2015 Amount	FY2015 Change (%)	FY2015 Share (%)
Fire and Allied	¥ 590,674	7.7	18.3	¥ 625,179	5.8	18.7	¥ 657,398	5.2	19.0
Marine	121,387	12.5	3.8	131,030	7.9	3.9	132,284	1.0	3.8
Personal Accident	347,562	(1.4)	10.8	341,241	(1.8)	10.2	319,937	(6.2)	9.2
Voluntary Automobile	1,378,126	3.8	42.8	1,421,126	3.1	42.4	1,475,596	3.8	42.5
Compulsory Automobile Liability	352,649	9.6	10.9	355,417	0.8	10.6	356,465	0.3	10.3
Other	432,409	10.5	13.4	476,209	10.1	14.2	527,502	10.8	15.2
Total	¥3,222,809	5.7	100.0	¥3,350,204	4.0	100.0	¥3,469,185	3.6	100.0
Deposit premiums from policyholders	¥ 151,449	(7.6)	4.7	¥ 138,799	(8.4)	4.1	¥ 116,225	(16.3)	3.4

(b) Net Premiums Written

(Yen in millions)

Lines of Insurance	FY2013 Amount	FY2013 Change (%)	FY2013 Share (%)	FY2014 Amount	FY2014 Change (%)	FY2014 Share (%)	FY2015 Amount	FY2015 Change (%)	FY2015 Share (%)
Fire and Allied	¥ 398,163	12.5	14.2	¥ 425,881	7.0	14.5	¥ 471,476	10.7	15.3
Marine	97,054	11.2	3.5	103,389	6.5	3.5	106,108	2.6	3.4
Personal Accident	227,546	2.1	8.1	230,991	1.5	7.9	218,487	(5.4)	7.1
Voluntary Automobile	1,393,198	4.2	49.5	1,438,002	3.2	48.9	1,495,339	4.0	48.6
Compulsory Automobile Liability	338,245	8.9	12.0	348,356	3.0	11.8	357,639	2.7	11.6
Other	357,402	9.2	12.7	392,491	9.8	13.4	429,680	9.5	14.0
Total	¥2,811,611	6.5	100.0	¥2,939,113	4.5	100.0	¥3,078,732	4.8	100.0

(c) Net Claims Paid

(Yen in millions)

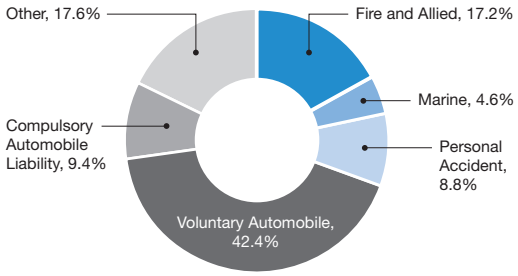
Lines of Insurance	FY2013 Amount	FY2013 Change (%)	FY2013 Share (%)	FY2014 Amount	FY2014 Change (%)	FY2014 Share (%)	FY2015 Amount	FY2015 Change (%)	FY2015 Share (%)
Fire and Allied	¥ 252,695	(20.0)	15.1	¥ 259,270	2.6	15.7	¥ 235,176	(9.3)	14.5
Marine	51,532	27.3	3.1	46,430	(9.9)	2.8	48,009	3.4	3.0
Personal Accident	115,636	1.9	6.9	114,136	(1.3)	6.9	109,376	(4.2)	6.7
Voluntary Automobile	805,460	(3.1)	48.2	786,916	(2.3)	47.7	776,606	(1.3)	47.7
Compulsory Automobile Liability	261,349	(1.3)	15.7	258,095	(1.2)	15.6	259,078	0.4	15.9
Other	183,667	4.9	11.0	185,698	1.1	11.3	199,092	7.2	12.2
Total	¥1,670,343	(4.0)	100.0	¥1,650,547	(1.2)	100.0	¥1,627,340	(1.4)	100.0

DIRECT PREMIUMS WRITTEN (FY2017)

(US$ in millions)

FY2016			FY2017			FY2017
Amount	Change (%)	Share (%)	Amount	Change (%)	Share (%)	Amount
¥ 602,521	(8.3)	16.7	¥ 627,029	4.1	17.2	$ 5,915
168,715	27.5	4.7	168,602	(0.1)	4.6	1,591
321,055	0.3	8.9	320,764	(0.1)	8.8	3,026
1,524,096	3.3	42.1	1,546,108	1.4	42.4	14,586
366,523	2.8	10.1	343,370	(6.3)	9.4	3,239
632,874	20.0	17.5	643,233	1.6	17.6	6,068
¥3,615,785	4.2	100.0	¥3,649,108	0.9	100.0	$34,426
¥ 98,546	(15.2)	2.7	¥ 86,371	(12.4)	2.4	$ 815

Total ¥3,649.1 Billion

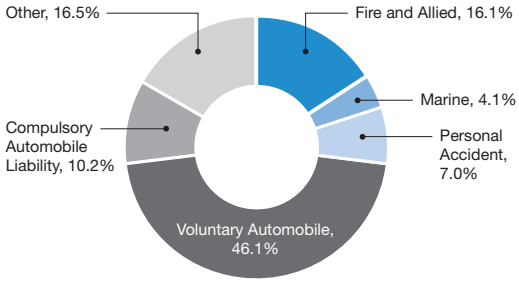


NET PREMIUMS WRITTEN (FY2017)

(US$ in millions)

FY2016			FY2017			FY2017
Amount	Change (%)	Share (%)	Amount	Change (%)	Share (%)	Amount
¥ 540,715	14.7	15.9	¥ 553,183	2.3	16.1	$ 5,219
145,697	37.3	4.3	142,339	(2.3)	4.1	1,343
237,918	8.9	7.0	240,450	1.1	7.0	2,268
1,559,958	4.3	45.8	1,587,008	1.7	46.1	14,972
356,088	(0.4)	10.4	352,063	(1.1)	10.2	3,321
567,010	32.0	16.6	565,931	(0.2)	16.5	5,339
¥3,407,389	10.7	100.0	¥3,440,976	1.0	100.0	$32,462

Total ¥3,440.9 Billion

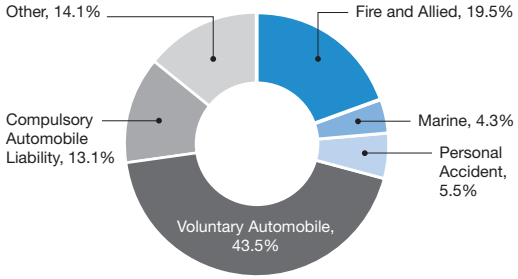


NET CLAIMS PAID (FY2017)

(US$ in millions)

FY2016			FY2017			FY2017
Amount	Change (%)	Share (%)	Amount	Change (%)	Share (%)	Amount
¥ 297,850	26.6	16.3	¥ 378,241	27.0	19.5	$ 3,568
96,981	102.0	5.3	82,302	(15.1)	4.3	776
107,937	(1.3)	5.9	106,233	(1.6)	5.5	1,002
798,736	2.8	43.6	841,807	5.4	43.5	7,942
258,465	(0.2)	14.1	252,990	(2.1)	13.1	2,387
271,905	36.6	14.8	273,589	0.6	14.1	2,581
¥1,831,876	12.6	100.0	¥1,935,165	5.6	100.0	$18,256

Total ¥1,935.1 Billion



Policies in Force and New Policies — Domestic Life Insurance (Unaudited)

(a) Policies in Force

	(Yen in millions)										(US$ in millions)
	FY2013		FY2014		FY2015		FY2016		FY2017		FY2017
	Amount	Change (%)	Amount	Change (%)	Amount	Change (%)	Amount	Change (%)	Amount	Change (%)	Amount
Individual insurance	¥21,391,387	8.1	¥22,676,597	6.0	¥24,277,843	7.1	¥25,813,254	6.3	¥26,882,564	4.1	$253,609
Individual annuities	3,738,051	(5.5)	3,638,524	(2.7)	3,208,994	(11.8)	3,081,777	(4.0)	2,986,168	(3.1)	28,171
Group insurance	5,124,978	(0.8)	5,301,496	3.4	6,518,709	23.0	7,074,353	8.5	7,859,834	11.1	74,149
Group annuities	399	(6.9)	369	(7.7)	351	(4.7)	325	(7.4)	302	(7.1)	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)
	FY2013	FY2014	FY2015	FY2016	FY2017	FY2017
	Amount	Amount	Amount	Amount	Amount	Amount
Individual insurance	¥3,235,603	¥3,307,082	¥3,495,356	¥3,249,483	¥3,438,585	$32,439
Individual annuities	237,132	198,867	190,634	159,925	216,635	2,044
Group insurance	104,852	88,702	1,005,973	61,074	144,570	1,364
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

	FY2016		FY2017		FY2017
	(Yen in millions)		(Yen in millions)		(US$ in millions)
	Amount	Share	Amount	Share	Amount
Deposits and savings	¥ 1,419,153	6.7%	¥ 1,481,589	6.6%	$ 13,977
Call loans	15,000	0.1	–	–	–
Receivables under resale agreements	6,999	0.0	6,999	0.0	66
Receivables under securities borrowing transactions	285,455	1.3	309,644	1.4	2,921
Monetary claims bought	111,320	0.5	140,133	0.6	1,322
Money trusts	971,119	4.6	1,043,506	4.6	9,844
Investments in securities	15,303,103	72.1	16,152,966	71.9	152,386
Loans	886,316	4.2	892,599	4.0	8,421
Land and buildings	428,845	2.0	422,831	1.9	3,989
Total investment assets	¥19,427,313	91.5%	¥20,450,271	91.0%	$192,927
Total assets	¥21,234,300	100.0%	¥22,472,927	100.0%	$212,009

(b) Investments in Securities

	FY2016		FY2017		FY2017
	(Yen in millions)		(Yen in millions)		(US$ in millions)
	Amount	Share	Amount	Share	Amount
Government bonds	¥ 3,809,185	24.9%	¥ 3,887,198	24.1%	$ 36,672
Municipal bonds	273,964	1.8	296,667	1.8	2,799
Corporate bonds	1,574,639	10.3	1,621,792	10.0	15,300
Stock	2,693,726	17.6	2,906,719	18.0	27,422
Foreign securities	4,295,138	28.1	4,870,634	30.2	45,949
Other securities	2,656,449	17.3	2,569,954	15.9	24,245
Total	¥15,303,103	100.0%	¥16,152,966	100.0%	$152,386

Note: "Other securities" consists mainly of investment trusts managed in separate accounts.

Consolidated Balance Sheets

MS&AD Insurance Group Holdings, Inc. and Its Consolidated Subsidiaries
As of March 31, 2017 and 2018

	Yen in millions		US$ in millions
Assets	2017	2018	2018
Cash, deposits and savings	¥ 1,419,267	¥ 1,481,694	$ 13,978
Call loans	15,000	–	–
Receivables under resale agreements	6,999	6,999	66
Receivables under securities borrowing transactions	285,455	309,644	2,921
Monetary claims bought	111,320	140,133	1,322
Money trusts	971,119	1,043,506	9,844
Investments in securities	15,303,103	16,152,966	152,386
Loans	886,316	892,599	8,421
Tangible fixed assets:			
Land	232,151	231,456	2,184
Buildings	196,693	191,374	1,805
Lease assets	2,943	2,711	26
Construction in progress	1,658	2,379	22
Other tangible fixed assets	31,508	31,701	299
Total tangible fixed assets	464,955	459,624	4,336
Intangible fixed assets:			
Software	74,572	57,491	542
Goodwill	163,415	229,221	2,162
Lease assets	3	218	2
Other intangible fixed assets	179,164	262,570	2,477
Total intangible fixed assets	417,156	549,502	5,184
Other assets	1,225,719	1,297,829	12,244
Assets for retirement benefits	32,452	30,645	289
Deferred tax assets	55,660	68,026	642
Customers' liabilities under acceptances and guarantees	50,530	49,500	467
Bad debt reserve	(10,756)	(9,746)	(92)
Total assets	¥21,234,300	¥22,472,927	$212,009

See accompanying notes to consolidated financial statements.

Liabilities and Net Assets	Yen in millions 2017	Yen in millions 2018	US$ in millions 2018
Liabilities			
Policy liabilities:			
Outstanding claims	¥ 1,982,354	¥ 2,213,650	$ 20,883
Underwriting reserves	14,173,799	14,750,861	139,159
Total policy liabilities	16,156,153	16,964,512	160,043
Bonds issued	456,191	558,191	5,266
Other liabilities	1,226,769	1,328,675	12,535
Liabilities for pension and retirement benefits	190,562	184,569	1,741
Reserve for retirement benefits for officers	640	538	5
Accrued bonuses for employees	28,396	27,592	260
Reserve for reorganization by function	22,097	16,341	154
Reserves under the special laws:			
Reserve for price fluctuation	194,960	152,928	1,443
Total reserves under the special laws	194,960	152,928	1,443
Deferred tax liabilities	173,566	221,690	2,091
Acceptances and guarantees	50,530	49,500	467
Total liabilities	18,499,867	19,504,540	184,005
Net Assets			
Shareholders' equity:			
Common stock	100,000	100,000	943
Capital surplus	669,458	554,320	5,229
Retained earnings	775,877	849,044	8,010
Treasury stock	(120,050)	(2,599)	(25)
Total shareholders' equity	1,425,285	1,500,765	14,158
Accumulated other comprehensive income/(loss):			
Net unrealized gains/(losses) on investments in securities	1,360,859	1,487,258	14,031
Net deferred gains/(losses) on hedges	23,472	20,043	189
Foreign currency translation adjustments	(91,219)	(66,274)	(625)
Accumulated actuarial gains/(losses) on retirement benefits	(9,420)	(679)	(6)
Total accumulated other comprehensive income/(loss)	1,283,692	1,440,346	13,588
Stock acquisition rights	307	566	5
Non-controlling interests	25,147	26,709	252
Total net assets	2,734,432	2,968,387	28,004
Total liabilities and net assets	¥21,234,300	¥22,472,927	$212,009

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

MS&AD Insurance Group Holdings, Inc. and Its Consolidated Subsidiaries
For the years ended March 31, 2017 and 2018

	Yen in millions		US$ in millions
	2017	2018	2018
Ordinary income and expenses			
Ordinary income:			
Underwriting income:			
Net premiums written	¥3,407,389	¥3,440,976	$32,462
Deposit premiums from policyholders	98,546	86,371	815
Investment income on deposit premiums from policyholders	45,405	43,130	407
Life insurance premiums	1,253,167	1,058,278	9,984
Other underwriting income	6,353	19,353	183
Total underwriting income	4,810,863	4,648,110	43,850
Investment income:			
Interest and dividends income	272,556	286,229	2,700
Investment gains on money trusts	16,056	8,795	83
Investment gains on trading securities	50,255	29,424	278
Gains on sales of securities	92,602	151,934	1,433
Gains on redemption of securities	718	1,092	10
Investment gains on separate accounts	81,380	115,299	1,088
Other investment income	39,118	1,194	11
Transfer of investment income on deposit premiums from policyholders	(45,405)	(43,130)	(407)
Total investment income	507,283	550,838	5,197
Other ordinary income:			
Gains on equity method investments	2,112	3,017	28
Other ordinary income	14,980	15,868	150
Total other ordinary income	17,093	18,886	178
Total ordinary income	5,335,239	5,217,835	49,225
Ordinary expenses:			
Underwriting expenses:			
Net claims paid	1,831,876	1,935,165	18,256
Loss adjustment expenses	169,562	171,041	1,614
Commissions and collection expenses	681,003	689,066	6,501
Maturity refunds to policyholders	236,800	241,099	2,275
Dividends to policyholders	526	283	3
Life insurance claims	330,897	376,130	3,548
Provision for outstanding claims	71,394	179,565	1,694
Provision for underwriting reserves	908,160	558,519	5,269
Other underwriting expenses	26,131	6,897	65
Total underwriting expenses	4,256,352	4,157,768	39,224
Investment expenses:			
Investment losses on money trusts	1,034	13,748	130
Losses on sales of securities	12,769	8,996	85
Impairment losses on securities	2,034	1,512	14
Losses on redemption of securities	1,118	584	6
Losses on derivative transactions	31,628	14,498	137
Other investment expenses	6,512	123,843	1,168
Total investment expenses	55,096	163,183	1,539
Operating expenses and general and administrative expenses	653,593	669,640	6,317
Other ordinary expenses:			
Interest expense	8,986	9,057	85
Provision for bad debt reserve	2,012	–	–
Losses on bad debts	217	215	2
Amortization of deferred assets under Article 113 of the Insurance Business Act	947	–	–
Other ordinary expenses	5,420	6,420	61
Total other ordinary expenses	17,584	15,693	148
Total ordinary expenses	4,982,626	5,006,286	47,229
Ordinary profit/(loss)	352,612	211,548	1,996
Extraordinary income and losses			
Extraordinary income:			
Gains on sales of fixed assets	3,546	9,316	88
Reversal of reserves under the special laws			
Reversal of reserve for price fluctuation	–	42,032	397
Total reversal of reserves under the special laws	–	42,032	397
Total extraordinary income	3,546	51,348	484
Extraordinary losses:			
Losses on sales of fixed assets	2,456	3,853	36
Impairment losses on fixed assets	5,512	14,724	139
Provision for reserves under the special laws:			
Provision for reserve for price fluctuation	33,928	–	–
Total provision for reserves under the special laws	33,928	–	–
Losses on accelerated depreciation of tangible fixed assets	–	11	0
Other extraordinary losses	31,656	–	–
Total extraordinary losses	73,553	18,589	175
Income/(loss) before income taxes	282,605	244,307	2,305
Income taxes - current	105,468	118,432	1,117
Income taxes - deferred	(34,562)	(28,008)	(264)
Total income taxes	70,906	90,423	853
Net income/(loss)	211,699	153,884	1,452
Net income/(loss) attributable to non-controlling interests	1,252	(173)	(2)
Net income/(loss) attributable to owners of the parent	¥ 210,447	¥ 154,057	$ 1,453

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, 2017 and 2018

	Yen in millions		US$ in millions
	2017	2018	2018
Net income/(loss)	¥211,699	¥153,884	$1,452
Other comprehensive income/(loss):			
Net unrealized gains/(losses) on investments in securities	33,664	123,681	1,167
Net deferred gains/(losses) on hedges	(16,640)	(3,316)	(31)
Foreign currency translation adjustments	(114,654)	23,348	220
Actuarial gains/(losses) on retirement benefits	(1,073)	8,723	82
Share of other comprehensive income/(loss) of equity method investments	1,298	4,775	45
Total other comprehensive income/(loss)	(97,405)	157,211	1,483
Total comprehensive income/(loss)	¥114,294	¥311,096	$2,935
Allocation:			
Comprehensive income/(loss) attributable to owners of the parent	¥115,115	¥309,798	$2,923
Comprehensive income/(loss) attributable to non-controlling interests	(821)	1,297	12

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, 2017 and 2018

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 resulting from increase in capital of consolidated subsidiaries		(570)			(570)
Changes in equity resulting from transactions with non-controlling interests		(617)			(617)
Put options granted to non-controlling interests					–
Net changes of items other than shareholders' equity					
Total changes for the year	–	(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 resulting from increase in capital of consolidated subsidiaries								(570)
Changes in equity resulting 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)
Total changes for the year	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.

2018

(Yen in millions)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Beginning balance	¥100,000	¥669,458	¥775,877	¥ (120,050)	¥1,425,285
Changes for the year:					
Dividends paid			(79,975)		(79,975)
Net income/(loss) attributable to owners of the parent			154,057		154,057
Repurchase of treasury stock				(70)	(70)
Disposal of treasury stock		(2)		65	62
Cancellation of treasury stock		(117,455)		117,455	–
Changes in scope of consolidation					–
Changes in equity resulting from increase in capital of consolidated subsidiaries					–
Changes in equity resulting from transactions with non-controlling interests		(242)			(242)
Put options granted to non-controlling interests		2,562			2,562
Adjustments of retained earnings pertaining to the U.S. tax reform			(914)		(914)
Net changes of items other than shareholders' equity					
Total changes for the year	–	(115,138)	73,167	117,450	75,479
Ending balance	¥100,000	¥554,320	¥849,044	¥ (2,599)	¥1,500,765

	Accumulated other comprehensive income/(loss)							
	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)	Stock acquisition rights	Non-controlling interests	Total net assets
Beginning balance	¥1,360,859	¥23,472	¥ (91,219)	¥ (9,420)	¥1,283,692	¥307	¥25,147	¥2,734,432
Changes for the year:								
Dividends paid								(79,975)
Net income/(loss) attributable to owners of the parent								154,057
Repurchase of treasury stock								(70)
Disposal of treasury stock								62
Cancellation of treasury stock								–
Changes in scope of consolidation								–
Changes in equity resulting from increase in capital of consolidated subsidiaries								–
Changes in equity resulting from transactions with non-controlling interests								(242)
Put options granted to non-controlling interests								2,562
Adjustments of retained earnings pertaining to the U.S. tax reform.								(914)
Net changes of items other than shareholders' equity	126,398	(3,429)	24,944	8,740	156,654	258	1,561	158,475
Total changes for the year	126,398	(3,429)	24,944	8,740	156,654	258	1,561	233,955
Ending balance	¥1,487,258	¥20,043	¥ (66,274)	¥ (679)	¥1,440,346	¥566	¥26,709	¥2,968,387

See accompanying notes to consolidated financial statements.

2018

(US$ in millions)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Beginning balance	$943	$6,316	$7,320	$ (1,133)	$13,446
Changes for the year:					
Dividends paid			(754)		(754)
Net income/(loss) attributable to owners of the parent			1,453		1,453
Repurchase of treasury stock				(1)	(1)
Disposal of treasury stock		(0)		1	1
Cancellation of treasury stock		(1,108)		1,108	–
Changes in scope of consolidation					–
Changes in equity resulting from increase in capital of consolidated subsidiaries					–
Changes in equity resulting from transactions with non-controlling interests		(2)			(2)
Put options granted to non-controlling interests		24			24
Adjustments of retained earnings pertaining to the U.S. tax reform.			(9)		(9)
Net changes of items other than shareholders' equity					
Total changes for the year	–	(1,086)	690	1,108	712
Ending balance	$943	$5,229	$8,010	$ (25)	$14,158

	Accumulated other comprehensive income/(loss)							
	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)	Stock acquisition rights	Non-controlling interests	Total net assets
Beginning balance	$12,838	$221	$ (861)	$ (89)	$12,110	$3	$237	$25,797
Changes for the year:								
Dividends paid								(754)
Net income/(loss) attributable to owners of the parent								1,453
Repurchase of treasury stock								(1)
Disposal of treasury stock								1
Cancellation of treasury stock								–
Changes in scope of consolidation								–
Changes in equity resulting from increase in capital of consolidated subsidiaries								–
Changes in equity resulting from transactions with non-controlling interests								(2)
Put options granted to non-controlling interests								24
Adjustments of retained earnings pertaining to the U.S. tax reform.								(9)
Net changes of items other than shareholders' equity	1,192	(32)	235	82	1,478	2	15	1,495
Total changes for the year	1,192	(32)	235	82	1,478	2	15	2,207
Ending balance	$14,031	$189	$ (625)	$ (6)	$13,588	$5	$252	$28,004

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

MS&AD Insurance Group Holdings, Inc. and Its Consolidated Subsidiaries
For the years ended March 31, 2017 and 2018

	Yen in millions		US$ in millions
	2017	2018	2018
I. Cash flows from operating activities:			
Income/(loss) before income taxes	¥ 282,605	¥ 244,307	$ 2,305
Adjustments for:			
Depreciation	62,184	64,014	604
Impairment losses on fixed assets	5,512	14,724	139
Amortization of goodwill	11,393	11,741	111
Increase/(decrease) in outstanding claims	82,392	160,203	1,511
Increase/(decrease) in underwriting reserves	903,095	546,085	5,152
Increase/(decrease) in bad debt reserve	1,542	(1,348)	(13)
Increase/(decrease) in reserve for retirement benefits for officers	(156)	(101)	(1)
Increase/(decrease) in accrued bonuses for employees	(3,096)	(1,239)	(12)
Increase/(decrease) in reserve for reorganization by function	22,097	(5,756)	(54)
Increase/(decrease) in liabilities for pension and retirement benefits	2,078	6,700	63
Increase/(decrease) in reserve for price fluctuation	33,928	(42,032)	(397)
Interest and dividends income	(272,556)	(286,229)	(2,700)
Losses/(gains) on money trusts	(15,075)	4,967	47
Losses/(gains) on investments in securities	(127,655)	(171,357)	(1,617)
Losses/(gains) on derivative transactions	31,628	14,498	137
Investment losses/(gains) on separate accounts	(81,380)	(115,299)	(1,088)
Interest expense	8,986	9,057	85
Foreign exchange losses/(gains)	(31,703)	112,731	1,064
Losses/(gains) on disposal of tangible fixed assets	(1,090)	(5,580)	(53)
Losses/(gains) on equity method investments	(2,112)	(3,017)	(28)
Decrease/(increase) in other assets	(70,445)	13,828	130
Increase/(decrease) in other liabilities	6,834	(4,921)	(46)
Other, net	(19,868)	(10,068)	(95)
Subtotal	829,139	555,908	5,244
Interest and dividends received	355,139	407,933	3,848
Interest paid	(10,628)	(8,626)	(81)
Income taxes refunded/(paid)	(86,701)	(132,575)	(1,251)
Net cash provided by/(used in) operating activities (a)	1,086,948	822,640	7,761
II. Cash flows from investing activities:			
Net decrease/(increase) in deposits and savings	(1,112)	(18,260)	(172)
Purchase of monetary claims bought	–	(2,601)	(25)
Proceeds from sales and redemption of monetary claims bought	17,191	37,842	357
Purchase of money trusts	(206,384)	(128,508)	(1,212)
Proceeds from sales of money trusts	78,917	52,173	492
Purchase of securities	(3,136,168)	(3,595,276)	(33,918)
Proceeds from sales and redemption of securities	2,577,663	2,845,276	26,842
Investment in loans	(212,875)	(198,795)	(1,875)
Collection of loans	212,220	184,210	1,738
Net increase/(decrease) in cash collateral under securities borrowing and lending transactions	73,812	(4,848)	(46)
Other, net	21,800	6,901	65
Subtotal (b)	(574,934)	(821,886)	(7,754)
(a + b)	512,013	754	7
Acquisition of tangible fixed assets	(20,158)	(20,291)	(191)
Proceeds from sales of tangible fixed assets	8,922	14,461	136
Acquisition of intangible fixed assets	(27,608)	(47,645)	(449)
Acquisition of shares of subsidiaries resulting in changes in scope of consolidation	–	(85,341)	(805)
Other, net	(1,119)	(2,401)	(23)
Net cash provided by/(used in) investing activities	(614,899)	(963,105)	(9,086)
III. Cash flows from financing activities:			
Proceeds from borrowings	32,651	55,027	519
Repayments of borrowings	(141,389)	(30,342)	(286)
Issuance of bonds	148,961	129,133	1,218
Redemption of bonds	(33,890)	(28,000)	(264)
Repurchase of treasury stock	(39,985)	(70)	(1)
Dividends paid to shareholders	(63,151)	(79,887)	(754)
Dividends paid to non-controlling interests	(1,098)	(917)	(9)
Purchase of shares of subsidiaries not resulting in changes in scope of consolidation	(617)	(964)	(9)
Other, net	(1,678)	(1,648)	(16)
Net cash provided by/(used in) financing activities	(100,198)	42,329	399
IV. Effect of exchange rate changes on cash and cash equivalents	(11,451)	5,738	54
V. Net increase/(decrease) in cash and cash equivalents	360,399	(92,396)	(872)
VI. Cash and cash equivalents at beginning of year	1,056,407	1,415,903	13,358
VII. Decrease in cash and cash equivalents due to exclusion from scope of consolidation	(903)	–	–
VIII. Cash and cash equivalents at end of year	¥1,415,903	¥1,323,506	$12,486

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 Rules of Corporate Accounting, 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 for 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 Rules of Corporate Accounting, amounts are rounded down to the nearest million of Japanese yen, except for those stated otherwise. As a result, the total amounts in Japanese yen shown in the accompanying consolidated financial statements 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, 2018 have been translated into US dollar at the rate of ¥106=US$1, the approximate exchange rate on the Tokyo foreign exchange market on the last business day of March 2018. 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 US dollar 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 Rules of Corporate Accounting.

2. Scope of consolidation

(1) Number of consolidated subsidiaries

93 companies

Major consolidated subsidiaries are as follows:

Mitsui Sumitomo Insurance Company, Limited ("MSI")
Aioi Nissay Dowa Insurance Company, Limited ("ADI")
Mitsui Sumitomo Aioi Life Insurance Company, Limited ("MSAL")
Mitsui Sumitomo Primary Life Insurance Company, Limited ("MSPL")
MSIG Holdings (Americas), Inc.
MS Amlin plc
MSIG Insurance (Malaysia) Bhd.

Changes in scope of consolidation

MS First Capital Insurance Limited and DTRIC Management Company, Limited have been included in the scope of consolidation since the year ended March 31, 2018 as they became consolidated subsidiaries due to the Company's acquisition of shares. Aioi Nissay Dowa Europe Limited and 2 other companies have also been included in the scope of consolidation since the year ended March 31, 2018 as they were newly established.

Solo Absolute Bonds and Currency Fund and 15 other companies have been excluded from the scope of consolidation during the year ended March 31, 2018 as they are no longer consolidated subsidiaries due to the withdrawal of capital or sales of their shares.

(2) Unconsolidated subsidiaries

Major unconsolidated subsidiaries are as follows:

Anshin Dial Company, Limited
MS&AD Systems Company, Limited

Certain subsidiaries including the above subsidiaries are not consolidated, as they are not considered to have any impact on, 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

15 companies

Major associates accounted for under the equity method are as follows:

Sumitomo Mitsui Asset Management Company, Limited
ReAssure Jersey One Limited

Changes in scope of application of equity method

ReAssure Jersey One Limited and 3 other companies have become equity method affiliates during the year ended March 31, 2018 due to the Company's acquisition of shares.

Miles Smith Holdings Limited has been excluded from the scope of application of the equity method during the year ended March 31, 2018 due to sales of their shares.

(2) Other affiliates, including unconsolidated subsidiaries and associates (e.g. Anshin Dial Company, Limited and Zenkankyo Small Amount and Short Term Insurance Holdings, Ltd.), are stated at cost as their effects on the consolidated net income and retained earnings are not considered material, individually and in aggregate.

(3) The Company holds 29.9% voting rights of Japan Earthquake Reinsurance Company, Limited ("Japan Earthquake Re") through MSI and ADI. However, Japan Earthquake Re is not included as an affiliate since the Company does not have the ability to exercise significant influence over the 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 84 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 its 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:

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, as well as 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.

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, as well as 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, 2018, to improve Asset and Liability Management (ALM) and investment methods appropriate for investment environment, the size of subgroups of certain individual insurance denominated in Australian dollars has been reduced. This change has no effect 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 the remaining changes are reported as foreign exchange gains and losses in the consolidated financial statements 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 specifically managed for the Company and its domestic consolidated subsidiaries for trading purposes are valued at their year-end market prices.

Money trusts specifically managed for the Company and its domestic consolidated subsidiaries, other than those held for trading purposes, held to maturity and 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 the departments responsible for the respective assets and the results are reviewed by 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 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 of services rendered by officers and operating officers of MSI and MSAL up to the year ended March 31, 2005, the date on 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 - 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 related 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 related to the purchase of depreciable fixed assets that 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 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 foreign currency borrowings 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 the application of the exceptional method, or when the interest rate and currency swap contracts meet the criteria for the application of the integrated method, hedge effectiveness is not assessed.

Certain interest rate swap contracts used for the ALM 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 the value of the hedged items and the hedging instruments offset each other within a certain range, in respect to changes in the interest rates.

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. 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, 2017	March 31, 2018
Accumulated depreciation	360,399	367,326
Accelerated depreciation	14,331	14,255

Note: As permitted under Japanese tax legislation for the purpose of deferral in recognizing taxable income, the 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, 2017 and March 31, 2018 were ¥14,331 million and ¥14,255 million, respectively.
Accelerated depreciation deducted from the original acquisition cost due to receipts of governmental subsidies during the year ended March 31, 2018 was ¥11 million.

2. The carrying amounts of equity investments in unconsolidated subsidiaries and associates are as follows:

	Yen in millions	
	March 31, 2017	March 31, 2018
Investments in securities (Domestic stocks)	15,965	17,515
Investments in securities (Foreign securities)	143,840	237,385
Investments in securities (Other securities)	11,399	13,797

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, 2017	March 31, 2018
Loans to borrowers in bankruptcy	34	–
Overdue loans	536	272
Loans overdue for three months or more	539	473
Restructured loans	1,633	1,479
Total	2,744	2,225

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 that 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, 2017	March 31, 2018
Pledged assets:		
Investments in securities	285,275	346,777
Cash, deposits and savings	23,873	3,876
Money trusts	2,302	2,183

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, 2017	March 31, 2018
Corresponding debt obligations:		
Borrowings	8	–

5. The amounts of investments in securities loaned under securities lending agreements are as follows:

	Yen in millions	
	March 31, 2017	March 31, 2018
	603,759	667,614

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, 2017	March 31, 2018
Securities	210,947	168,651

Note: All securities 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, 2017	March 31, 2018
	2,553,766	2,420,333

8. Guarantees on transactions conducted by a limited partnership entity are as follows:

MSI provides guarantees on transactions conducted by a limited partnership entity. Aggregate net present value of these transactions was ¥192,303 million and ¥130,771 million, respectively in a negative liability position as of March 31, 2017 and March 31, 2018. These amounts were not included in Customers' liabilities under acceptances and guarantees or Acceptances and guarantees since there was no substantial exposure.

9. The unutilized balances of commitment lines to third parties are as follows:

	Yen in millions	
	March 31, 2017	March 31, 2018
	3,633	5,771

10. Information on financial instruments

(1) Qualitative information on financial instruments

(i) Policy on financial instruments

The Group applies ALM policies to maintain stability of investment returns, safety of assets and sufficient liquidity under an appropriate risk management framework to attain 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. To enhance efficiency of funds operations and strengthen financial capacity under such changing conditions, the Group undertakes to raise funds through the 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 the 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 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".

Derivative transactions involve risks associated with fluctuations in fair value of derivative financial instruments, risks of non-performance 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. To mitigate credit risks arising from the non-performance of counterparties, most of the Group's derivative transactions are executed only with select counterparties of high credit quality and diversified among various counterparties. Furthermore, under Credit Support Annex (CSA), the Group obtains collateral from counterparties.

(iii) Risk management structure related 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 that 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 Value-at-Risk (VaR) 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 the 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 the 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 related 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, 2017 and March 31, 2018 together with their differences. The following tables exclude financial instruments in which the fair values are not practically determinable (see Note 2).

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 (*1)	(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 (*2):			
Hedge accounting not applied	19,113	19,113	–
Hedge accounting applied	23,924	23,924	–
Total derivative transactions	43,038	43,038	–

(*1) 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, 2018	Yen in millions		
	Carrying amount	Fair value	Difference
(i) Cash, deposits and savings	1,481,694	1,482,317	622
(ii) Call loans	–	–	–
(iii) Receivables under resale agreements	6,999	6,999	–
(iv) Receivables under securities borrowing transactions	309,644	309,644	–
(v) Monetary claims bought	140,133	140,133	–
(vi) Money trusts	1,043,506	1,043,506	–
(vii) Investments in securities:			
Trading securities	3,161,390	3,161,390	–
Held-to-maturity securities	1,046,667	1,249,687	203,019
Debt securities earmarked for underwriting reserves	2,068,105	2,113,846	45,741
Available-for-sale securities	9,471,689	9,471,689	–
(viii) Loans	892,599		
Bad debt reserve (*1)	(138)		
	892,460	902,594	10,133
Total assets	19,622,293	19,881,809	259,516
Bonds issued	558,191	579,472	21,281
Total liabilities	558,191	579,472	21,281
Derivative transactions (*2):			
Hedge accounting not applied	21,556	21,556	–
Hedge accounting applied	18,689	18,689	–
Total derivative transactions	40,246	40,246	–

(*1) 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 within a short period.

(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 within a short period.

(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 within a short period.

(v) Monetary claims bought

With regard to commercial papers (CP), the price quoted by 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 within a short period. 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, while the fair value of bonds is determined based on the price quoted by exchanges, independent price venders 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 that 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 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, 2017	March 31, 2018
Unlisted stocks and other assets invested in unconsolidated subsidiaries and associates	171,204	268,698
Other unlisted stocks	84,285	83,108
Unlisted investment trusts	12,651	22,093
Partnership investments comprised of unlisted stocks	45,354	31,213
Total	313,495	405,114

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.

(Note 3) Maturity analysis of monetary assets and securities with fixed maturities

	Yen in millions			
March 31, 2017	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 (*)	91,763	256,513	348,725	122,403
Total	2,287,489	2,159,352	3,717,256	2,682,700

(*) 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.

	Yen in millions			
March 31, 2018	Within 1 year	Over 1 to 5 years	Over 5 to 10 years	Over 10 years
Cash, deposits and savings	1,463,957	17,664	—	0
Call loans	—	—	—	—
Receivables under resale agreements	6,999	—	—	—
Receivables under securities borrowing transactions	309,644	—	—	—
Monetary claims bought	126,538	—	—	12,748
Investments in securities:				
Held-to-maturity securities:				
Government bonds	—	—	119,900	780,400
Corporate bonds	5,200	9,300	28,002	84,100
Debt securities earmarked for underwriting reserves:				
Government bonds	—	—	—	395,400
Municipal bonds	—	400	—	6,600
Corporate bonds	6,100	9,433	1,550	82,400
Foreign securities	921	112,195	1,289,977	145,228
Available-for-sale securities with fixed maturities:				
Government bonds	123,716	788,304	438,420	936,104
Municipal bonds	7,917	55,293	112,024	85,450
Corporate bonds	157,786	696,269	418,208	76,075
Foreign securities	71,956	499,074	893,919	182,249
Loans (*)	80,331	288,305	341,592	114,612
Total	2,361,070	2,476,240	3,643,595	2,901,368

(*) The amounts in the above table do not include ¥365 million of loans in which repayments cannot be expected since the debtors are legally bankrupt, substantially bankrupt or likely to go bankrupt, and ¥67,710 million of loans without fixed maturities.

(Note 4) Maturity analysis of bonds issued

	Yen in millions					
March 31, 2017	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
Total	—	—	—	—	—	456,191

	Yen in millions					
March 31, 2018	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	—	—	—	—	22,000	536,191
Total	—	—	—	—	22,000	536,191

11. 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, 2017	March 31, 2018
Carrying amount	80,378	75,405
Fair value	138,665	136,583

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.

12. Business combination

(Business combination through acquisition)

Mitsui Sumitomo Insurance Company, Limited ("MSI"), a consolidated subsidiary of the Company, acquired shares of First Capital Insurance Limited ("FC"). FC is the largest non-life insurance company in Singapore and was affiliated with Fairfax Financial Holdings Limited ("Fairfax"), a leading insurance and financial services group in Canada. As a result of this acquisition, FC became a subsidiary of MSI and was renamed to MS First Capital Insurance Limited ("MSFC").

(1) Overview of business combination

(i) Name and business description of acquired company

Name of acquired company: First Capital Insurance Limited
Description of business: Non-life insurance business

(ii) Primary reasons for business combination

With the acquisition of FC, MSI aims to achieve high growth and enhance profitability in Singapore market, maintain and develop its leading position in the ASEAN market, and realize further growth in the global market through its partnership with Fairfax.

(iii) Date of business combination

December 28, 2017 (deemed date of acquisition: December 31, 2017)

(iv) Legal form of business combination

Acquisition of shares

(v) Name of acquired company after the business combination

MS First Capital Insurance Limited

(vi) Percentage share of voting rights acquired

97.7%

(vii) Primary reasons for determination of controlling company

MSI is the controlling entity, as MSI acquired 97.7% of the voting rights of FC.

(2) Period of the acquired company's financial results included in the consolidated financial statements

The acquired company's fiscal year end is December 31 and the intervening period does not exceed three months from the Company's fiscal year end, therefore the Company uses the financial statements of the acquired company as of December 31, 2017 for consolidation purposes. The acquired company's financial results are not included in the consolidated statement of income for the year ended March 31, 2018, because the deemed acquisition date was December 31, 2017 and only the balance sheet as of December 31, 2017 is consolidated.

(3) Acquisition cost and breakdown by class of consideration

	SGD in millions
Consideration for acquisition	Cash 2,214
Total acquisition cost	2,214

(4) Description and amount of major acquisition-related costs

Advisory fee and others ¥1,057 million

(5) Amount and source of goodwill and amortization method and period

(i) Amount of goodwill

SGD 901 million

(ii) Source of goodwill

The investment amount under the share acquisition agreement exceeded the net amount of assets acquired and liabilities assumed.

(iii) Amortization method and period

The goodwill is to be amortized using the straight-line method over 20 years.

(6) Amounts of assets acquired and liabilities assumed on the acquisition date and their major components

	SGD in millions
Cash, deposits and savings	1,177
Intangible fixed assets	679
Other assets	901
Total assets	2,757
Policy liabilities	1,090
Other liabilities	336
Total liabilities	1,426

(7) Details of contingent consideration specified in the agreement of business combination and accounting policy after the completion of business combination during the current fiscal year

(i) Details of contingent consideration

As per the business combination agreement, the contingent consideration for the acquisition will be increased or decreased based on the revaluation at some point in the future in relation to the acquired company's insurance liabilities at the date of the business combination.

(ii) Accounting policy after the completion of business combination during the current fiscal year

If there is increase or decrease in the consideration for acquisition, the acquisition price as well as amount of goodwill and amortization of goodwill are adjusted accordingly.

13. The amounts of net assets per share are as follows:

	March 31, 2017	March 31, 2018
Net assets per share (in Yen)	4,572.82	4,964.64
Stock acquisition rights deducted from net assets (in Yen million)	307	566
Non-controlling interests deducted from net assets (in Yen million)	25,147	26,709
Outstanding common shares (in thousands)	592,407	592,411

14. Significant subsequent events

Mitsui Sumitomo Insurance Company, Limited ("MSI"), a subsidiary of the Company, reached an agreement with Colonial Mutual Life Assurance Society Limited ("CMLA"), a life insurance subsidiary of a leading Australian bank, Commonwealth Bank of Australia, on May 22, 2018, to purchase from CMLA 37.5% shares in BoCommLife Insurance Company Limited, a China-based subsidiary of Bank of Communications Co., Ltd. ("BoComm").

(1) Objectives of the investment
MSI aims to enhance profitability and achieve further risk diversification by entering into China's life insurance market; secure strong business base in the country's life insurance market by partnering with BoComm (one of the major five Chinese banks); and develop a strong, stable and lasting bancassurance channel.

(2) Name of the counterparty of the share acquisition
Colonial Mutual Life Assurance Society Limited

(3) Name, business and size of the company whose shares are acquired
Company name: BoCommLife Insurance Company Limited
Business: Life insurance business
Company size as at the end of December 2017: Total assets RMB 33,256 million

(4) Investment amount and shareholding ratio after the acquisition
Investment amount: RMB 4.325 billion
Shareholding ratio after the acquisition: 37.5%

(5) Scheduled date of the share acquisition
Subject to the receipt of approvals from the relevant authorities, etc.

(6) Source of fund
Cash on hand held by MSI

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, 2017	For the year ended March 31, 2018
	3	(1,881)

2. The amounts of foreign exchange gains/(losses) included in other investment income/(expenses) are as follows:

	Yen in millions	
	For the year ended March 31, 2017	For the year ended March 31, 2018
	36,938	(118,752)

3. Major components of business expenses are as follows:

	Yen in millions	
	For the year ended March 31, 2017	For the year ended March 31, 2018
Commission expenses	659,449	661,080
Salaries	301,507	310,320

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, 2017

			Yen in millions		
			Impairment losses on fixed assets		
Use	Category	Description		Breakdown	
Investment properties	Land and buildings	4 properties, including a building for rent in Saitama	4	Land Buildings	2 1
Idle real estate and real estate for sale	Land and buildings	35 properties, including an office building in Aichi	2,925	Land Buildings Other	788 1,971 166
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 consolidated 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.

For the year ended March 31, 2018

Use	Category	Description	Yen in millions Impairment losses on fixed assets	Breakdown	
Fixed assets used for insurance business operations	Buildings, other tangible fixed assets and software	Software and others held by domestic consolidated subsidiary (au Insurance Company Limited)	1,094	Buildings Other tangible fixed assets Software	42 89 962
Investment properties	Land and buildings	6 properties, including a building for rent in Chiba	186	Land Buildings	43 142
Idle real estate and real estate for sale and others	Land and buildings	25 properties, including an office building in Tokyo	1,792	Land Buildings	597 1,195
Other (idle assets)	Software and others	Software and others held by overseas consolidated subsidiaries	1,163	Other tangible fixed assets Software	291 872
—	Software, goodwill and other intangible fixed assets	Goodwill and others related to telematics automobile insurance business operations in the UK	10,487	Software Goodwill Other intangible fixed assets	1,534 5,677 3,276

Fixed assets used for the insurance business operations are grouped as a single asset group by each consolidated insurance company. Other assets such as investment properties, idle assets and assets for sale are grouped on an individual basis.

For fixed assets used for the insurance business operations, the entire carrying amount is recognized as impairment losses on fixed assets under Extraordinary losses because income from business operations of au Insurance Company Limited, a domestic consolidated subsidiary of the Company, has continuously shown negative amount indicating that the carrying amount of the relevant asset (asset group) may not be recoverable.

As the investment properties, idle real estate and assets for sale in the above table were to be disposed in the near future or determined to be torn down, 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 assets to be disposed represent their net sales value, which are determined based on the appraisal value provided by qualified appraisers, while the recoverable amounts of assets determined to be torn down represent their residual value.

For other idle assets, the portion of carrying amounts of the software being held by overseas consolidated subsidiaries, which there is no definite plan to use with, is recognized as impairment losses.

During the review of the Company's business plan, an impairment test was conducted for goodwill related to telematics automobile insurance business operations in the UK. As a result of the test, 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 are measured by value in use, determined by discounting the future cash flows at 10.5%.

5. Details of Other extraordinary losses are as follows:

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 (including a 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.

6. The amounts of net income/(loss) attributable to owners of the parent per share are as follows:

	For the year ended March 31, 2017	For the year ended March 31, 2018
Basic net income/(loss) attributable to owners of the parent per share (in Yen)	350.94	260.04
Diluted net income/(loss) attributable to owners of the parent per share (in Yen)	350.90	259.98

Note: The basis of calculation is as follows:

	For the year ended March 31, 2017	For the year ended March 31, 2018
Net income/(loss) attributable to owners of the parent (Yen in millions)	210,447	154,057
Average outstanding common stock during the year (in thousands of shares)	599,655	592,418
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	147

NOTES TO CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

1. Reclassification adjustments and income tax effects of other comprehensive income/(loss)

	Yen in millions	
	2017	2018
Net unrealized gains/(losses) on investments in securities:		
Gains/(losses) arising during the period	114,896	317,048
Reclassification adjustments	(80,311)	(141,917)
Before income tax effect adjustments	34,585	175,131
Income tax effects	(920)	(51,449)
Net unrealized gains/(losses) on investments in securities	33,664	123,681
Net deferred gains/(losses) on hedges:		
Gains/(losses) arising during the period	(13,289)	833
Reclassification adjustments	(5,208)	(5,368)
Before income tax effect adjustments	(18,498)	(4,535)
Income tax effects	1,857	1,218
Net deferred gains/(losses) on hedges	(16,640)	(3,316)
Foreign currency translation adjustments:		
Gains/(losses) arising during the period	(114,654)	23,348
Actuarial gains/(losses) on retirement benefits:		
Gains/(losses) arising during the period	(4,129)	7,923
Reclassification adjustments	3,786	4,091
Before income tax effect adjustments	(343)	12,014
Income tax effects	(730)	(3,290)
Actuarial gains/(losses) on retirement benefits	(1,073)	8,723
Share of other comprehensive income/(loss) of equity method investments:		
Gains/(losses) arising during the period	3,337	6,063
Reclassification adjustments	(2,039)	(1,288)
Share of other comprehensive income/(loss) of equity method investments	1,298	4,775
Total other comprehensive income/(loss)	(97,405)	157,211

NOTES TO CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

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 14 thousand fractional 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

		Yen in millions
Category	Breakdown	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)	Source of dividends	Dividends per share (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.

For the year ended March 31, 2018

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	—	40,000	593,291
Total	633,291	—	40,000	593,291
Treasury stock:				
Common stock	40,884	19	40,022	880
Total	40,884	19	40,022	880

Notes:
1. The decrease in the number of issued common stock during the year was 40,000 thousand shares, as a result of the cancellation of treasury stock.
2. The increase in the number of treasury common stock during the year was 19 thousand shares, as a result of the repurchase of fractional stock.
3. The decrease in the number of treasury common stock during the year was 40,022 thousand shares, as a result of the cancellation of treasury stock of 40,000 thousand shares, exercise of stock acquisition rights of 21 thousand shares, and sales of 0 thousand fractional shares.

2. Stock acquisition rights

		Yen in millions
Category	Breakdown	Ending balance
Filer	Stock acquisition rights as stock options	566
Total		566

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 26, 2017	Common stock	41,468	70	March 31, 2017	June 27, 2017
Board meeting held on November 17, 2017	Common stock	38,507	65	September 30, 2017	December 5, 2017

Note: Date of record is the date to determine shareholders who are entitled to receive dividends.

(2) Dividends declared effective after March 31, 2018 for which the date of record is in the year ended March 31, 2018

Resolution	Type of shares	Aggregate amount of dividends (Yen in millions)	Source of dividends	Dividends per share (in Yen)	Date of record	Effective date
General shareholders' meeting to be held on June 25, 2018	Common stock	38,506	Retained earnings	65	March 31, 2018	June 26, 2018

Note: Date of record is the date to determine shareholders who are entitled to receive dividends.

4. Put options granted to non-controlling interests

Aioi Nissay Dowa Insurance Company of Europe Limited granted put options for shares of Box Innovation Group Limited ("BIG"), its consolidated subsidiary, to its non-controlling shareholders. The changes in the redemption value of such options were recognized as increase/decrease in Capital surplus.

5. Adjustments of retained earnings pertaining to the US tax reform

The consolidated subsidiaries of the Company located in the United States adopted ASU 2018-02 Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects From Accumulated Other Comprehensive Income. The effect of the decrease in the US federal corporate income tax rate resulting from the Tax Cuts and Jobs Act is reclassified from accumulated other comprehensive income to retained earnings for the year ended March 31, 2018.

NOTES TO CONSOLIDATED STATEMENTS OF CASH FLOWS

1. Reconciliation of balance sheet items to cash and cash equivalents

	Yen in millions	
	2017	2018
Cash, deposits and savings	1,419,267	1,481,694
Call loans	15,000	–
Receivables under resale agreements	6,999	6,999
Monetary claims bought	111,320	140,133
Investments in securities	15,303,103	16,152,966
Time deposits with original maturity of more than three months	(161,987)	(253,539)
Monetary claims bought other than cash equivalents	(61,279)	(94,551)
Investments in securities other than cash equivalents	(15,216,521)	(16,110,197)
Cash and cash equivalents	1,415,903	1,323,506

2. Major components of assets and liabilities of newly consolidated subsidiaries due to acquisition of shares

For the year ended March 31, 2018

MSFC 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 MSFC's shares and net consideration paid for acquisition of MSFC are as follows:

	Yen in millions
Cash, deposits and savings	99,525
Intangible fixed assets	57,394
Other assets	76,084
	233,003
Goodwill	76,149
Policy liabilities	(92,155)
Other liabilities	(28,352)
Total liabilities	(120,507)
Foreign currency translation adjustments	(2,519)
Non-controlling interests	(2,576)
Acquisition cost of MSFC's shares	183,549
Less: Cash and cash equivalents held at MSFC	99,525
Net consideration paid for acquisition of MSFC	84,024

3. 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, 2017 and 2018, and the consolidated statements of income, comprehensive income, changes in net assets and 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 ("Japanese GAAP"), 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, 2017 and 2018, and their financial performance and cash flows for the years then ended in accordance with Japanese GAAP.

Convenience Translation
The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2018 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 25, 2018
Tokyo, Japan

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified 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, 2017	March 31, 2018
(Assets)		
Cash, deposits and savings:	¥ 389,027	¥ 421,714
Cash on hand	81	76
Deposits in banks	388,945	421,638
Receivables under resale agreements	6,999	6,999
Monetary claims bought	20,393	13,598
Money trusts	3,500	3,728
Investments in securities:	5,294,691	5,635,635
Government bonds	1,263,321	1,192,826
Municipal bonds	88,898	88,038
Corporate bonds	495,736	524,990
Domestic stocks	1,806,870	1,937,182
Foreign securities	1,604,888	1,854,804
Other securities	34,974	37,792
Loans:	418,146	393,362
Policy loans	7,672	7,133
General loans	410,474	386,228
Tangible fixed assets:	210,723	205,648
Land	77,391	76,499
Buildings	122,668	117,734
Construction in progress	390	569
Other tangible fixed assets	10,272	10,846
Intangible fixed assets:	40,105	45,317
Software	21,902	13,726
Other intangible fixed assets	18,203	31,591
Other assets:	352,144	328,137
Premiums receivable	3,330	4,122
Due from agencies	117,841	120,062
Co-insurance accounts receivable	9,257	7,407
Reinsurance accounts receivable	56,073	53,454
Foreign reinsurance accounts receivable	37,979	26,634
Agency business accounts receivable	619	534
Other receivables	38,881	41,300
Accrued income	6,228	6,059
Guarantee deposits	10,565	10,293
Deposits with the Japan Earthquake Reinsurance Company	6,019	6,457
Suspense payments	38,488	35,327
Initial margins for future transactions	–	316
Derivative financial instruments	25,651	15,052
Cash collateral pledged under derivative transactions	300	326
Other assets	907	784
Customers' liabilities under acceptances and guarantees	45,520	47,243
Bad debt reserve	(4,175)	(3,169)
Total assets	¥6,777,076	¥7,098,216

Items	Yen in millions	
	March 31, 2017	March 31, 2018
(Liabilities)		
Policy liabilities:	¥3,960,687	¥3,893,910
Outstanding claims	643,446	641,711
Underwriting reserves	3,317,241	3,252,198
Bonds issued	256,191	386,191
Other liabilities:	515,281	507,840
Co-insurance accounts payable	11,120	11,571
Reinsurance accounts payable	63,397	55,662
Foreign reinsurance accounts payable	28,144	22,483
Agency business accounts payable	12	12
Borrowings	196,767	196,767
Income taxes payable	39,277	48,653
Deposits received	32,469	61,793
Unearned income	31	34
Other payables	48,854	44,734
Suspense receipts	23,286	22,259
Derivative financial instruments	1,649	2,557
Cash collateral received under derivative transactions	62,168	34,218
Lease obligations	1,399	1,372
Asset retirement obligations	3,831	3,862
Other liabilities	2,869	1,858
Reserve for pension and retirement benefits	136,186	139,476
Reserve for retirement benefits for officers	612	516
Accrued bonuses for employees	10,453	10,145
Reserve for reorganization by function	3,015	2,261
Reserves under the special laws:	67,801	71,813
Reserve for price fluctuation	67,801	71,813
Deferred tax liabilities	136,275	161,817
Acceptances and guarantees	45,520	47,243
Total liabilities	5,132,025	5,221,215
(Net assets)		
Common stock	139,595	139,595
Capital surplus:	93,107	93,107
Additional paid-in capital	93,107	93,107
Retained earnings:	443,975	589,634
Legal earned reserve	46,487	46,487
Other retained earnings:	397,487	543,146
Tax-exempted reserve for accelerated depreciation	15,840	15,503
Retained earnings brought forward	381,647	527,643
Total shareholders' equity	676,678	822,337
Net unrealized gains/(losses) on investments in securities	932,995	1,022,583
Net deferred gains/(losses) on hedges	35,377	32,079
Total valuation and translation adjustments	968,372	1,054,662
Total net assets	1,645,050	1,877,000
Total liabilities and net assets	¥6,777,076	¥7,098,216

MITSUI SUMITOMO INSURANCE CO., LTD. (NON-CONSOLIDATED)

Non-Consolidated Statements of Income

Items	Yen in millions	
	Year ended March 31, 2017	Year ended March 31, 2018
Ordinary income:	¥1,772,858	¥1,859,915
Underwriting income:	1,609,647	1,654,780
Net premiums written	1,470,122	1,494,362
Deposit premiums from policyholders	70,040	60,092
Investment income on deposit premiums from policyholders	35,508	33,443
Reversal of outstanding claims	6,283	1,734
Reversal of underwriting reserves	27,649	65,042
Other underwriting income	44	104
Investment income:	159,029	199,914
Interest and dividends income	116,792	105,107
Investment gains on money trusts	517	239
Gains on sales of securities	71,738	122,213
Gains on redemption of securities	304	592
Gains on derivative transactions	4,405	4,564
Other investment income	780	640
Transfer of investment income on deposit premiums from policyholders	(35,508)	(33,443)
Other ordinary income	4,181	5,220
Ordinary expenses:	1,557,316	1,597,363
Underwriting expenses:	1,319,905	1,357,678
Net claims paid	811,476	836,385
Loss adjustment expenses	87,834	87,345
Commissions and collection expenses	251,720	259,174
Maturity refunds to policyholders	167,151	173,672
Dividends to policyholders	466	244
Foreign exchange losses	736	470
Other underwriting expenses	519	385
Investment expenses:	11,968	9,391
Investment losses on money trusts	9	–
Losses on sales of securities	4,469	3,360
Impairment losses on securities	497	1,031
Losses on redemption of securities	447	237
Foreign exchange losses	1,624	1,869
Other investment expenses	4,920	2,892
Operating expenses and general and administrative expenses	217,601	222,577
Other ordinary expenses:	7,840	7,714
Interest expense	6,325	6,721
Provision for bad debts	1,160	–
Losses on bad debts	9	1
Other ordinary expenses	345	991
Ordinary profit	215,542	262,552
Extraordinary income:	1,379	7,207
Gains on sales of fixed assets	1,379	7,207
Extraordinary losses:	8,479	5,636
Losses on sales of fixed assets	700	763
Impairment losses on fixed assets	489	860
Provision for reserves under the special laws:	3,667	4,011
Provision for reserve for price fluctuation	3,667	4,011
Other extraordinary losses	3,621	–
Income before income taxes	208,442	264,123
Income taxes – current	56,972	73,452
Income taxes – deferred	(13,098)	(7,566)
Total income taxes	43,874	65,885
Net income	¥ 164,568	¥ 198,237

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, 2017	March 31, 2018
(A) Total amount of solvency margin	¥2,840,438	¥3,293,687
Total net assets	639,997	769,056
Reserve for price fluctuation	67,801	71,813
Contingency reserve	589	–
Catastrophe reserve	536,735	552,914
General bad debt reserve	156	156
Net unrealized gains/(losses) on investments in securities and net deferred gains/(losses) on hedges (prior to tax effect deductions)	1,164,861	1,276,455
Net unrealized gains/(losses) on land	45,296	50,064
Excess of policyholders' contract deposits (a)	–	–
Subordinated debts, etc. (b)	256,191	386,191
Amount excluded from the margin, out of (a) and (b)	–	–
Deductions	14,646	6,642
Others	143,455	193,676
(B) Total amount of risks $\sqrt{(R_1+R_2)^2+(R_3+R_4)^2}+R_5+R_6$	863,472	939,444
General insurance risk (R_1)	125,601	128,268
Insurance risk of third sector insurance contracts (R_2)	–	–
Assumed interest rate risk (R_3)	16,637	15,571
Asset management risk (R_4)	696,215	771,448
Business administration risk (R_5)	19,178	20,731
Catastrophe risk (R_6)	120,461	121,308
(C) Solvency margin ratio [(A) / {(B)×1/2}] × 100	657.9%	701.1%

AIOI NISSAY DOWA INSURANCE CO., LTD. (NON-CONSOLIDATED)

Non-Consolidated Balance Sheets

Items	Yen in millions	
	March 31, 2017	March 31, 2018
(Assets)		
Cash, deposits and savings:	¥ 172,323	¥ 165,103
Cash on hand	21	20
Deposits in banks	172,302	165,083
Call loans	15,000	–
Money trusts	2,502	2,383
Investments in securities:	2,577,087	2,597,124
Government bonds	670,598	640,924
Municipal bonds	20,726	21,152
Corporate bonds	279,472	263,257
Domestic stocks	843,368	922,714
Foreign securities	707,044	684,083
Other securities	55,876	64,991
Loans:	210,917	200,051
Policy loans	3,384	3,063
General loans	207,533	196,987
Tangible fixed assets:	174,597	171,168
Land	76,916	75,219
Buildings	86,506	84,234
Lease assets	29	14
Construction in progress	1,187	1,484
Other tangible fixed assets	9,957	10,216
Intangible fixed assets:	19,679	27,524
Software	14,633	9,325
Other intangible fixed assets	5,045	18,199
Other assets:	276,730	296,367
Premiums receivable	2,639	2,416
Due from agencies	79,671	78,533
Due from foreign agencies	800	931
Co-insurance accounts receivable	3,813	3,379
Reinsurance accounts receivable	54,357	53,568
Foreign reinsurance accounts receivable	49,319	72,006
Agency business accounts receivable	65	70
Other receivables	40,227	38,706
Accrued income	7,916	7,086
Guarantee deposits	7,061	6,821
Deposits with the Japan Earthquake Reinsurance Company	3,961	4,228
Suspense payments	23,333	24,122
Derivative financial instruments	3,563	4,496
Prepaid pension expenses	27,150	23,672
Deferred tax assets	16,329	–
Customers' liabilities under acceptances and guarantees	7,530	4,500
Bad debt reserve	(1,584)	(1,226)
Total assets	¥3,498,264	¥3,486,669

Items	Yen in millions	
	March 31, 2017	March 31, 2018
(Liabilities)		
Policy liabilities:	¥2,425,101	¥2,483,038
Outstanding claims	526,764	572,979
Underwriting reserves	1,898,337	1,910,058
Bonds issued	50,000	22,000
Other liabilities:	154,423	159,007
Co-insurance accounts payable	3,966	3,245
Reinsurance accounts payable	57,124	49,207
Foreign reinsurance accounts payable	21,389	36,314
Agency business accounts payable	1,478	1,550
Borrowings	8	–
Income taxes payable	17,290	17,450
Deposits received	2,888	3,049
Unearned income	18	13
Other payables	26,495	28,407
Suspense receipts	18,807	18,014
Derivative financial instruments	4,264	911
Lease obligations	30	14
Asset retirement obligations	661	829
Other liabilities	0	0
Reserve for pension and retirement benefits	22,840	26,891
Accrued bonuses for employees	5,919	5,859
Reserve for reorganization by function	2,288	1,527
Reserves under the special laws:	37,114	1,688
Reserve for price fluctuation	37,114	1,688
Deferred tax liabilities	–	1,090
Acceptances and guarantees	7,530	4,500
Total liabilities	2,705,218	2,705,604
(Net assets)		
Common stock	100,005	100,005
Capital surplus:	81,207	81,207
Additional paid-in capital	52,593	52,593
Other capital surplus	28,614	28,614
Retained earnings:	237,071	172,552
Legal earned reserve	47,411	47,411
Other retained earnings:	189,660	125,141
Retained earnings brought forward	189,660	125,141
Total shareholders' equity	418,284	353,765
Net unrealized gains/(losses) on investments in securities	374,762	427,298
Total valuation and translation adjustments	374,762	427,298
Total net assets	793,046	781,064
Total liabilities and net assets	¥3,498,264	¥3,486,669

AIOI NISSAY DOWA INSURANCE CO., LTD. (NON-CONSOLIDATED)

Non-Consolidated Statements of Income

Items	Yen in millions	
	Year ended March 31, 2017	Year ended March 31, 2018
Ordinary income:	¥1,304,987	¥1,335,258
Underwriting income:	1,246,626	1,265,331
Net premiums written	1,200,525	1,222,017
Deposit premiums from policyholders	28,506	26,278
Investment income on deposit premiums from policyholders	17,365	16,728
Other underwriting income	228	307
Investment income:	52,058	61,019
Interest and dividends income	55,409	58,498
Investment gains on money trusts	1	2
Gains on sales of securities	13,349	18,718
Gains on redemption of securities	425	462
Other investment income	238	66
Transfer of investment income on deposit premiums from policyholders	(17,365)	(16,728)
Other ordinary income	6,302	8,906
Ordinary expenses:	1,229,799	1,329,641
Underwriting expenses:	1,026,167	1,087,152
Net claims paid	648,618	660,699
Loss adjustment expenses	60,829	62,886
Commissions and collection expenses	223,848	234,977
Maturity refunds to policyholders	69,648	67,427
Dividends to policyholders	59	38
Provision for outstanding claims	15,205	46,214
Provision for underwriting reserves	5,077	11,721
Foreign exchange losses	1,562	10
Other underwriting expenses	1,318	3,175
Investment expenses:	14,439	57,877
Losses on sales of securities	4,298	3,189
Impairment losses on securities	4,919	49,040
Losses on redemption of securities	370	499
Losses on derivative transactions	4,102	3,572
Foreign exchange losses	125	507
Other investment expenses	622	1,067
Operating expenses and general and administrative expenses	186,846	182,720
Other ordinary expenses:	2,345	1,891
Interest expense	755	571
Provision for bad debts	295	–
Losses on bad debts	0	0
Other ordinary expenses	1,294	1,319
Ordinary profit	75,188	5,616
Extraordinary income:	2,644	37,778
Gains on sales of fixed assets	2,644	2,352
Reversal of reserves under the special laws:	–	35,425
Reversal of reserve for price fluctuation	–	35,425
Extraordinary losses:	11,015	6,599
Losses on sales of fixed assets	1,922	4,609
Impairment losses on fixed assets	5,709	1,979
Provision for reserves under the special laws:	589	–
Provision for reserve for price fluctuation	589	–
Losses on reduction of tangible fixed assets	–	11
Other extraordinary losses	2,795	–
Income before income taxes	66,816	36,794
Income taxes – current	17,097	24,465
Income taxes – deferred	(672)	(3,291)
Total income taxes	16,425	21,173
Net income	¥ 50,391	¥ 15,620

Non-Consolidated Solvency Margin Ratio

	Yen in millions	
	March 31, 2017	March 31, 2018
(A) Total amount of solvency margin	¥1,332,714	¥1,268,359
Total net assets	398,099	324,431
Reserve for price fluctuation	37,114	1,688
Contingency reserve	747	747
Catastrophe reserve	318,711	347,678
General bad debt reserve	296	199
Net unrealized gains/(losses) on investments in securities and net deferred gains/(losses) on hedges (prior to tax effect deductions)	455,477	521,401
Net unrealized gains/(losses) on land	14,099	18,026
Excess of policyholders' contract deposits (a)	–	–
Subordinated debts, etc. (b)	50,000	17,600
Amount excluded from the margin, out of (a) and (b)	–	–
Deductions	10,743	3,824
Others	68,911	40,411
(B) Total amount of risks $\sqrt{(R_1+R_2)^2+(R_3+R_4)^2}+R_5+R_6$	312,981	323,538
General insurance risk (R_1)	103,370	105,821
Insurance risk of third sector insurance contracts (R_2)	–	–
Assumed interest rate risk (R_3)	8,387	7,831
Asset management risk (R_4)	221,083	229,683
Business administration risk (R_5)	7,728	7,977
Catastrophe risk (R_6)	53,574	55,539
(C) Solvency margin ratio [(A) / {(B) × 1/2}] × 100	851.6%	784.0%

MITSUI DIRECT GENERAL INSURANCE CO., LTD. (NON-CONSOLIDATED)

Non-Consolidated Balance Sheets

Items	Yen in millions	
	March 31, 2017	March 31, 2018
(Assets)		
Cash, deposits and savings:	¥12,180	¥18,067
Deposits in banks	12,180	18,067
Investments in securities:	39,510	33,621
Government bonds	1,865	1,656
Municipal bonds	21,537	21,136
Corporate bonds	16,107	10,828
Tangible fixed assets:	367	377
Buildings	56	50
Other tangible fixed assets	310	327
Intangible fixed assets:	2,307	3,307
Software	2,217	2,207
Other intangible fixed assets	89	1,100
Other assets:	5,625	6,124
Premiums receivable	0	0
Other receivables	3,330	3,756
Accrued income	58	52
Guarantee deposits	352	352
Suspense payments	1,880	1,961
Other assets	2	1
Bad debt reserve	(4)	(9)
Total assets	¥59,987	¥61,489
(Liabilities)		
Policy liabilities:	44,851	45,870
Outstanding claims	24,157	24,796
Underwriting reserves	20,693	21,073
Other liabilities:	1,254	1,422
Reinsurance accounts payable	1	1
Income taxes payable	119	224
Other payables	1,101	1,171
Suspense receipts	14	7
Asset retirement obligations	17	17
Reserve for pension and retirement benefits	52	104
Accrued bonuses for employees	262	263
Reserves under the special laws:	56	63
Reserve for price fluctuation	56	63
Deferred tax liabilities	119	93
Total liabilities	46,596	47,819
(Net assets)		
Common stock	39,106	39,106
Capital surplus:	9,006	9,006
Additional paid-in capital	9,006	9,006
Retained earnings:	(34,820)	(34,492)
Other retained earnings:	(34,820)	(34,492)
Retained earnings brought forward	(34,820)	(34,492)
Total shareholders' equity	13,291	13,619
Net unrealized gains/(losses) on investments in securities	99	50
Total valuation and translation adjustments	99	50
Total net assets	13,390	13,670
Total liabilities and net assets	¥59,987	¥61,489

Non-Consolidated Statements of Income

Items	Yen in millions Year ended March 31, 2017	Year ended March 31, 2018
Ordinary income:	¥37,753	¥37,965
Underwriting income:	37,670	37,892
Net premiums written	37,653	37,873
Investment income on deposit premiums from policyholders	17	18
Investment income:	73	59
Interest and dividends income	89	73
Gains on sales of securities	0	4
Transfer of investment income on deposit premiums from policyholders	(17)	(18)
Other ordinary income	9	14
Ordinary expenses:	38,708	37,514
Underwriting expenses:	30,627	28,948
Net claims paid	25,745	24,823
Loss adjustment expenses	2,822	2,825
Commissions and collection expenses	254	280
Provision for outstanding claims	1,178	638
Provision for underwriting reserves	627	380
Investment expenses:	–	0
Losses on sales of securities	–	0
Operating expenses and general and administrative expenses	8,047	8,556
Other ordinary expenses:	33	8
Provision for bad debts	2	5
Other ordinary expenses	30	2
Ordinary profit/(loss)	(955)	451
Extraordinary income	–	–
Extraordinary losses:	12	6
Losses on sales of fixed assets	4	0
Provision for reserves under the special laws:	7	6
Provision for reserve for price fluctuation	7	6
Income /(loss) before taxes	(967)	445
Income taxes – current	14	123
Income taxes – deferred	22	(6)
Total income taxes	36	117
Net income/(loss)	¥(1,004)	¥ 328

Non-Consolidated Solvency Margin Ratio

	Yen in millions March 31, 2017	March 31, 2018
(A) Total amount of solvency margin	¥14,705	¥14,992
Total net assets	13,291	13,619
Reserve for price fluctuation	56	63
Contingency reserve	0	0
Catastrophe reserve	1,231	1,242
General bad debt reserve	1	3
Net unrealized gains/(losses) on investments in securities and net deferred gains/(losses) on hedges (prior to tax effect deductions)	124	63
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 $\sqrt{(R_1+R_2)^2+(R_3+R_4)^2}+R_5+R_6$	6,817	6,553
General insurance risk (R_1)	6,227	5,978
Insurance risk of third sector insurance contracts (R_2)	–	–
Assumed interest rate risk (R_3)	0	0
Asset management risk (R_4)	912	853
Business administration risk (R_5)	223	213
Catastrophe risk (R_6)	300	300
(C) Solvency margin ratio [(A) / {(B) × 1/2}] × 100	431.4%	457.5%

MITSUI SUMITOMO AIOI LIFE INSURANCE CO., LTD. (NON-CONSOLIDATED)

Non-Consolidated Balance Sheets

Items	Yen in millions	
	March 31, 2017	March 31, 2018
(Assets)		
Cash, deposits and savings:	¥ 290,010	¥ 164,811
Cash on hand	0	0
Deposits in banks	290,009	164,811
Receivables under securities borrowing transactions	285,455	309,644
Investments in securities:	2,919,795	3,260,140
Government bonds	1,804,655	1,968,530
Municipal bonds	135,839	163,323
Corporate bonds	726,620	862,383
Domestic stocks	1,314	1,362
Foreign securities	244,182	219,641
Other securities	7,183	44,898
Loans:	55,198	57,079
Policy loans	55,198	57,079
Tangible fixed assets:	4,638	3,997
Buildings	620	572
Lease assets	2,724	2,155
Other tangible fixed assets	1,292	1,269
Intangible fixed assets:	20,987	26,417
Software	6,440	8,103
Other intangible fixed assets	14,547	18,314
Due from agencies	116	127
Reinsurance accounts receivable	1,018	663
Other assets:	42,103	46,963
Other receivables	30,610	33,014
Prepaid expenses	1,537	1,427
Accrued income	6,949	7,143
Guarantee deposits	328	350
Derivative financial instruments	2,029	4,042
Suspense payments	621	960
Other assets	24	24
Bad debt reserve	(128)	(114)
Total assets	¥3,619,194	¥3,869,730

Items	Yen in millions	
	March 31, 2017	March 31, 2018
(Liabilities)		
Policy liabilities:	¥2,934,939	¥3,182,433
Outstanding claims	27,648	28,102
Underwriting reserves	2,896,459	3,143,804
Reserve for dividends to policyholders	10,831	10,526
Due to agencies	5,626	4,562
Reinsurance accounts payable	283	263
Other liabilities:	375,124	395,303
Payables under securities lending transactions	361,797	381,139
Income taxes payable	853	758
Other payables	140	128
Accrued expenses	7,450	9,527
Unearned income	0	0
Deposits received	91	179
Derivative financial instruments	544	391
Lease obligations	2,976	2,364
Asset retirement obligations	429	432
Suspense receipts	839	382
Reserve for pension and retirement benefits	2,535	3,137
Reserve for retirement benefits for officers	28	22
Reserves under the special laws:	5,988	6,862
Reserve for price fluctuation	5,988	6,862
Deferred tax liabilities	18,397	12,619
Total liabilities	3,342,924	3,605,205
(Net assets)		
Common stock	85,500	85,500
Capital surplus:	93,688	93,688
Additional paid-in capital	63,214	63,214
Other capital surplus	30,473	30,473
Retained earnings:	6,133	7,870
Legal earned reserve	–	708
Other retained earnings:	6,133	7,162
Retained earnings brought forward	6,133	7,162
Total shareholders' equity	185,321	187,058
Net unrealized gains/(losses) on investments in securities	90,948	77,466
Total valuation and translation adjustments	90,948	77,466
Total net assets	276,270	264,524
Total liabilities and net assets	¥3,619,194	¥3,869,730

MITSUI SUMITOMO AIOI LIFE INSURANCE CO., LTD. (NON-CONSOLIDATED)

Non-Consolidated Statements of Income

Items	Yen in millions	
	Year ended March 31, 2017	Year ended March 31, 2018
Ordinary income:	¥530,173	¥550,495
Insurance premiums and others:	480,264	493,748
Insurance premiums	478,928	492,591
Reinsurance income	1,335	1,156
Investment income:	47,500	53,817
Interest and dividends income:	43,797	44,603
Interest on deposits	0	0
Interest and dividends on securities	42,034	42,699
Interest on loans	1,572	1,617
Other interest and dividends	189	287
Gains on sales of securities	3,703	9,209
Foreign exchange gains	–	1
Reversal of bad debts	–	2
Other ordinary income:	2,408	2,929
Receipts of annuities with special conditions	367	923
Receipts of deferred insurance claims	1,545	1,519
Other ordinary income	495	486
Ordinary expenses:	514,019	533,521
Insurance claims and others:	183,438	189,390
Insurance claims	40,756	41,353
Annuity payments	15,737	16,924
Benefits	17,271	19,878
Surrender benefits	104,943	106,304
Other refunds	3,151	3,735
Reinsurance premiums	1,578	1,195
Provision for underwriting reserves and others:	237,453	247,798
Provision for outstanding claims	2,789	454
Provision for underwriting reserves	234,662	247,344
Provision for interest portion of reserve for dividends to policyholders	0	0
Investment expenses:	3,860	3,881
Interest expense	67	63
Losses on sales of securities	894	1,944
Losses on derivative transactions	2,792	1,793
Foreign exchange losses	4	–
Provision for bad debts	54	–
Other investment expenses	46	79
Operating expenses	76,907	79,359
Other ordinary expenses:	12,359	13,090
Payments of deferred insurance claims	1,348	1,562
Taxes	6,805	6,599
Depreciation	3,815	4,323
Provision for reserve for pension and retirement benefits	348	601
Other ordinary expenses	42	2
Ordinary profit	16,153	16,973
Extraordinary income:	3	1
Gains on sales of fixed assets	3	1
Extraordinary losses:	775	885
Losses on sales of fixed assets	17	11
Provision for reserves under the special laws:	757	874
Provision for reserve for price fluctuation	757	874
Provision for reserve for dividends to policyholders	8,972	9,214
Income before income taxes	6,409	6,874
Income taxes – current	2,728	2,132
Income taxes – deferred	(913)	(534)
Total income taxes	1,815	1,597
Net income	¥ 4,594	¥ 5,277

Business Results

Amount of Policies in Force and New Policies

(1) Policies in force

Yen in 100 millions

	March 31, 2017		March 31, 2018	
	Number of policies (in thousands)	Amount	Number of policies (in thousands)	Amount
Individual insurance	2,938	¥224,779	3,057	¥230,952
Individual annuities	186	7,362	182	7,115
Group insurance	–	70,743	–	78,598
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, 2017				Year ended March 31, 2018			
	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	317	¥23,468	23,468	–	273	¥26,292	26,292	–
Individual annuities	7	302	302	–	1	102	102	–
Group insurance	–	610	610	–	–	1,445	1,445	–
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, 2017	March 31, 2018
Individual insurance	¥3,577	¥3,693
Individual annuities	433	430
Total:	4,010	4,123
Medical coverage, living benefits, etc.	884	967

(2) New policies

Yen in 100 millions

	Year ended March 31, 2017	Year ended March 31, 2018
Individual insurance	¥501	¥383
Individual annuities	15	4
Total:	517	388
Medical coverage, living benefits, etc.	152	139

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, 2017	Year ended March 31, 2018	Change
Fundamental revenues:	¥526,470	¥541,283	¥14,813
Insurance premiums and others	480,264	493,748	13,484
Fundamental expenses	507,853	528,477	20,624
Fundamental profit	18,616	12,806	(5,810)
Capital gains/(losses)	12	5,472	5,460
Non-recurring gains/(losses)	(2,475)	(1,304)	1,171
Ordinary profit	16,153	16,973	820
Extraordinary income	3	1	(1)
Extraordinary losses	775	885	110
Provision for reserve for dividends to policyholders	8,972	9,214	242
Income taxes	1,815	1,597	(217)
Net income	4,594	5,277	682

Non-Consolidated Solvency Margin Ratio

	Yen in millions	
	March 31, 2017	March 31, 2018
(A) Total amount of solvency margin	¥487,958	¥484,904
Total capital	183,197	186,080
Reserve for price fluctuation	5,988	6,862
Contingency reserve	31,584	32,890
General bad debt reserve	25	23
Net unrealized gains/(losses) on investments in securities and net deferred gains/(losses) on hedges (prior to tax effect deductions) × 90%	113,685	96,832
Net unrealized gains/(losses) on land × 85%	–	–
Excess of continued Zillmerized reserve (a)	151,430	159,410
Subordinated debts, etc. (b)	–	–
Amount excluded from the margin, out of (a) and (b)	–	–
Brought in capital	–	–
Deductions	–	–
Others	2,046	2,804
(B) Total amount of risks $\sqrt{(R_1+R_8)^2+(R_2+R_3+R_7)^2}+R_4$	51,546	56,163
Insurance risk (R_1)	16,565	17,411
Insurance risk of third sector insurance contracts (R_8)	11,315	11,658
Assumed interest rate risk (R_2)	3,080	3,115
Minimum guarantee risk (R_7)	–	–
Asset management risk (R_3)	38,611	43,169
Business administration risk (R_4)	1,391	1,507
(C) Solvency margin ratio [(A) / {(B) × 1/2}] × 100	1,893.2%	1,726.7%

MITSUI SUMITOMO PRIMARY LIFE INSURANCE CO., LTD. (NON-CONSOLIDATED)

Non-Consolidated Balance Sheets

Items	Yen in millions	
	March 31, 2017	March 31, 2018
(Assets)		
Cash, deposits and savings:	¥ 141,458	¥ 178,099
Deposits in banks	141,458	178,099
Monetary claims bought	41,499	39,999
Money trusts	965,032	1,037,295
Investments in securities:	4,404,883	4,612,983
Government bonds	68,744	67,101
Municipal bonds	6,739	2,960
Corporate bonds	55,882	78,203
Foreign securities	1,715,807	2,043,356
Other securities	2,557,710	2,421,360
Loans:	208,643	239,778
Policy loans	422	433
General loans	208,220	239,345
Tangible fixed assets:	560	892
Buildings	246	244
Lease assets	188	541
Other tangible fixed assets	126	106
Intangible fixed assets:	4,471	6,638
Software	4,467	6,419
Lease assets	3	218
Reinsurance accounts receivable	2,851	3,813
Other assets:	25,001	41,616
Other receivables	3,798	17,446
Prepaid expenses	362	694
Accrued income	16,023	18,256
Guarantee deposits	3,810	4,504
Derivative financial instruments	2	0
Suspense payments	1,005	709
Other assets	–	5
Deferred tax assets	43,644	40,636
Total assets	¥5,838,048	¥6,201,753
(Liabilities)		
Policy liabilities:	5,561,432	5,916,715
Outstanding claims	12,418	17,382
Underwriting reserves	5,549,014	5,899,332
Due to agencies	4,984	4,555
Reinsurance accounts payable	7,199	4,244
Other liabilities:	42,675	39,648
Income taxes payable	2,911	1,501
Other payables	8,672	8,346
Accrued expenses	4,550	5,482
Deposits received	19,343	18,821
Derivative financial instruments	6	1
Lease obligations	207	833
Asset retirement obligations	132	134
Suspense receipts	6,851	4,527
Reserves under the special laws:	84,000	72,500
Reserve for price fluctuation	84,000	72,500
Total liabilities	5,700,291	6,037,664
(Net assets)		
Common stock	41,060	41,060
Capital surplus:	24,735	24,735
Additional paid-in capital	24,735	24,735
Retained earnings:	64,435	89,878
Legal earned reserve	1,850	2,604
Other retained earnings:	62,585	87,274
Retained earnings brought forward	62,585	87,274
Total shareholders' equity	130,230	155,673
Net unrealized gains/(losses) on investments in securities	7,522	8,207
Net deferred gains/(losses) on hedges	3	207
Total valuation and translation adjustments	7,525	8,414
Total net assets	137,756	164,088
Total liabilities and net assets	¥5,838,048	¥6,201,753

Non-Consolidated Statements of Income

Items	Yen in millions	
	Year ended March 31, 2017	Year ended March 31, 2018
Ordinary income:	¥1,272,843	¥1,256,486
Insurance premiums and others:	1,083,895	1,059,512
Insurance premiums	1,071,113	1,015,601
Reinsurance income	12,781	43,911
Investment income:	185,621	193,690
Interest and dividends income:	60,761	76,884
Interest on deposits	147	131
Interest and dividends on securities	53,841	68,185
Interest on loans	6,400	8,192
Other interest and dividends	371	376
Investment gains on money trusts	14,512	–
Gains on sales of securities	1,306	1,506
Gains on redemption of securities	–	0
Foreign exchange gains	27,658	–
Investment gains on separate accounts	81,380	115,299
Other ordinary income:	3,327	3,282
Receipts of annuities with special conditions	3,313	3,239
Other ordinary income	14	43
Ordinary expenses:	1,215,151	1,227,546
Insurance claims and others:	469,395	694,801
Insurance claims	58,807	73,274
Annuity payments	82,882	88,563
Benefits	126,563	178,199
Surrender benefits	118,042	223,918
Other refunds	3,357	2,791
Reinsurance premiums	79,742	128,054
Provision for underwriting reserves and others:	673,078	355,283
Provision for outstanding claims	2,813	4,964
Provision for underwriting reserves	670,265	350,318
Investment expenses:	1,527	118,896
Interest expense	0	0
Investment losses on money trusts	–	5,195
Losses on sales of securities	1,299	–
Losses on redemption of securities	1	–
Losses on derivative transactions	174	–
Foreign exchange losses	–	113,646
Other investment expenses	51	54
Operating expenses	61,328	50,236
Other ordinary expenses:	9,820	8,328
Taxes	8,038	6,417
Depreciation	1,779	1,909
Other ordinary expenses	2	2
Ordinary profit	57,692	28,939
Extraordinary income:	–	11,500
Reversal of reserves under the special laws:	–	11,500
Reversal of reserve for price fluctuation	–	11,500
Extraordinary losses:	28,907	–
Losses on sales of fixed assets	1	–
Provision for reserves under the special laws:	28,906	–
Provision for reserve for price fluctuation	28,906	–
Income before income taxes	28,784	40,439
Income taxes – current	16,800	8,565
Income taxes – deferred	(8,718)	2,662
Total income taxes	8,081	11,227
Net income	¥ 20,703	¥ 29,212

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, 2017		March 31, 2018	
	Number of policies (in thousands)	Amount	Number of policies (in thousands)	Amount
Individual insurance	597	¥33,352	687	¥37,873
Individual annuities	323	23,455	338	22,745
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, 2017				Year ended March 31, 2018			
	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	158	¥9,026	¥9,026	–	118	¥8,093	¥8,093	–
Individual annuities	24	1,296	1,296	–	44	2,063	2,063	–
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, 2017	March 31, 2018
Individual insurance	¥2,217	¥2,641
Individual annuities	3,104	2,307
Total:	5,321	4,948
Medical coverage, living benefits, etc.	0	0

(2) New policies

Yen in 100 millions

	Year ended March 31, 2017	Year ended March 31, 2018
Individual insurance	¥ 667	¥ 650
Individual annuities	922	288
Total:	1,589	938
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, 2017	Year ended March 31, 2018	Change
Fundamental revenues:	¥1,269,861	¥1,270,108	¥ 246
Insurance premiums and others	1,083,895	1,059,512	(24,382)
Fundamental expenses	1,217,105	1,261,245	44,140
Fundamental profit	52,755	8,862	(43,893)
Capital gains/(losses)	6,233	21,219	14,986
Non-recurring gains/(losses)	(1,296)	(1,141)	155
Ordinary profit	57,692	28,939	(28,752)
Extraordinary income	–	11,500	11,500
Extraordinary losses	28,907	–	(28,907)
Provision for reserve for dividends to policyholders	–	–	–
Income taxes	8,081	11,227	3,145
Net income	20,703	29,212	8,509

Notes: Since the year ended March 31, 2018, the disclosure method of the breakdown of ordinary profit relating to the effect of change in surrender values associated with market value adjustment has been modified. As a result, fundamental profit decreased by ¥53 million and capital gains increased by the same amount for the year ended March 31, 2018, compared to those before the modification. The figures for the year ended March 31, 2017 were also restated accordingly. As a result, fundamental profit increased by ¥110 million and capital gains decreased by the same amount for the year ended March 31, 2017, compared to those before the modification.

Non-Consolidated Solvency Margin Ratio

	Yen in millions	
	March 31, 2017	March 31, 2018
(A) Total amount of solvency margin	¥558,542	¥605,676
Total capital	126,749	149,053
Reserve for price fluctuation	84,000	72,500
Contingency reserve	74,456	75,597
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%	9,402	10,258
Net unrealized gains/(losses) on land × 85%	–	–
Excess of continued Zillmerized reserve (a)	241,219	267,415
Subordinated debts, etc. (b)	–	–
Amount excluded from the margin, out of (a) and (b)	–	–
Brought in capital	–	–
Deductions	–	–
Others	22,714	30,850
(B) Total amount of risks $\sqrt{(R_1+R_8)^2+(R_2+R_3+R_7)^2}+R_4$	108,399	121,997
Insurance risk (R_1)	89	117
Insurance risk of third sector insurance contracts (R_8)	5	4
Assumed interest rate risk (R_2)	41,902	45,460
Minimum guarantee risk (R_7)	3,722	2,655
Asset management risk (R_3)	60,647	71,487
Business administration risk (R_4)	2,127	2,394
(C) Solvency margin ratio [(A) / {(B) × 1/2}] × 100	1,030.5%	992.9%

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.
MS Amlin	MS Amlin plc
MS First Capital	MS First Capital Insurance Limited
ReAssure	ReAssure Jersey One Limited
Challenger	Challenger Limited

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 2018, the MS&AD Insurance Group was included in the following ESG-related indices.

CDP's Climate A List	**The "Bronze Class" CSR rating by RobecoSAM**	**Dow Jones Sustainability Indices (World / Asia Pacific)**
FTSE4Good Index Series	**FTSE Blossom Japan Index**	**MSCI Japan ESG Select Leaders Index***
MSCI Japan Empowering Women Index (WIN)*	**Morningstar Socially Responsible Investment Index**	**ECPI Indices**

*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.

Third-Party Assurance

To improve the objectiveness and accuracy of our MS&AD Integrated Report 2018, 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

STEP 1

Planning

- Examination of the calculation method for the data subject to assurance and the company's outline of business
- Formulation of assurance engagement plan based on risk assessment

STEP 2

Implementation of assurance procedures

- Implementation of a site visit and analysis of compiled data

STEP 3

Review of draft report

- Confirmation that required corrections have been completed
- Reviewing the draft report to determine whether the assured information is presented appropriately

STEP 4

Submitting the assurance report

- Review by a reviewer not directly involved in the assurance engagement
- Submission of the assurance report

Information subject to the assurance engagement

- CO_2 emissions, total energy consumption*
- Number and ratio of female managers
- Number and ratio of global employees
- Number and ratio of employees with disabilities

* Details regarding the method for calculating data can be found on our official website. 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, 2017 to March 31, 2018 (the "Indicators") disclosed in the Company's MS&AD Integrated Report 2018 (the "Report") for the fiscal year ended March 31, 2018.

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 the "International Standard on Assurance Engagements (ISAE) 3000, Assurance Engagements other than Audits or Reviews of Historical Financial Information" and the "ISAE 3410, Assurance Engagements on Greenhouse Gas Statements" issued by the International Auditing and Assurance Standards Board. 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 the Company's responsible personnel to obtain an understanding of its policy for preparing 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 procedures on 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 recalculating the Indicators.
- Visiting the Company's Tokyo Customer Center Building selected on the basis of a risk analysis.
- Evaluating the overall presentation of the Indicators.

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 20, 2018

On the issuance of the MS&AD Integrated Report 2018

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 offers the opportunity for constructive dialogue with many stakeholders, including shareholders, investors, and employees, in regard to the Group's story of value creation.

In the MS&AD Integrated Report 2018, we explain "Vision 2021," our new medium-term management plan, while we also review the previous medium-term management plans and introduce the various initiatives aiming for the Group's 2030 goal of realizing a "resilient and sustainable society."

We have also included a section detailing the strengths of the Group to enhance the description about our management feature that leverages diversity, which is the core of the Group's ongoing focus on sustainable growth in the face of environmental change.

With the goal of improving the objectivity and accuracy of the report, we have engaged the services of a third-party assurance firm to independently verify the key non-financial data indicated since fiscal 2017. For the results of the third-party verification included in the MS&AD Integrated Report 2018, please see page 188. Moreover, President & 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.

September 2018
Director, Executive Vice President, CFO

Shiro Fujii

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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https://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 might 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.

www.ms-ad-hd.com

Advancing with you

MS&AD Holdings

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