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)

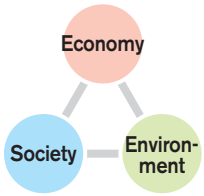
Scale	Within the top 10 non-life insurance groups in the world
Capital efficiency	Group Adjusted ROE 10%
Financial soundness	ESR 180% - 220%
Portfolio diversity	50% (profit basis) in other than the domestic non-life insurance business
Risk assets	Strategic equity holdings below 30% of integrated risk 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.

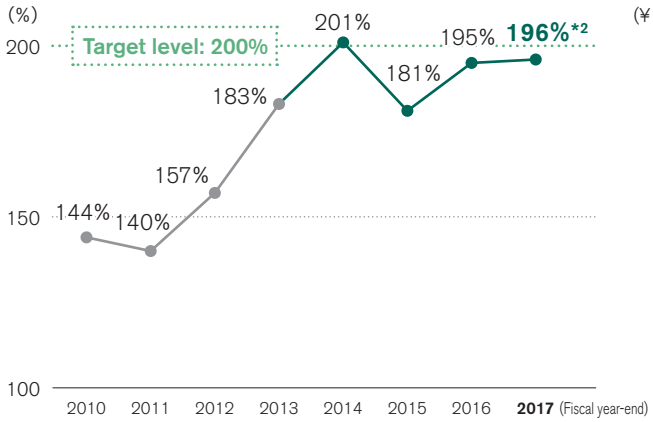
Plan to reduce strategic equity holdings

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.

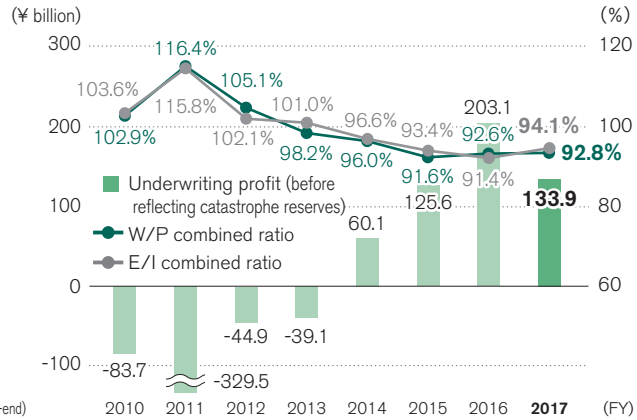
ESR*1



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

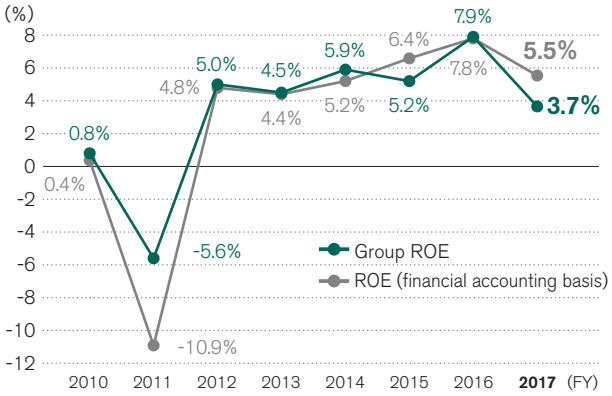
Adoption of new technologies, the conducting of all kinds of demonstration experiments and research through industry-academia cooperation, etc., to respond to the digital society
Ongoing tasks toward further quality and productivity improvements

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

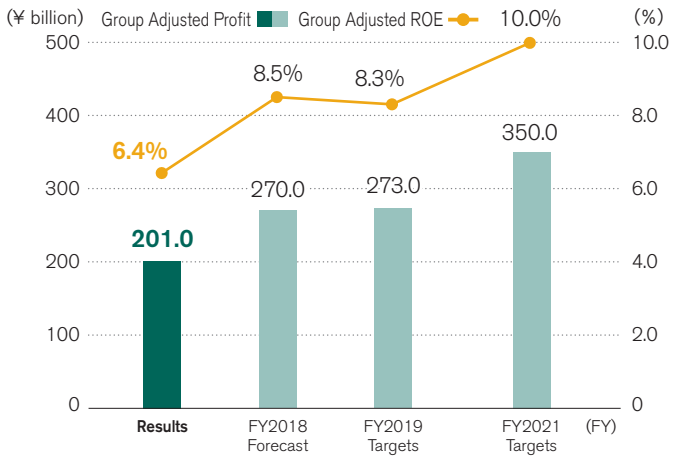
(¥ billion)

	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%	

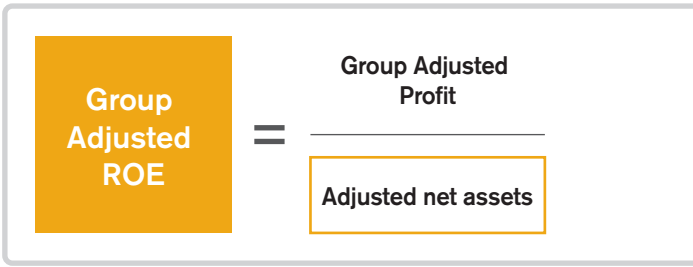
Sales Target of Strategic Equity Holdings

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

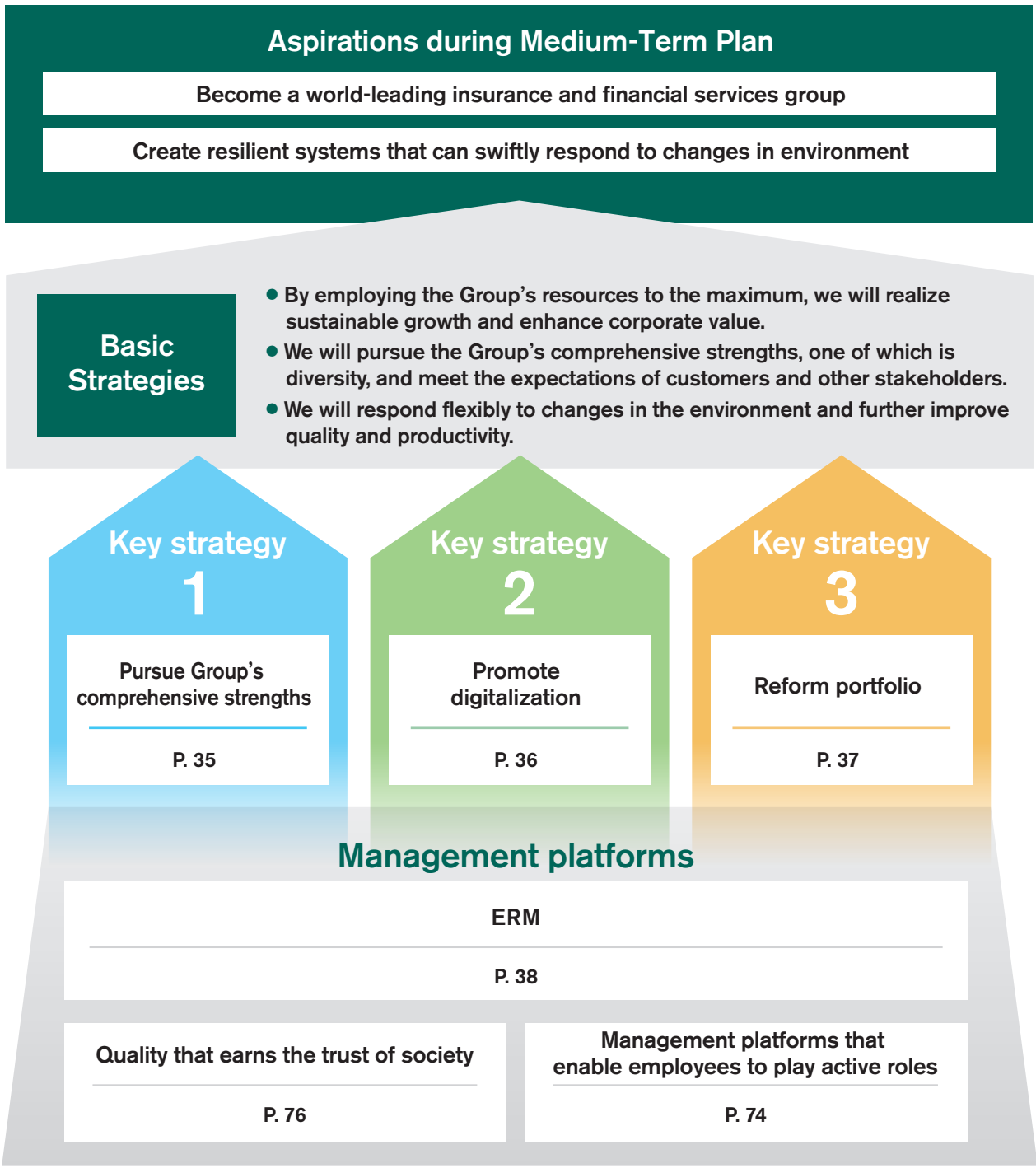
Vision 2021

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.



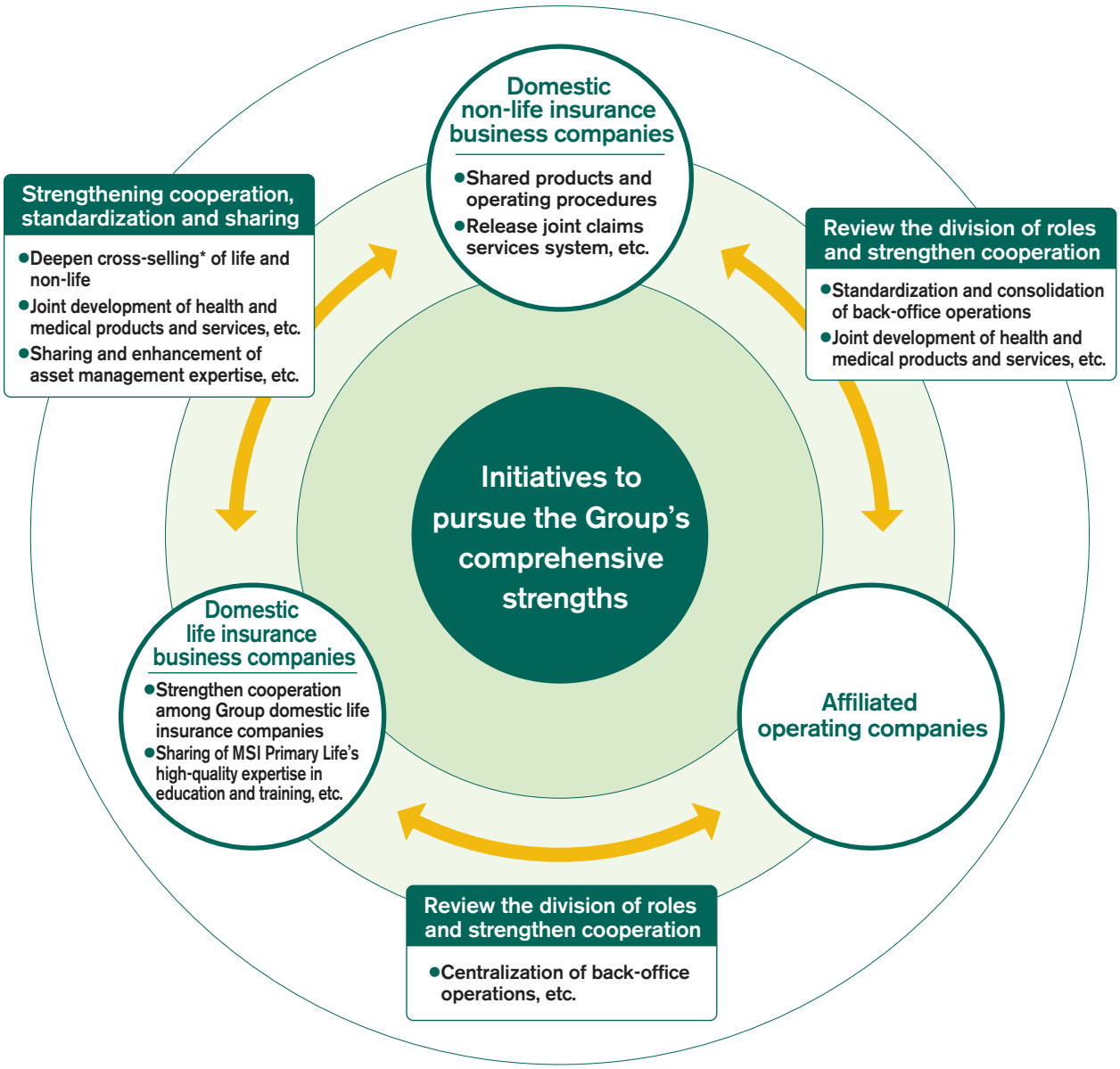
Vision 2021 Key Strategy 1

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

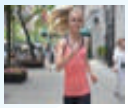
Robotics

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

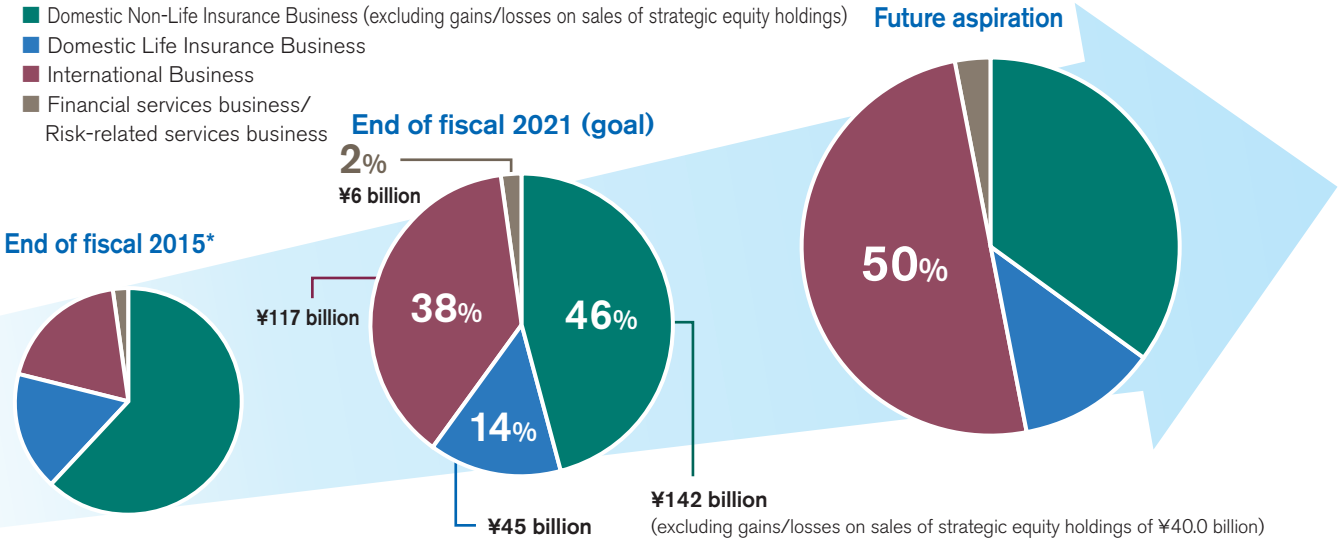
Reform Portfolio

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

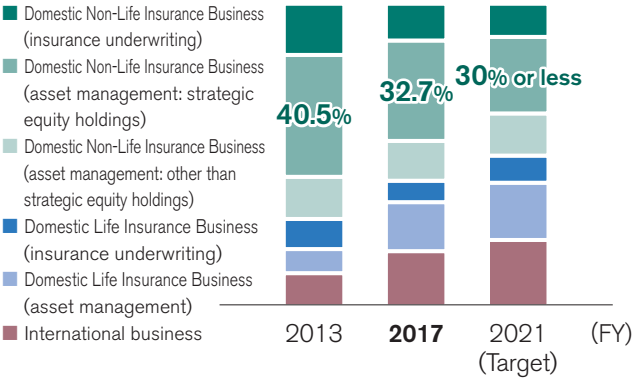
- **Exercise appropriate risk control based on cycle management of natural catastrophe risks.**
- **Continue reduction of strategic equity holdings and keep weighting vs. consolidated total assets to less than 10% and weighting vs. risk amount to less than 30%.**

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

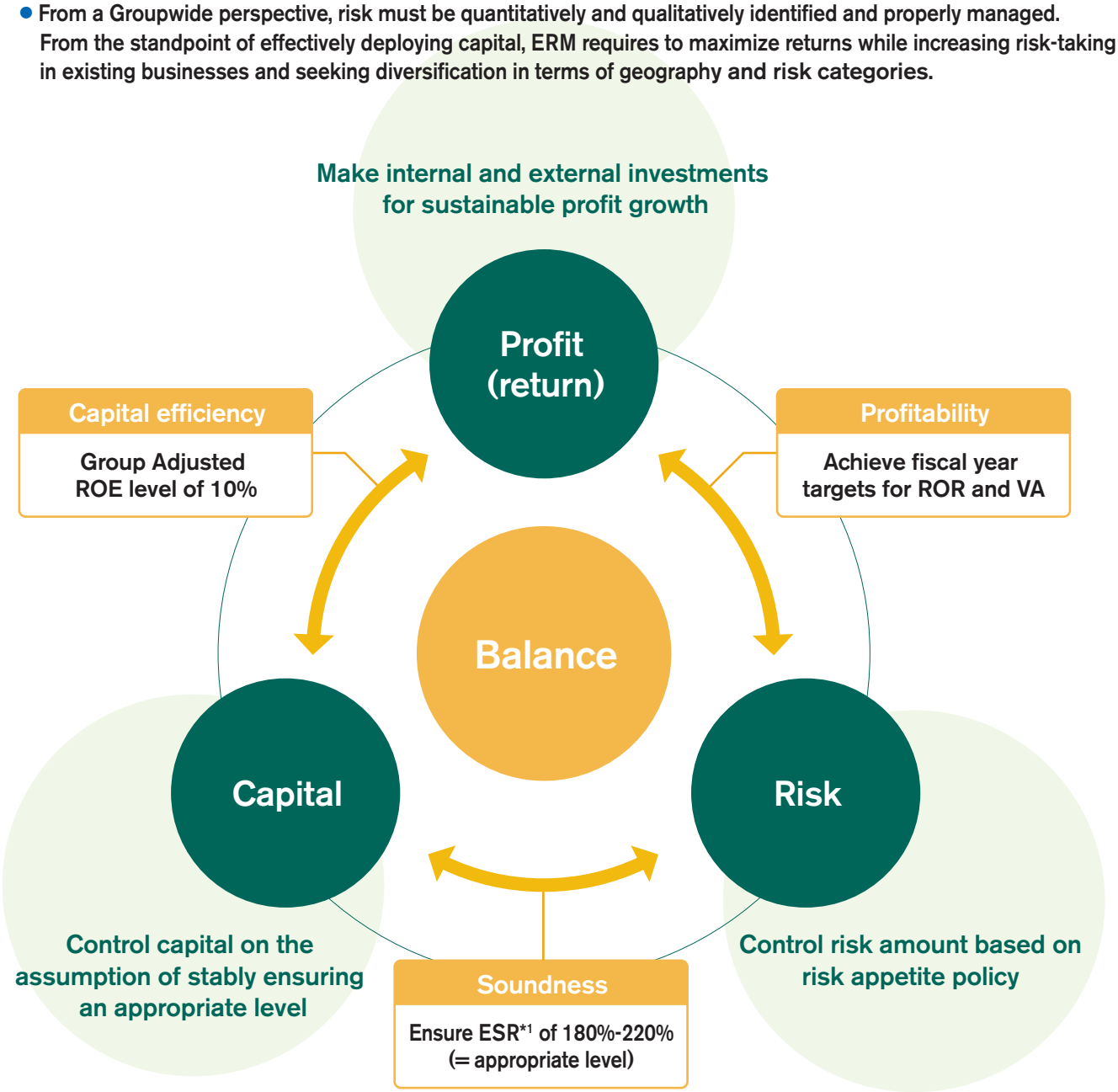
Group Management Based on ERM

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.

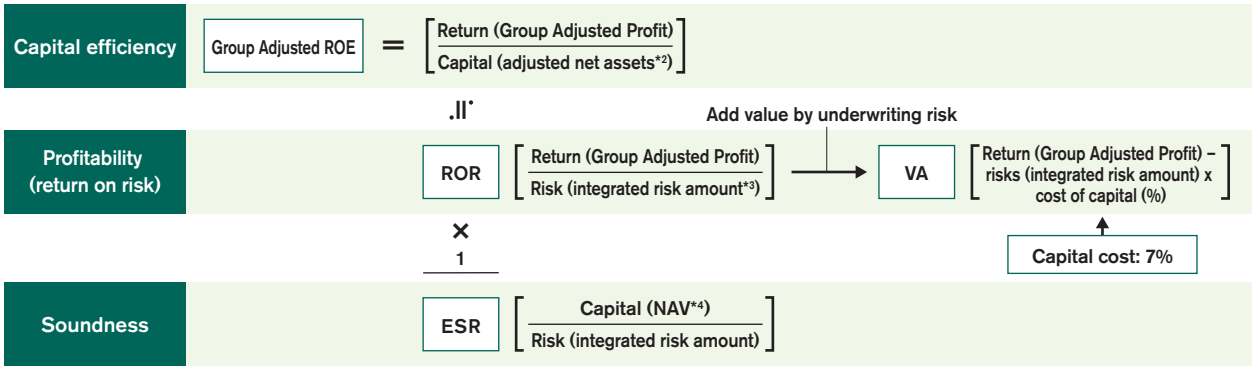
Function and Role of ERM

- **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.

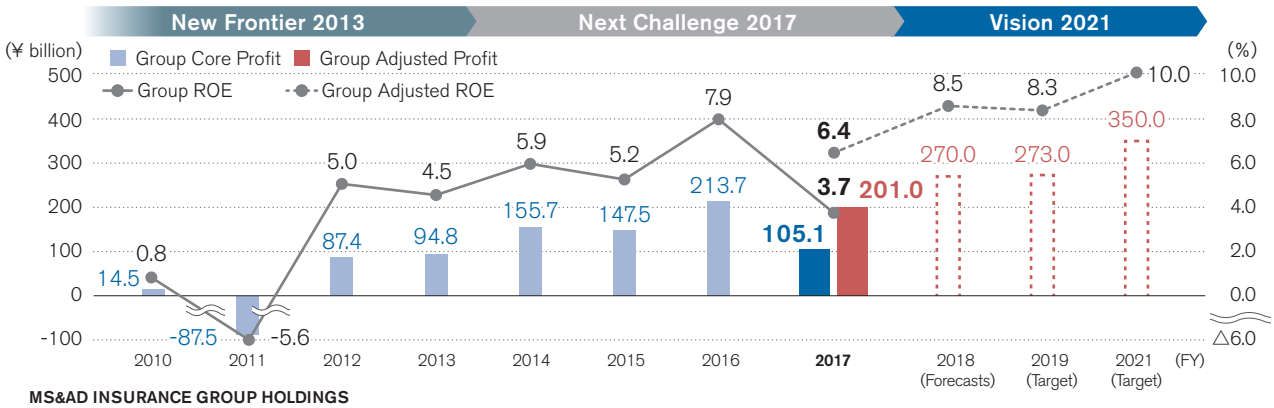
Although Group ROE of 7.5%, the target under "Next Challenge 2017," was achieved in fiscal 2016, Group ROE fell to 3.7% in fiscal 2017 due to large-scale natural disasters.

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.

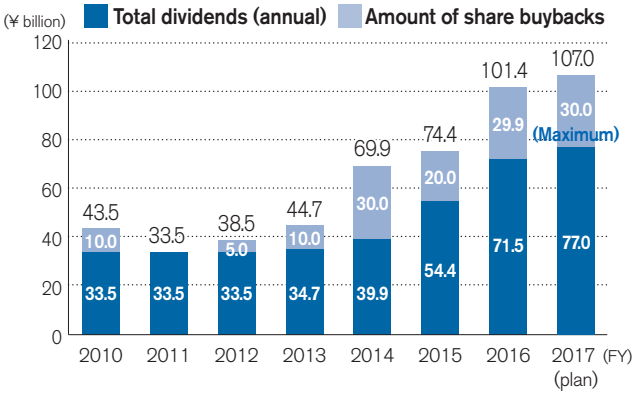
In May 2018, the MS&AD Insurance Group announced a ¥30 billion (maximum) share buyback, and it was flexibly implemented with due consideration paid to market conditions.

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



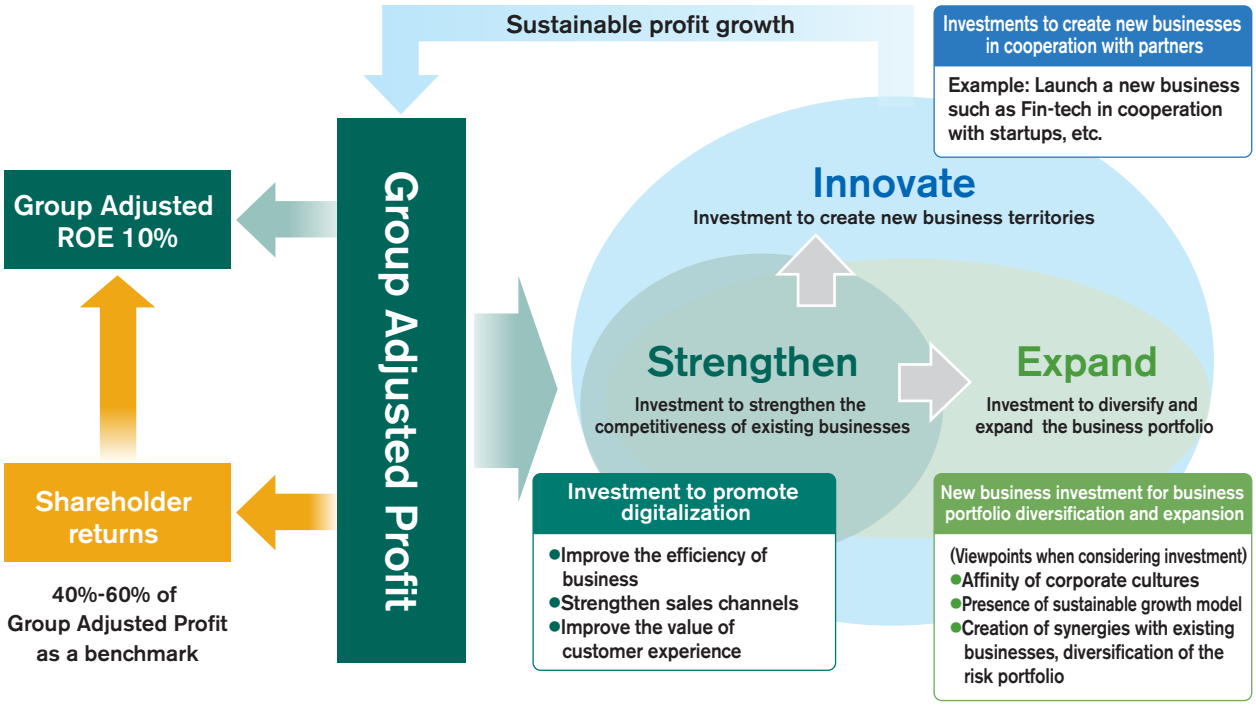
Our Approach to Internal Reserves

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

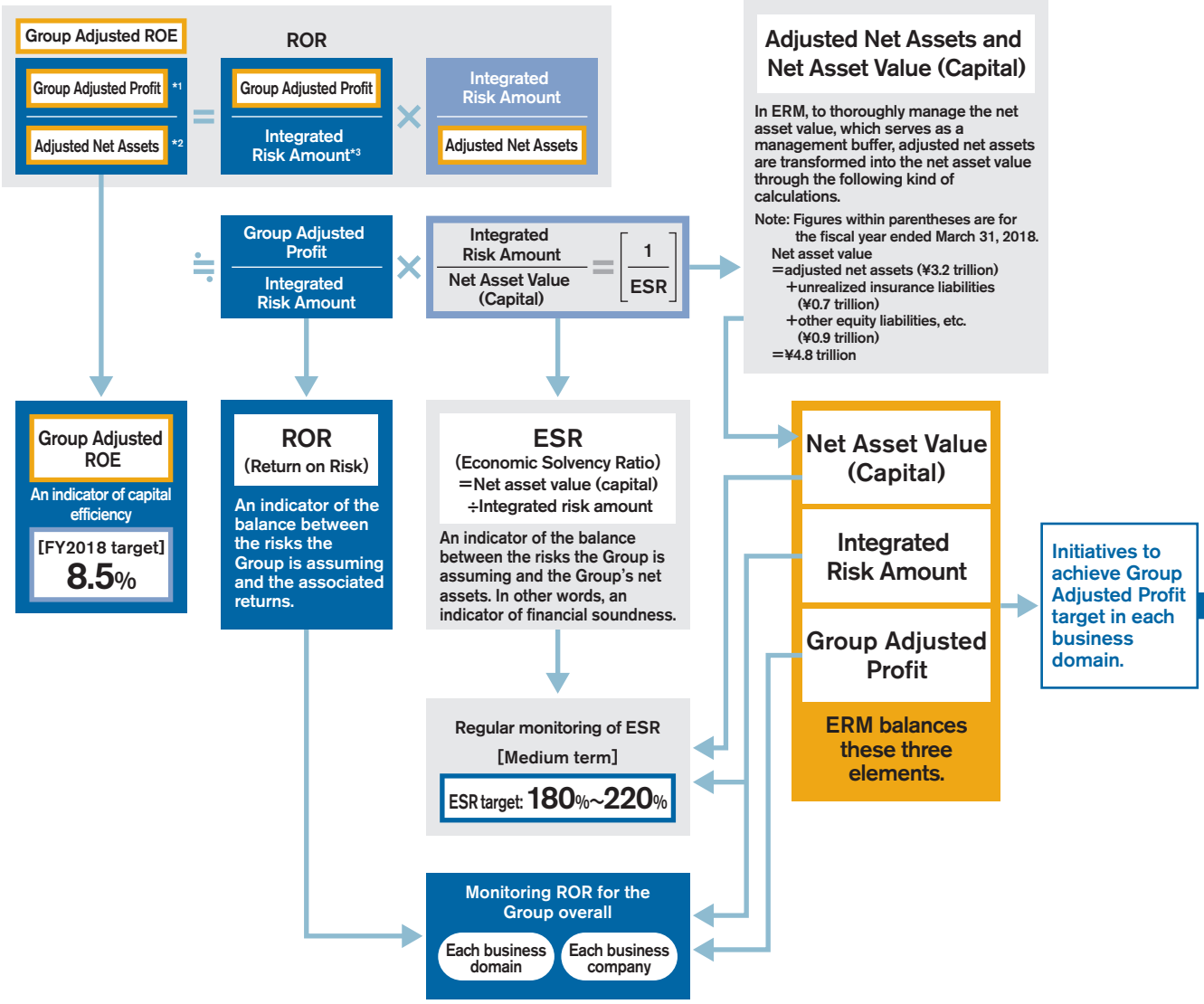
Components of Group Adjusted ROE

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).

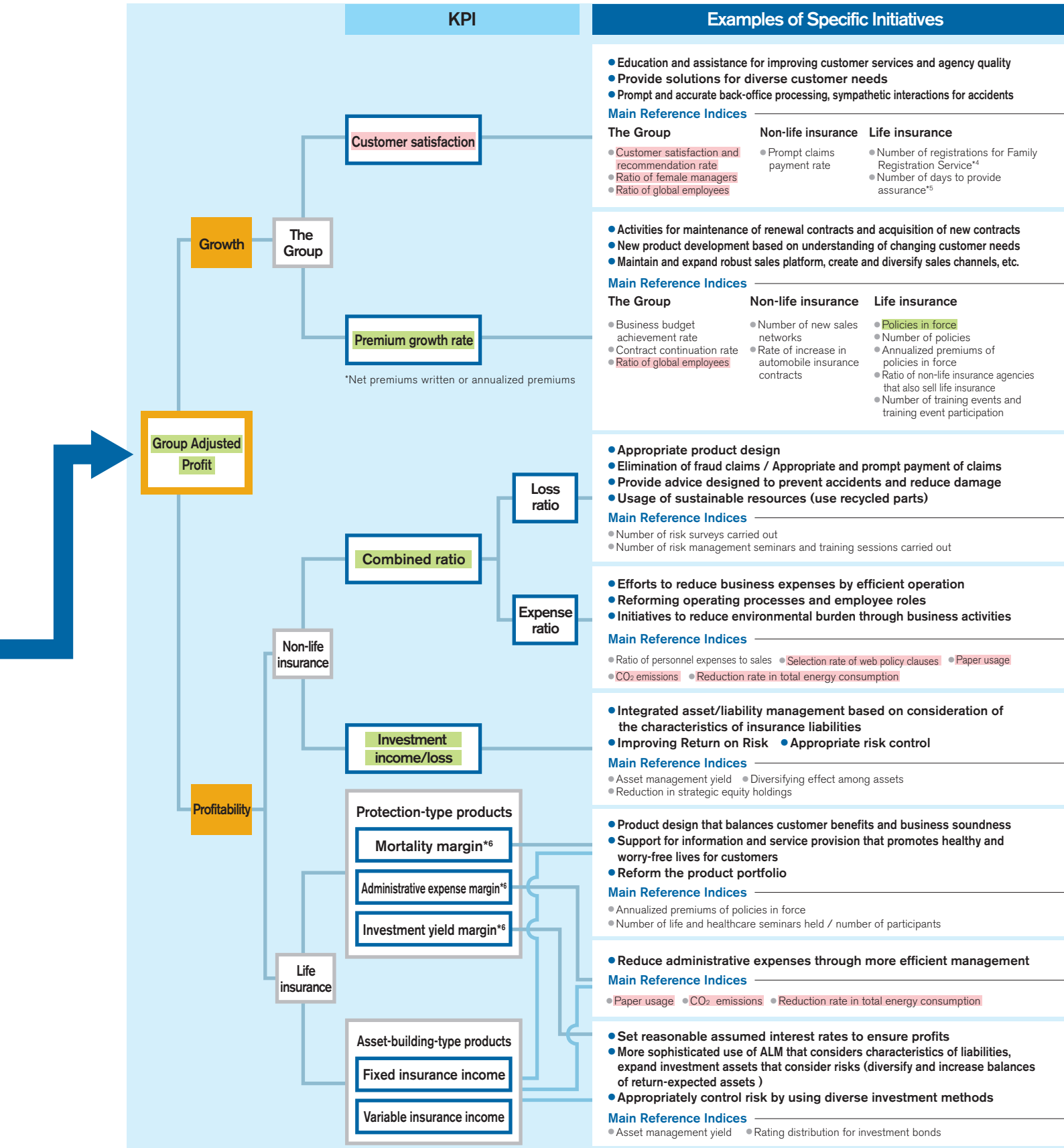
Ensuring Balance by ERM Management

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

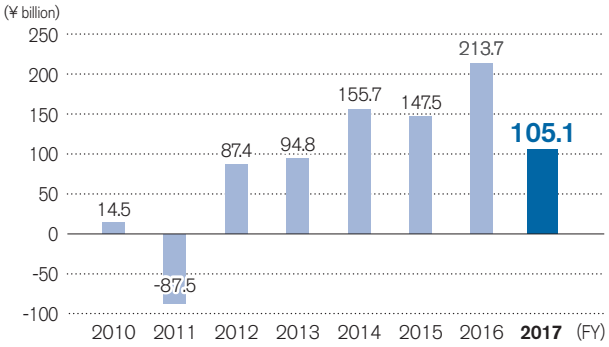


See Financial Highlights on P. 44. See Non-Financial Highlights on P. 45.

Financial and Non-Financial Highlights

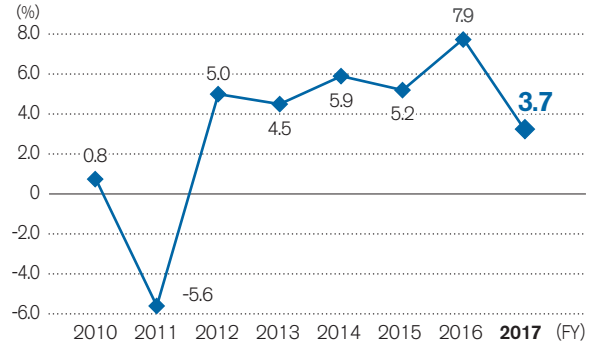
Financial Highlights

Group Core Profit



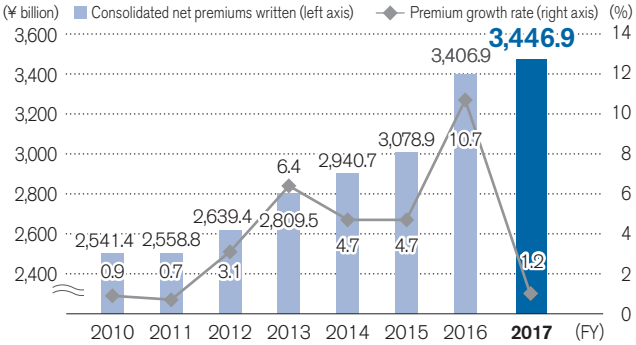
Group Core Profit is a representation of underlying Group profits for external stakeholders, including shareholders and investors. It was included in the numerical management targets in medium-term management plans up to FY2017. Group Core Profit is calculated by deducting non-recurring profits (i.e.,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

Group ROE



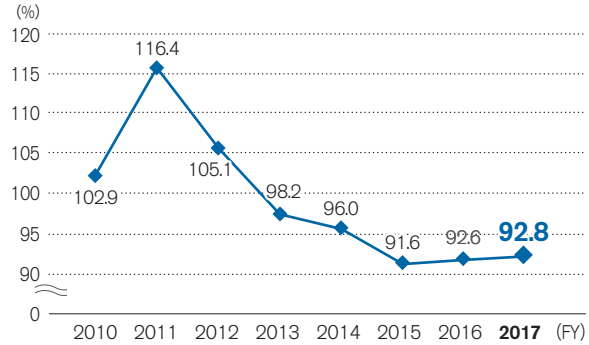
Group ROE is the ratio of Group Core Profit to consolidated net assets. It was a numerical management target in medium-term management plans up to FY2017.
(See the "Glossary of Insurance Terminology" section (P. 93) for details.)

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



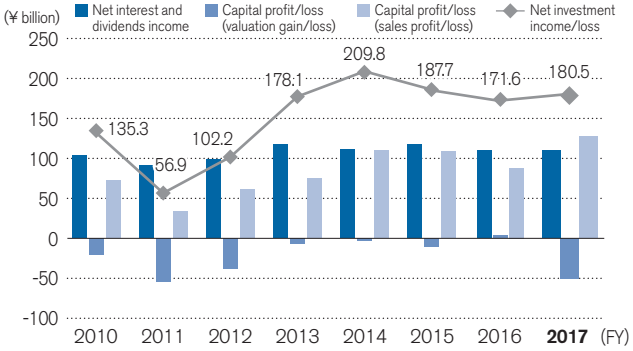
Consolidated net premiums written is a numerical management target in medium-term management plans. A premium growth rate indicates growth potential in premium income in domestic non-life insurance business and international non-life insurance business.

Combined ratio (domestic non-life insurance business)



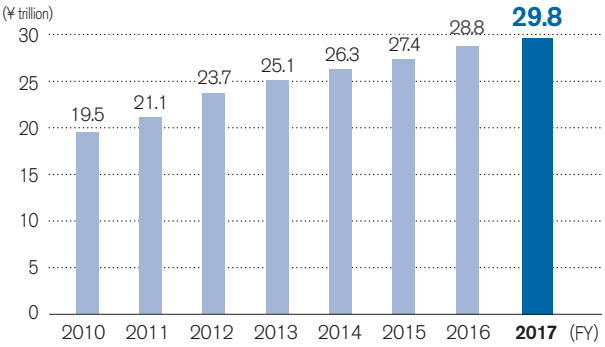
The combined ratio is a key indicator of profitability in underwriting in the non-life insurance business. It was a numerical management target in medium-term management plans up to FY2017.
(See the "Glossary of Insurance Terminology" section (P. 92) for details.)

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)



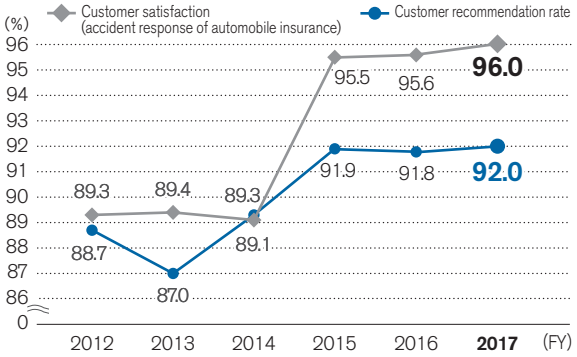
Policies in force is a basic performance indicator for life insurance companies that are the outstanding amount of valid insurance policies owned by insurance company at the end of fiscal year, and the grand total amount guaranteed to policyholders.
(See the "Glossary of Insurance Terminology" section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

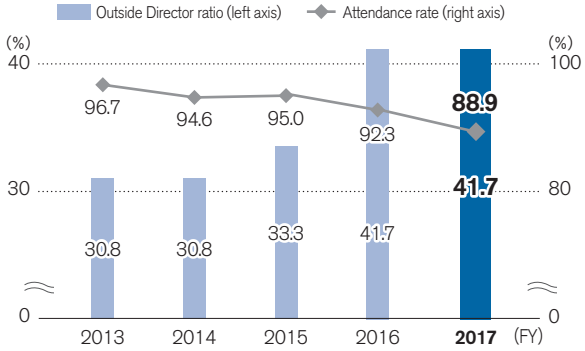
A checkmark (✓) indicates that FY2017 figures have been assured by KPMG AZSA Sustainability Co., Ltd.

Customer satisfaction and customer recommendation rate*4



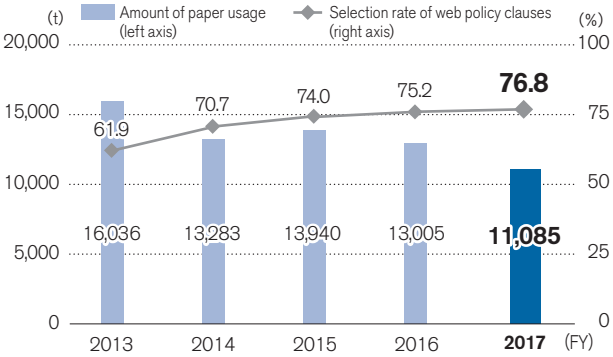
Our growth potential depends on improving customer satisfaction and customer recommendation rates. Along with these indicators, customer opinions are helpful in improving quality.

Outside Director ratio and the Board of Directors attendance rate



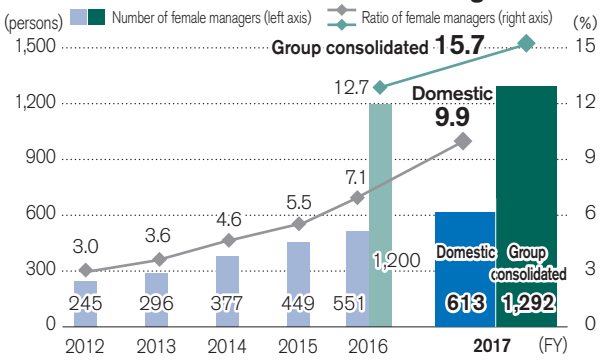
Outside directors independent from management strengthen monitoring and oversight functions for highly transparent management. More than one-third of the Board of Directors are independent Outside Directors.

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.

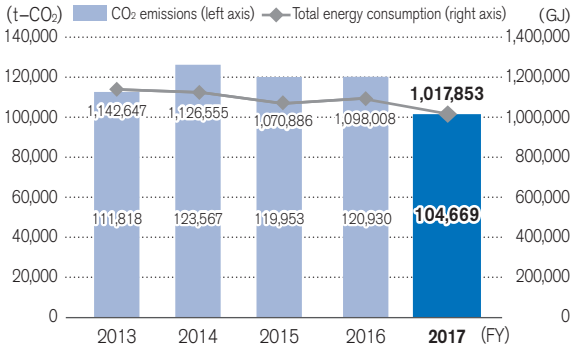
✓Number and ratio of female managers*7



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.

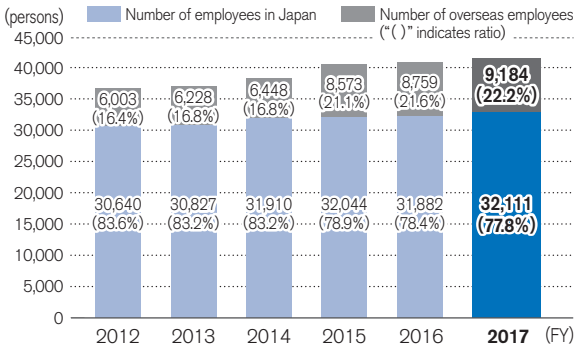
We began tallying this data on a Group consolidated basis, including overseas, in FY2016.

✓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.

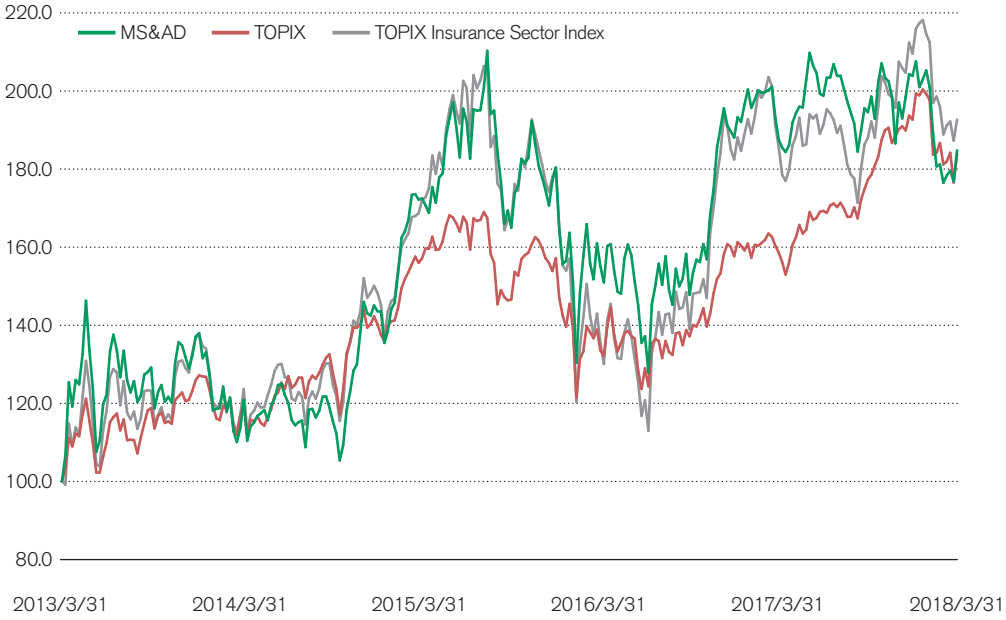
Key Management Indicators and Total Shareholder Return (TSR)

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

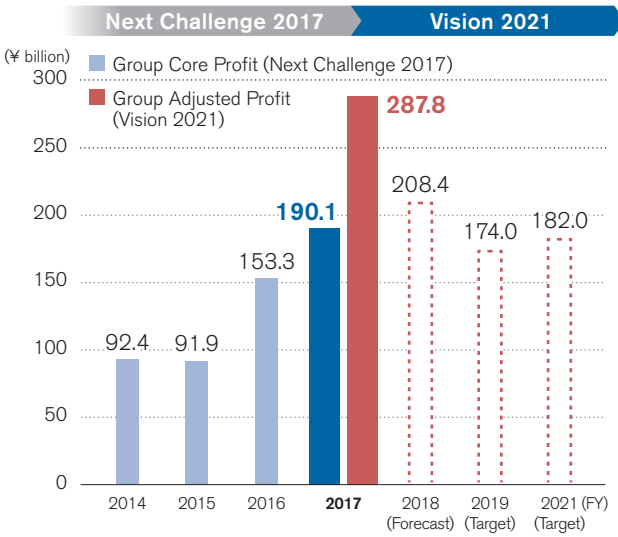
*1 Figures are presented exclusive of the Good Results Return premiums of Mitsui Sumitomo Insurance's proprietary automobile insurance product "ModoRich," which contains a special clause for premium adjustment and refund at maturity.
*2 The net income or net loss attributable to the parent company shareholder 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.)

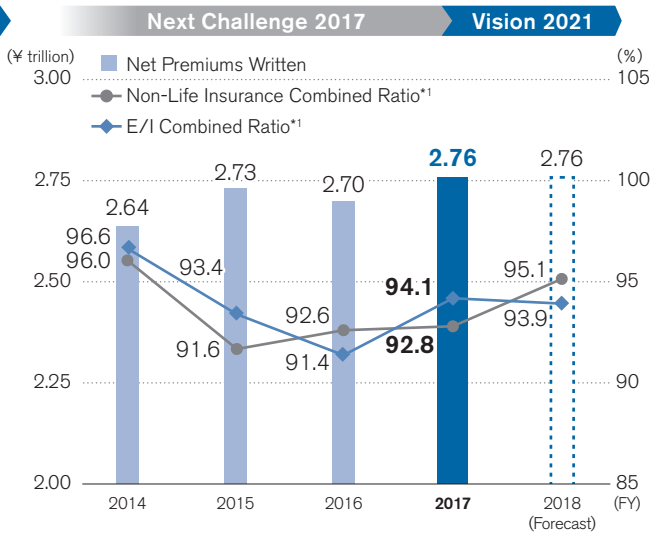
Domestic Non-Life Insurance Business

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.

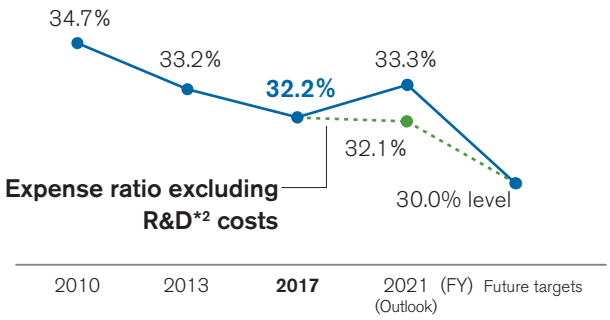
Reinforce R&D

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

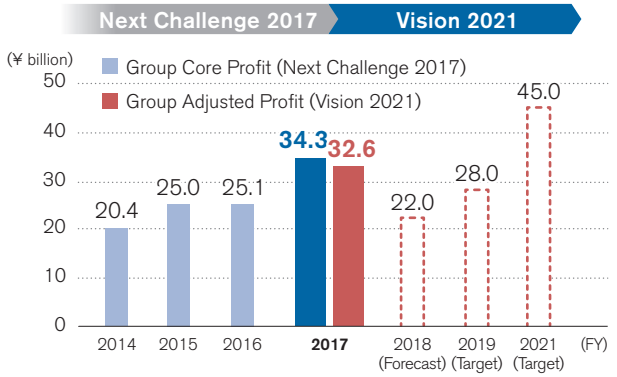
Domestic Life Insurance Business

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

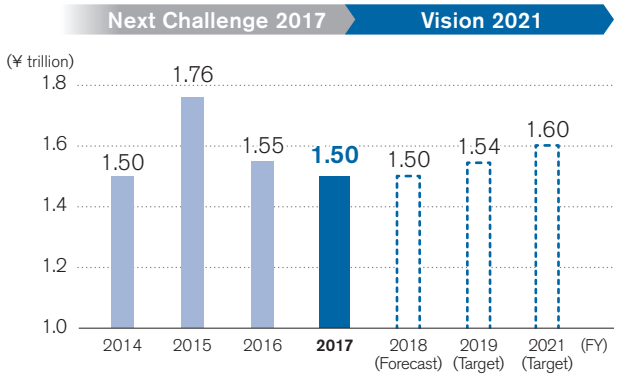
Industry-leading growth and earnings potential will be realized by Mitsui Sumitomo Aioi Life Insurance, which offers medical/nursing care products as well as death benefit and other protection-type life insurance products, and Mitsui Sumitomo Primary Life Insurance, which offers asset-building-type products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

Group Numerical Management Targets

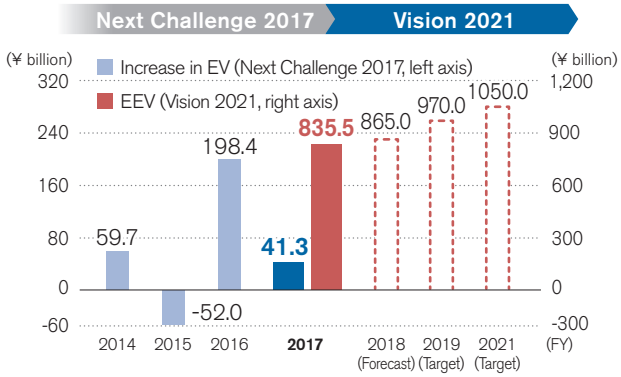
Group Core Profit, Group Adjusted Profit



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.

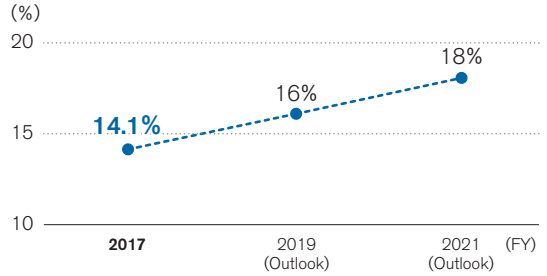
Mitsui Sumitomo Aioi Life Insurance

- 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

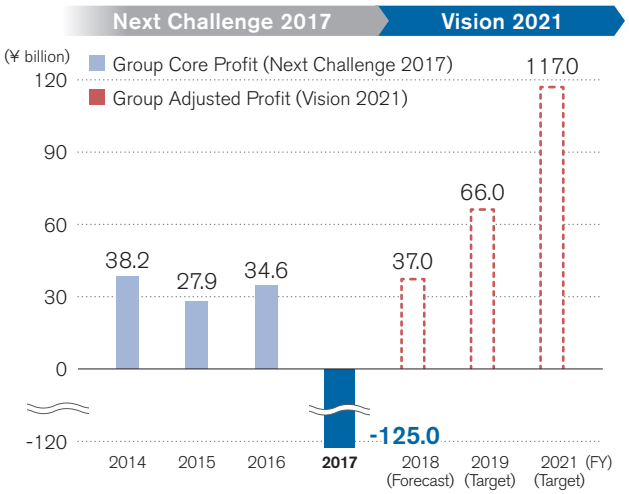
	Mitsui Sumitomo Aioi Life Insurance	Mitsui Sumitomo Primary Life Insurance
Pursue the Group's Comprehensive Strengths	Deepen further cross-selling channels via integrated life and non-life operations	Share high-quality know-how of education and training for sales and marketing within the Group
	Strengthen 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

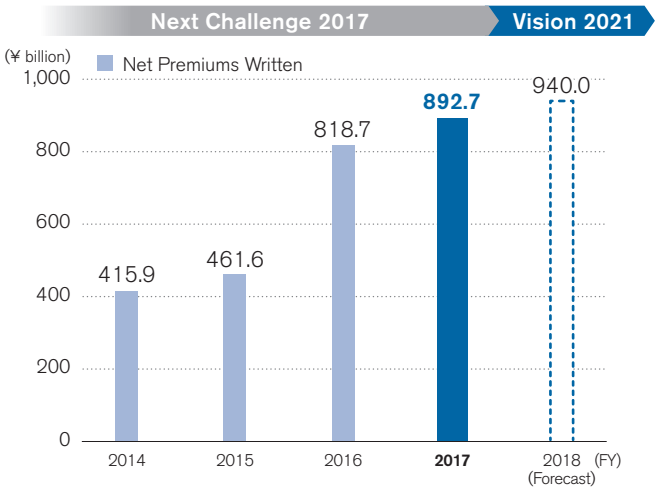
International Business

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

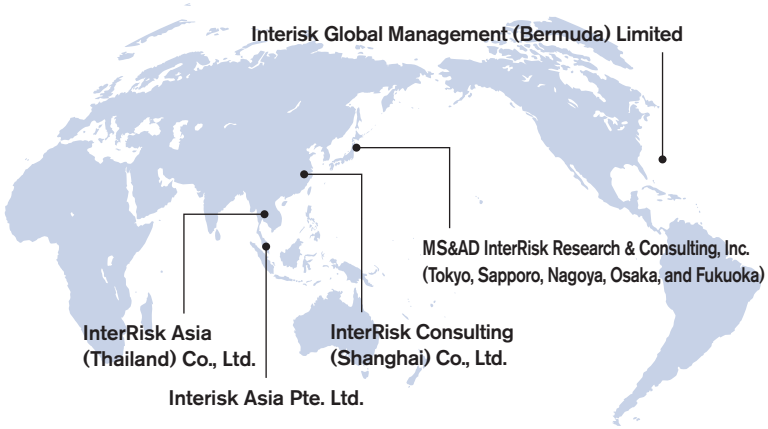
The Group's risk management business is developing its operations based on a business model that emphasizes three concepts – "(1) early risk discovery, (2) risk magnitude and incidence frequency reduction, and (3) eventuated risk impact minimization." Insurance and other financial products are employed 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

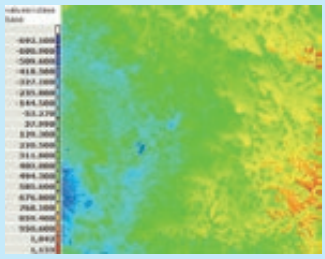


TOPICS **Multifaceted Support for ESG Investment at Corporations**

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

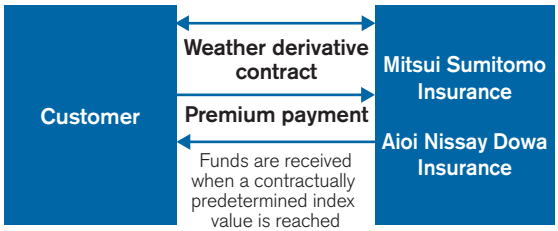
In its Financial Services Business, the MS&AD Insurance Group offers various financial solutions and services that make use of its strengths. The Group is developing and providing various new financial products and services to address increasingly diverse customer needs, leveraging the full range of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

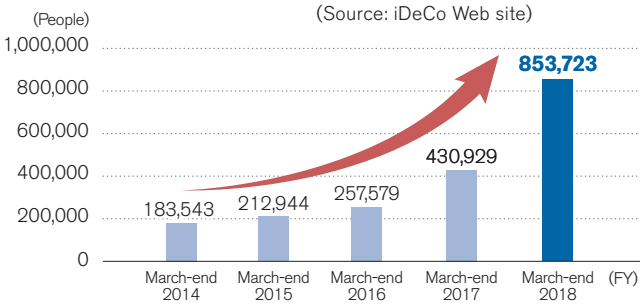
FY2014	FY2015	FY2016	FY2017
4.3	2.6	0.2	5.4

* 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)