

May 20, 2020

Mitsui Sumitomo Aioi Life Insurance Co., Ltd

Disclosure of European Embedded Value as of March 31, 2020

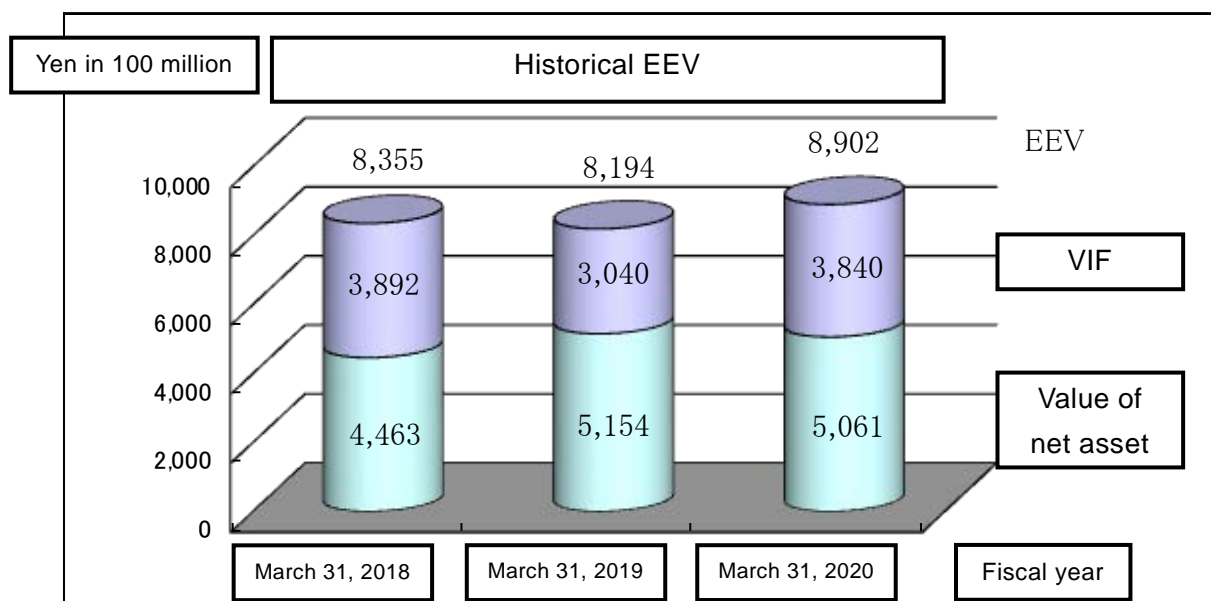
Mitsui Sumitomo Aioi Life Insurance Co, Ltd. (hereinafter “MSI Aioi Life” or “the Company”; President: Hitoshige Tambo), a member of the MS&AD Insurance Group, hereby discloses the European Embedded Value (“EEV”) as of March 31, 2020.

【Executive Summary】

The Company’s EEV at March 31, 2020 was Yen 890.2 billion, an increase of Yen 70.7 billion (8.6%) from the EEV at March 31, 2019. The main reasons for the increase are the additional value generated by the acquisition of new contracts (Yen 49.4 billion increase) and by the transfer* of long-term third sector insurance contracts (Yen 70.5 billion increase), in spite of the decrease in value due to the change in the economic environment (Yen -57.5 billion).

From the start of operations in October 1996, the average growth rate versus the cumulative capital invested of Yen 197.5 billion has been 10.6% per annum.

*Long-term third sector insurance contracts were transferred from Mitsui Sumitomo Insurance Co, Ltd. and Aioi Nissay Dowa Insurance Co, Ltd. in April 1, 2019 resulting from the reorganization of the MS&AD Insurance Group.



【Attachments】

March 31, 2020 EEV

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1. Overview

1-1. Embedded Value

Embedded value (“EV”) is calculated by adding the value of net assets at the valuation date to the discounted present value of future profits arising from the in-force business at the valuation date (“Value of In-Force”).

Business performance can be difficult to interpret using current statutory accounting which applies initial costs at the time of an insurance contract sale, with profits emerging in later years. By considering the present value of future profits of in-force business, the EV can be considered to be a useful supplement to statutory accounting measures regarding business performance and company value.

1-2. EEV

The EEV Principles and related guidance were published in May 2004 by the CFO Forum, an organization comprising the chief financial officers of Europe's leading life insurers, in order to improve consistency and transparency in EV reporting. In October 2005, further guidance on minimum required disclosures of sensitivities and other items was provided by the CFO Forum. In May 2016, an amended version of the EEV Principles was published by the CFO Forum which permits the use of projection methods and assumptions aligned with those applied for the European Solvency II regime, which came into effect in January 2016, and equivalent market consistent solvency regimes. EEV is the EV calculated following the EEV Principles and related guidance, and the calculation of EEV has been adopted by a significant number of life insurers in Europe and Japan.

1-3. The Company's EEV

The EEV disclosed herein covers only the business of the Company. As a result, the EEV disclosed herein is not the consolidated EEV of MS&AD Insurance Group, and does not cover the business of other life insurers, non-life insurers, or reinsurers within the Group

In the calculation of EEV, the Company has adopted a market-consistent approach – an approach which values cash flows from both assets and liabilities of a company consistently with comparable financial instruments traded in the market. A market-consistent approach is currently being adopted within Europe's Solvency II regime and new regulations for adopting a similar approach for Japanese life insurers are currently being considered. We have chosen a market consistent approach to reduce the subjectivity of the valuation of risk in the EV, and also, through the adoption of the EEV Principles and associated guidance, to increase the transparency and comparability of the calculation of our results. Further, we consider that the use of a net worth based on market values enhances the EV as an indicator of business performance and company value.

We note that this EEV was not prepared on the basis of the European Insurance CFO Forum

Market Consistent Embedded Value Principles ©¹.

1-4. Use of EV

In calculating the EV of the Company, numerous assumptions are required concerning the future, which is inherently uncertain. As a result, future conditions may differ, perhaps significantly, from those assumed in the calculation of the embedded value. Further, the EV is not the only indicator of the value of a company, and investors may incorporate other information into their views on the value of a company which may differ significantly from the EV. Sufficient caution should be exercised when using the EV, with the aforementioned considerations kept in mind.

Moreover, we did not directly consider the potential impact of the Coronavirus (COVID-19²) when setting assumptions in calculating the embedded value.

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² the coronavirus outbreak named as COVID-19 by the World Health Organization on 11 February 2020.

2. EEV Calculation Results

2-1. The Company's EEV

The Company's EEV at March 31, 2020 was Yen 890.2 billion, an increase of Yen 70.7 billion from the EEV at March 31, 2019. Despite the decrease in value due to the change in the economic environment (mainly the decrease in the market interest rates and stock price movements), the main reasons of the EEV increase were the acquisition of new contracts and the in-force transfer of long term Third Sector policies, such that the value of net assets was Yen 506.1 billion, a decrease of Yen 9.2 billion, and the value of in-force business was Yen 384.0 billion, an increase of Yen 79.9 billion.

(Yen billions)

| | March 31, 2019 | March 31, 2020 | Increase (decrease) |
|----------------------------|----------------|----------------|------------------------|
| EEV | 819.4 | 890.2 | 70.7 |
| Value of net assets | 515.4 | 506.1 | (9.2) |
| Value of in-force business | 304.0 | 384.0 | 79.9 |
| Value of new business | 65.7 | 49.4 | (16.2) |

2-2. Value of Net Assets

The value of net assets represents the market value of assets in excess of policyholder and other liabilities.

In other words, adjusted net worth is calculated by adjusting the total net assets on the balance sheet for the retained earnings in quasi-equity liabilities, the general reserve for possible loan losses, unrealized gains or losses in assets or liabilities not accounted for under the mark-to-market methodology, unfunded pension benefit obligations, and tax effect equivalents on the items above. The breakdown of the Company's adjusted net worth is as follows:

(Yen billions)

| | March 31, 2019 | March 31, 2020 | Increase (decrease) |
|---------------------------------------|----------------|----------------|------------------------|
| Value of net assets | 515.4 | 506.1 | (9.2) |
| Net assets (Note 1) | 193.8 | 198.1 | 4.3 |
| Contingency reserve | 35.0 | 38.8 | 3.8 |
| Price fluctuation reserve | 7.7 | 8.7 | 0.9 |
| Unallocated dividend reserves | 0.4 | 0.4 | 0.0 |
| General reserve for possible loan | 0.0 | 0.0 | (0.0) |
| Unrealized gains/losses on securities | 400.8 | 377.0 | (23.8) |
| Unrealized gains/losses on loans | 2.8 | 3.0 | 0.1 |
| Unfunded pension benefit obligations | (0.3) | (0.3) | 0.0 |
| Tax effects on the above | (125.0) | (119.7) | 5.3 |

(Note 1): Excluding unrealized gains and losses on balance sheet.

2-3. Value of In-force Business

The value of in-force business corresponds to the present value of future profits arising from business in-force at the valuation date. The breakdown by item is as follows:

(Yen billions)

| | March 31, 2019 | March 31, 2020 | Increase (decrease) |
|---|----------------|----------------|------------------------|
| Value of in-force business | 304.0 | 384.0 | 79.9 |
| Certainty equivalent present value of future profits | 428.4 | 500.7 | 72.2 |
| Time value of financial options and guarantees | (63.2) | (45.3) | 17.9 |
| Cost of holding required capital | (6.5) | (4.9) | 1.5 |
| Allowance for non-financial risks | (54.6) | (66.4) | (11.7) |

- The certainty equivalent present value of future profits is the discounted present value of after-tax profits. The assumed investment return and discount rate are both aligned at the risk free rate.
- The time value of financial options and guarantees is the value associated with the fluctuation of future cash flows, i.e. it is the value aside from the base value which is captured in the certainty equivalent present value of future profits.
- The cost of holding required capital arises from the taxation on investment returns on required capital assets and the investment expenses on the required capital assets.
- The allowance for non-financial risks covers costs not otherwise included in the certainty equivalent present value of future profits or the time value of financial options and guarantees, including operational risk and other risk.

2-4. Value of New Business

The value of new business is the value at the valuation date (the end of the reporting period), of new policies acquired during the reporting period. The method of calculating the value, and the assumptions employed, are the same as for the value of in-force business.

(Yen billions)

| | March 31, 2019 | March 31, 2020 | Increase (decrease) |
|---|----------------|----------------|------------------------|
| Value of new business | 65.7 | 49.4 | (16.2) |
| Value of net assets | (36.2) | (34.8) | 1.4 |
| Value of future profits | 101.9 | 84.2 | (17.7) |
| Certainty equivalent present value of future profits | 113.9 | 96.6 | (17.3) |
| Time value of financial options and guarantees | (0.1) | (0.1) | (0.0) |
| Cost of holding required capital | (0.2) | (0.1) | 0.0 |
| Allowance for non-financial risks | (11.6) | (12.0) | (0.4) |

The new business margins are as follows:

(Yen billions)

| | March 31, 2019 | March 31, 2020 | Increase (decrease) |
|---|----------------|----------------|------------------------|
| Value of new business | 65.7 | 49.4 | (16.2) |
| Present value of future premium income | 686.5 | 483.3 | (203.1) |
| New business margin | 9.6% | 10.2% | 0.7% |

- The present value of future premium income is the future premium income discounted at the risk free rate.
- The new business margin is the value of new business divided by the present value of future premium income.

3. Movement Analysis of EEV

(Yen billions)

| | Value of net assets | Value of in-force | EEV |
|---|---------------------|-------------------|--------|
| EEV at March 31, 2019 | 515.4 | 304.0 | 819.4 |
| (1) Opening adjustment | (1.1) | — | (1.1) |
| EEV at March 31, 2019 after adjustment | 514.3 | 304.0 | 818.3 |
| (2) New business in reporting year | (34.8) | 84.2 | 49.4 |
| (3) Expected existing business contribution at the risk free rate | (0.5) | 6.8 | 6.3 |
| (4) Expected existing business contribution above risk free rate | 0.7 | 4.5 | 5.3 |
| (5) Transfers from value of in-force to value of net assets | 4.1 | (4.1) | — |
| (6) Operating experience variances | (0.1) | (8.2) | (8.3) |
| (7) Changes in operating assumptions | — | 7.1 | 7.1 |
| (8) Economic variances and changes to economic assumptions | 21.6 | (79.2) | (57.5) |
| (9) Other operating movements | 0.7 | 68.9 | 69.6 |
| (10) Other non-operating movements | — | — | — |
| EEV at March 31, 2020 | 506.1 | 384.0 | 890.2 |

(1) Opening adjustment

Decrease of the value of net assets because of shareholders' dividends distributed in the fiscal year 2019.

(2) Value of new business

The value of new business represents the value, as at March 31, 2020, of the new business acquired during the year.

(3) Expected existing business contribution at the risk free rate

In the market consistent approach, future profits distributable to shareholders are discounted at the risk free rate to produce the value of in-force business. The expected existing business contribution at the risk free rate represents the unwinding of this discounting. This item includes the unwinding of the time value of options and guarantees, the cost of required capital, and the cost of non-financial risk.

(4) Expected existing business contribution above the risk free rate

The market consistent approach assumes all future investment returns are equal to the risk

free rate, but due to the actual risk characteristics of the assets held, a return in excess of the risk free rate is expected. This item represents the excess investment income expected over the risk free rate. For the expected return used, please refer to section 6-1-3.

(5) Transfers from value of in-force to the value of net assets

A part of the value of in-force business as of the end of the previous year (i.e. the profit associated with the current year) is transferred to the value of net assets. This item is the transferred value. The transfer does not increase or decrease the total EEV.

(6) Operating experience variances

This item is the result of differences between expected experience as at the end of the previous year, and realized experience.

(7) Changes to operating assumptions

This item represents the impact on future profits of changes in operating assumptions since the end of the previous year.

(8) Economic variances and changes to economic assumptions

This is the variance due to differences between economic assumptions (market interest rates, implied volatilities, and other assumptions) as at the end of the previous year, actual realized experience, and changes in economic assumptions.

While the value of net assets has increased due to investment income, the value of in-force has decreased as a result of long-term interest rates reducing over the year.

(9) Other operating movements

This item represents the impact on future profits of operational changes, excluding changes in operating assumptions. The impact of this fiscal year is mainly due to the increase in value from transferring long-term third sector insurance contracts. Model changes are included in this item.

(10) Other non-operating movements

No changes are included in this item.

4. Sensitivity Analysis

4-1. Sensitivity Analysis of EEV

The following table shows an analysis of the sensitivity of the EEV to changes in assumptions.

(Yen billions)

| Assumptions | EEV | Increase (decrease) |
|--|-------|------------------------|
| EEV at March 31, 2020 | 890.2 | — |
| Sensitivity 1: 50bp upward parallel shift in risk-free yield curve | 970.1 | 79.9 |
| Sensitivity 2: 50bp downward parallel shift in risk-free yield curve | 768.7 | (121.4) |
| Sensitivity 3: 10% decline in equity and real estate values | 886.2 | (3.9) |
| Sensitivity 4: 10% decline in maintenance expenses | 921.3 | 31.1 |
| Sensitivity 5: 10% decline in surrender and lapse rates | 859.8 | (30.3) |
| Sensitivity 6: 5% decline in mortality and morbidity rates for life insurance products | 943.5 | 53.3 |
| Sensitivity 7: 5% decline in mortality and morbidity rates for annuity products | 890.0 | (0.1) |
| Sensitivity 8: Equity and property implied volatility increase of 25% | 890.2 | 0.0 |
| Sensitivity 9: Swaption implied volatility increase of 25% | 861.5 | (28.6) |
| Sensitivity 10: Required capital set at statutory minimum level | 893.4 | 3.2 |

The following table shows the effect on the value of net assets of sensitivities 1 through 3 above. In sensitivities 4 through 10, only the value of in-force business is affected.

(Yen billions)

| | Increase (decrease) |
|--|------------------------|
| Sensitivity 1: 50bp upward parallel shift in risk-free yield curve | (218.3) |
| Sensitivity 2: 50bp downward parallel shift in risk-free yield curve | 246.7 |
| Sensitivity 3: 10% decline in equity and real estate values | (3.9) |

- Sensitivity 1

The item represents the effect on EEV of an upward parallel shift of 50bp in the yield curve of risk-free forward rates. Changes in the prices of bonds and loans change the value of net assets. As future expected investment yields change, the value of in-force business changes.

- Sensitivity 2

The item represents the effect on EEV of a downward parallel shift of 50bp in the yield curve of risk-free forward rates. The risk-free forward rates are reduced by 50bp without the lower limitation of zero.

- Sensitivity 3

This item shows the effect on EEV of a decline of 10% in equity and real estate values.

- Sensitivity 4

The item represents the effect on EEV of a decrease of 10% in estimated maintenance expenses associated with maintaining the in-force business.

- Sensitivity 5

The item represents the effect on EEV of a decrease of 10% in surrender and lapse rates.

- Sensitivity 6

The item represents the effect on EEV of a decrease of 5% in mortality and morbidity rates for life and medical insurance products.

- Sensitivity 7

The item represents the effect on EEV of a decrease of 5% in mortality rates for annuities.

- Sensitivity 8

The item represents the effect on EEV of an increase of 25% in the implied volatilities of equity and real estate values. This effect occurs because the value of in-force business changes as the time value of financial options and guarantees changes.

- Sensitivity 9

The item represents the effect on EEV of an increase of 25% in the implied volatilities of swaptions. This effect occurs because the value of in-force business changes as the time value of financial options and guarantees changes.

- Sensitivity 10

The item represents the effect on EEV in the event that required capital was changed to the statutory minimum level in Japan of a 200% solvency margin ratio.

4-2. Sensitivity Analysis of the Value of New Business

(Yen billions)

| Assumptions | Value of new business | Increase (decrease) |
|--|-----------------------|---------------------|
| Value of new business at March 31, 2020 | 49.4 | - |
| Sensitivity 1: 50bp upward parallel shift in risk-free yield curve | 54.7 | 5.2 |
| Sensitivity 2: 50bp downward parallel shift in risk-free yield curve | 42.1 | (7.2) |
| Sensitivity 3: 10% decline in equity and real estate values | 49.4 | 0.0 |
| Sensitivity 4: 10% decline in maintenance expenses | 52.0 | 2.5 |

| Assumptions | Value of new business | Increase (decrease) |
|--|-----------------------|---------------------|
| Sensitivity 5: 10% decline in surrender and lapse rates | 48.9 | (0.5) |
| Sensitivity 6: 5% decline in mortality and morbidity rates for life insurance products | 55.1 | 5.7 |
| Sensitivity 7: 5% decline in mortality and morbidity rates for annuity products | 49.4 | (0.0) |
| Sensitivity 8: Equity and property implied volatility increase of 25% | 49.4 | 0.0 |
| Sensitivity 9: Swaption implied volatility increase of 25% | 49.3 | (0.0) |
| Sensitivity 10: Required capital set at statutory minimum level | 49.4 | 0.0 |

The calculation approach is the same as for the sensitivities of the value of in-force business shown in Section 4-1.

5. EEV Methodology

The methodology and assumptions adopted by the Company to calculate EEV are market-consistent and in accordance with the EEV Principles and related guidance issued by the CFO Forum.

5-1. Covered business

The covered business represents the life insurance business of the Company at the valuation date. No business or subsidiaries of the Company have been excluded. Any services provided by other companies in the MS&AD Insurance Group to the Company have been treated on an arms-length basis in these EEV results, as this EEV disclosure is from the Company's perspective and not the MS&AD Group.

5-2. Value of net assets

The value of net assets is calculated by adjusting the total net assets on the company's balance sheet for the following:

- In order to mark to market, differences in market value and book value of assets and liabilities other than insurance contract liabilities have been reflected on an after-tax basis.
- Liabilities that are appropriate to be added to the value of net assets (the contingency reserve, reserve for price fluctuations, unallocated portion of reserve for policyholder dividends, and general reserve for possible loan losses) have been added on an after-tax basis.
- The value of net assets has been reduced for unfunded pension benefit obligations on an after-tax basis.

The value of net assets consists of required capital and free surplus. Please refer to the amount respectively in "5-6. Cost of holding required capital".

5-3. Value of in-force business

The value of in-force business is calculated as the certainty equivalent present value of projected after-tax profits deducting the time value of financial options and guarantees, the cost of holding required capital and allowance for non financial risks. The value of new business is calculated in the same way.

5-4. Certainty equivalent present value of future profits

The certainty equivalent present value of future profits is the present value of after-tax profits based on the projected cash flows, calculated on a deterministic basis. All cash flows are discounted at the risk-free rate, assuming the investment yield of all assets is equivalent to the risk-free rate. The intrinsic value of options and guarantees is included in this item.

5-5. Time value of financial options and guarantees

The time value of financial options and guarantees is calculated as the difference between the certainty equivalent present value of future profits and the average of the present value of future

after-tax profits calculated by stochastic methods where economic assumptions are market consistent, as described in “6-1-2. Economic scenarios”.

The projected asset allocation is assumed to be the same as the asset allocation at the valuation date.

The following options and guarantees are considered in calculating the time value of financial options and guarantees.

- Participating policies

When investment returns exceed the expected interest rate for the policy, policyholder dividends in respect of the difference are distributed. On the other hand, when interest losses arise, the cost is not charged to the policyholders, resulting in asymmetries in the cash flows.

- Minimum accumulation interest-rate guarantee for interest-rate-sensitive products

When interest rates rise, higher accumulation interest rates are credited to interest rate-sensitive products. On the other hand, a minimum accumulation interest rate is guaranteed even when interest rates decline, resulting in asymmetric cash flows and a cost to the insurer.

- Policyholder behavior

Policyholders have the option to lapse at any time. We have considered the cost of selective lapse under increases in market interest rates.

5-6. Cost of holding required capital

In order to secure financial solidity, life insurance companies are required to hold additional assets in excess of the statutory liability. The cost of holding required capital is the cost incurred through the payment of taxes on the investment income of the assets backing the required capital and the related investment expenses incurred for the management of the assets.

The Company defined required capital as the capital level required to maintain 600% of the statutory requirement as a target solvency margin ratio. The required capital on the respective bases was Yen 90.2 billion at March 31, 2019 and Yen 95.3 billion at March 31, 2020. (Free surplus was Yen 425.2 billion and Yen 410.8 billion, respectively.)

The solvency margin basis permits the inclusion of the excess of policyholders' contract deposits up to a defined limit, and this inclusion was similarly reflected in this calculation.

5-7. Allowance for non-financial risks

EEV Principles define the EV to be the present value of distributable profits attributable to shareholders arising from assets allocated to the covered business, calculated taking into account all the risks of the covered business.

The majority of the uncertainty in future cash flow is captured in the certainty equivalent present value of future profits and the time value of options and guarantees. However, other risk factors should be considered, and we have included allowance for the cost of these risks in the EEV

based on the results of simple models. The items are as follows.

- Operational risks; and
- Non-recoverability of future tax losses.

In the future, if a loss arises, a tax loss is created, but may not be fully recoverable in subsequent years, in which case it cannot serve to reduce the future tax burden of the company. This risk is not included in the certainty equivalent value of future profits or in the time value of options and guarantees, so we have considered it separately.

5-8. Value of new business

The value of new business is shown as the value of business acquired during the year at the valuation date of March 31, 2020. The calculation approach and assumptions are the same as for the value of in-force business as at March 31, 2020. The value of new business is based on the definitions used for statutory reporting and includes new policies but does not include renewals of existing policies. With regard to corporate insurance, the increase in the company's share of co-managed policies in a group scheme and any increase of the sum insured are included as new business.

6. Principal EEV Assumptions

6-1. Economic assumptions

6-1-1. Risk-free rate

In the certainty equivalent calculation, rates based on Japanese Government Bonds (JGBs) as at the valuation date are used, taking into account assets in the company's portfolio and the liquidity of the market. We have taken the forward rate beyond the last available year to be the same as the forward rate for the last available year (year 40). The table below shows, for selected terms, the risk-free reference rates (as spot rates) which we have used.

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 10 | Year 15 |
|----------------|----------|----------|----------|----------|----------|----------|---------|
| March 31, 2020 | (0.150%) | (0.130%) | (0.148%) | (0.119%) | (0.115%) | 0.032% | 0.286% |
| March 31, 2019 | (0.178%) | (0.183%) | (0.195%) | (0.211%) | (0.202%) | (0.081%) | 0.165% |
| | Year 20 | Year 25 | Year 30 | Year 35 | Year 40 | Year 45 | Year 50 |
| March 31, 2020 | 0.319% | 0.405% | 0.427% | 0.438% | 0.448% | 0.455% | 0.461% |
| March 31, 2019 | 0.358% | 0.492% | 0.538% | 0.577% | 0.613% | 0.640% | 0.661% |

(Source: Analysis of Ministry of Finance data)

6-1-2. Economic scenarios

(1) Interest rate model

We have adopted a single-factor Hull-White model, in which interest rates associated with Japanese yen (JPY), U.S. dollars (USD), and Euros (EUR) are calculated. The model follows a risk-neutral approach in which JPY is set as a base currency, and correlations between the interest rates are taken into account. The interest rate model has been calibrated considering the market environment as of each reporting date, and the parameters used are estimated from the yield curve and implied volatilities of interest rate swaptions with various maturities. A set of 5,000 simulated economic scenarios are used in calculating the time value of financial options and guarantees. These scenarios have been generated by Willis Towers Watson.

A selection of implied volatilities of interest rate swaptions used to calibrate the scenarios is as follows:

Interest rate swaptions

| Option Term (years) | Swap Term (years) | March 31, 2019 | | | March 31, 2020 | | |
|---------------------|-------------------|----------------|-------|---------|----------------|-------|---------|
| | | JPY | USD | EUR | JPY | USD | EUR |
| 5 | 5 | 20.7bps | 29.8% | 47.9bps | 21.5bps | 76.7% | 54.5bps |
| 5 | 7 | 21.8bps | 28.6% | 48.2bps | 22.4bps | 75.3% | 56.8bps |
| 5 | 10 | 23.6bps | 24.7% | 48.5bps | 23.5bps | 77.2% | 59.3bps |

| Option Term (years) | Swap Term (years) | March 31, 2019 | | | March 31, 2020 | | |
|---------------------|-------------------|----------------|-------|---------|----------------|-------|---------|
| | | JPY | USD | EUR | JPY | USD | EUR |
| 7 | 5 | 24.2bps | 27.8% | 51.8bps | 22.2bps | 69.9% | 56.4bps |
| 7 | 7 | 25.0bps | 27.4% | 51.7bps | 23.1bps | 70.8% | 57.6bps |
| 7 | 10 | 25.9bps | 26.8% | 51.3bps | 24.6bps | 76.1% | 58.9bps |
| 10 | 5 | 28.0bps | 25.5% | 54.5bps | 24.0bps | 66.4% | 57.4bps |
| 10 | 7 | 28.8bps | 25.8% | 54.2bps | 24.7bps | 62.3% | 58.2bps |
| 10 | 10 | 29.1bps | 25.2% | 53.6bps | 26.6bps | 75.4% | 58.8bps |

(Source: Analysis of Bloomberg data)

(2) Implied volatilities of equities and exchange rates

Volatilities of traditional equity indices and exchange rates are calibrated based on the implied volatilities of relevant options traded in the market. Selected implied volatilities used to calibrate the economic scenarios are as follows:

Equity Options

| Currency | Underlying | Option Term | Implied Volatility | |
|----------|--------------|-------------|--------------------|----------------|
| | | | March 31, 2019 | March 31, 2020 |
| JPY | Nikkei 225 | 3 Year | 17.8% | 21.5% |
| | | 4 Year | 17.9% | 20.9% |
| | | 5 Year | 17.9% | 20.6% |
| USD | S&P500 | 3 Year | 17.4% | 23.2% |
| | | 4 Year | 18.0% | 22.9% |
| | | 5 Year | 18.5% | 23.1% |
| EUR | Euro Stoxx50 | 3 Year | 15.4% | 21.9% |
| | | 4 Year | 15.7% | 21.2% |
| | | 5 Year | 15.8% | 21.0% |

(Source: Markit (interpolated/extrapolated))

Foreign Exchange Options

| Currency | Option Term | Implied Volatility | |
|----------|-------------|--------------------|----------------|
| | | March 31, 2019 | March 31, 2020 |
| USD | 5 Year | 8.3% | 7.9% |
| EUR | 5 Year | 9.1% | 8.2% |

(Source: Bloomberg)

(3) Correlations

In addition to the use of the implied volatilities described above, we have calculated volatilities reflecting our asset portfolio composition and correlation factors among asset classes. The share of each asset in the portfolio is assumed to be unchanged over the projection period.

For correlation factors, we have not observed relevant market data from exotic options with

sufficient liquidity. Therefore, we have estimated correlation factors based on the most recent 10 years of market data. The following table shows the correlation factors between the variables used at March 31, 2020.

| | JPY Short Rate | USD Short Rate | EUR Short Rate | JPY/USD Exchange Rate | JPY/EUR Exchange Rate | JPY Equity Index | USD Equity Index | EUR Equity Index |
|-----------------------|----------------|----------------|----------------|-----------------------|-----------------------|------------------|------------------|------------------|
| JPY Short Rate | 1.00 | 0.48 | 0.53 | 0.43 | 0.33 | 0.40 | 0.17 | 0.16 |
| USD Short Rate | 0.48 | 1.00 | 0.60 | 0.45 | 0.42 | 0.49 | 0.41 | 0.34 |
| EUR Short Rate | 0.53 | 0.60 | 1.00 | 0.26 | 0.58 | 0.34 | 0.32 | 0.29 |
| JPY/USD Exchange Rate | 0.43 | 0.45 | 0.26 | 1.00 | 0.64 | 0.62 | 0.24 | 0.30 |
| JPY/EUR Exchange Rate | 0.33 | 0.42 | 0.58 | 0.64 | 1.00 | 0.61 | 0.51 | 0.44 |
| JPY Equity Index | 0.40 | 0.49 | 0.34 | 0.62 | 0.61 | 1.00 | 0.70 | 0.68 |
| USD Equity Index | 0.17 | 0.41 | 0.32 | 0.24 | 0.51 | 0.70 | 1.00 | 0.77 |
| EUR Equity Index | 0.16 | 0.34 | 0.29 | 0.30 | 0.44 | 0.68 | 0.77 | 1.00 |

(Source: Ministry of Finance for JPY yields, Bloomberg for others)

6-1-3. Assumed investment yields on each asset class

The assumed investment yields on each asset class used in the calculation of the expected existing business contribution in excess of risk-free rate in the movement analysis are as follows:

| Asset class | Assumed investment yield |
|---|---|
| Short term assets | (0.178%): one year risk-free rate |
| Domestic bonds (Japanese government) | (0.178%): one year risk-free rate |
| Domestic bonds (other than Japanese government) | 0.101% : One year risk-free rate + credit spread (0.279% average) |
| Domestic equity | 3.822%: one year risk-free rate + risk premium (4.0%) |
| Foreign bonds | 0.822%: one year risk-free rate (1.0%) |
| Foreign equity | 5.822%: one year risk-free rate + risk premium (6.0%) |

In the calculation of the expected existing business contribution in excess of risk-free rate, the

portfolio investment yield is calculated by taking a weighted average of the assumed investment yield of each asset class above, with the weights taken to be the share of each asset as of March 31, 2019.

6-2. Non-economic assumptions

All cash flows (including premiums, operating expenses, benefits and claims, payments of cash surrender value, taxes, and others) are projected applying best estimate assumptions, with the assumptions set by product with consideration to past, current and expected future experience.

6-2-1. Expenses

Expense assumptions were set based on the actual experience in the latest year.

The future inflation rate was set to zero.

6-2-2. Policyholder dividends

Policyholder dividend rate assumptions were based on dividend practice.

6-2-3. Corporate tax rates

Corporate tax rates were set based on recent tax practice. In the EEV the corporate tax rate (including local tax) used is 28.00%.

7. Actuarial Opinion

The Company requested Willis Towers Watson, an independent actuarial firm, to review the calculation of the Company's EEV results and obtained the following opinion.

Willis Towers Watson has reviewed the methodology and assumptions used to determine the embedded value results as at March 31, 2020 for MSI Aioi Life. The review covered the embedded values as at March 31, 2020, the value of new business issued in fiscal year 2019, the analysis of movement in the embedded value during fiscal year 2019 and the sensitivities of the embedded value and new business value to changes in assumptions.

Willis Towers Watson has concluded that the methodology and assumptions used, together with the disclosure provided in this document, comply with the EEV Principles. In particular:

- The methodology makes allowance for the aggregate risks in the covered business through the Company's bottom-up methodology as described in this document, which includes a stochastic allowance for financial options and guarantees, and deductions to allow for the frictional cost of required capital and the impact of non-financial risks;
- The operating assumptions have been set with appropriate regard to past, current and expected future experience;
- The economic assumptions used are internally consistent and consistent with observable market data; and
- For participating business, the assumed policyholders' dividend rates, and the allocation of profit between policyholders and shareholders, are consistent with the projection assumptions, established company practice and local market practice.

Willis Towers Watson has also reviewed the results of the calculations, without however undertaking detailed checks of all the models, processes and calculations involved. On the basis of this review, Willis Towers Watson is satisfied that the disclosed results have been prepared, in all material respects, in accordance with the methodology and assumptions set out in this disclosure document.

Sudden unforeseen events such as the COVID-19 pandemic can have significant impacts on the level of economic activity, investment markets and Japan Post Insurance's business and its experience. In forming our opinion on the future expected experience we have not directly considered the potential impact including volatility on Japan Post Insurance's business, the investment markets or the industry of such events, including COVID-19, unless and only to the extent that such potential impact is specifically described in the disclosure provided in this document.

In arriving at these conclusions, Willis Towers Watson has relied on data and information provided by the Company, including estimates for the market value of assets for which no market prices exist. This opinion is made solely to the Company in accordance with the terms of

Towers Watson's engagement letter. To the fullest extent permitted by applicable law, Willis Towers Watson does not accept or assume any responsibility, duty of care or liability to anyone other than the Company for or in connection with its review work, the opinions it has formed, or for any statement set forth in this opinion.

Glossary

| Terminology | Description |
|--|--|
| Allowance for non-financial risks | <p>An allowance for risks that are not reflected in the certainty equivalent present value of future profits or the time value of financial options and guarantees. The Company determined the allowance in respect of the following risks:</p> <ul style="list-style-type: none"> - Operational risks such as rapid increases of surrenders, whether due to reputational damage or natural disaster. - Non-recoverability of future tax loss carryforwards. |
| Best estimate assumption | <p>An assumption which is developed based on experience data up to the present and expected future experience, and which represents the expected outcome from the range of possible outcomes for future experience.</p> |
| Calibration | <p>To set the parameters of a stochastic model in a manner that they are consistent with observable market prices of traded financial instruments.</p> |
| Certainty equivalent present value of future profits | <p>The present value of future after-tax profit discounted at the risk-free rate, calculated using a deterministic cash flow projection with investment yields for all assets equal to the risk-free rate.</p> |
| Financial options and guarantees | <p>Refers to the following features of insurance contracts:</p> <ul style="list-style-type: none"> - The exercise of the contractual rights granted to policyholders which affect insurance contract cash flows. For example, the exercise of the right to surrender. - Guarantees on claim amounts, policy values, or other insurance contract amounts. For example, a minimum accumulation rate for interest-rate-sensitive products. |
| Free surplus | <p>The amount of any excess of the value of net assets over the required capital.</p> |
| Implied volatility | <p>The implied volatility of an option contract is the market expectation for price fluctuation implied by the market price of the option.</p> |
| Interest rate swaption | <p>An option granting the right to enter an interest rate swap transaction with certain conditions at a certain time in the future.</p> |
| Intrinsic value and time value | <p>There are two components to the value of financial options and guarantees: intrinsic value and time value.</p> <ul style="list-style-type: none"> - The intrinsic value is the value determined on a certainty equivalent basis. This is included in the certainty equivalent present value of future profits. - The time value is the value other than intrinsic value, and represents the value associated with the possibility of fluctuation of future cash flows. It is calculated as the difference between |

| Terminology | Description |
|----------------------------|---|
| | the average of the present value of future profits calculated stochastically, and the certainty equivalent present value of future profits. |
| Market-consistent approach | A measurement method using economic assumptions that value the cash flows of assets / liabilities consistently with traded financial instruments. |
| Required capital | The required capital is defined in EEV Principles as capital to be maintained in excess of the amount to back liabilities whose distribution to shareholders is restricted, being at least the solvency capital required to maintain the regulatory minimum solvency level. Capital required to meet the standards set by the company or to obtain the company's desired credit rating may be included. The Company defined required capital as the capital amount corresponding to a 600% solvency margin ratio. |
| Risk-free rate | The expected future yield of assets considered to be without default or credit risk. |
| Risk-neutral | An assumption that on average market participants are neutral with respect to risk, i.e. are neither risk averse nor risk seeking. |
| Solvency II | The economic-value-based solvency regulation framework introduced in Europe from January 2016. |