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challenger 

Strategic Relationship with Challenger Limited, an Australian Financial Services Company

August 15, 2017, Tuesday

MS&AD Insurance Group Holdings, Inc.

Hello and welcome, ladies and gentlemen.

I am Fujii from MS&AD Holdings.

We sincerely appreciate your participation, despite your busy schedule and our short notice, in today's briefing session on the strategic partnership with Challenger Limited, a financial Group in Australia.

In this teleconference, I'd like to explain the investment in Challenger that we just announced this morning including the background leading to the decision, future prospects and strategic rationale for the MS&AD Holdings Group.

Abbreviations of company names used in this presentation.

- MS&AD Holdings : MS&AD Insurance Group Holdings, Inc.
- MS&AD : MS&AD Insurance Group
- MSIG : Mitsui Sumitomo Insurance Group Holdings, Inc.
- MSI : Mitsui Sumitomo Insurance Co., Ltd.
- Aioi : Aioi Insurance Co., Ltd.
- NDI : Nissay Dowa General Insurance Co., Ltd.
- ADI : Aioi Nissay Dowa Insurance Co., Ltd.
- Mitsui Direct General : Mitsui Direct General Insurance Co., Ltd.
- MSI Kirameki Life : Mitsui Sumitomo Kirameki Life Insurance Co., Ltd.
- Aioi Life : Aioi Life Insurance Co., Ltd.
- MSI Aioi Life : Mitsui Sumitomo Aioi Life Insurance Co., Ltd.
- MSI Primary Life : Mitsui Sumitomo Primary Life Insurance Co., Ltd.

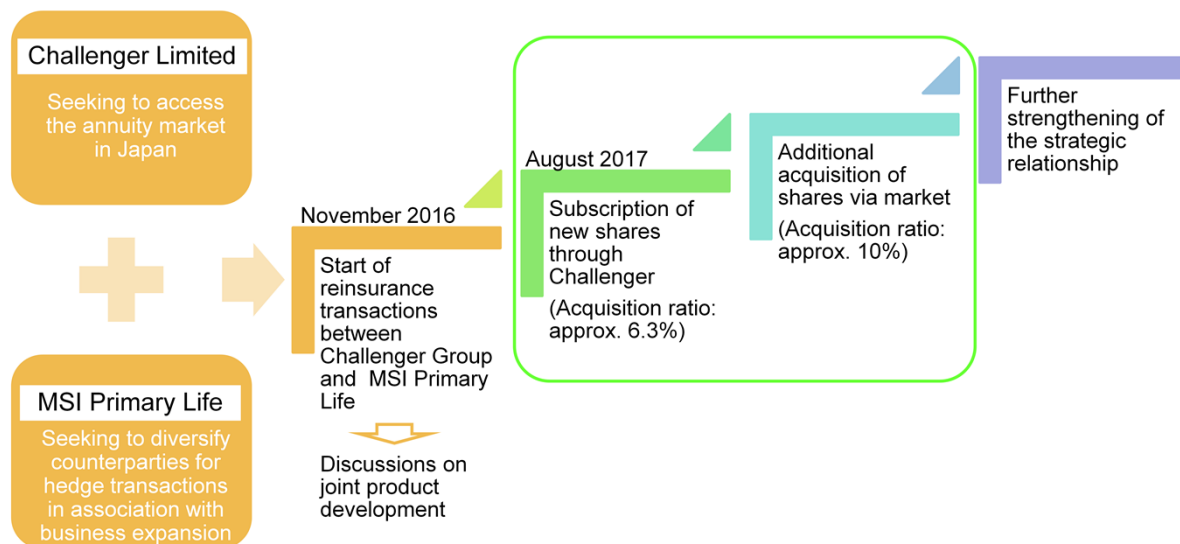
Caution Regarding Forward-looking Statements

This document includes "forward-looking statements" that reflect the plans and expectations of MS&AD Insurance Group Holdings, Inc. (the "Company") with respect to its business and results of operations. To the extent that statements in this document do not relate to historical or current facts, they constitute forward-looking statements. These forward-looking statements are based on the current assumptions and beliefs of the Company in light of the information currently available to it, and involve known and unknown risks, uncertainties and other factors. Such risks, uncertainties and other factors may cause the actual results, performance, achievements or financial position of the Company to be materially different from any future results, performance, achievements or financial position expressed or implied by these forward-looking statements. The Company undertakes no obligation to publicly update any forward-looking statements after the date of this document. Investors are advised to consult any further disclosures by the Company in its subsequent domestic filings in Japan.

The risks, uncertainties and other factors referred to above include, but are not limited to: (1) economic conditions in Japan, the United States, Europe and China; (2) the extent of competition faced by the Company from Japan's other major non-life insurance companies and new entrants in the Japanese non-life insurance market; (3) the extent of further deregulation of the Japanese insurance industry; (4) occurrence of natural disasters in Japan and elsewhere; (5) occurrence of losses the type or magnitude of which could not be foreseen at the time of writing the insurance policies covering such losses; (6) the price and availability of reinsurance; and (7) the performance of the Company's investments. Further details of potential risks and uncertainties affecting the Company are described in its domestic filings in Japan including the Company's annual report. More information about Challenger can be found on its website or through its periodic and continuous disclosure announcements available at www.asx.com.au.

1. Background and Strategy

- Formed an alliance from the second half of FY2015 in pursuit of mutual access to annuity markets in Japan and Australia that are expected to expand
- Investing in Challenger Limited to strengthen strategic relationship and finance Challenger business growth



Now, please look at page 2 of the information material.

I'd like to talk about the circumstances and background of this investment.

Challenger is ranked No.1 in the annuity market in Australia, and the company recently had an eye to the growing annuity market in Japan and looked for a way to expand its business in Japan.

On the other hand, MSI Primary Life of our Group was constantly seeking to diversify hedges against risk in association with business expansion as a leading company in the annuity market in Japan, and accordingly, the business with Challenger was started in the form of reinsurance last year.

With Challenger we began negotiation for a tie-up centered on reinsurance of Mitsui Sumitomo Primary Life Insurance, one of our Group companies mainly specialized in Australian dollar-denominated asset-building life insurance products, since the second half of FY2015 and the reinsurance business was launched in November 2016.

After that, MSI Primary Life has dispatched a trainee to Challenger to strengthen the alliance.

From the Challenger side, a proposal to enhance the alliance was made including equity participation, which was considered to provide a great advantage for our Group as well because it will enable us to tap into the growing Australian annuity market and diversify business risks. This is the reason we decided to strengthen the strategic partnership.

We are planning to make an investment with acquisition of around 10% stake in Challenger through a Challenger allotment of newly issued shares scheduled on the 23rd this month and following additional purchases in the market.

In addition, we will further strengthen the alliance as reliable strategic partners.

2. Overview of This Investment

- Acquisition of approx. 6.3% of the outstanding shares through a Challenger allotment
- Planning to grow holdings to 10% over the next 12 months

Transaction	Capital participation in Challenger Limited
Investment method	Subscription of the newly issued Challenger ordinary shares through a Challenger allotment
Acquisition ratio	Approx. 6.3% of the outstanding shares
Investment amount	AUD 500 million (Approximately JPY 44 billion)* ¹
Price	30 business day volume weighted average price as of August 14, 2017: AUD12.97 + 2% premium - dividend
Issue date	August 23, 2017
Source of funds	Cash on hand
Next steps	MS&AD Holdings intends to grow its holding to 10% over the next 12 months via market, subject to market conditions, any necessary or desirable regulatory approvals and Challenger's circumstances. MS&AD Holdings reserves the right to change its intentions and acquire, dispose and vote its Challenger shares as it sees fit.

¹ AUD 1 = JPY 88

The next point I'd like to explain is the outline of this investment.

Please look at page 3 of the information material.

This investment is made in the form of subscription of newly issued Challenger shares through a Challenger allotment. Total amount of shares acquired is 500 million Australian dollars, which is about 44.0 billion yen, and the acquisition ratio is about 6.3%.

The acquisition date of new shares is scheduled on August 23.

Although depending on the market conditions and regulatory authorization status, we intend to grow the acquisition ratio to approximately 10% through additional acquisition of shares via market.

3. Outline of Challenger Limited

- Challenger Limited is a top provider¹ of individual annuity in Australia in terms of total assets and sales and ranks 7th² in asset management in Australia.
- In terms of its brand, sales network, service, technology and other areas, Challenger Limited has significant presence in the annuity market in Australia, which is expected to enjoy a significant growth, given the advance of the aging population, the increase in the numbers of retirees and mandated nature of Australia's superannuation system.

- Established: 1985
- Headquarters: Sydney, New South Wales, Australia
- Representatives: Chairman/ Peter Polson, Managing Director & CEO/ Brian Benari
- Number of employees³: 655
- Main lines of business:
Life business and funds management business
- Main business location: Australia
- Sales⁴: AUD 4,952 million (approx. JPY 435.8 billion⁵)
- Profit attributable to equity holders⁴: AUD 398 million JPY 35 billion⁵)
- Net assets (excluding non-controlling interests)³: AUD 2,888 million (JPY 254.2 billion⁵)
- Rating³⁶: S&P: Group Rating⁷ A (Stable)
(Challenger Limited - BBB+ (Stable))

Source: Challenger Limited Annual Report, Challenger Limited Analyst Pack, Rainmaker

¹ According to Strategic Insight's ranking "Total Sales, Annuity Business"

² According to Rainmaker Roundup vol. 21/No.1 "Investment managers by consolidated FUM"

³ As of the end of FY2017 ⁴ Actual performance in FY2017 ⁵ AUD 1 = JPY 88 ⁶ Issuer credit rating ⁷ Rating of Challenger Life Company Limited

⁸ The ratio of EBIT in the segment to the sum of adjusted (evened out) EBIT in both segments

Challenger Limited

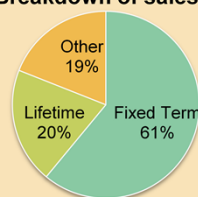
Life insurance business

Component ratio of segment profit: 92%⁸

Life insurance

Challenger is a leading provider of products for retirees in Australia focusing on personal annuity insurance that takes into consideration market risk, inflation risk and longevity risk.

Breakdown of sales⁴



Funds management

Component ratio of segment profit: 8%⁸

Challenger Investment Partners

Conducts asset management for investors with focus on assets from the life insurance business.

Fidante Partners

A multi-boutique asset management company with 15 boutique partners. Invests actively in bonds, stocks, and alternative products.

Let's move on to pages 4 and 5 of the information material.

I'm going to talk about the outline of Challenger Limited.

Challenger Limited is an Australian financial services Group which has a life insurance business and fund management business.

It is ranked first in individual annuity market in Australia in terms of total assets and sales and ranked seventh in funds management business.

In terms of its brand, sales network, service, technology, and other areas, Challenger has significant presence in the annuity market in Australia, which is expected to enjoy a significant growth given the advance of aging of population and the increase in the numbers of retirees.

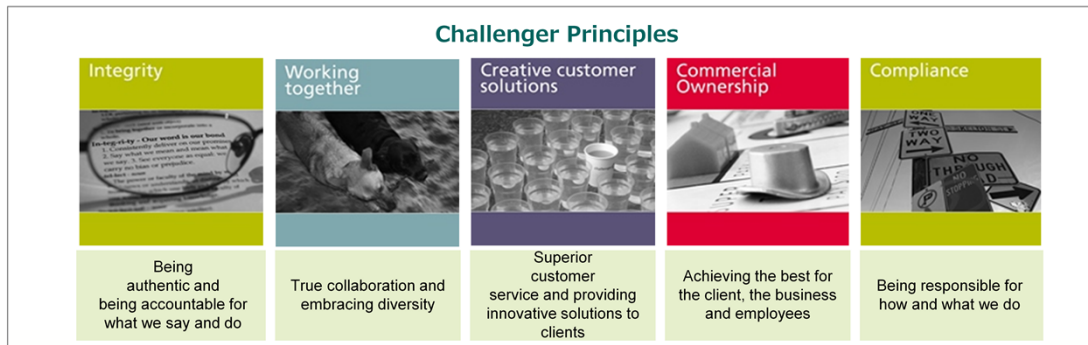
Taking advantage of the synergy of the annuity business, which is highly competitive, and the asset management business, which has strengths in the range of asset classes, Challenger has established a unique business model and realized sustainable growth in earnings on the back of the expanding annuity market.

3. Outline of Challenger Limited

- The management philosophy of Challenger is compatible with the mission of the MS&AD Insurance Group. We can form a business partnership with shared values.

Challenger's Strengths

- A life insurance company with a significant share of the annuity market in Australia
- A unique business model consisting of the competitive annuity business and the funds management business, which has an advantage in various asset classes
- Sustainable growth in earnings in the expanding annuity market
- A management system with sophisticated risk management and governance
- Compatibility between the management philosophy of Challenger, "To provide our customers with financial security for retirement," and MS&AD's mission, "Bringing security and safety through the global insurance and financial services business"



In addition, the management philosophy of Challenger, "To provide our customers with financial security for retirement" is compatible with MS&AD's mission, "Bringing security and safety through the global insurance and financial services business."

Challenger's Five Principles have shared many points with the Values of the MS&AD Group. Therefore, we can form a business partnership with shared values.

4. Strategic Rationale

- Strengthening alliance between MSI Primary Life and Challenger from FY2016 and accessing Australian annuity market, which is expected to enjoy a significant growth, thereby diversifying risks

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MS&AD develops wide operations in the non-life insurance and life insurance markets in Japan and Asia as a market leader and aims to expand its International Business.

challenger 

Challenger provides retirement annuity and investment products to the retail market and institutional investors in Australia as a market leader and aims for further growth.

- ✓ Both companies share a management philosophy based on similar corporate cultures
- ✓ Both companies can enjoy benefits through the strategic alliance

- (1) Strengthening the alliance between Challenger and MSI Primary Life
- (2) Further diversification of the business portfolio
- (3) Pursuing group-wide growth opportunities

Then, I'd like to talk about its strategic significances.

Please look at page 6 of the information material.

We think this investment has three strategic rationales.

The first point is strengthening the alliance between Challenger and MSI Primary Life.

The second point is further diversification of the business portfolio

The third point is pursuing synergies in the entire Group

(1) Strengthening the Alliance between Challenger and MSI Primary Life

- We will seek to maintain and strengthen our stable reinsurance business relationship and will seek to promote the development of new products, using Challenger's expertise, and the sophistication of longevity risk management.

Maintenance of the stable reinsurance business relationship

Maintain and strengthen the stable relationship, where Challenger assumes reinsurance, to diversify hedges against risk in association with the business expansion of MSI Primary Life

Joint development of new products

Jointly develop new products using Challenger's achievements and expertise in the annuity market in Australia

Sophistication of longevity risk management

Acquire and utilize Challenger's risk management expertise, including super-long asset-liability management, and expertise related to longevity risk

Access to the Australian market

Pursue the possibility of access to the annuity market in Australia, using Challenger's sales network and brand power

Please turn to page 7 of the information material.

As I mentioned earlier, reinsurance transactions between Challenger and MSI Primary Life started last year.

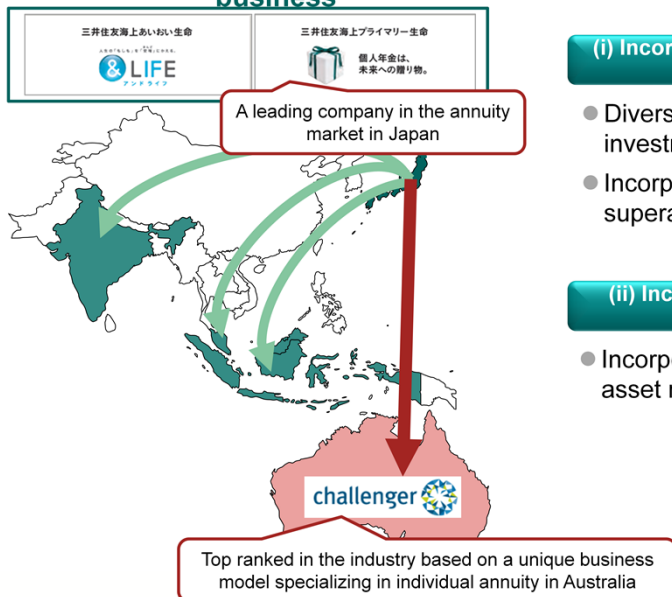
Because reinsurance for life insurance sometimes requires a very long-term commitment, it has become necessary for MSI Primary Life to diversify hedges against risk in association with business expansion from the view point of credit management. As one of the measures for diversification, the stable reinsurance relationship with Challenger has contributed a lot for the achievement of stable growth of MSI Primary Life.

We are intending to further strengthen the alliance for joint development of new products using Challenger's achievements and expertise in the annuity market in Australia and acquisition of Challenger's risk management expertise, including super-long longevity risk.

(2) Further Diversification of the Business Portfolio

- Expanding the life insurance business from Asia to Australia
- Incorporating the annuity market in Australia, which shows growth potential, and diversifying the business portfolio

Development of MS&AD's life insurance business



Diversification of the business portfolio

(i) Incorporating the growth of the annuity market in Australia

- Diversify the business portfolio through equity investment in the Australian annuity market.
- Incorporate profits of the rapidly growing superannuation market in Australia.

(ii) Incorporating credit investment opportunities overseas

- Incorporate credit investment opportunities in the asset management business mainly in Australia

Please take a look at page 8 of the information material.

MS&AD Group has expanded its overseas life insurance business with minor investments in Asian region, and now we are expanding the business into Australia.

Challenger is ranked top in the industry based on a unique business model specializing in annuity insurance.

MS&AD Group is the only group among domestic mega non-life insurance groups that possesses a life insurance company which deals with investment-type insurance products, MSI Primary Life. By taking advantage of our edge, we are going to tap into the Australian market in a different area from those where preceding major life insurance companies have already advanced into.

We think that the risk diversification effect is derived from two potentials, one is growth of the expanding annuity market in Australia and the other is acquisition of overseas credit investment opportunities.

(2) Further Diversification of the Business Portfolio

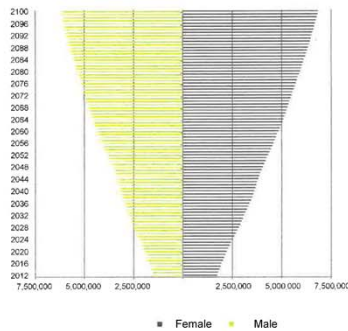
(i) Incorporating the growth of the annuity market in Australia

- Given an aging population, the asset management market for retirees is expected to expand fourfold over the next 20 years.
- Investing in Challenger, which has a 90% share in the principal guaranteed products market, demand for which is expected to expand.

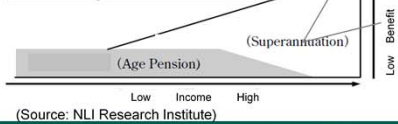
Expanding annuity market in Australia

Number of people aged 65 or older in Australia

(Source: Australian Bureau of Statistics)

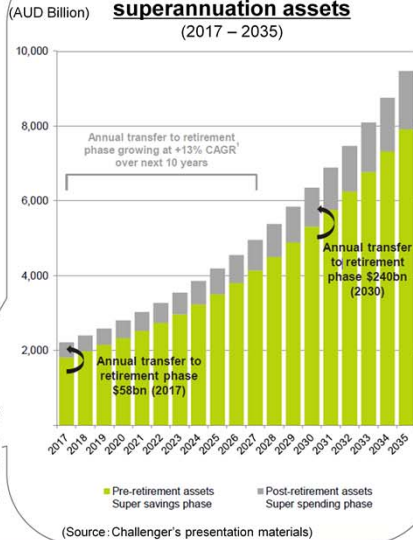


Pension system in Australia



(Source: NLI Research Institute)

Expected expansion of superannuation assets (2017 – 2035)

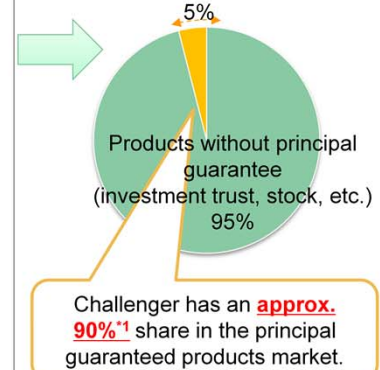


(Source: Challenger's presentation materials)

Annual transfer to retirement phase

(Estimation by Challenger)

Principal guaranteed products



Challenger has an **approx. 90%*** share in the principal guaranteed products market.

*1 Source: Strategic Insight
– New Business Sales (as of December 2016)

First, I'm going to talk about incorporating the growth of the individual annuity market in Australia.

Please look at page 9 of the information material.

Australia is expected to face an increase in the elderly population in the future, and the annuity asset management market for retirees is estimated to expand fourfold over the next 20 years under the Australian retirement annuity system called superannuation.

At present, most of the annuity assets for retirees are invested in products without principal guarantee such as investment trust and stock. However, partly due to the Government's policy, it is expected that principal guaranteed products will further expand.

Challenger has a significant recognition and share of 90% of the market of principal guaranteed products, so that it is expected to develop significantly in the future.

Through this investment, MS&AD Group is planning to incorporate this growing market.

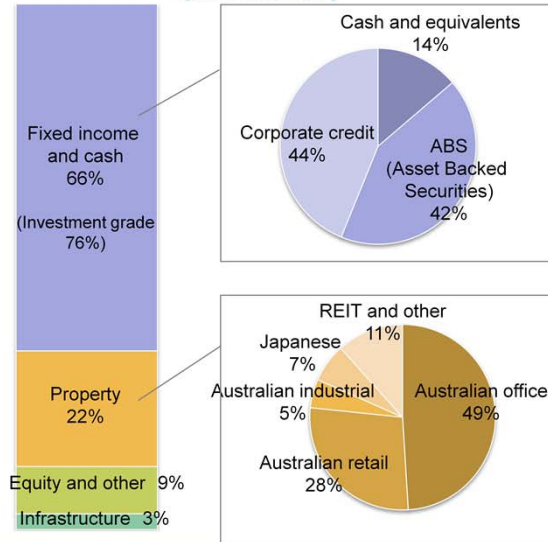
(2) Further Diversification of the Business Portfolio

(ii) Incorporating credit investment opportunities overseas

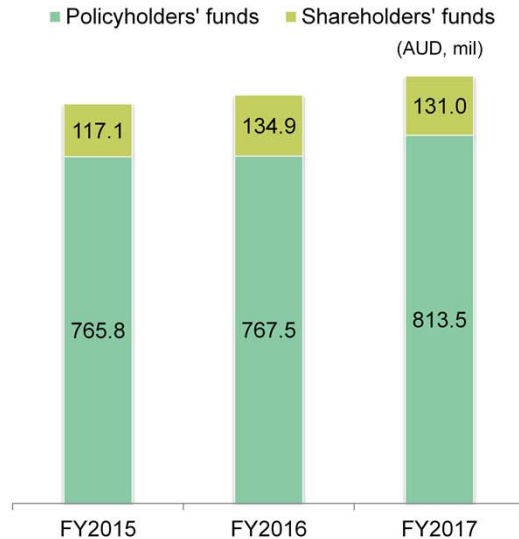
- Generating investment profit in life insurance business through the profitable investment portfolio that focuses on corporate credit, ABS and property investment in the Australian market

Challenger's Life Insurance Investment Portfolio

(As of June 2017)



Trend of Investment Yield in Challenger's Life Insurance Business



Next, I'd like to explain the acquisition of overseas credit investment opportunities. Please turn to page 10 of the information material.

Challenger is good at managing a highly profitable portfolio centered on corporate bonds, asset-backed securities (ABS) and real estate in the Australian markets.

Through this investment, we are aiming to advance into overseas credit investments, which MS&AD Group has not implemented so much, to generate earnings for the Group.

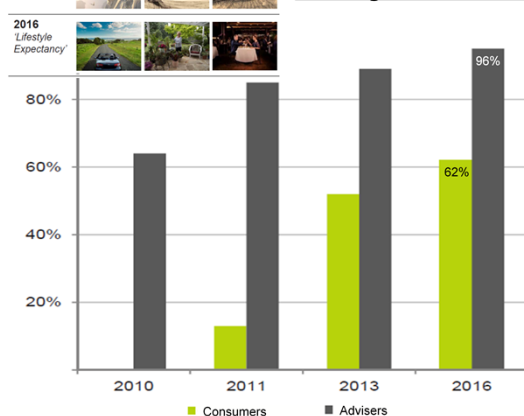
(3) Pursuing Growth opportunities in the Group

- Through the investment in, and alliance with, Challenger and personnel exchange associated with the foregoing, we will seek to build a long-term strategic relationship with Challenger and work to bring growth opportunities on a group-wide basis by harnessing its know-how, network and other strengths.

Brand strengthening



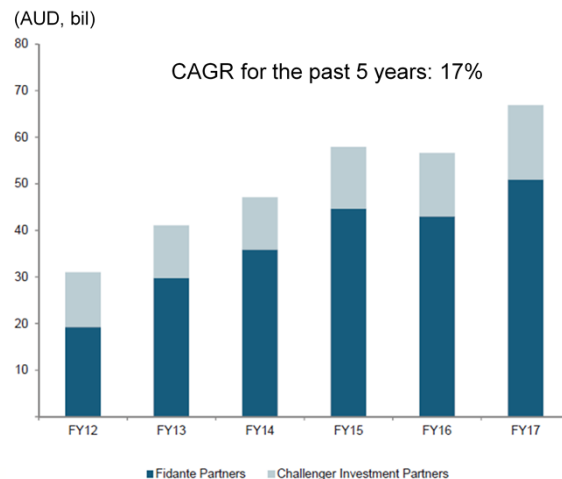
Challenger's brand strength



Investment capability

- Providing investment products including bonds, equities and alternatives in Australia and globally

Trend of Challenger funds management FUM



Lastly, I'd like to talk about synergies in the entire Group.

Please look at page 11 of the information material.

Challenger has realized quite high recognition and customer satisfaction in the market by concentrating its resources on the annuity and fund management businesses.

Although its business model is different from ours, we would like to see their schemes and apply them for the improvement of MS & AD Group's brand power and services.

Through the alliance and personnel exchange, we will seek to build a long-term strategic relationship with Challenger and work to bring growth opportunities by harnessing its know-how, networks and other strengths on a group-wide basis.

After this slide, information material on Challenger's growth potential and profitability is provided for your reference. Please refer to it later.

We believe that developing the trust relationship between MSI Primary Life and Challenger, which we have steadily built up through product development and reinsurance business, into strategic partners through this investment and accumulating our achievements will raise the corporate value of the Group.

This is the end of my presentation.

Thank you very much.

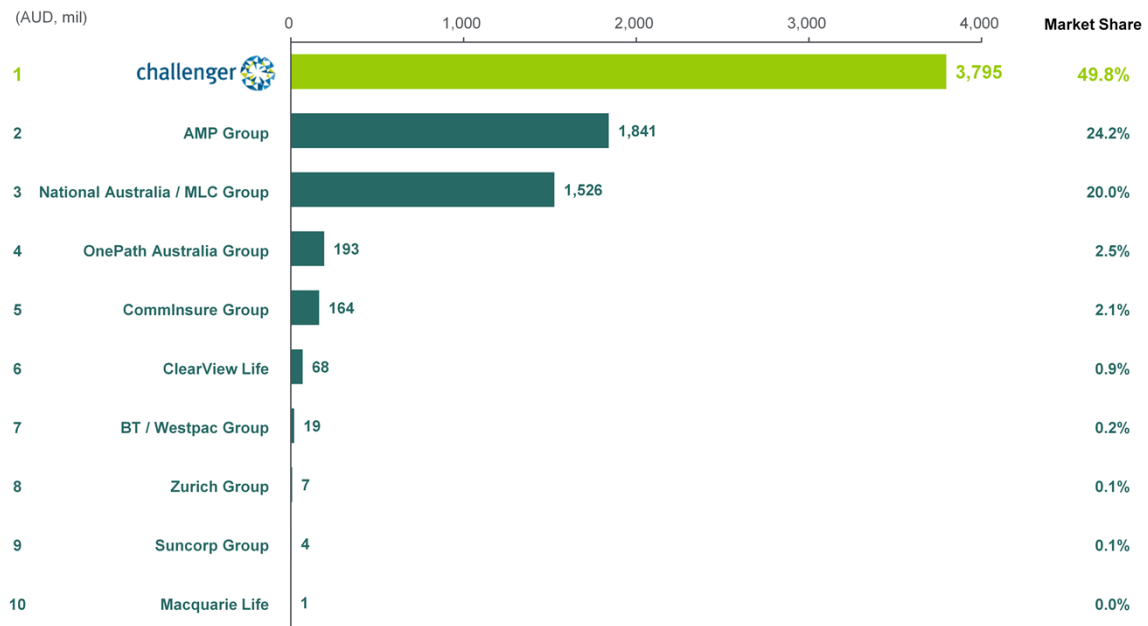
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Reference : Challenger's Growth and Profitability

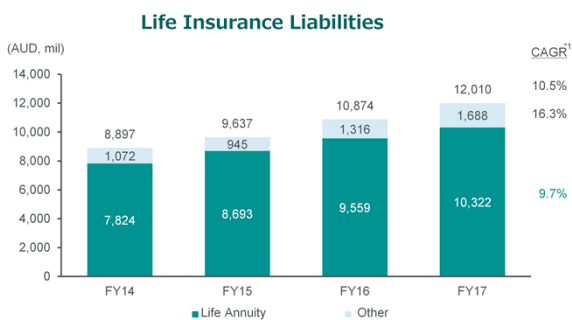
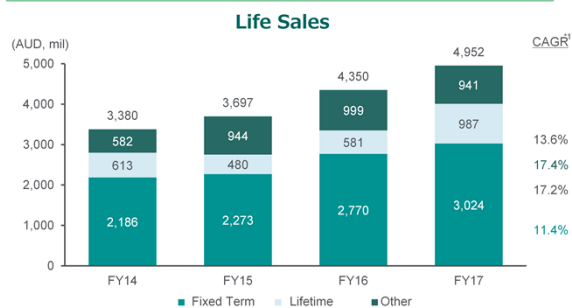
Challenger's Ranking and Share in the Australian Annuity Market^{*1}



^{*1} Source : Strategic Insight. Total sales basis as of December 2016.

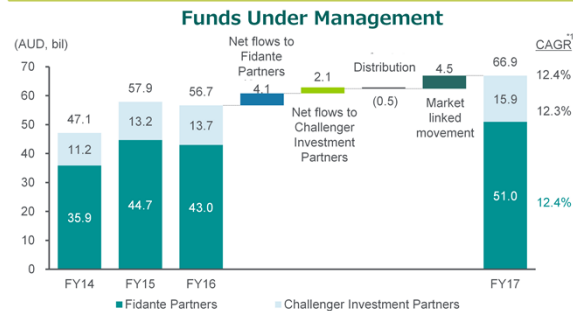
Challenger's High Growth Potential and Profitability (1)

Life Insurance Business



¹ 2014 – 2017 Compound Average Growth Rate

Funds Management Business



Challenger Investment Partners

Funds management company specializing in bond and property investment



Diversified managers and investment strategies

Equities

Bonds

Alternatives

Alphinity

LENNOX

ARDEA

TEMPO

Resonance

AVENIR

MERLON

BENTHAM

WHITEHELM

WYETREE

GREENCAPE

NOVA PORT

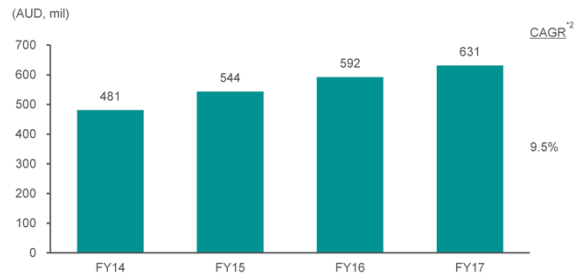
Kapstream

WAVESTONE

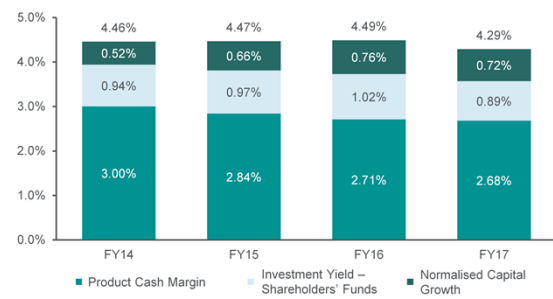
WAVESTONE

Challenger's High Growth Potential and Profitability (2)

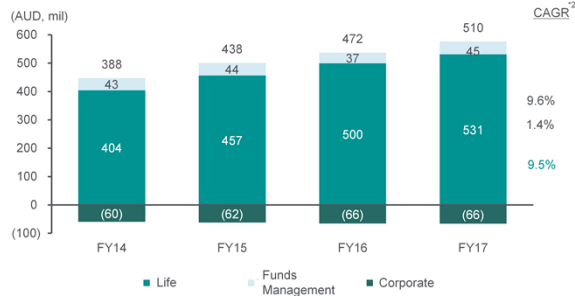
Life normalised COE*¹



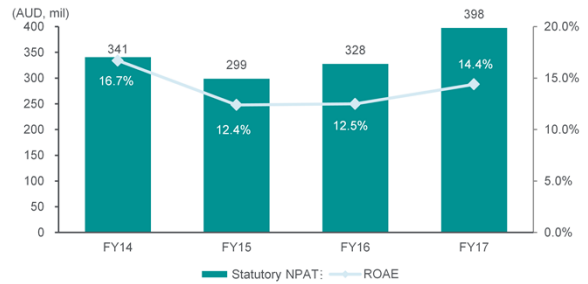
Life COE*¹ margin composition



Normalised EBIT



Statutory NPAT / ROAE



*¹ Cash Operating Earnings

*² 2014 - 2017 Compound Average Growth Rate

Challenger's Share Price, Earnings Per Share and Net Assets Per Share

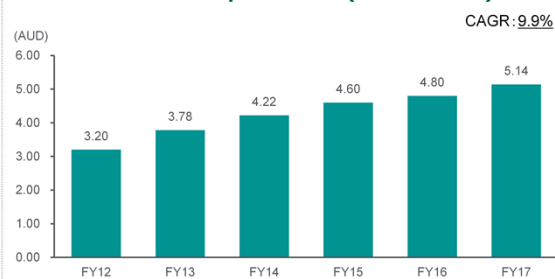
Share price and last 30 business days VWAP



Earnings per share* (2012-2017)



Net assets per share (2012-2017)



Challenger's Dividends and Total Shareholder Return

