MS&AD Holdings Conference Call (held on August 15, 2017)
Strategic Relationship with Challenger Limited, an Australian Financial Services Company
Summary of Questions and Answers

The following summarizes the questions and answers exchanged during the IR conference call held on August 15, 2017.
The company names are abbreviated as follows:
“MS” refers to Mitsui Sumitomo Insurance Co., Ltd.
“AD” refers to Aioi Nissay Dowa Insurance Co., Ltd.
“MSA Life” refers to Mitsui Sumitomo Aioi Life Insurance Co., Ltd.
“MSP Life” refers to Mitsui Sumitomo Primary Life Insurance Co., Ltd.

Q1: The press release states that the Company intends to grow its holding to around 10%, and that the Company reserves the right to change its intentions and acquire or dispose of its Challenger shares as it sees fit. What exactly do you mean by these statements?

A1: Technically, these statements mean that there are no conditions such as a lock-up period that prevent us from selling the shares acquired through the subscription of new shares in Challenger.
While we are basically planning to increase our shares to 10%, we naturally have the right to sell our shares if there is a major change in the situation, which is agreed on by both parties. However, the aim of this share acquisition is to strengthen our strategic alliance, and it is not likely that we will sell our shares any time soon unless an extremely serious problem arises.

Q2. The graph in Challenger’s briefing material seems to indicate that reinsurance premiums worth approximately 45 billion yen have been received from MSP Life. What types of risks are reduced by this reinsurance? In addition, please tell us how MSP Life uses the reinsurance.

A2. We commenced reinsurance transactions with Challenger in November 2016 and paid approximately 50 billion yen in reinsurance premiums by the end of July 2017. Challenger’s material provides mostly the same information.
Our transactions with Challenger do not simply aim to reduce the risks. MSP Life prioritizes the diversification of counterparties for risk hedging and combines its own operation and multiple transactions with other reinsurance companies. Its reinsurance transactions with Challenger commenced as part of these efforts.
MSP Life originally limited its investment portfolios to high-rated bonds and operated relatively conservative investments. The company has not held high risks in the past, and it is therefore appropriate to understand that the transactions concerned aim to diversify risk underwriters rather than to reduce risks.

To ensure stable earnings, MSP Life determines the ceded amount and other conditions for every transaction by comparing and examining Challenger reinsurance together with other investment techniques and reinsurance of other reinsurance companies in view of return on risk.

Q3. Unlike insurance companies in the U.S. and Europe, Challenger takes more risks in its investment, such as the weight of stocks and real estate exceeding 30%. I assume that its capital burden was one of the reasons for the capital increase. How do you feel about Challenger being such a company?

A3: We acknowledge that the weight of real estate and stocks held by Challenger is higher than those of the U.S. and European insurance companies, relatively speaking. We have held discussions with Challenger on how to manage risks from this perspective as well, and decided on the investment after examining its risk management system. Considering the characteristics of its liabilities in annuity insurance, we understand that this is an appropriate investment. Further, their contract allows the application of market value adjustment (MVA) in the case of midterm cancellation, which limits the interest rate risk. Challenger has been subject to the strict supervision of the Australian Prudential Regulation Authority (APRA), which has provided us with its evaluation, and we do not envisage any problems with the investment.

Q4: After the acquisition of shares with a capital contribution ratio of approximately 10%, approximately what percent of the shares will you acquire if you decide on an additional purchase? Are you considering making Challenger an equity method company in the future?

A4: We are seeking to achieve the acquisition of approximately 10% to receive the tax benefit from the exclusion of dividends received by a foreign subsidiary in which the parent holds 10% or more shares from the parent's gross revenue based on the tax treaty between Australia and Japan.

We plan to purchase subsequent shares in the market, and do not consider it beneficial at this point to decide on any large purchases. Challenger also intends to value the relationships with its existing shareholders, and we will make decisions based on the understanding of both sides' conditions.

We do intend to consider making Challenger an equity method company in the future; however, it is still difficult to make a decision about the timing at this point.

Q5: What addition to the Group Core Profit can you expect from this investment?

A5: We are expecting a profit of approximately one billion yen per year for a capital contribution of 6.3%, and slightly less than two billion yen when the ratio is raised to approximately 10%.

Q6: In the development of this investment, what was the main purpose, Challenger's need for funding or MS&AD's intention to strengthen the relationship with Challenger?

A6: Challenger has been steadily growing its business, and needed additional capital to increase its solvency. We hear that the company then discussed whether to increase capital through its existing shareholders or to accept us as a new shareholder. As a result, it decided to allot shares to our Group in order to strengthen our relationship. In this sense, Challenger's fund requirements preceded our intention to strengthen the relationship with Challenger.

Q7: Won't reinsurance be meaningless if you invest in a company to which you are ceding reinsurance? Is it appropriate to understand that this investment will change Challenger from being a reinsurance business partner to being a recipient of Australian-dollar denominated products?

A7: This investment is a minor one and its purpose is to diversify reinsurers rather than reducing risks; we therefore do not consider that reinsurance will be meaningless. While we think that it will be desirable for the mutual partnership to expand the possibility of providing MSP Life's products in the Australian market in the future, taking into account the differences in the interest rates of Japan and Australia and other factors, at present our first step should be to share the expertise of both sides and explore the possibility of synergy while first providing Challenger with access to the Japanese market in the form of reinsurance.

Q8: Does MSP Life currently sell Challenger's products in Japan? If so, what is the volume of such sales at present, and to what extent does the company expect to or could possibly increase this volume of sales and the number of products?

A8: The company currently does not sell products under the name of Challenger in Japan. Its business is limited to the reinsurance of insurance products developed by MSP Life.

Q9: Do you consider this investment to be similar to a net investment? Are you considering developing a stronger relationship by, for instance, sending management personnel in the future?

A9: We are positioning this as a business investment. If we decide to seek an equity method company in the future, we may consider sending management personnel; however, at this point we have yet to have such a discussion.

Q10: If your investment is limited to 10%, the contribution to the Group Core Profit will be limited to around two billion yen. Won't this make the diversification effect on your business portfolio low? Or do you expect a certain diversification effect on your business even in such a case?

A10: Your opinion that the contribution of a mere two billion yen will not have a significant effect on the entire international business of the Group is appropriate.

However, we expect that the geographical diversification from our current life insurance business in Asia and taking risks in an area other than non-life insurance will have a certain diversification effect. While making a large investment is one of the options, we consider this investment

meaningful in view of expanding our business while making use of diversity.
As we have explained thus far, we would appreciate your understanding that this is one step in our various efforts to increase the weight of the international business in our portfolio.