Overview of Japan's Life Insurance Market

1. Market Scale

In fiscal 2017, life insurance companies in Japan* had a total of ¥33.7 trillion in income from insurance premiums. Although this amount had been growing gradually since fiscal 2002, it has declined over the past two years in a row.

* There are a total of 41 Japanese life insurance companies. (As of April 2, 2018)

2. Diversification of Customers' Life Insurance Needs

Changes in household composition due to such factors as the declining birthrate, aging population, and late marriage have decreased the need for large death benefits aimed at heads of households. Meanwhile, the needs for third sector insurance such as medical and nursing care products are increasing.

Policy Amount in Force and Number of Policies in Force

The policy amount in force, which is the total death benefit amount of individual insurance policies held by life insurance companies, was ¥852 trillion in fiscal 2017, down from the peak of ¥1,495 trillion in fiscal 1996.

Meanwhile, the number of policies in force, which is the number of individual insurance policies held by life insurance companies, was 173.02 million in fiscal 2017, marking the 10th straight year of increase.

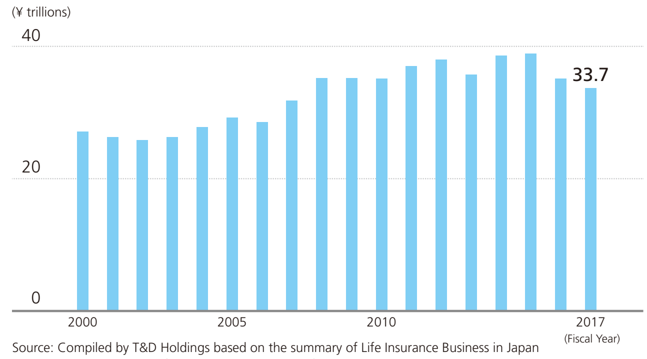
Numbers of Individual Policies in Force by Type

Turning to the breakdown of numbers of policies in force by type, the proportion of policies taken by medical and cancer insurance has increased significantly, from 20% in fiscal 2000 to 35% in fiscal 2017. The number of policies has also increased 2.7 times, from 22.79 million to 61.23 million, indicating increasing customer needs for third sector products.

Number of Individual Annuity Insurance Policies in Force

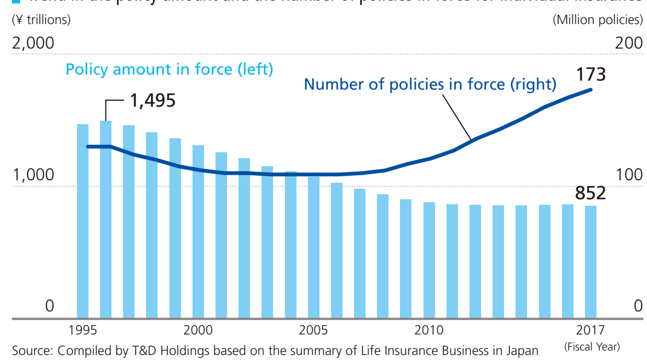
In fiscal 2017, there were 21.48 million individual annuity insurance policies in force. Full-scale sales of individual annuity insurance began in October 2002, when the ban on OTC sales at banks was lifted. Since then, the number of policies has increased steadily, in part due to increasing needs for stable financing after retirement.

Trend in the income from insurance premiums



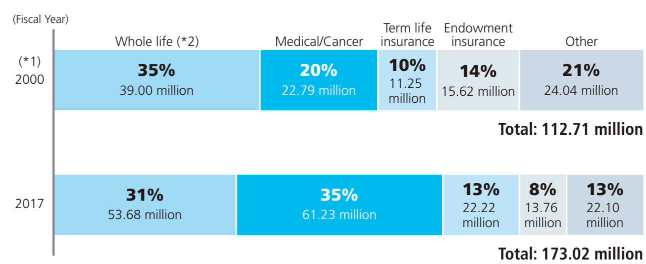
Source: Compiled by T&D Holdings based on the summary of Life Insurance Business in Japan published by the Life Insurance Association of Japan
Note: Excluding the numerical value of former postal life insurance up to fiscal 2007.

Trend in the policy amount and the number of policies in force for individual insurance



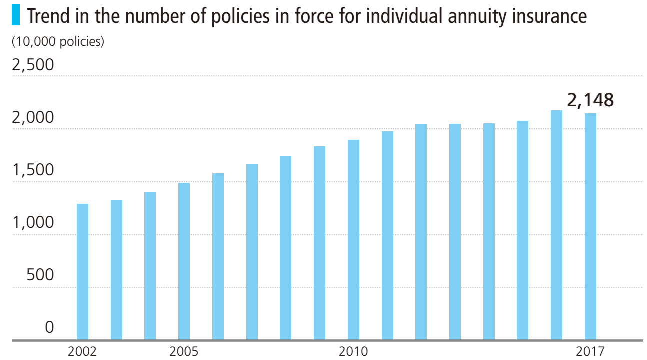
Source: Compiled by T&D Holdings based on the summary of Life Insurance Business in Japan published by the Life Insurance Association of Japan
Note: Excluding the numerical value of former postal life insurance up to fiscal 2007.

Number of policies in force for individual insurance by type



Source: Compiled by T&D Holdings based on the summary of Life Insurance Business in Japan published by the Life Insurance Association of Japan
*1 Excluding the numerical value for former postal life insurance in fiscal 2000.
*2 Whole life insurance is the sum of whole life insurance, fixed-term whole life insurance and variable interest-type savings-type whole life insurance.

Trend in the number of policies in force for individual annuity insurance

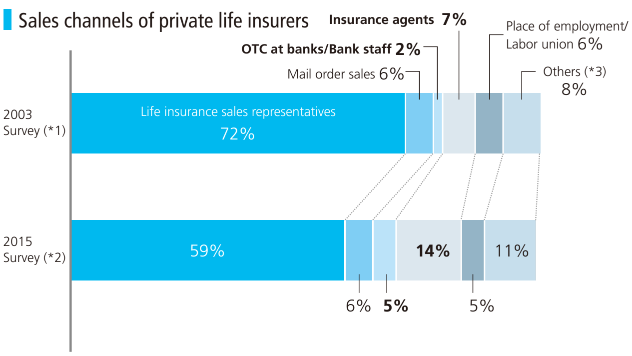


Source: Compiled by T&D Holdings based on the summary of Life Insurance Business in Japan published by the Life Insurance Association of Japan
Note: Excluding the numerical value of former postal life insurance up to fiscal 2007.

3. Diversification of Sales Channels

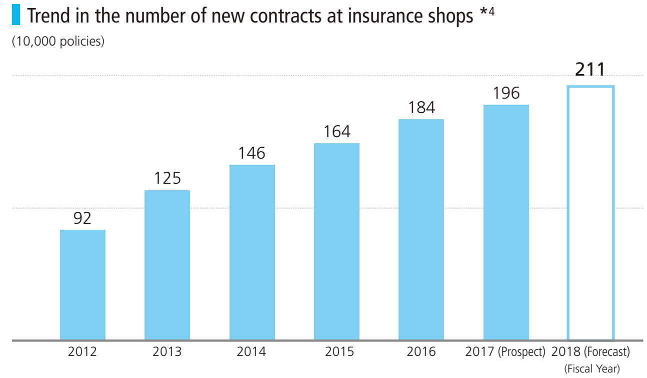
The sales channels of life insurance companies are growing more diverse with, in addition to the in-house sales representative channel, a recently increasing presence of OTC insurance sales at banks, and agent channels including insurance shops.

Sales channels of private life insurers



Source: Compiled by T&D Holdings based on the results of the Corporation Sample Survey on Life Insurance (FY2003 and FY2015) of Japan Institute of Life Insurance.
*1 Policies taken out during 1998-2003. *2 Policies taken out during 2010-2015.
*3 Including those policies through indistinct channels.

Trend in the number of new contracts at insurance shops *4



Source: Survey on Insurance Shop Market 2018, Yano Research Institute Ltd.
*4 The number of new contracts at independent insurance agents involved in the business cooperation with several insurance companies with insurance shops. Prospect and forecast values as of June 2018.

Reference: Types of Life Insurance

There are three main types of life insurance: death insurance, pure endowment insurance, and accident and sickness insurance.

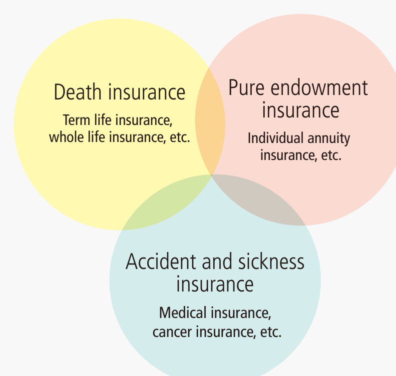
Death insurance	Insurance benefits are paid when the insured individual dies. Typical products include term life insurance and whole life insurance.
Pure endowment insurance	Insurance benefits are paid when the insured individual remains alive after a certain period of time. A typical product is individual annuity insurance.
Accident and sickness insurance	Insurance benefits are paid when the insured individual becomes ill, falls into certain conditions due to diseases or accidents, or dies from an accident. Typical products include medical insurance and cancer insurance.

These insurance are sold not only as single products but in various combinations in accordance with customer needs and so forth.

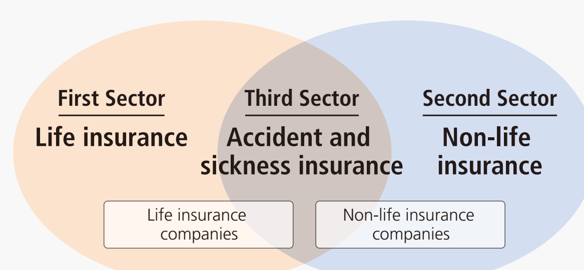
In the Japanese insurance industry, insurance related to a person's life and death are called "First Sector" insurance and only life insurance companies are allowed to sell these products. In contrast, insurance which compensate damages caused by a fortuitous accident are called "Second Sector" insurance and only non-life insurance companies are allowed to sell these products. Death insurance and pure endowment insurance mentioned above are included in the First Sector.

Accident and sickness insurance do not belong to either of the First Sector or Second Sector insurance categories, and are called "Third Sector" insurance. Both life insurance companies and non-life insurance companies can sell Third Sector products. A typical Third Sector insurance product sold by non-life insurance companies is "accident insurance," which insures against injuries.

Types of life insurance



Types of insurance



Business Risks and Other Risks

The following are risks related to the business of T&D Holdings, Inc. (the "Company") and the T&D Life Group (the "Group") and other risks that could significantly affect the investment decisions of investors.

Forward-looking statements in this section reflect judgments as of the submission date of the Annual Securities Report ("YUHO Report").

Further, in this section "the three life insurance companies" refers to Taiyo Life Insurance Company, Daido Life Insurance Company, and T&D Financial Life Insurance Company for which the Company is the holding company, while "directly owned subsidiaries" refers to five companies: the three life insurance companies and T&D Asset Management Co., Ltd., and Pet & Family Small-amount Short-term Insurance Company, both of which the Company owns directly.

I. RISKS AS A HOLDING COMPANY

1. Risk Related to Reliance on the Performance of the Life Insurance Business

The Group is focused on the life insurance business and is heavily reliant on the earnings of its three life insurance companies. Therefore, if the business circumstances of any of the three life insurance companies change, and/or the roles or positions of any of the three life insurance companies change, the Group's earnings and financial condition could be adversely affected.

2. Risk Related to Dividend Income

As the holding company, T&D Holdings, Inc. derives the majority of its income from dividends paid by its three life insurance companies.

Under certain circumstances, the amount of dividends which can be paid by the three life insurance companies may be limited by the Insurance Business Act and/or the Japanese Companies Act. Also, if any of the three life insurance companies fails to record sufficient profits, they may not be in a position to pay dividends to the Company, and the Company may be unable to pay dividends.

3. Risk Related to Expanding Scope of Operations

The Group is considering expanding the scope of its operations outside of the life insurance business by leveraging the advantages of its holding company structure within legal and regulatory boundaries. The Group may have little or no experience in such operational expansion. If expansion does not progress or if the operations concerned are unprofitable or suffer from low profitability, the Group's earnings and financial condition could be adversely affected.

4. Risk Related to Regulatory Changes

The Company and the Group as a whole are subject to regulation under the Insurance Business Act and oversight by the Financial Services Agency (FSA). Furthermore, the Company and the Group conduct operations under restrictions of other regulations, including the impact of laws, regulations, business customs, interpretation, and fiscal policies. For this reason, future changes in any of the associated regulations, and/or circumstances resulting from such changes, could adversely affect the Group's earnings and financial condition.

II. RISK RELATED TO BUSINESS

1. Type of Risk Related to Directly Owned Subsidiaries

The following are the main risks related to directly owned subsidiaries. The materialization of these risks could affect the business results or financial position of the Group adversely.

Type of risk		Risk characteristics and countermeasures
Underwriting risk		This is the risk of incurring losses due to disparities between economic trends or trends in mortality and morbidity rates and forecasts at the time of setting premiums. This includes the risk of a rapid increase in insurance claims, insurance benefits, and other payments due to an outbreak of a new strain of influenza.
Investment risk		The Group classifies and manages investment risk according to three categories: market risk, credit risk, and real estate investment risk.
	Market risk	This is the risk of incurring losses due to changes in the value of owned assets and liabilities (including off-balance sheet assets) as a result of changes in interest rates, securities prices, foreign exchange rates, and various other factors.
	Credit risk	This is the risk of incurring losses due to a decline in the price or the complete loss of the value of assets (including off-balance sheet assets) as a result of a deterioration in the financial positions of obligors and other factors.
	Real estate investment risk	This is the risk of incurring losses from a decline in real estate-related revenues due to changes in lease fees or other factors, or from a decline in the value of real estate itself due to changes in market conditions.
Liquidity risk		The Group classifies liquidity risk into two categories: cash flow risk and market liquidity risk.
	Cash flow risk	This is the risk of incurring losses when an outflow of funds resulting from a major disaster, a deterioration in profitability, or other factors cause a deterioration in cash flows that forces directly owned subsidiaries to sell assets at prices significantly lower than normal in order to secure funds.
	Market liquidity risk	This is the risk of incurring losses due to an inability to trade in the market or being forced to trade at prices significantly lower than normal because of market confusion or other factors.
Operational risk		Operational risk is managed by category of risk, namely administrative risk, system risk, legal risk, labor/personnel risk, and catastrophe risk.
	Administrative risk	This is the risk of incurring losses due to an officer or an employee neglecting to perform operations correctly and/or causing accidents, performing illegal acts, leaking information, etc.
	System risk	This is the risk of incurring losses due to computer system downtime, malfunctions, or other system flaws or the improper use of computers.
	Legal risk	This is the risk of incurring losses as a result of neglecting to comply with laws and statutory regulations.
	Labor/Personnel risk	This is the risk of suffering losses due to such labor and personnel problems as those related to hiring, labor management, personnel outflows, human rights, etc.
	Catastrophe risk	This is the risk of incurring losses due to a lack of preventative measures in relation to large-scale disasters or not having emergency measures in place when a large-scale disaster occurs.
Reputational risk		This is the risk of incurring losses due to the spread of information such as unfavorable criticism/credit uneasiness of the Group or the life insurance industry among policyholders, investors, media, Internet or the public at large which causes situations such as a decline in share price or negatively affects the earnings of Group companies adversely.
Affiliate and other entity risk		This is the risk of incurring losses due to deterioration of profitability, materialization of various risks, or other adverse factors at subsidiaries, affiliates, and business investees of directly owned subsidiaries.

2. Risks Related to the Life Insurance Business

(1) Life Insurance Business

The Group’s main business is life insurance business. The three life insurance companies underwrite life insurance based on life insurance business licenses. Risks particular to the three life insurance companies are as shown below. The materialization of these risks could affect the business results or financial position of the Company and the Group adversely.

1) Principal Laws and Statutory Regulations Related to the Life Insurance Business

Life insurance companies are subject to regulation under the Insurance Business Act and oversight by the FSA. The Insurance Business Act functions as a supervisory law for insurance companies and as an act for insurance companies act that stipulates the organization and operations of insurance companies.

a. Licenses

Authorities use a license system for life insurance business and nonlife insurance business. The three life insurance companies have received life insurance business licenses which enable the underwriting of conventional life insurance providing for fixed payments related to the survival or death of a person as well as medical insurance, accident insurance, and nursing care insurance, known as Third Sector insurance, and reinsurance of such life insurance and Third Sector insurance.

Further, authorities can revoke these licenses if, based on the regulations of the Insurance Business Act, the prime minister deems the licensee to have committed an infringement in relation to particularly significant procedures or basic documents (statements of business procedures, etc.) that are stipulated by laws or statutory regulations or to have acted in a way that damages the public interest, or if the prime minister deems that the insurance company's financial situation has deteriorated markedly and that continuing the insurance business is inappropriate from the viewpoint of protecting policyholders. In addition, based on the stipulations of the Insurance Business Act, if authorities revoke the license of an insurance company, the company must be liquidated.

b. Restrictions on Business Scope

The regulations of the Insurance Business Act prohibit life insurance companies from conducting business in fields other than those that the Insurance Business Act and certain other laws and statutory regulations stipulate. Taking into account the highly public nature of the insurance business, this prohibition seeks to prevent deteriorations in the assets of life insurance companies due to failures in businesses other than the insurance business, prevent the allocation of premium income to compensate for deficits of other businesses, and ensure insurance companies dedicate their efforts to the insurance business and thereby realize efficient, sound business management.

Further, the business scope of subsidiaries and other entities of insurance companies is subject to restrictions for the same reasons as those stated above. Going forward, revision of statutory regulations or changes in regulatory agencies' interpretation or application of them could affect the business results or financial position of the Company and the Group adversely.

c. Regulation and Oversight under the Insurance Business Act

To enable the regulatory agency to grasp the actual condition of insurance companies and implement supervisory measures, insurance companies are subject to the regulations below under the Insurance Business Act.

Details of the main statutory regulations based on the Insurance Business Act relating to insurance companies' insurance underwriting and asset management are as follows:

Regulation	Details
Approval and notification of insurance products and premium rates*	The regulations of the Insurance Business Act stipulate that in principle, insurance products and their premium rates require the approval of the commissioner of the FSA. However, the Ordinance for Enforcement of the Insurance Business Act stipulates certain products and premium rates that only require notification because the risk of insufficient protection of the policyholders is minimal.
Asset management regulation	The Insurance Business Act requires the methods of investment of money and other assets received as premiums to conform to the stipulations of the Ordinance for Enforcement of the Insurance Business Act.

* Premium rates: insurance premiums as a percentage of the basic policy amount

Further, with respect to insurance companies, the commissioner of the FSA has general supervisory rights, including the right to receive reports and documents and conduct on-site inspections. If the regulatory agency took such supervisory measures against the three life insurance companies, any revision in statutory regulations or changes in the regulatory agency's interpretation or application of them occur, it could affect the business results or the financial position of the Company and the Group adversely.

d. Solvency Margin Ratio

The term solvency margin indicates a "surplus financial payment capability" that covers exposure to unforeseeable risk, such as major earthquakes or stock market crashes. Life insurance companies have policy reserves to ensure the payment of future insurance claims within the scope of regular, foreseeable risks. However, solvency margin protects against risk that exceeds normal circumstances. A solvency margin ratio is calculated as the total amount of solvency margin (equity, reserve for price fluctuations, contingency reserve, reserve for possible loan losses, and others) divided by 1/2 of the quantified measure of the total amount of unforeseeable risk borne (total amount of risk).

Supervisory authorities take prompt corrective action designed to quickly restore management soundness when the solvency margin ratio falls below 200%.

e. Adjusted Net Assets

Adjusted net assets is an amount calculated based on the assets on the balance sheet (securities and real estate are evaluated using a fixed mark-to-market valuation), less an amount calculated based on the liabilities (liabilities less the reserve for price fluctuations and contingency reserve). This net assets figure is used for determining whether there are excess liabilities regarding the system of prompt corrective action by the supervisory authorities. If adjusted net assets is negative or expected to be negative, the supervisory authorities could order a complete or partial suspension of business operations.

2) Asset Management Regulations for Life Insurance Companies

a. Characteristics of Life Insurance Companies' Liabilities and Capital

For life insurance companies, borrowed capital which is centered on policy reserves, accounts for a much larger portion of capital than equity capital, which comprises capital, retained earnings, and others.

Borrowed capital mainly comprises policy reserves, which include policy reserve, reserve for policyholder dividends, and reserve for outstanding claims in which the policy reserve accounts for the majority of policy reserves. Such life insurance funds have four characteristics: (1) they are long-term, (2) they are policyholders' financial assets in trust, (3) they seek profitability, and (4) they are highly public in nature.

Therefore, the management of life insurance companies' capital require the pursuit of safety, profitability, liquidity, and publicness.

b. Regulations for Management of Life Insurance Funds

Changes in the following regulations for the management of life insurance funds or changes in the regulatory agency's interpretations/applications of such regulations could adversely affect the business results or financial position of the Group.

i. The necessity and characteristics of investment regulations

Regulating insurance companies' investment of life insurance funds in order to ensure the ability of insurance companies to pay insurance claims and protect the interests of policyholders are deemed necessary.

The general account controls financial assets that are derived from premiums received from policyholders based on their policies. In each of these policies, insurance companies guarantee policyholders the payment of specific assumed investment yields. The general account controls financial assets other than those controlled in the separate account mentioned below.

ii. Asset management of the separate account

The purpose of the separate account is to return investment gains directly to policyholders. Insurance companies manage this account separately from their other financial assets in the general account.

Regarding separate account, to ensure insurance companies can make payments to policyholders as needed, the assets that insurance companies manage in the separate account need to be convertible to cash. Due to this characteristic, insurance companies generally invest in listed securities and other assets with daily price quotations.

3) Income and Expenditure Structure of the Life Insurance Business

a. Characteristics of Life Insurance Accounting

Life insurance companies' income mainly comprises premiums, income from interest and dividends, and gains on sales of securities. On the other hand, their expenditure mainly comprises the payment of insurance claims, annuities, and insurance benefits as well as investment expenses such as losses on sales of securities, and operating expenses that include expenses for policy maintenance and solicitation.

i. Structure of the premium

Insurance companies set premiums through calculations based on the assumed mortality rate, assumed investment yield, and assumed operating expense rate as well as the details of benefit, insurance amount, and insurance term in addition to the age, gender, etc., of the insured individual.

Normally, insurance companies set the basic calculation rates that they use for projections at conservative levels. As a result, differences in assumed and actual rates often generate income. However, investment yields of certain products may fall below assumed investment yields, a situation that is called negative spread. In addition, life insurance companies can incur losses related to death protection if mortality rates exceed assumed mortality rates due to a major disaster.

Further, life insurance companies can incur losses if operating expense rates exceed assumed operating expense rates due to inflation.

Basic calculation rates	Details
Assumed mortality rate	Based on statistics on past trends, life insurance companies project the number of deaths by gender, age, etc., and calculate the premiums required to pay future insurance claims. The mortality rate that companies use for this calculation is called the assumed mortality rate.
Assumed investment yield	Insurance companies project a certain investment yield from asset management and discount this from premiums. The rate of this discount is called the assumed investment yield.
Assumed business expense rate	Insurance companies project expenses required for business operations and include this in premiums. Rates set in accordance with the characteristics of each type of expense are called the assumed business expense rate.

ii. Policy reserve

Life insurance companies have policy reserves to ensure the reliable payment of future insurance claims. The revenue sources of policy reserves are insurance premiums and investment income, and they account for the largest portion of the liabilities of life insurance companies.

Further, insurance companies recognize provisions for the policy reserve, net of reversals, in the statement of operation. In other words, if provisions exceed reversals, insurance companies recognize the difference as a provision for the policy reserve in ordinary expenses. If reversals exceed provisions, insurance companies recognize the difference as a reversal of the policy reserve in ordinary revenues.

iii. The structure of policyholder dividends

In life insurance, participating policies pay policyholder dividends and non-participating policies do not. For participating policies, if a surplus arises due to a difference between actual rates and the assumed mortality rate, assumed investment yield, and assumed operating expense rate that insurance companies use as the basis of calculation of premiums, insurance companies return a portion of this surplus to policyholders as policyholder dividends. Meanwhile, although non-participating policies do not pay policyholder dividends, policyholders can normally receive the same protection as that of an equivalent participating policy at a lower premium.

The Insurance Business Act stipulates that life insurance companies must pay policyholder dividends in a "fair and balanced" manner. The three life insurance companies have established policies for policyholder dividends in their Articles of Incorporation based on the Insurance Business Act.

b. Profits and Losses of Life Insurance Companies

Generally, companies classify their statement of operation into operating profit or loss and non-operating profit or loss. However, life insurance companies classify their statement of operation into insurance-related profit or loss (income from insurance premiums, insurance claims, and other payments and provisions for policy reserve and other reserves), investment gains or losses (investment income and investment expenses), and other gains or losses (other ordinary income, other ordinary expenses, and operating expenses).

The major items in ordinary revenues of life insurance companies are income from insurance premiums and investment income, including interest, dividends and income from real estate for rent, and gains on sales of securities. The main items in ordinary expenses include insurance claims and other payments, such as insurance claims/surrender payments, provision for policy reserve and other reserves, investment expenses including losses on sales of securities, and operating expenses.

Ordinary profit is ordinary revenues net of ordinary expenses. As a result, as well as the balance of insurance premiums and insurance claims, ordinary profit of life insurance companies is very susceptible to fluctuations in the investment environment, such as stock markets.

c. Breakdown of Ordinary Profit (Core Profit)

Changes in the investment environment, including fluctuations in conditions of stock and bond markets as well as foreign exchange rates, result in gains or losses on sales of securities, devaluation losses or valuation gains on securities, and foreign exchange gains or losses, thereby significantly affecting the ordinary profits or losses of life insurance companies. For this reason, and based on disclosure standards that the Life Insurance Association of Japan has established as part of efforts to promote better disclosure, life insurance companies have been disclosing core profit or loss as an indicator of the periodic income or loss of insurance business since fiscal 2000. Core profit or loss is ordinary profit or loss not including capital gains or losses, such as gains or losses on sales of securities and devaluation losses or valuation gains on securities, and one-time gains or losses, such as reversal of contingency reserve, provision for contingency reserve, write-off of loans, and others. Insurance companies disclose core profit or loss for reference only. Core profit is not an item in the statement of operation. Deteriorations in core profit, capital gains or losses, and one-time gains or losses due to fluctuations in the financial market could adversely affect the business results or financial position of the Group.

d. Negative Spread

Life insurance companies calculate the premiums policyholders pay by discounting the profits expected from investments using a rate called the assumed investment yield (For an explanation of the structure of the premium, please see the aforementioned "a. Characteristics of Life Insurance Accounting, i. structure of the premium"). Therefore, insurance companies need to secure investment income equivalent to the amount they discount each year (assumed interest). However, life insurance companies may be unable to generate enough investment income to cover assumed interest and be in a situation of so called "negative spreads." The occurrence of negative spreads or an increase in negative spreads in the future, due to a change in financial conditions, could affect the business results or financial position of the Group adversely.

4) Contributions to the Life Insurance Policyholders Protection Corporation of Japan

The Life Insurance Policyholders Protection Corporation of Japan ("LIPPCJ") was established in December 1998 based on the Insurance Business Act to increase policyholder protection in the event of a life insurance company filing for bankruptcy. All life insurance companies conducting business in Japan, including the Japanese branches of foreign insurance companies, are members. As a system to mutually assist policyholders, etc., in the event that a life insurer files for bankruptcy, the LIPPCJ provides financial assistance for transferring life insurance policies of a failed insurer, manages the succeeding life insurance company, underwrites life insurance policies, offers financial assistance connected with payments of compensation insurance, and purchases insurance claims, among other activities. The financial assistance provided by the LIPPCJ to a failed insurer is furnished by contributions from members. However, until the end of March 31, 2022, the government may provide the LIPPCJ with additional funds if a life insurance company bankruptcy occurs and the funds needed to cover policyholders are in excess of the funds contributed by members. Members have been making annual contributions for the bankruptcy procedures to date in accordance with standards specified in the LIPPCJ's Articles of Incorporation, which is recorded as operating expense in the contributed fiscal year.

The Group will continue making these contributions for the time being. However, if the three life insurance companies' shares of the total amounts of premiums and policy reserves in the life insurance industry change, their contributions to the LIPPCJ would change accordingly. As mentioned above, the Group's contributions could rise if a life insurance company files for bankruptcy and requires financial support from the LIPPCJ.

5) Deferred Tax Assets

Based on generally accepted accounting principles and practices in Japan, for each taxable entity the Group recognizes the amounts that are expected to mitigate future tax burden as deferred tax assets, net of deferred tax liabilities, in the balance sheet. Since the recognition of deferred tax assets is based on various assumptions, including estimates of future taxable income, actual taxable income could differ from these assumptions. Further, a change in accounting standards or a change in the Group's estimate of future taxable income could lead the Group to conclude that the recovery of all or some of its deferred tax assets is difficult. In such a case, the Group could reduce the amount of deferred tax assets that it recognizes. In the event that the statutory effective tax rate is reduced due to an amendment of the corporate tax code, the amount of deferred tax assets that the Group recognizes will be reduced. As a result, this may adversely affect the business results or financial position of the Group.

(2) Competition

1) Life Insurance Companies

a. Competing Life Insurance Companies

As of March 31, 2018, including the Group's three life insurance companies, there were 41 life insurance companies in Japan which have received a Life Insurance Business License or a Foreign Life Insurance Business License. All of these insurance companies are in a competitive relationship with the Group with respect to the solicitation and maintenance of life insurance policies. Intensification of this competition could adversely affect the business results or financial position of the Group.

b. Trends in the Life Insurance Industry

New policy amount and policy amount in force could decline in the future due to an aging society with low birthrates, a shrinking workforce or other factors. Under these conditions, new entry of insurance companies with new channels, various forms of industry consolidation and strategic alliances have occurred which may lead to further development of industry consolidation in the domestic market going forward. In addition, as seen from the full deregulation of OTC sales at banks, the life insurance industry is expected to see further liberalization and deregulation going forward. As a result, there is expected to be further escalation in competition on life insurance product prices and services, which could adversely affect the Group's earnings and financial condition.

2) Competitive Relationships in Life Insurance Businesses

The Japan Agricultural Cooperatives, the National Federation of Workers and Consumers Insurance Cooperatives, and the Japanese Consumers' Cooperative Union offer life insurance products with functions analogous to those provided by private-sector life insurers. Accordingly, the three life insurance companies stand in a competitive relationship with these entities in the life insurance business.

In fields involving financial functions, the Group has competitive relationships mainly with trust banks in the management of corporate pension assets under contract and investment advisory companies in the management of other assets.

In businesses where there is a competitive relationship with other companies, any decline in the competitiveness of the three life insurance companies could adversely affect the Group's earnings and financial condition.

3) The Group's Business Policy

The Group holds the three life insurance companies: Taiyo Life, which has strength in the household market; Daido Life, which has strength in the SME market; and T&D Financial Life, which has strength in the life insurance market based on independent insurance agents, under a holding company. Each company has different business strategies, markets, and products under a unique business policy.

As a result, each of the three life insurance companies faces particular risks which are detailed as follows. Materialization of these risks could adversely affect the business results or financial position of the Group.

a. Taiyo Life

i. Market

Taiyo Life's mainstay life insurance for the individuals market breaks down into two large categories: the household market, which centers on sales activities through home visits, and the worksite market, which centers on sales activities through worksite visits. The company conducts sales activities primarily in the household market. Consequently, most of the company's policyholders are housewives. Women account for approximately 70% of the company's new policyholders for individual insurance and individual annuity policies.

Removal of the regulation of member policies* would enable insurance companies' insurance agent subsidiaries to sell life insurance products to their officers and employees. As a result, the worksite market would see a shift in sales channel from sales representatives channel to sales agent channel. This could reduce the number of sales contacts for the sales representatives of other life insurance companies which center on promoting sales in the worksite market. These companies could enter and focus on the household market which would result in fiercer competition in the household market. Such developments could adversely affect the business results or financial position of the company.

Further, in the case of difficulty maintaining the efficiency of a sales system based on door-to-door sales such as future law revisions which would strengthen the regulation of door-to-door sales, the company's business results or financial position could be adversely affected.

* Regulation of member policies: the Insurance Business Act and the Ordinance for Enforcement of the Insurance Business Act prohibit life insurance sales agents or insurance brokers from selling life insurance products to their own executives or personnel referred to as "members," or those of affiliated companies, with the exception of certain non-life insurance products and Third Sector products.

ii. Sales system

Taiyo Life sells life insurance products mainly through sales representatives. As of March 31, 2018, the company had 8,942 sales representatives. Sales representatives accounted for approximately 89% of the company's new policy amount (individual insurance and individual annuity insurance) for fiscal 2017. A significant reduction in the number of sales representatives would lower the sales capabilities of the company, which could affect its business results or financial position adversely.

In the future, there may be significant changes in the composition of sales channels in the life insurance industry as a whole due to growth in OTC sales at banks, insurance shop agent sales or other factors. The company already sells products in the sales agent channel, including OTC sales at banks. However, a slow response from the company to further changes or a dramatic decline in the superiority of the sales representatives channel in insurance sales compared to other channels could affect its business results or financial position adversely.

iii. Increase in sales of comprehensive life insurance

In the household market, Taiyo Life is working through sales representatives to increase sales of comprehensive life insurance, which centers on death protection and medical/nursing care insurance.

In the individual household market, a customer group which is aging rapidly, the proportion of the company's main customer base—women, middle-aged/elderly—are expected to remain at a high level. Therefore, the company should be able to maintain its competitive advantage in this market.

However, if contrary to expectations the company is unable to maintain a competitive advantage in the individual household market, or experiences a sales slump because competitive superiority is less than expected, its business results or financial position could be adversely affected.

b. Daido Life

i. Market

Daido Life conducts sales activities focused on the SME market. Regarding the breakdown of the new policy amount*1 for fiscal 2017, policies from the SME related organizations*2 accounted for 90.0% and other policies accounted for 10.0%. SMEs are particularly susceptible to changes in the business climate. Therefore, a decrease in new policies or an increase in surrender rates due to a deterioration in business results or an increase in bankruptcies among SMEs, which are the company's mainstay customers, could adversely affect the its business results or financial position.

*1. The amount is calculated by adding critical illness insurance amount of non-participating insurance for critical illness, disability income insurance amount of non-participating disability income insurance, nursing care insurance amount of non-participating whole life nursing care insurance and non-participating nursing-care term insurance to the new policy amount of individual insurance, individual annuity insurance, and group insurance policies.

*2. The total of individual insurance, individual annuity insurance, non-participating insurance for critical illnesses, non-participating disability income insurance, non-participating whole life nursing care insurance, and non-participating nursing-care term insurance marketed through franchise groups, and group insurance policies.

ii. Sales of partner-specific products

Since 1971, Daido Life has underwritten the comprehensive insurance plan, *Keieisha Ogata Sogo Hosho Seido* of the National Federation of Corporate Taxpayers Associations (NFCTA, known as *Hojinkai*), and the Tax Payment Associations (TPA, known as *Nozei-kyokai*). Further, in 1976, the company began underwriting the *TKC Kigyo Boei Seido* for the TKC National Federation where the company sells insurance products to member companies or companies which the member tax accountants/accountants serve as an advisor. These sales of partner-specific products are the core of the company's sales initiatives. The entry of competitors through tie-ups with the abovementioned organizations or these organizations' halting of recommendations of the company's products could adversely affect its business results or financial position.

iii. Sales system

Daido Life sells life insurance products through two main channels which are in-house sales representatives and sales agents. The sales agent channel mainly comprises tax accountants and Property & Casualty (P&C) insurance agents.

• In-house sales representative channel

The company's in-house sales representatives sell products mainly to companies that are members of NFCTA and TPA.

As of March 31, 2018, the company had 3,714 in-house sales representatives. The company hires high-quality personnel while developing sales representatives who possess highly specialized knowledge and sales techniques. However, a significant decrease in the number of sales representatives or a fall in productivity per sales representative could adversely affect its business results or financial position.

• Agent channel

As of March 31, 2018, the company had 13,992 agents.

The company continually improves the competitiveness of its products and enhances its support capabilities, including upgrading the skills of staffs who support agents. However, agents that meet certain conditions handle the products of multiple life insurance companies. The handling of further more life insurance companies by such agents or a decrease in the handling of the company's products among agents could adversely affect its business results or financial position.

iv. Products

Daido Life's main product has traditionally been individual term life insurance. As of March 31, 2018, individual term life insurance accounted for 81.1% of the company's policy amount in force*.

In the individual term life insurance business area, the company has taken steps to further strengthen the competitiveness of its products in relation to pricing and product appeal. However, intensification of competition with competitors or a decline in demand for individual term life insurance could adversely affect its business results or financial position.

Further, under the current income tax laws, corporations are allowed to deduct as a business expense for all or a portion of the cost of insurance premiums of individual term life insurance. Abolition or reduction of this treatment of insurance premiums due to a change in Japanese tax law or regulations could decrease the company's new policies or heighten the company's surrender rates, which could adversely affect its business results or financial position.

* The amount is calculated by adding critical illness insurance amount of non-participating insurance for critical illness, disability income insurance amount of non-participating disability income insurance, nursing care insurance amount of non-participating whole life nursing care insurance and non-participating nursing-care term insurance to the policy amount in force of individual insurance and individual annuity insurance.

c. T&D Financial Life

i. Market

T&D Financial Life sells life insurance products through OTC sales at financial institutions and insurance shop agents.

If changes such as the investment environment cause financial institution agents to focus more on the sale of products other than life insurance products, the OTC sales in the financial institutions market could shrink, which could adversely affect the company's business results or financial position.

ii. Sales system

T&D Financial Life mainly sells its products through OTC sales at financial institutions and insurance shop agents. As of March 31, 2018, the company had concluded agent agreements with 142 financial institutions.

Going forward, if the competition in pricing/services intensifies with competitors, or the number of agents handling the company's products decreases due to delays in the introduction of the company's new products, etc., in OTC sales in the financial institutions and insurance shop agents area, the company's business results or financial position could be adversely affected.

iii. Products

T&D Financial Life's main products are single-premium whole life insurance, single-premium individual annuity insurance, and level-premium income protection insurance. The company differentiates insurance benefits from those of the competitors and develops products based on consumer demand. If the competition intensifies with other companies, or a demand for single-premium whole life insurance, single-premium individual annuity insurance, and level-premium income protection insurance declines and results in a slump in sales and a significant decrease in the policy amount in force going forward, or the balance of minimum guarantee of individual variable annuities outstanding deteriorates due to fluctuations in financial markets, the company's business results or financial position could be adversely affected.

(3) Investment Risk

1) Investment Risk of the General Account and the Separate Account

Life insurance companies have two different types of accounts which are the general account and the separate account. Life insurance companies use the general account to make guaranteed payments to policyholders based on an assumed investment yield. Therefore, life insurance companies bear the risk of the actual investment yield falling below the assumed investment yield. On the other hand, with the separate account, investment results are directly reflected in the funds of the policyholders. Therefore, policyholders bear the investment risk.

2) Overview of Market Risk

a. Stock-related Market Risk (stock price fluctuation risk)

A decrease in unrealized gains or an occurrence in unrealized losses due to a decline in the fair value of stocks etc., in the Group's general account could adversely affect the Group's business results or financial position.

b. Domestic Bond-related Market Risk (interest rate fluctuation risk)

A decrease in unrealized gains or an occurrence in unrealized losses due to higher interest rates or a decline in the fair value of yen-denominated bonds in the Group's general account could adversely affect the Group's business results or financial position.

c. Market Risk Related to Foreign Currency-denominated Securities (currency exchange rate fluctuation risk)

A decrease in unrealized gains or an occurrence in unrealized losses on foreign currency-denominated securities in the Group's general account due to fluctuation in the foreign currency market (yen appreciation/foreign currency depreciation) could adversely affect the Group's business results or financial position. For information on the fair value of securities (securities with fair value which are not trading securities) in the general account, please see Notes to Consolidated Financial Statements, Note 23 Securities on page 124.

3) Overview of Credit Risk

In regard to loans, bonds and suchlike, incurring losses due to a decline in value or a complete eradication of the value of assets as a result of a deterioration of the financial positions of obligors could adversely affect the Group's business results or financial position. For information on loans to bankrupt companies, past due loans, loans overdue for three months or more, and restructured loans, please see Notes to Consolidated Financial Statements, Note 3 Loans on page 109.

4) Overview of Real Estate Investment Risk

Regarding the real estate owned by the Group, losses incurred by a decline in revenue derived from real estate due to factors such as fluctuations in lease fees of real estate held for investment purposes, or a decline in the value of real estate itself caused by a change in market conditions could adversely affect the Group's business results or financial position. For information on the fair value of real estate held for investment purposes, please see Notes to Consolidated Financial Statements, Note 29 Real Estate for Rent on page 143.

(4) Ratings

Rating agencies rate the ability of life insurance companies to pay insurance claims. A downgrade of the ratings of the Group's ability to pay insurance claims due to a deterioration of the three life insurance companies' solvency margins, earnings capabilities, or the quality of their assets—or a public announcement that an agency is considering the downgrade of the Group's rating—could lead to a decrease in new policies or a higher surrender rate. Such events could adversely affect the Group's business results or financial position.

3. Risk Related to Other Businesses

(1) Asset Management Business Risk

The Company, through directly owned subsidiary T&D Asset Management Co., Ltd., provides asset management services to such clients as pension funds, institutional investors, and individual investors in Japan and overseas, mainly through its Type II Financial Instruments Business, its investment management business, and its investment advice and agency business.

The management fee and investment management entrustment fee which it earns as consideration for these services are based on the balance of customers' assets under management. Therefore, a decrease in the balance of assets under management due to fluctuations in market prices or an increase in cancellation of contracts could adversely affect the Group's business results or financial position.

(2) Risk Related to the Small-amount Short-term Insurance Businesses

The Company offers pet insurance through directly owned subsidiary Pet & Family Small-amount Short-term Insurance Company. This subsidiary's target market has growth potential going forward. However, in order to expand or support the subsidiary's business, the Company may have to make additional investments in the subsidiary or deploy other management resources. A deterioration in the subsidiary's earnings due to fiercer competition with other companies, a decrease in demand for pet insurance, or an increase in loss ratios resulting from an outbreak of an infectious disease among pets could adversely affect the Group's business results or financial position.

4. Other Risks

(1) System Risk

Based on an awareness that the information and information systems of directly owned subsidiaries are important assets for the execution of business management strategies and business operations, the board of directors of the subsidiaries has established regulations for the management of system risk and is strengthening management of this risk. These initiatives seek to protect systems from various risks, including the risk of loss arising from computer system downtime, malfunctions, or other system flaws and the risk of loss arising from the improper use of computers.

In particular, the three life insurance companies use computer systems to conduct a wide range of operations, including individual insurance/corporate insurance operations and asset management operations, and their reliance on computer systems is increasing.

The Group strives to ensure the stable operation of computer systems by implementing security measures such as firewalls and antivirus software, in order to prevent unauthorized access to and use of these systems.

Given this situation, the Group is further strengthening its management of system risk. However, a significant malfunction of such systems would impede OTC operations at branches and asset management operations as well as reduce confidence in the three life insurance companies, which could cause a decrease in new policies or an increase in surrender rates. Such events could adversely affect the Group's business results or financial position.

(2) Compliance

The Group has established the T&D Life Group CSR Charter, the Group Compliance Code of Conduct, and the T&D Life Group Basic Policy of Strengthening the Compliance Structure. The Group promotes compliance by informing officers and employees about these basic compliance policies and compliance standards. Further, the Company and its directly owned subsidiaries seek rigorous compliance by establishing and implementing compliance programs as action plans for each fiscal year. In addition, the Company and its directly owned subsidiaries prepare compliance manuals which provide concrete explanations of the interpretation of laws and statutory regulations that personnel must comply with when conducting operations. The manuals are used as guides for personnel and as training materials. Furthermore, the Group has established the T&D Life Group Helpline as an internal reporting system which accepts reports such as compliance violations from officers and employees within the Group, working on an early detection and prevention.

If there is a violations of laws and statutory regulations, fraudulent acts, or other inappropriate acts by T&D Life Group officers and employees going forward despite these initiatives, and various issues such as administrative measures or filing of lawsuits caused by the violations of laws and regulations occur, the Group's public credibility, reputation, business results, or financial position could be adversely affected.

(3) Handling of Personal Information

Based on policies and regulations for the protection of personal information, directly owned subsidiaries handle the acquisition, usage/providing, storing/transferring, and disposing personal information with utmost care.

In particular, the three life insurance companies are aware that they have to be more careful than other businesses when handling personal information because in addition to receiving personal information when carrying out such procedures as concluding life insurance policies and paying insurance claims or insurance benefits, life insurance business involves handling individuals' medical and/or health-related information.

In response to the Act on the Protection of Personal Information and the Act on the Use of Numbers to Identify a Specific Individual in the Administrative Procedure, which is a special act to the former act, the Company and its directly owned subsidiaries have implemented rigorous protection of personal information and control of information security by establishing or amending privacy policies, establishing organizations for the overall control and advancement of personal information protection, establishing managerial positions with responsibility for this area, preparing various regulations and manuals, and conducting education and training.

Given the numerous leakages of personal information from companies in recent years, the Group as a whole is protecting personal information based on an awareness of the need to step up the rigor of personal information management.

A leakage of personal information from the Group could adversely affect the Group's public credibility, reputation, business results, and financial position.

(4) Catastrophe Risk

The Group's insurance companies are exposed to the risk of payments of large payouts in the event of a catastrophe such as an earthquake, a tsunami or a terrorist act in a heavily populated area or across a wide range of areas, or in the event of a widespread outbreak of an infectious disease such as influenza. While the Group's insurance companies have built up contingency reserves in accordance with the Insurance Business Act of Japan, if these contingency reserves are insufficient to pay actual insurance claims, the Group's business results or financial position could be adversely affected.

The Group has formulated a group-common basic policy regarding emergency measure system in the event of a catastrophe and has made effort to fully disseminate within the Group. However, a situation due to a catastrophe that impacts for a long period of time and a wide range of areas which exceeds predictions could adversely affect the Group's business results or financial position.

Status of Stock Holdings

I. Taiyo Life Insurance Company — the subsidiary with the largest holding of stocks

1. Investments in stocks for which the holding purpose is other than purely investment purpose

Number of companies	43
Total of balance sheet amount	¥ 262,408 million

2. Holding classification, stock, number of shares, balance sheet amount, and holding purpose of investments in stocks for which the holding purpose is other than purely investment purpose

Specified Investment Shares

Year ended March 31, 2017

Stock	Number of shares	Balance sheet amount ¥ millions	Holding purpose
Komatsu Ltd.	34,000,716	¥ 98,653	The primary holding purpose is to reap medium- to long-term earnings through gains in stock value and the receipt of dividends. The secondary holding purpose is to maintain and strengthen business relationships.
Keio Corporation	29,310,161	25,851	
Mitsubishi Electric Corporation	14,350,000	22,916	
Daiwa Securities Group Inc.	31,140,000	21,109	
Mitsui Fudosan Co., Ltd.	8,096,575	19,221	
Tsubakimoto Chain Co.	17,798,316	16,516	
Mitsubishi Chemical Holdings Corporation	18,838,372	16,227	
Mitsubishi Estate Co., Ltd.	7,700,000	15,631	
Tokyu Corporation	17,133,118	13,500	
SHIMADZU CORPORATION	7,411,520	13,110	
Sompo Holdings, Inc.	2,661,820	10,857	
Mitsubishi UFJ Financial Group, Inc.	15,220,718	10,649	
MITSUI & CO., LTD.	5,660,800	9,128	
OBAYASHI CORPORATION	5,486,400	5,711	
KURARAY CO., LTD.	3,282,010	5,540	
TS TECH Co., Ltd.	1,400,000	4,188	
ONO PHARMACEUTICAL CO., LTD.	1,755,000	4,044	
RAITO KOGYO CO., LTD.	2,734,500	3,095	
Electric Power Development Co., Ltd. (J-POWER)	1,085,040	2,826	
Kurimoto, Ltd.	1,209,075	2,659	
Mitsubishi Tanabe Pharma Corporation	1,085,000	2,515	
Tsukishima Kikai Co., Ltd.	1,885,000	2,214	
Hokuetsu Kishu Paper Co., Ltd.	2,817,987	2,186	
Sotetsu Holdings, Inc.	3,800,000	1,964	
Showa Denko K.K.	700,000	1,389	
Tsubakimoto Kogyo Co., Ltd.	2,869,027	1,173	
Taikisha Ltd.	422,029	1,149	
TOPPAN PRINTING CO., LTD.	949,088	1,077	
Takasago Thermal Engineering Co., Ltd.	678,347	1,062	
Advance Create Co., Ltd.	365,500	698	

Regarded as Holding Shares

Not applicable.

Year ended March 31, 2018

Stock	Number of shares	Balance sheet amount ¥ millions	Holding purpose
Keio Corporation	5,862,032	¥ 26,642	The primary holding purpose is to reap medium- to long-term earnings through gains in stock value and the receipt of dividends. The secondary holding purpose is to maintain and strengthen business relationships.
Mitsubishi Electric Corporation	14,350,000	24,416	
SHIMADZU CORPORATION	7,411,520	22,175	
Daiwa Securities Group Inc.	31,140,000	21,134	
Mitsui Fudosan Co., Ltd.	8,096,575	20,901	
Mitsubishi Chemical Holdings Corporation	18,838,372	19,412	
Tsubakimoto Chain Co.	17,798,316	15,413	
Tokyu Corporation	8,566,559	14,203	
Mitsubishi Estate Co., Ltd.	7,700,000	13,848	
MITSUI & CO., LTD.	7,160,800	13,050	
Sompo Holdings, Inc.	2,661,820	11,397	
Mitsubishi UFJ Financial Group, Inc.	15,220,718	10,608	
OBAYASHI CORPORATION	5,486,400	6,386	
KURARAY CO., LTD.	3,282,010	5,933	
TS TECH Co., Ltd.	1,400,000	5,901	
Showa Denko K.K.	700,000	3,150	
RAITO KOGYO CO., LTD.	2,734,500	3,002	
Electric Power Development Co., Ltd. (J-POWER)	1,085,040	2,910	
Tsukishima Kikai Co., Ltd.	1,885,000	2,835	
Kurimoto, Ltd.	1,209,075	2,447	
Sotetsu Holdings, Inc.	760,000	2,149	
Tsubakimoto Kogyo Co., Ltd.	573,805	1,968	
Hokuetsu Kishu Paper Co., Ltd.	2,817,987	1,933	
Taikisha Ltd.	422,029	1,468	
Takasago Thermal Engineering Co., Ltd.	678,347	1,325	
TOPPAN PRINTING CO., LTD.	949,088	828	
Advance Create Co., Ltd.	365,500	724	
Nisshin Steel Co., Ltd.	457,500	581	
Daiwa Motor Transportation Co., Ltd.	375,000	506	
Concordia Financial Group, Ltd.	705,869	414	

Regarded as Holding Shares

Not applicable.

3. Stocks for which the holding purpose is purely investment purpose

	Fiscal 2016 ¥ millions	Fiscal 2017 ¥ millions				
	Total of balance sheet amount	Total of balance sheet amount	Total dividends received	Total gains (losses) on sales	Valuation losses	Difference between acquisition cost and balance sheet amount
Unlisted stocks	¥ 19,185	¥ 19,415	¥ 83	¥ 4	¥ —	¥ 2,009
Stocks other than unlisted stocks	114,365	224,021	5,375	19,411	—	80,663

4. Change in investment purpose during fiscal 2017

Stocks of which the holding purpose has been changed from other than purely investment purpose to purely investment purpose

Stock	Number of shares	Balance sheet amount (¥ millions)
Komatsu Ltd.	34,000,716	¥ 120,600
ONO PHARMACEUTICAL CO., LTD.	1,170,000	3,853
Mitsubishi Tanabe Pharma Corporation	1,085,000	2,256

II. Daido Life Insurance Company — the subsidiary with the second largest holding of stocks

1. Investments in stocks for which the holding purpose is other than purely investment purpose

Number of companies	189
Total of balance sheet amount	¥ 313,144 million

2. Holding classification, stock, number of shares, balance sheet amount, and holding purpose of investments in stocks for which the holding purpose is other than purely investment purpose

Specified Investment Shares

Year ended March 31, 2017

Stock	Number of shares	Balance sheet amount ¥ millions	Holding purpose
Mitsubishi UFJ Financial Group, Inc.	64,168,770	¥ 44,898	The primary holding purpose is to reap medium- to long-term earnings through gains in stock value and the receipt of dividends. The secondary holding purpose is to maintain and strengthen business relationships.
SMC Corporation	627,300	20,650	
EZAKI GLICO CO., LTD.	3,500,400	18,902	
Kansai Paint Co., Ltd.	7,607,000	17,975	
Resona Holdings, Inc.	28,590,000	17,093	
Daiwa House Industry Co., Ltd.	5,000,000	15,980	
ONO PHARMACEUTICAL CO., LTD.	6,549,500	15,093	
Astellas Pharma Inc.	9,455,500	13,861	
NURNBERGER BETEIL NPV B (REGD) (VINKULIERT)	1,552,936	12,463	
FUJI MACHINE MFG. CO., LTD.	6,684,000	9,745	
KONICA MINOLTA, INC.	9,040,518	9,004	
TKC Corporation	2,569,046	8,169	
Mitsubishi Pencil Co., Ltd.	1,172,000	6,539	
OKASAN SECURITIES GROUP INC.	8,660,000	5,880	
Electric Power Development Co., Ltd. (J-POWER)	1,993,680	5,193	
The Kansai Electric Power Company, Incorporated	3,656,550	4,998	
THE SHIZUOKA BANK, LTD.	3,824,000	3,464	
The Daishi Bank, Ltd.	7,056,000	3,111	
MEISEI INDUSTRIAL CO., LTD.	4,032,700	2,584	
TEIJIN LIMITED	1,225,000	2,571	
MOS FOOD SERVICES, INC.	790,760	2,566	
Sekisui House, Ltd.	1,400,000	2,563	
GLORY LTD.	700,000	2,555	
Sompo Holdings, Inc.	618,525	2,522	
Temp Holdings Co., Ltd.	1,200,000	2,488	
Tsukishima Kikai Co., Ltd.	2,115,700	2,485	
Mitsui Fudosan Co., Ltd.	1,000,000	2,374	
Keihan Holdings Co., Ltd.	3,169,000	2,158	

Regarded as Holding Shares

Not applicable.

Year ended March 31, 2018

Stock	Number of shares	Balance sheet amount ¥ millions	Holding purpose
Mitsubishi UFJ Financial Group, Inc.	64,168,770	¥ 44,725	The primary holding purpose is to reap medium- to long-term earnings through gains in stock value and the receipt of dividends. The secondary holding purpose is to maintain and strengthen business relationships.
SMC Corporation	627,300	27,017	
ONO PHARMACEUTICAL CO., LTD.	6,549,500	21,574	
Daiwa House Industry Co., Ltd.	5,000,000	20,500	
EZAKI GLICO CO., LTD.	3,500,400	19,497	
Kansai Paint Co., Ltd.	7,607,000	18,850	
Resona Holdings, Inc.	28,590,000	16,067	
NURNBERGER BETEIL NPV B (REGD) (VINKULIERT)	1,552,936	14,492	
FUJI MACHINE MFG. CO., LTD.	6,684,000	13,929	
TKC Corporation	2,569,046	11,123	
KONICA MINOLTA, INC.	9,040,518	8,244	
Mitsubishi Pencil Co., Ltd.	2,344,000	5,620	
OKASAN SECURITIES GROUP INC.	8,660,000	5,507	
Electric Power Development Co., Ltd. (J-POWER)	1,993,680	5,347	
The Kansai Electric Power Company, Incorporated	3,656,550	4,998	
THE SHIZUOKA BANK, LTD.	3,824,000	3,846	
PERSOL HOLDINGS CO., LTD.	1,200,000	3,714	
The Daishi Bank, Ltd.	705,600	3,316	
Tsukishima Kikai Co., Ltd.	2,115,700	3,182	
MEISEI INDUSTRIAL CO., LTD.	4,032,700	2,915	
Sekisui House, Ltd.	1,400,000	2,718	
GLORY LTD.	700,000	2,656	
Sompo Holdings, Inc.	618,525	2,648	
Mitsui Fudosan Co., Ltd.	1,000,000	2,581	
MOS FOOD SERVICES, INC.	790,760	2,506	
TEIJIN LIMITED	1,225,000	2,451	
Keihan Holdings Co., Ltd.	633,800	2,078	

Regarded as Holding Shares

Not applicable.

3. Stocks for which the holding purpose is purely investment purpose

	Fiscal 2016 ¥ millions	Fiscal 2017 ¥ millions				
	Total of balance sheet amount	Total of balance sheet amount	Total dividends received	Total gains (losses) on sales	Valuation losses	Difference between acquisition cost and balance sheet amount
Unlisted stocks	¥ 10,597	¥ 9,164	¥ 637	¥ —	¥ 5	¥ 228
Stocks other than unlisted stocks	24,596	35,818	470	64	—	9,306

III. T&D Holdings, Inc.

1. Investments in stocks for which the holding purpose is other than purely investment purpose

Not applicable.

2. Holding classification, stock, number of shares, balance sheet amount, and holding purpose of investments in stocks for which the holding purpose is other than purely investment purpose

Not applicable.

3. Stocks for which the holding purpose is purely investment purpose

Not applicable.

Glossary

A

Annualized premiums
An adjusted figure for premiums paid using monthly, annual, or lump-sum payment methods showing total premiums paid on an annual basis.

Assumed business expense rate
One of the forecast rates used in the calculation of insurance premiums. It is the rate used to include business expenses necessary for administering insurance policies.

Assumed investment yield
One of the forecast rates used in the calculation of insurance premiums. It is the predetermined discount rate based on the expected earnings from the investment of insurance premiums.

C

Contingency reserve
A reserve included as part of the policy reserve to account for the risk of insurance payment events occurring at a higher-than-expected rate due to higher-than-expected mortality and morbidity rates, and the risk of actual investment yields being lower than the assumed investment yields related to outstanding policies.
Contingency reserve can be classified into:

Contingency reserve I	Corresponds to insurance risk
Contingency reserve II	Corresponds to assumed investment yield risk
Contingency reserve III	Corresponds to minimum guarantee risk relating to variable annuity and others
Contingency reserve IV	Corresponds to insurance risk of Third Sector insurance

Core profit
An indicator showing core period earnings of life insurance companies, made up of insurance income and expenses (which include income from insurance premiums and insurance benefits and business expenses), and investment income and expenses (which include mainly interest, dividends and income from real estate for rent). It is not an item on the Company's statement of operation, but is calculated by deducting capital gains, such as gains (losses) on sales of securities and other one-time gains (losses), from ordinary profit.

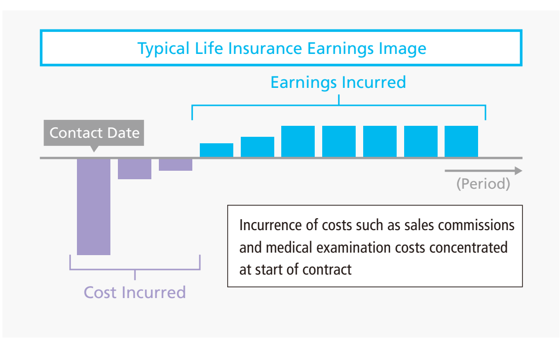
E

ERM (Enterprise Risk Management)
A strategic management method used to achieve managerial goals such as raising corporate value and maximizing earnings, through the integrated management of profit, risk and capital.

ESG investment
Selective investments focused on companies that pay adequate attention to the environmental, social and governance factors.

ESR (Economic Solvency Ratio)
An indicator of capital adequacy based on economic value, calculated by dividing net assets based on economic value (surplus), by the risk volume (economic capital (EC)) quantified using the internal model. An ESR of 100% means that capital and risk are equal. The higher the ESR, the greater the amount of capital secured relative to risk.
Although ESR is widely used mainly in Europe, there is no standardized calculation method. Each life insurance company calculates ESR individually based on its internal models.

EV (Embedded Value)
Generally, life insurance policies extend over significantly long durations, resulting in a time gap between the recognition of revenues and expenses. EV is a concept used for measuring the corporate value of a life insurance company in consideration of this gap. EV (embedded value) refers to the amount of net assets after tax, which is considered to be attributable to shareholders, and is the sum of adjusted net assets calculated based on balance sheets, etc., and the value of policies in force calculated based on policies in force.
<Earnings and costs of life insurance>
From the perspective of financial accounting, a life insurance company successfully acquiring new business in a year apparently shows a decrease in profit for the corresponding period, due to a heavier burden of initial costs, such as sales commissions. From the perspective of insurance earnings, there is a constant inflow of premiums each year, generating earnings progressively as time proceeds and accumulating the earnings over a longer period of time. As a result, there is a gap between the recognition of Earnings and costs.



G

General account	The aggregate of a life insurer's assets, other than those allocated to separate accounts. General account assets are invested by a company to meet fixed guaranteed rates of return for policyholders, and that company bears the investment risk on such assets.

J

Japan's Corporate Governance Code	Guidelines for corporate governance drafted by the Financial Services Agency and the Tokyo Stock Exchange, which indicate a "a structure for transparent, fair, timely and decisive decision-making by companies, with due attention to the needs and perspectives of shareholders and also customers, employees and local communities," in the form of a code of conduct to be observed by a listed company.
Japan's Stewardship Code	Code of conduct for behavior for institutional investors setting out the principles as "responsible institutional investors," designed to prompt sustainable growth of corporations through investment and dialogue.

L

Level-premium products	A type of insurance where the amount of the premium is constant from inception to the expiry of the premium payment period.

M

MCEV (Market Consistent EV)	MCEV refers to Market Consistent EV, which is a method for evaluating EV in consistency with financial markets. MCEV is an EV calculated based on the MCEV Principles established in June 2008 by the CFO Forum (an organization of major European insurance companies), whereby a market consistent evaluation method was applied with a view to further unify the calculation standards.
Mortality rate	Rates of death, varying by such parameters as age, gender, and health, used in pricing and computing liabilities for future policyholder benefits for life insurance and annuity products.

N

Non-participating policy	Policies under which the policyholder receives no policyholder dividends. Non-participating policies generally feature lower premiums than participating or semi-participating policies.

P

Participating policy	Policies under which the policyholder is eligible to share in the divisible surplus of a company—calculated based on the mortality rate margin, investment yield margin, and administrative expense margin—through the receipt of annual policyholder dividends.
Policy amount	Aggregate sum insured by a life insurance company. The total of policy amount at the end of a fiscal year is called the "policy amount in force." The total policy amount of policies (including converted policies) sold in a year is called the "new policy amount."
Policy reserve	A reserve established for the fulfillment of insurance claims and other payments related to a company's outstanding policies that are expected to be paid in the future. The policy reserve consists of a premium reserve (other than unearned premiums), an unearned premium reserve, a repayment reserve, and a contingency reserve. A company uses the net level premium method to calculate the amount it sets aside each year as a policy reserve. The policy reserve is one of the three reserves comprising the reserve for policy and other reserves.
Positive spread/Negative spread	The state in which actual investment earnings exceed the expected return based on the assumed investment yield is referred to as a "positive spread." A "negative spread" is when actual investment earnings are below the expected return. Positive spread (Negative spread denoted in bracket) = (Investment yield on core profit – Average assumed investment yield) × Policy reserve in general account • "Investment yield on core profit" is calculated by dividing the numerator as investment earnings in general account included in core profit less the provision for interest portion of reserve for dividends to policyholder by the denominator as policy reserve in general account. • "Average assumed investment yield" is calculated by dividing the numerator as assumed interest by the denominator as policy reserve in general account. • "Policy reserve in general account" represents the policy reserve in general account less contingency reserve calculated by the following method. Policy reserve in general account = (Policy reserve at beginning of fiscal year + Policy reserve at the end of fiscal year – Assumed interest) × 1/2

R

Reserve for policyholder dividends	A reserve used to fund the payment of policyholder dividends. The reserve for policyholder dividends is one of the three reserves comprising the reserve for policy and other reserves. For a mutual life insurance company, a transfer to reserve for policyholder dividends is treated as a disposition of net surplus. For a joint stock corporation, provision for reserve for policyholder dividends is treated as an expense.
Reserve for price fluctuations	Pursuant to provisions of the Insurance Business Act, companies maintain reserves to cover losses due to price fluctuations in assets subject to market price volatility, particularly investments in stocks, bonds, and foreign currency-denominated investments. This reserve may be used only to reduce deficits arising from price fluctuations of those assets.
ROEV/Core ROEV	ROEV stands for Return on Embedded Value, which is an indicator for measuring capital efficiency by assuming an increase in EV as profit in consideration of the specialty of life insurance accounting. Core ROEV is an indicator using an increase in EV mainly through the acquisition of new business.

S

Separate account	Assets related to a company's individual variable insurance and group variable annuity products, including group employee pension fund insurance and national pension fund insurance, are allocated to the company's separate account. Separate account assets and liabilities represent funds that are administered and invested in by the company to meet specific investment objectives of policyholders. The investments in each separate account are maintained separately from those in other separate accounts and an insurer's general account and are generally not subject to the general liabilities of the insurer. The investment results of the separate account assets generally pass through to the separate account policyholders, less management fees, so that an insurer bears limited or no investment risk on such assets.
Single-premium insurance	A type of insurance where the premium is paid in lump-sum at the conclusion of the policy which covers the entire insurance period.
Small amount and short term insurance business	Type of insurance businesses that solely underwrite protection-type insurance products, involving small insured amounts and policy periods within one year (two years for second sector) within a specified scale of operation.
Social bond	Bond issued to raise funds for contributing to solutions to global social issues, such as support for emerging countries and measures against global warming.
Solvency margin ratio	A risk indicator calculated as the total solvency margin (including net assets, the reserve for price fluctuations, contingency reserve, reserve for possible loan losses, etc.) divided by 1/2 of total risk, which includes such factors as insurance risk due to a major earthquake or other disaster, investment risk, and various other risks. If a life insurance company's solvency margin ratio falls below 200%, the regulatory authorities will require management to introduce corrective measures to quickly return the company to soundness.
Standard mortality table	A table used by an insurance company for calculating "standard policy reserve," required to be set aside subject to the standards set out under the Insurance Business Act, which summarizes the data including the mortality rate and average life expectancy (average longevity into the future), by gender and age. Life insurance companies use the standard mortality table as a guideline for insurance premiums.
Standard yield rate	A rate which is required by the supervisory authorities to be applied in calculating the "standard policy reserve (a policy reserve required to be set aside from the standpoint of ensuring the business soundness of life insurance companies and protecting policyholders)."
Surrender and lapse amount	The total amount of money reimbursed on the surrender or lapse of insurance policies in a given fiscal year. Surrender occurs when policyholders choose to discontinue their policies. Lapse occurs when the deadline for payment of premiums that are in arrears is exceeded.

T

Third sector insurance	In the Japanese insurance industry, life insurance products and non-life insurance products are called "First Sector" and "Second Sector" insurance products, respectively, and insurance products which have intermediate characteristics of both products are called "Third Sector" insurance products. Examples include medical care, cancer, accident, and nursing care insurance.

V

Value of new business	The value of distributable earnings to shareholders expected to be generated in the future from insurance policies (including converted policies) sold in a year, converted to a present value as at the valuation date.