ERM

Growth strategy of the applicable Group Long-Term Vision

Strengthening of core business
Diversification and optimization of business portfolio
Upgrading capital management
Promoting integrated Group management
SDGs management and creation of value

Message from the Head of Finance

In 2021, we established the Group Long-Term Vision and are working to improve capital efficiency, which is the Group's greatest challenge.

Director and Managing Executive Officer
Hotaka Nagai

Initiatives to Date

The main measures that have been taken to improve capital efficiency over the past two years are: 1) Utilization of reinsurance; 2) Reduction of interest rate risk by purchasing super-long-term bonds; 3) Reduction of foreign currency-denominated bonds; and 4) Reduction of strategic shareholdings. These measures reduced the amount of risk by approximately 78 billion yen, and together with the expansion of surplus, contributed to an increase in economic solvency ratio (ESR) of +15 pt, enabling us to determine shareholder returns of over 90 billion yen for FY2022.

To explain individual measures, first, in the area of reinsurance utilization, with Taiyo Life ceding its existing annuity block in March 2022, Daido Life and T&D Financial Life are also engaged in reinsurance utilizing our equity method affiliate Fortitude and other companies. We increased surplus by conducting reinsurance transactions utilizing mainly the high asset management capabilities of the reinsurers, and we reduced asset management risk by ceded reinsurance, thereby improving ESR*.

We are working to reduce interest rate risk from the standpoint of improving capital efficiency and soundness. In particular, Daido Life, which has many long-term insurance policies and long liability durations, has been promoting systematic interest rate risk reduction and ALM through the purchase of super-long-term bonds. Daido Life has purchased approximately 700 billion yen of super-long-term bonds over the past two years, and the interest rate matching ratio at the end of March 2023 was 58.4%, up 10.3 pt from the end of March 2021. (Taiyo Life's interest rate matching ratio was 78.3% at the end of March 2023)

We will continue to promote ALM by purchasing super-long-term bonds, and will consider accelerating the pace of purchases of super-long-term bonds in the event of a further rise in domestic interest rates.

* See p. 62 for ESR.

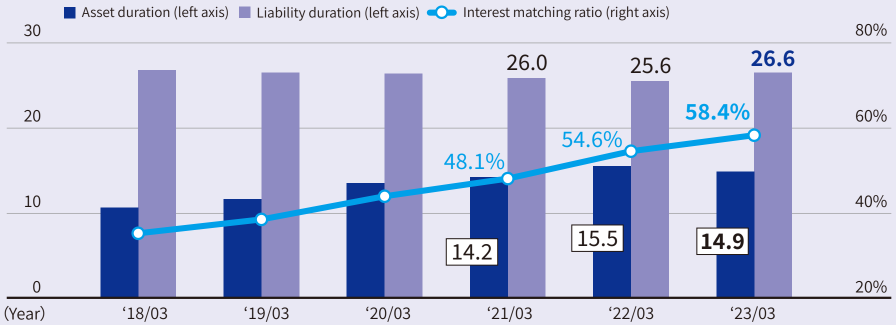
Risk reduction/Improvement of capital efficiency
(FY2021 to FY2022)

Amount of risk reduction Approx. **¥78.0 billion** — Contribution of the increase ESR +15pt together with surplus expansion

Main strategies

① Reinsurance ceded (3 life insurance companies)	Policy reserve Approx. **¥1.1 trillion** (surplus expansion approx. 47.0 billion)
② Amount of purchase of super long-term bonds (Daido)	Approx. **¥700.0 billion** (interest matching rate 58.4% (+10.3pt))
③ Reduction of foreign currency denominated bonds (Taiyo and Daido)	Approx. **¥1.8 trillion**
④ Reduction of strategic shareholdings (Taiyo and Daido)	Approx. **¥285.0 billion**

Daido Life's asset/liability duration and interest matching ratio



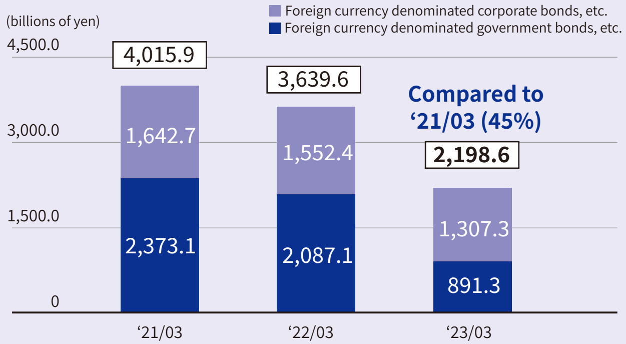
*1 Only yen interest assets are applicable. UFR has been applied from the end of March 2019.
*2 Interest matching ratio is a monitoring indicator used within the Group to manage how asset/liability duration matches considering the amount. Interest matching ratio = (Asset duration × Asset present value) ÷ (Liability duration × Liability present value)
*3 UFR was changed from the year ended March 31, 2023 (3.8% to 2.9% for UFR, 31 years from 41 years for extrapolation year). 26. 0 years for the liability duration and 61.6% for interest matching ratios of March 31, 2023 before change in UFR.

Message from the Head of Finance

In FY2022, central banks in Europe and the U.S. raised policy rates while the Bank of Japan maintained an accommodative monetary policy, resulting in a widening of the gap between domestic and foreign interest rates and a significant increase in currency hedging costs. In anticipation of rising currency hedging costs, the Group is also reducing its holdings of foreign currency-denominated bonds, particularly hedged foreign government bonds with low yields after taking hedging into account. The balance of foreign currency-denominated bonds, which was 4 trillion yen at the end of March 2021, was reduced to 2.2 trillion yen at the end of March 2023. Since currency hedging costs are expected to remain high for the time being, in FY2023 we will continue to reduce the balance of foreign currency-denominated bonds and further improve our asset management portfolio by increasing investments in domestic super-long-term bonds and alternative assets.

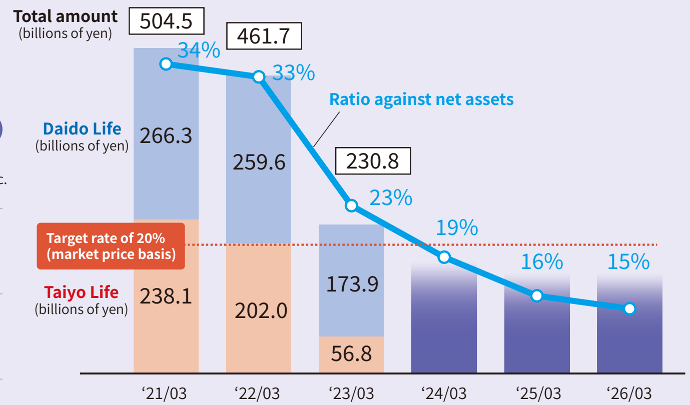
Strategic shareholdings are being reduced with a focus on stocks that have little effect on holdings. The net asset ratio, which was 33% at the end of March 2022, is expected to decline to 23% by the end of March 2023 and to fall below the immediate target of 20% by the end of March 2024. Further reductions will be made thereafter from the perspective of improving capital efficiency.

Balance of foreign currency denominated bonds



* The figures are total of Taiyo Life and Daido Life.

Trends in strategic shareholdings (market value basis)



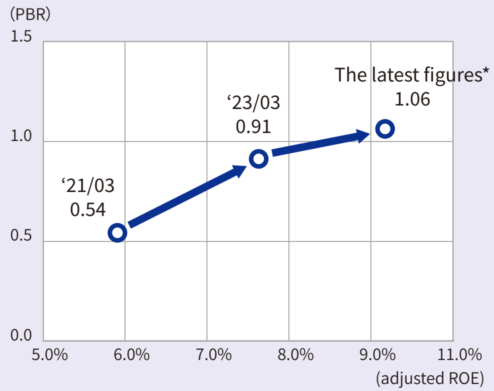
* Figures for '24/3 and after are simulated values calculated based on the stock price at the end of March 2023 and other factors.
* Figures for '21/3 are reflected of retrospective accounting treatments in connection with the group restructuring in Fortitude announced on October 1, 2021.

Improving Share Valuation

Although there has been much discussion recently about P/B ratios below 1x, our capital efficiency (adjusted ROE) has improved through the efforts of the Group Long-Term Vision, and P/B ratios have risen from 0.54x at the end of March 2021 to the 1x level recently.

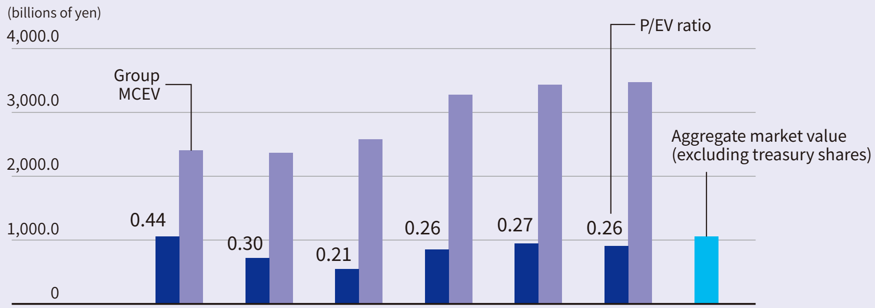
On the other hand, the ratio to EV (enterprise value based on economic value), which we emphasize, is only about 0.3x.

Adjusted ROE and PBR



* The latest figures are as follows.
Adjusted ROE is 10.1% of FY2023 forecast
PBR is calculated by using ¥1,803.27 of net asset per share as of end of March 2023 and ¥1,917 stock price as of 5/25.

Trend of P/EV



	'18/03	'19/03	'20/03	'21/03	'22/03	'23/03	'23/05/25
Group MCEV*1	2,406.7	2,370.6	2,588.1	3,290.9	3,448.3	3,488.1	
Aggregate market value*2	1,050.5	712.3	531.0	841.8	937.6	897.8	1,048.8*3
P/EV ratio	0.44	0.30	0.21	0.26	0.27	0.26	

*1 Valuation profits and losses of Fortitude excluded.
*2 Treasury shares excluded.
*3 Calculated using the number of shares as of March 31, 2023.

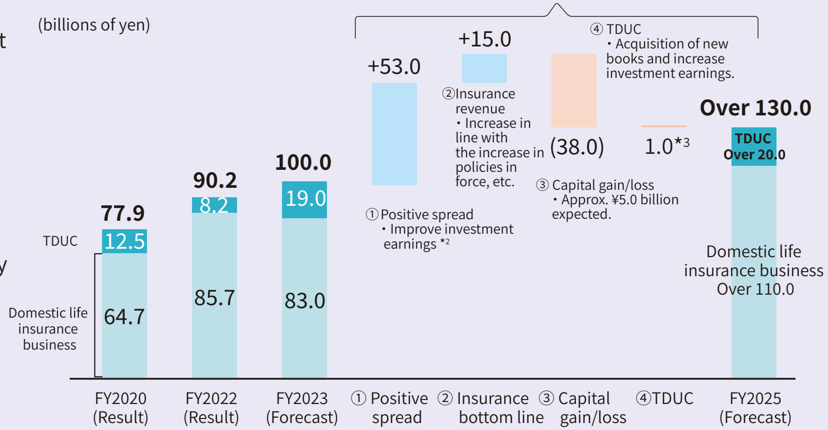
Message from the Head of Finance

In order to further improve our stock price valuation, we need to improve our ROE and capital efficiency, as well as demonstrate our growth potential more than ever, and reduce the cost of shareholder's capital.

From the perspective of growth potential, we will ensure that we achieve our target of 130 billion yen in the Group adjusted profit for FY2025, and will consider growth investments for further expansion after that.

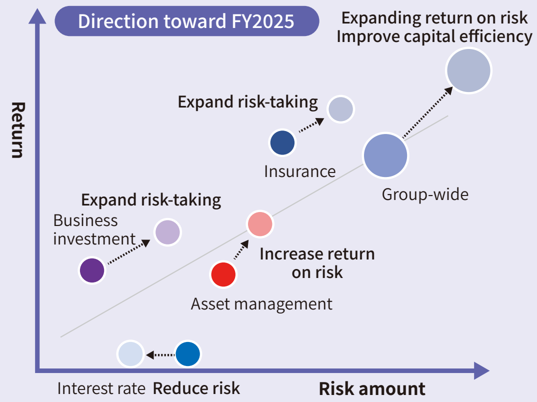
We recognize that the cost of shareholder's capital is currently approximately 8%, but we will continue to reduce it to a target of 7%. To this end, we will promote a stable profit structure that is less susceptible to changes in the financial environment by controlling asset management risk based on ALM while expanding insurance underwriting risk with high return relative to risk.

Main factors of increase/decrease in the profit*1
(FY2023 to FY2025)



*1 All figures are after tax values.
*2 Investment earnings: Investment earnings on core profit, etc.
*3 Increased profit of ¥6.0 billion is substantially expected due to the temporary profit of ¥5.0 billion (gain on change in equity) for FY 2023.

Expanding return on risk



Shareholder Returns

Finally, we will touch on shareholder return. Under the Group Long-Term Vision, we have announced our shareholder return policy with an awareness of capital efficiency.

Specifically, the Company will divide the return into "1) Return from periodic profit" and "2) Additional return based on capital levels." Under "1) Return from periodic profit," the Company will return 50-60% of the Group adjusted profit through cash dividends and share buybacks. Cash dividends will be around 4% of adjusted DOE, with stable and sustainable dividend increases. In addition, we will continue share buybacks with the aim of improving EPS.

Considering the current undervalued stock price level, where the P/EV ratio is only about 0.3x, we believe that the company is at the stage of actively pursuing share buybacks for the time being. However, since the effect of share buybacks is expected to be diluted as the share price rises, we will consider increasing the weight of cash dividends in the future, such as by raising the level of adjusted DOE.

Concerning "2) Additional return based on capital levels," if the ESR permanently exceeds 225%, additional returns will be considered, taking into account the potential for growth investments, cash flow conditions, and the impact of temporary interest rate increases. We will also provide additional returns when we separately determine that capital efficiency improvements are necessary.

Based on the above return policy, we have decided to return the largest ever amount to shareholders for FY2022: 34.3 billion yen in cash dividends and 20 billion yen in share buybacks as "1) Return from periodic profit" and 40 billion yen in share buybacks as "2) Additional return based on capital levels."

Shareholder returns

=

① Returns from periodic profit

To increase consistently and sustainably — **Cash divided** (Adjusted DOE: approx.4%)
×
To implement continuously — **Share buyback** (Improvement of adjusted EPS)

50 to 60% of Group adjusted profit

+

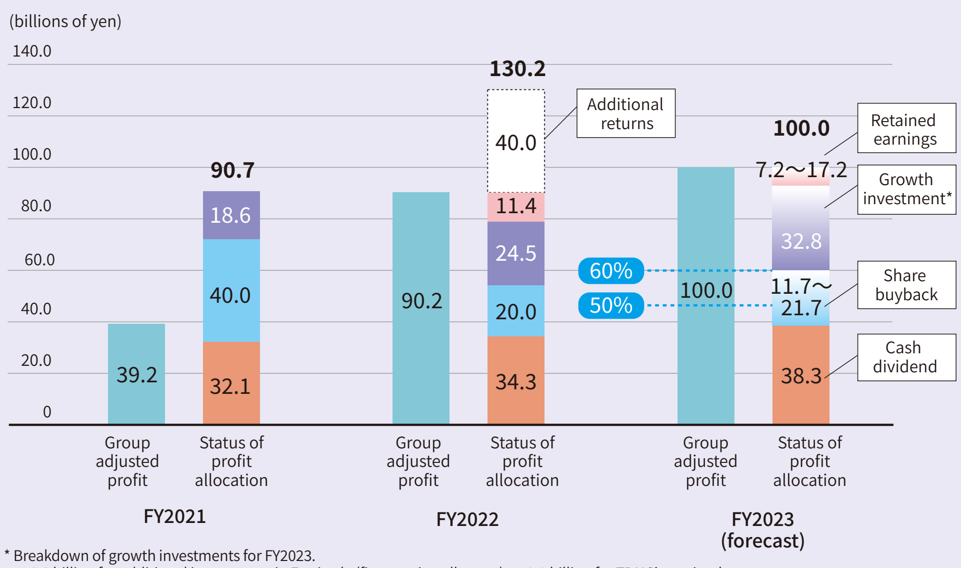
② Additional returns based on capital levels

- **When ESR consistently exceeds 225%, a judgment will be made taking into account the followings;**
  - Potential for growth investment
  - Cash flows
  - Impact of temporary interest rate increases
- **When other capital efficiency improvements, etc. are judged to be necessary**

Message from the Head of Finance

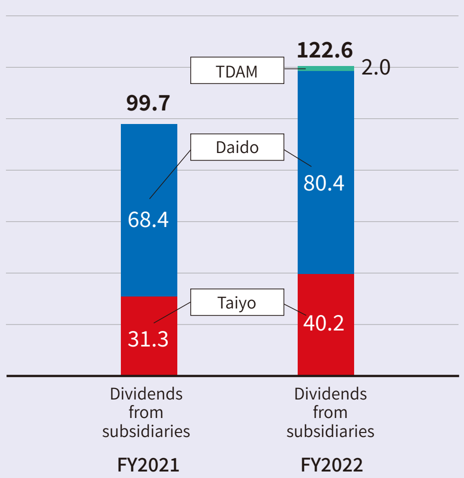
The current environment surrounding the Company has been undergoing significant changes, including high global inflation and the accompanying rise in overseas interest rates, as well as the introduction of economic value-based capital regulations in 2025 on the regulatory front. However, as the officer in charge of finance, I will always maintain a high sensitivity to changes in the environment, control risks appropriately, balance investment in growth and shareholder returns, and promote the effective use of capital, thereby enhancing capital efficiency for the Group as a whole.

Profit allocations (breakdown)



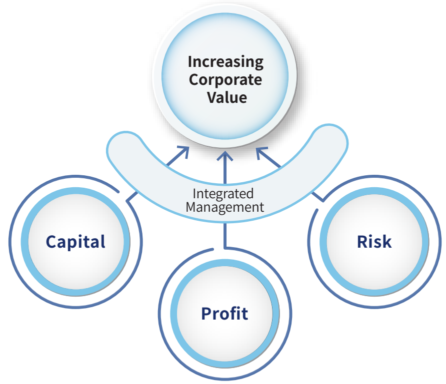
* Breakdown of growth investments for FY2023.
¥12.8 billion for additional investments in Fortitude (five year installments), ¥19.0 billion for TDUC's retained earnings, and ¥1.0 billion for CVC.

Result of dividends from subsidiaries



ERM

Enterprise risk management (ERM) is a strategic management method used to achieve managerial goals such as raising corporate value and maximizing earnings, through the integrated management of capital, profit and risk. It quantifies capital, profit, and risk on an economic value basis to make them "visible," and by integrally managing them and making management decisions, it enables us to pursue profit by controlling soundness through a comparison between capital levels and risks.



Promotion of ERM

Expanding return on risk

To improve capital efficiency, we monitor return on risk (ROR) by risk category and reflect the results in our risk-taking policies and other measures. The chart listed on P.57 plots risk amount on the horizontal axis and return on the vertical axis for each category, and shows our direction toward fiscal 2025. While expanding categories with high ROR, such as insurance underwriting and business investments, we will promote risk reduction in categories with low ROR, such as interest rate risk and strategic shareholdings, in order to improve capital efficiency by expanding the Group's overall return to risk ratio.

PDCA Cycle

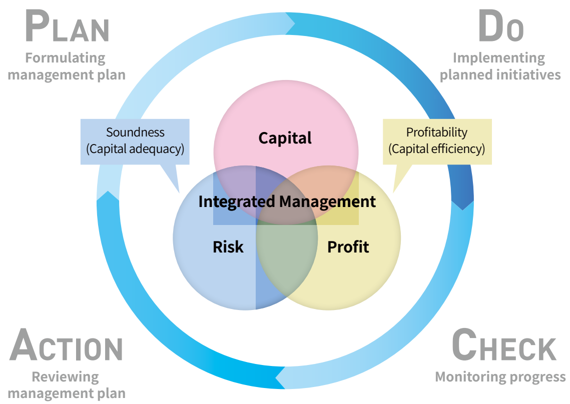
Under ERM, the process of realizing the growth of corporate value is the PDCA cycle. It leads the management toward achieving goals, while repeating the cycle of Plan (formulating the management plan), Do (implementing planned initiatives), Check (monitoring progress), and Action (reviewing the management plan).

The Group evaluates capital, profit, and risk on an economic value basis and sets standards for soundness and profitability as the Group risk appetite. Then, it promotes the advancement of ERM through the above PDCA cycle in order to meet the Group risk appetite.

Group Risk Appetite

Soundness	Required level of ESR	At least 133%
Profitability	Adjusted ROE	At least 8.0% in the medium- to long-term
	ROEV	At least 7.5% in the medium- to long-term
	Core ROEV	At least 5.0% in the medium- to long-term

* ESR = Surplus (capital) ÷ EC (risk)
* Adjusted ROE = Group adjusted profit / Average net asset balance
* ROEV = Amount of EV increase (excluding increases or decreases in capital, etc.) ÷ Average EV balance (Group basis)
* Core ROEV = (Value of new business + Expected earnings on the risk free rate) ÷ Average EV balance (Total of three life insurance companies)

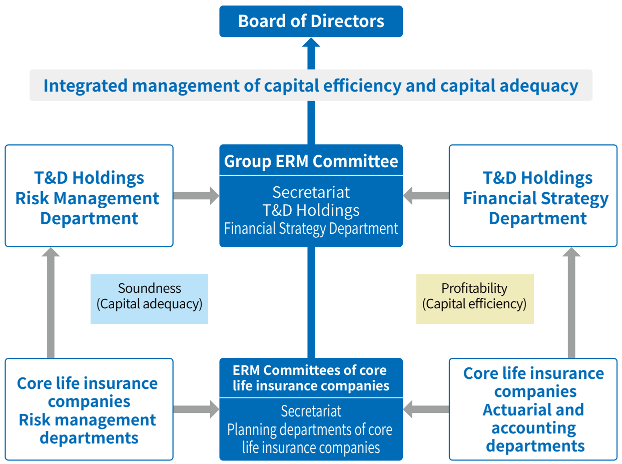


Risk Management

Organizational systems

In order to conduct ERM on a Groupwide basis, the Group has established the Group ERM Committee as a subordinate body under the direct control of the Board of Directors.

The Committee will take the lead in promoting the Group's ERM to achieve stable and sustainable growth in corporate value while improving the soundness of the Group.

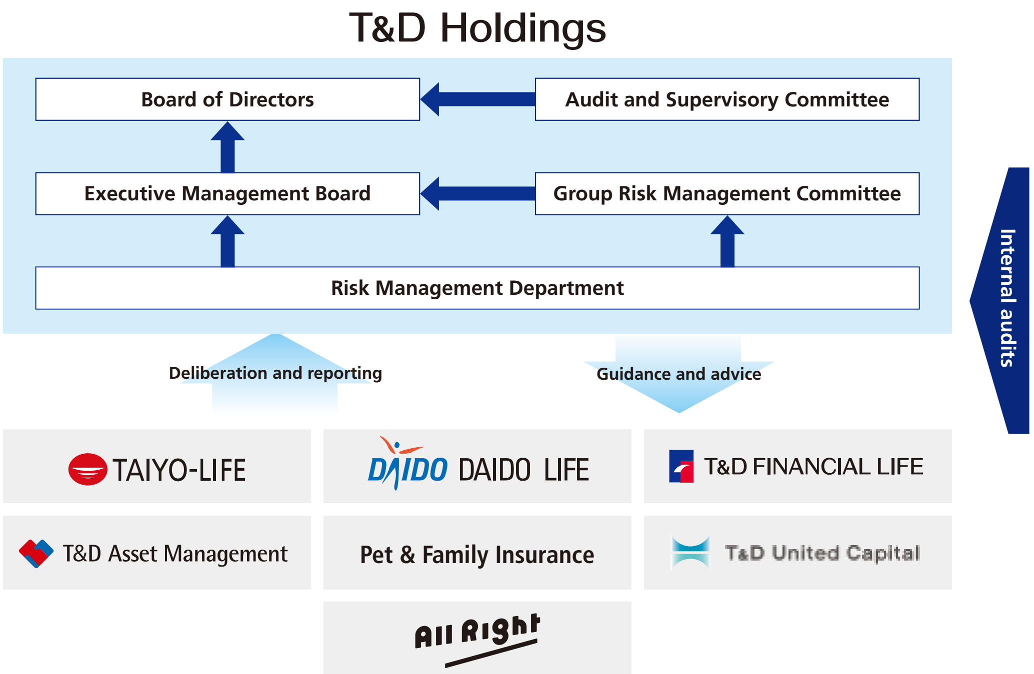


Integrated risk management (ERM)

The T&D Insurance Group has established the ERM structure to integrally manage capital, profit, and risk in order to boost stable revenues while grasping the status of its risks and ensuring management soundness.

For risk management in the Group, we have formulated a Group Risk Management Policy that sets forth the Group's basic approach to risk management and, based on this policy, its directly owned subsidiaries have developed risk management systems that cover their affiliates as well.

T&D Holdings has established a Group Risk Management Committee and manages risks within the Group. The Committee receives reports, regularly and as required, on risks assessed using uniform economic value-based risk management indicators, from the directly owned subsidiaries, in order to identify and manage the various types of risks faced by the Group companies. Based on the report received, T&D Holdings reports on these risks to the Board of Directors and provides guidance and advice to the directly owned subsidiaries as necessary, thereby ensuring that proper risk control is implemented at each company and strengthening the risk management system for the entire Group.



ERM

Risk awareness and assessment (risk profiles)

The T&D Insurance Group uses risk profiles* to comprehensively categorize risks surrounding the Group in order to respond to increasingly diverse and complex risks. We comprehensively identify risks, ascertain and assess them, and use them to prioritize initiatives in light of comprehensive factors that include severity, impact, and the degree to which they are under control. The risks are reflected in management planning as necessary. As a rule, we review our risk profiles twice a year in order to accurately recognize and ascertain emerging severe risks as well as major changes to previously recognized risks and the gap between in-house/ the industry's customs and the world. We report our findings to the Group Risk Management Committee and the Board of Directors.

* Risk profiles are a general risk management tool to characterize risks in terms of various factors, such as their nature and magnitude.
* The T&D Insurance Group's risk profile includes responding to issues surrounding sustainability, including the environment (climate change risk), society (human rights, labor practices and corruption prevention) and governance.

Risk classification and responses

The T&D Insurance Group classifies various management risks as shown below, including disruption in financial markets, largescale disasters, pandemics, climate change, and cyber attacks. Risk management policies have been established for each of these risks, and efforts are made to prevent these risks from occurring or to confine them within certain acceptable levels.

The risks we see as important in connection with our Group's business are as follows:

• Risks as a holding company

✔ Risk related to reliance on the performance of the life insurance business
✔ Risk related to dividend income
✔ Risk related to our expanding scope of operations
✔ Risk related to regulatory changes

Examples of efforts

✔ Risk related to reliance on the performance of the life insurance business

The Group is heavily reliant on the performance of its three life insurance companies. Therefore, if the business circumstances, roles, or positions of any of the three life insurance companies change, the Group's performance and financial condition could be adversely affected.
(Responses)
• The Board of Directors gives the necessary advice and support related to the performance of the three companies, together with monitoring budget variance management and the progress of the management plan.
• The diversification and optimization of the business portfolio is promoted as a pillar of the growth strategy in the Group Long-Term Vision.

Business risks

	Risk taking policies	Risk management policies
(1) Insurance underwriting risk	Based on an awareness of the major impact that the life insurance underwriting of a life insurance company has on business over the long term, the Group fully analyzes and checks risk profiles as well as risk and return characteristics, both of which differ depending on products, thereby formulating product strategies.	Based on an awareness of the major impact that life insurance underwriting has on business over the long term, the Group determines, analyzes, and assesses the insurance underwriting risk and carries out appropriate controls.
(2) Investment risk	To make sure to pay insurance claims in the future, the Group sufficiently secures assets with optimal characteristics (current maturity, liquidity, and others) and develops asset management strategies by fully considering liability characteristics and risk tolerance. • Interest rate risks have a significant impact on the change of surplus due to the long-term nature of insurance liabilities; therefore, the Group strives to reduce such risks given their financial accounting-based and economic value-based effects.	Investment risks are classified as market risks (fluctuations in interest rates, share prices, and exchange rates), credit risks (deterioration of the financial conditions of an entity to which credit is provided), and real estate investment risks (decreases in profits and price related to real estate). Optimal risk controls are taken in accordance with the characteristics of each asset.
(3) Operational risk	The Group strives to prevent risks from occurring and reduce them so as not to harm its corporate value.	A system to control operational risks, such as administrative and system risks, is established.
(4) Affiliate and other entity risk	The Group analyzes and checks the soundness, profitability, and risk and return characteristics of the business while also assessing the appropriateness and reasonableness of investment. Then, the Group develops business investment strategies by considering their financial accounting-based and economic value-based effects.	Risks are properly controlled by assessing the income/expenditure situation as well as the potential for the occurrence of various risks at subsidiaries, affiliates, and business investment targets.
(5) Liquidity risk	The Group secures a certain level of liquidity and establishes a structure that enables a smooth securitization of assets in order to respond to liquidity risks.	The status of financing is categorized depending on its severity level. By determining a controlling method according to each category, the Group secures a certain level of liquidity and establishes a structure that enables the smooth securitization of assets for fund preparation.
(6) Reputational risk	The Group strives to prevent risks from occurring and reduce them so as not to harm its corporate value.	Information related to reputational risks is collected, and responses to reputational risks and a reporting system are clarified.

Integrated risk management activities

The T&D Insurance Group promotes the integrated risk management approach to achieve the management objectives by quantifying the risks affecting the Group by type of risks and assessing the impacts when making losses, and also by controlling all the risks associated with its operations, including unquantifiable risks.

1. Risk quantification

The Group employs internal models to gauge investment risks, insurance risks, and operational risks. Specifically, we use "value at risk" as an indicator for these risks, and, with a measurement period of one year and a confidence level of 99.5%, we calculate the loss value, which is considered as the risk volume.

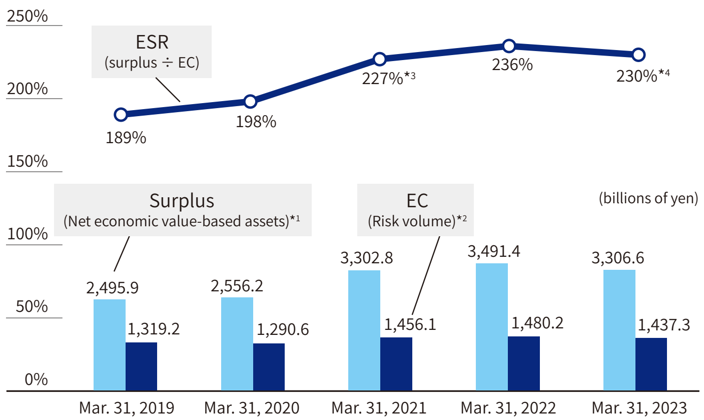
(Unit: billions of yen)

	As of March 31, 2021 *1	As of March 31, 2022 (1)	As of March 31, 2023 (2)*4	Change (2)- (1)
Insurance risk (domestic)	907.3	924.4	911.9	(12.5)
Counterparty risk	1.3	6.8	8.4	+1.5
Investment risk	1,323.1	1,338.7	1,421.7	+83.0
Operational risk	85.5	87.6	99.8	+12.2
Insurance risk (overseas) *2	137.9	144.3	11.5	(132.8)
Subsidiaries and affiliates risk	27.4	28.5	29.0	+0.4
Investment/ insurance diversification effect, etc.	(449.7)	(460.7)	(468.2)	(7.5)
Tax effect, etc.	(576.8)	(589.4)	(576.8)	+12.6
Total risk amount*3	1,456.1	1,480.2	1,437.3	(42.8)

*1 Figures shown here are reflected of retrospective accounting treatments in connection with the group restructuring in Fortitude announced on October 1, 2021.
*2 Business investment risk (including insurance risk) of business investment in overseas insurance companies (recorded as subsidiaries and affiliates risk for internal purposes).
*3 Economic value based risk amount (variance effect included) calculated on internal model (99.5%VaR, 1 year).
*4 Change UFR from end of March 2023

2. Risk control

The Economic Solvency Ratio (ESR), a risk indicator based on economic value, is calculated by dividing the net assets (surplus) found by subtracting liabilities from economic value-based assets by the risks quantified as above (economic capital, or EC). We ensure financial soundness and capital adequacy by controlling the EC within a certain range of the surplus, while also applying the current finance supervision system concerning soundness. The ESR is managed monthly and reported to the Group Risk Management Committee and the Board of Directors along with other risk reviews.



*1 The cost of capital for risk margin is 5%. UFR is applied and subordinated debt was included in surplus from the end of March 2019. Subordinated debt balance as of March 31, 2023 is ¥133.5 billion.
*2 Risk amount is based on an internal model(99.5% VaR , 1 year) after variance effect.
*3 Figures shown here are reflected of retrospective accounting treatments in connection with the group restructuring in Fortitude announced on October 1, 2021.
*4 Change UFR from end of March 2023

3. Stress test implementation

We strive to keep track of a wide range of risks to make sure we can also handle risks not fully grasped by quantification while also controlling quantified risks. We run stress tests to check the impacts of widely identified risks and of severe shocks that exceed expectations, such as major worsening of financial markets or large-scale disasters. We analyze the results of stress tests and check our countermeasures, etc. in advance, and we build a framework that can maintain our soundness in all kinds of situations.

ERM

Cyber security initiatives

The Group recognizes that one of the important tasks of management is properly protecting and managing information assets in compliance with laws and regulations. This specifically involves protecting information assets from increasingly sophisticated cyber threats. To fulfill our social responsibilities as a company engaged in life insurance business and other businesses, we have formulated our Group Information Security Policy and Rules on the Group's Cyber Security Management and made engagement in cyber security mandatory for all executives and employees. Cyber attacks, etc. have the potential to stop systems and impede our operations and to cause leakage of important information.

In particular, in order to provide even safer services to customers, we utilize security tools to conduct round-the-clock monitoring of cyber threats that target financial institutions, which have increased in recent years in terms of both frequency and sophistication. We have also established the cross-organizational Group Computer Security Incident Response Team (CSIRT) along with company-level CSIRT teams, which collect information, conduct analysis, and implement measures in connection with cyber attacks. In addition, we conduct Group- and company-level drills and participate in industry-wide drills and training. Issues identified through these drills are reflected in our response procedures and manuals to strengthen our practical responsiveness.

Along with conducting multi-layered security measures (entrance, exit, and internal), we regularly receive diagnostic security evaluations from independent institutions and promptly implement the necessary measures. In addition, we bring in outside experts to educate group management on the latest trends in cyber security, and we are working to raise awareness of cybersecurity risks. Executives and employees also receive training on information security and cyber security, and drills are continually conducted on handling suspicious email in order to further raise security literacy.

The Internal Auditing Department verifies whether these systems are functioning effectively and reports the results to the Board of Directors.

Compliance

Basic compliance policies

The Group has formulated the T&D Insurance Group CSR Charter, the T&D Insurance Group Compliance Code of Conduct, and the T&D Insurance Group Basic Policy for Strengthening the Compliance Structure. The Group ensures that corporate officers and employees are conversant with these basic policies and standards to promote rigorous Group-wide compliance efforts.

Basic policies to block relationships with antisocial forces

In its Group Compliance Code of Conduct, the Group defines its policy toward antisocial forces as follows: "to reject and stringently respond to any antisocial forces that threaten the order and safety of civil society." In accordance with this policy, the Group has formulated the T&D Insurance Group Basic Policy for Responding to Antisocial Forces and has announced this on the Company's website.

Accountability

The Company works to disclose information in line with the basic concept of striving to increase the transparency of management by appropriately disclosing corporate information in a timely manner, including appropriate financial information and non-financial information regarding management strategies, management priorities, and other matters.

In specific terms, the Company strives to provide easy-to-understand disclosure based on the fair disclosure rules of timeliness, fairness, and accuracy in order to maintain and reinforce trust among all of its stakeholders, including customers, shareholders, employees, insurance agents, business partners, and local communities, and to increase the level of management transparency.

Internal reporting system

The T&D Insurance Group has created a Group-wide internal reporting system, the T&D Group Help Line, which is intended to serve as a conduit for reports from any executive or Group employee on instances of illegal behavior and other compliance infractions that may damage the Group's credibility or reputation. The system helps to forestall if possible the occurrence of such events and quickly assess and remedy the situation if not.

Please see the Company's website for more details on the Compliance Promotion System.
https://www.td-holdings.co.jp/en/company/governance/compliance.html