Financial Capital

Message from the Executive Officer in charge of finance

Enhancing Corporate Value through Disciplined Capital Management

Under disciplined capital allocation, we aim to balance growth investment and shareholder returns and achieve sustainable enhancement of corporate value.

Takahiro Honda
Managing Executive Officer

Outcomes of Financial Capital

TSR

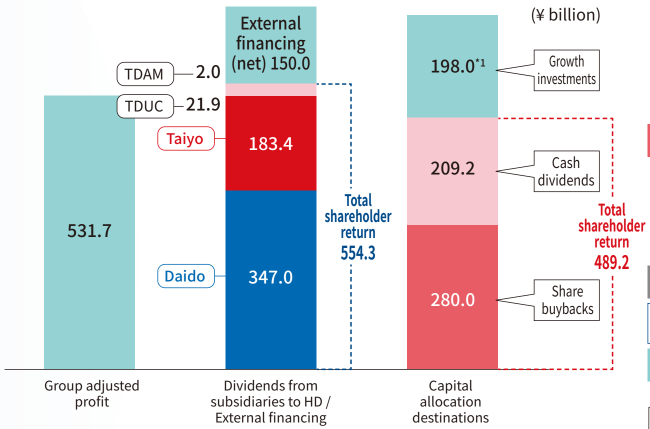
Enhancing Corporate Value by Advancing Group Capital Management

Under the previous Group Long-Term Vision (April 2021-March 2026), we worked to strengthen our earnings base and improve capital efficiency, building a financial foundation for enhancing corporate value.

Under the new Group Long-Term Vision (April 2026-March 2031), we will leverage the robust financial foundation we have built, enforce disciplined capital allocation, and aim for sustainable enhancement of corporate value by balancing growth investments and shareholder returns.

Dividends from subsidiaries / Capital allocation

Results from April 2021 to the End of March 2026



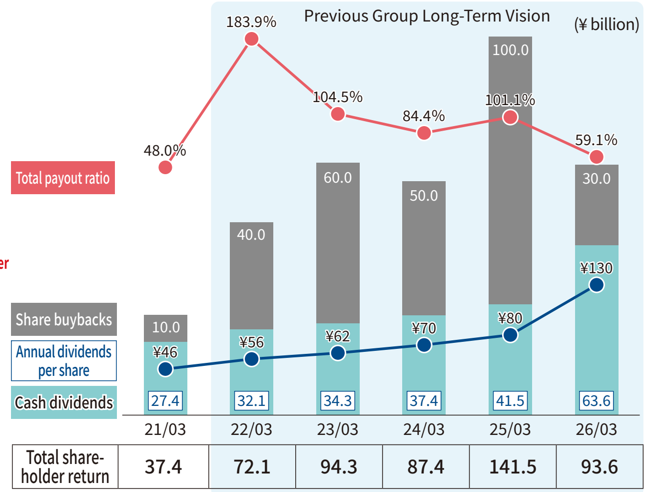
*1 Breakdown of growth investments: additional investment in Fortitude: ¥64.0 billion; investment in Viridium: ¥115.0 billion; others: ¥19.0 billion (FWD, All Right, CVC)

Achievements in Capital Management under the Previous Group Long-Term Vision

Under the previous Group Long-Term Vision, we promoted Group capital management by allocating capital generated by the domestic life insurance business and through reductions in investment risk to growth investments in areas such as the closed book business and to shareholder returns.

As a result, over the five-year period, we received cumulative dividends of ¥554.3 billion from subsidiaries and allocated ¥198.0 billion to growth investments and ¥489.2 billion to shareholder returns, improving capital efficiency and enhancing corporate value.

Shareholder returns



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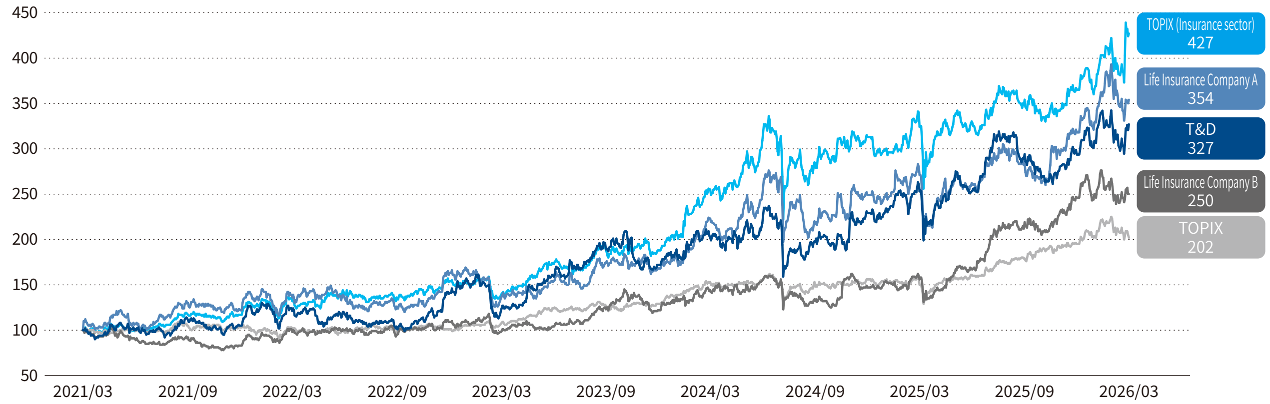
Improvement in Valuation and Stock Price Performance (TSR)

As a result of these initiatives, Group adjusted profit, a financial KPI, reached ¥158.5 billion (vs. the initial target of ¥130.0 billion), and adjusted ROE reached 10.5% (vs. 8%), significantly exceeding the initial targets.

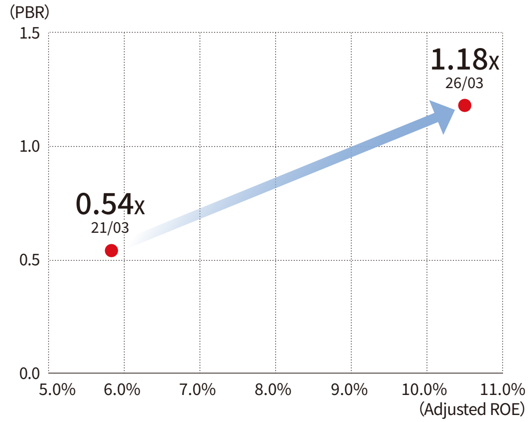
These achievements have also been recognized by the capital markets. Total shareholder return (TSR) significantly outperformed TOPIX, while PBR rose from 0.54x to 1.18x and the P/EV multiple improved from 0.26x to 0.45x.

Trend in TSR

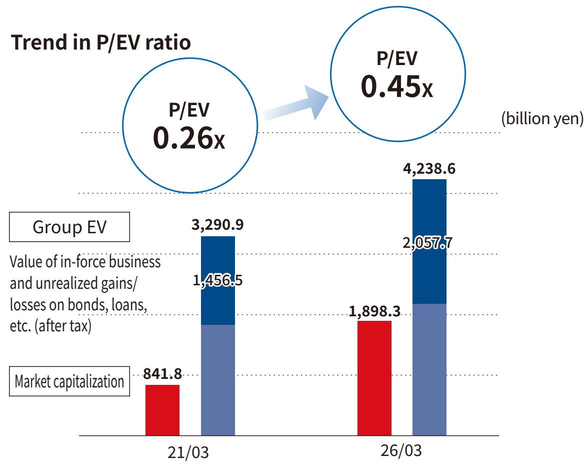


* Total shareholder return (TSR): (Profitability calculated pre-tax and assumes that all dividends are reinvested.) End of March 2021 set as 100.
(Source) Bloomberg

Adjusted ROE/PBR



Trend in P/EV ratio



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Key Initiatives in Group Capital Management

I will now explain the specific initiatives we have undertaken to date and our policies going forward.

Initiatives to reduce risk

To improve our stock market valuation, it is important not only to raise adjusted ROE, an indicator of capital efficiency, but also to lower the cost of equity by improving earnings stability. To this end, we have reduced investment risk exposed to market fluctuations. Specifically, over the past five years, we have utilized reinsurance, reduced interest rate risk by investing in super long-term bonds, and reduced foreign currency-denominated bonds and domestic and foreign stocks.

Cost of equity

Our stock beta has declined as a result of reducing investment risk. At the same time, taking into account the recent rise in interest rates, we estimate our cost of equity to be around 8%-10%.

Trend in beta

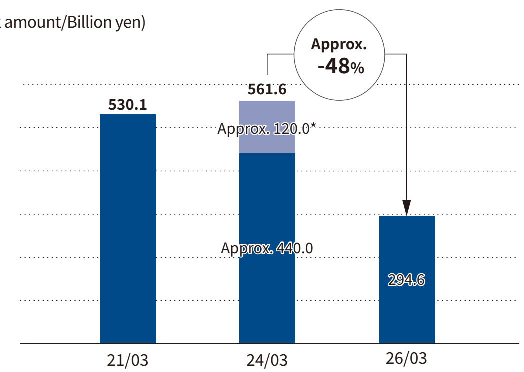
Our stock price β*	21/03	26/03
1 year	1.63	1.19
3 years	1.51	1.10
5 years	1.50	1.03

*Our stock price β is weekly, vs TOPIX.

Domestic interest rate risk

Through the promotion of ALM, we reduced domestic interest rate risk by 48% by the end of March 2026 compared with the end of March 2024, significantly exceeding our target.

Domestic interest rate risk

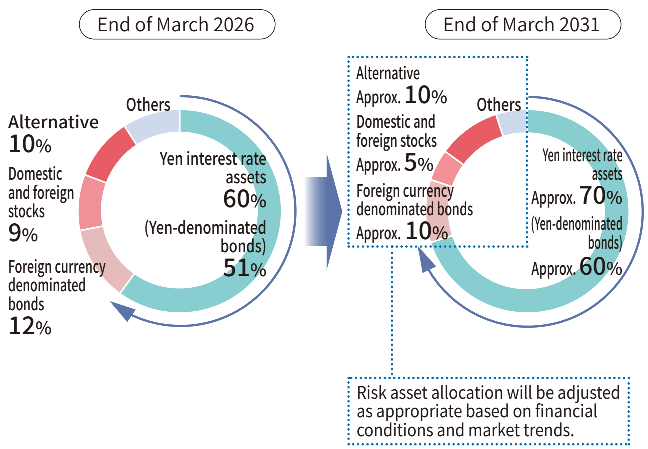


* Impact of change in ultimate forward rate

In the current rising interest rate environment, we will continue to promote cash flow matching of assets and liabilities while taking into account the potential increase in policy cancellations caused by higher interest rates. We plan to increase the share of yen interest assets from the current 60% to 70% by the end of March 2031.

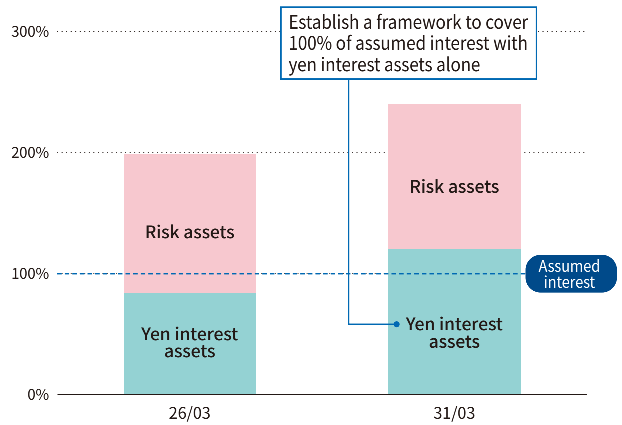
Through these initiatives, we aim to build an investment portfolio in which interest income from yen interest assets alone covers assumed interest.

Asset management portfolio



Core investment income (interest and dividend income, etc.) and assumed interest

Outlook for the coverage ratio of assumed interest (ratio of core investment income to assumed interest)



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Reduction of equity risk and improvement of the asset portfolio

We also reduced our holdings of domestic and foreign stocks, but the reduction was limited to 12% due in part to increases in market value. We will continue to reduce equity risk while maintaining a certain level of equity holdings for diversification and inflation hedging purposes, and will shift toward yen interest assets and alternative assets.

For strategic shareholdings, in addition to our policy of reducing the balance, excluding shares held in business partners and collaboration partners, to zero by the end of March 2031, we have set a new interim target of reducing the balance by 40% from the end of March 2026 by the end of March 2028.

Capital management under the new Group Long-Term Vision

We will not rest on our achievements to date. Under the new Group Long-Term Vision, we will further advance capital management to enhance corporate value. We expect cumulative Group adjusted profit of approximately ¥1 trillion over the next five years, and our basic policy is to allocate 60% of this profit to shareholder returns and 40% to growth investments.

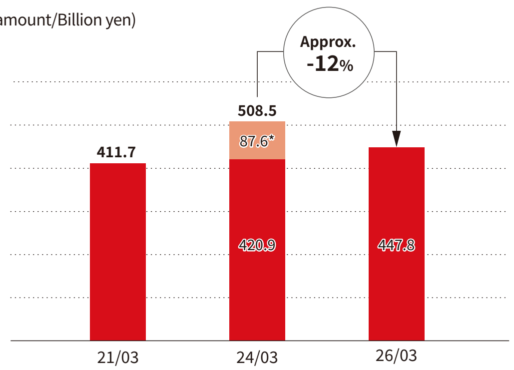
For cash dividends, we have adopted a dividend payout ratio of 60% of the five-year average of Group adjusted profit, under which profit growth will lead to growth in cash dividends. In addition to cash dividends, we will utilize share buybacks and aim for a total payout ratio of approximately 60% over the medium to long term. In addition to returns from periodic profit, we will consider additional share buybacks based on a comprehensive assessment of factors including the status of growth investment opportunities, ESR levels, and the share price. Rather than carrying out share buybacks according to a predetermined schedule, we intend to execute them flexibly while considering their effectiveness in improving capital efficiency.

For growth investments, we have established a new investment budget of ¥500.0 billion and aim to increase the share of adjusted profit from businesses outside the domestic life insurance business to 20% or more by FY2030. Rather than pursuing investment scale, we place emphasis on whether an investment can generate sustainable returns above our hurdle rate (cost of equity plus the interest rate differential between Japan and overseas, etc.) on invested capital. From this perspective, we will carefully select investments that contribute to enhancing corporate value and invest only in opportunities expected to generate sufficient returns.

If we cannot identify investment opportunities expected to generate sufficient returns, shareholder returns, including share buybacks, will also be an option as we consider the optimal allocation of capital. By rigorously implementing capital management with a strong awareness of capital market discipline, we aim to enhance the market's confidence in and evaluation of the Group.

Stock risk (domestic and foreign stocks)

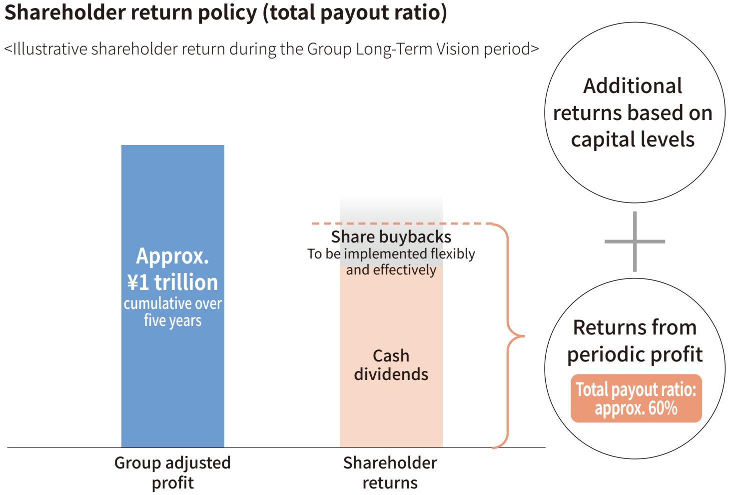
(Risk amount/Billion yen)



*Impact of new standard

Shareholder return policy (total payout ratio)

<Illustrative shareholder return during the Group Long-Term Vision period>



- When ESR consistently exceeds 225%:
  A decision will be made taking into account:
  - Growth investment opportunities
  - Cash flow
- When other capital efficiency improvements, etc. are considered necessary

Total payout ratio

In addition to cash dividends, shareholder returns will be provided so that the total payout ratio relative to Group adjusted profit over the Group Long-Term Vision period is approximately 60% over the medium to long term, taking into account growth investment opportunities and ESR levels.

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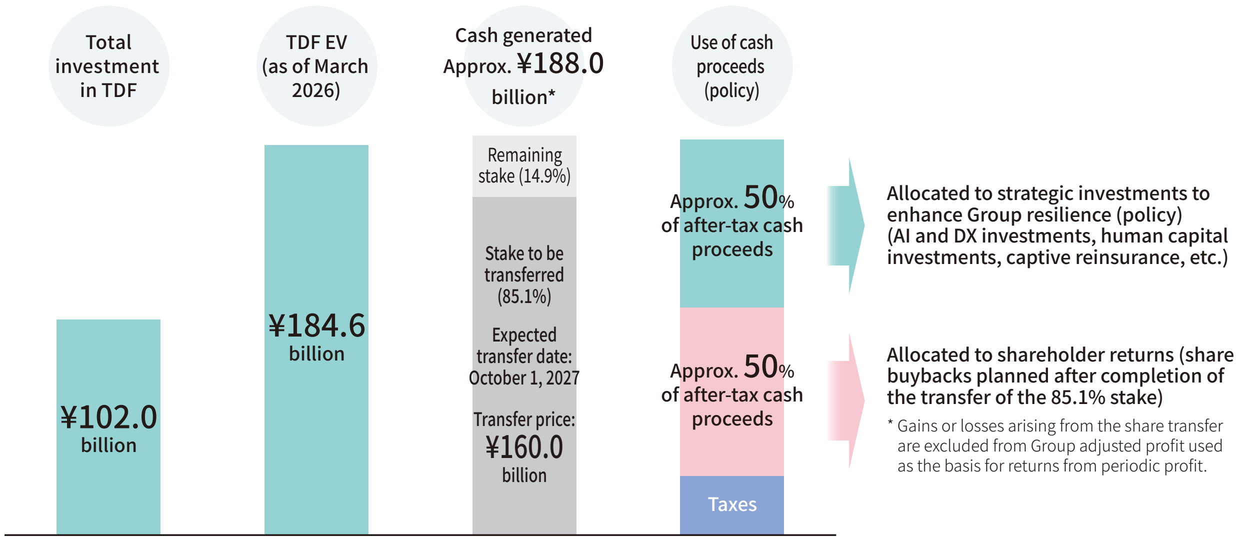
Use of Cash Proceeds from the Transfer of Shares in T&D Financial Life

The cash generated by the transfer of shares of T&D Financial Life Insurance Co., Ltd. will be allocated, separately from the policy described above, in a balanced manner between investments to enhance Group resilience and shareholder returns. Specifically, approximately 50% of after-tax cash proceeds from the sale will be allocated to strategic investments to enhance Group resilience, and the remaining approximately 50% will be used for shareholder returns, primarily through share buybacks. This allocation reflects our capital policy of placing equal importance on investment for future growth and shareholder returns.

Use of cash proceeds from the TDF share transfer (policy)



* This amount is an estimate based on an expected transfer date of October 1, 2027 and is not final.

In Closing: Toward Sustainable Enhancement of Corporate Value

Under the new Group Long-Term Vision, we will steadily advance the three basic principles—“Further Strengthening of Our Core Business,” “Growth through New Value Creation,” and “Enhancing Group Resilience”—through the thorough implementation of disciplined capital management. By creating a virtuous cycle of profit growth, improved capital efficiency, and enhanced shareholder returns, we will contribute to further enhancing corporate value.