Maximizing corporate value through a strategic capital policy centered on enterprise risk management

Takayuki Yuasa
Group CFO (Chief Financial Officer)
Executive Vice President

As Group CFO, my role is to support the growth of each business by getting deeply involved in the business plans established by each business and executing strategic capital policy. For example, during CFO meetings, where I discuss responses to business environment changes, progress of various strategies and the need for reviews together with the heads of each business, I engage in dialogue to cover major issues of each business and KPI of the new mid-term business plan from the Group CFO's perspective.

Since we are an insurance company, we are increasing returns while taking risks of insurance underwriting and asset management. We have made enterprise risk management (ERM) a fundamental part of Group management. ERM takes into consideration our risk appetite, to what extent we undertake the risks, whether return on risk is sufficient, and whether risk is appropriately diversified. We have also established an ERM Committee for discussing ERM strategy. As chair of this committee, I meet with the Group's C-suite and heads of each business around six times per year to discuss individual risk strategies, the direction of risk appetite, enhancement of ERM, and to look back on initiatives. Based on these talks, I determine a capital allocation plan to ensure the optimal risk portfolio from a Group-wide perspective that will contribute to Tokio Marine's growth.

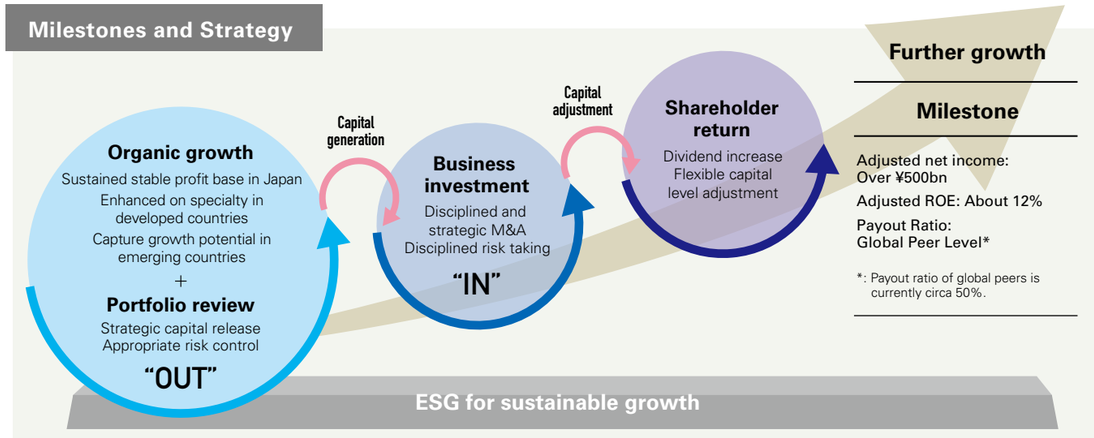
As the person responsible for Entry & Exit Office rules, I review whether various proposed entry (M&A, etc.) and exit (divestments, etc.) project plans are appropriate and have strategic significance, and then judge whether to go ahead or stop a deal from the perspective of strategic management resources input to ensure appropriate allocation of capital.

Of course, as CFO of a publicly traded company, one of my most important roles is engaging all of you in the capital markets. In addition to investor relations events, in fiscal 2020 I held online dialogue sessions with institutional investors from more than 100 organizations around the world despite the COVID-19 pandemic. I am now working to incorporate these voices into Tokio Marine's capital policy and management strategies to further enhance corporate value.

Based on these many initiatives, we generate capital through the organic growth of each business in Japan and overseas, as well as strategic portfolio assessments. Capital raised is allocated to investment in good companies, but in situations where there are no promising investments, we use it to provide shareholder return. In this manner, we have implemented the capital strategy cycle to enhance corporate value.

I am also responsible for the formulation of our mid-term business plan that seeks out further growth in the future. As such, I would like to take this opportunity to discuss our mid-term business plan from the Group CFO's perspective.

Milestones and Strategy



Previous Mid-Term Business Plan

Before discussing the new three-year mid-term business plan starting in fiscal 2021, first I would like to look back on the results of the previous mid-term business plan that serves as its foundation. During the previous mid-term business plan, we faced the various challenges of natural disasters, COVID-19, social inflation*1 in the United States, and low interest rates around the world. As CFO, through capital allocation and other means, I worked to support the growth strategy of each business, reshuffle our forward-looking portfolio, and assess capital structure.

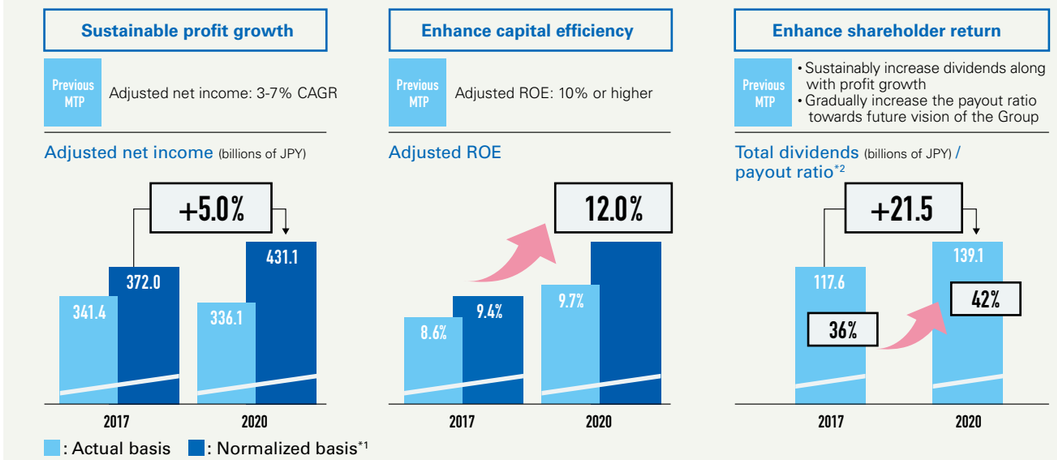
For example, in terms of portfolio reshuffling, we made a number of business investments, including the acquisition of PURE Group and Safety Insurance PCL (Safety) in Thailand, integration of Safety with our existing subsidiaries, and establishments a joint venture company in Brazil. On the flip side, we sold off TMR. In this manner, we worked on a number of entry and exit projects while considering risk diversification, optimal capital allocation and future growth.

As part of my capital structure assessment, the decision was made to issue our first-ever hybrid bonds considering capital cost*2 at the time of the PURE Group acquisition. While we did not use this before from the standpoint of effective utilization of capital, our capital efficiency has improved to some degree. Therefore, if a large investment opportunity presents itself in the future, or if multiple smaller investment opportunities arise around the same time, we will consider utilizing hybrid bonds as one of the options for achieving the optimal capital structure.

As a result of these initiatives, our capabilities during the previous mid-term business plan (excluding the transient effects of natural disasters and COVID-19) included adjusted net income of ¥431.1 billion (CAGR of 5.0%), adjusted ROE of 12.0%, total dividends of ¥139.1 billion (up ¥21.5 billion), and payout ratio of 42% (up 6pts). As a result, we achieved the targets of the previous mid-term business plan of sustainable profit growth (CAGR of between 3 and 7%), enhance capital efficiency (Adjusted ROE of 10% or higher), and enhancement of shareholder return (increase total dividends and payout ratio).

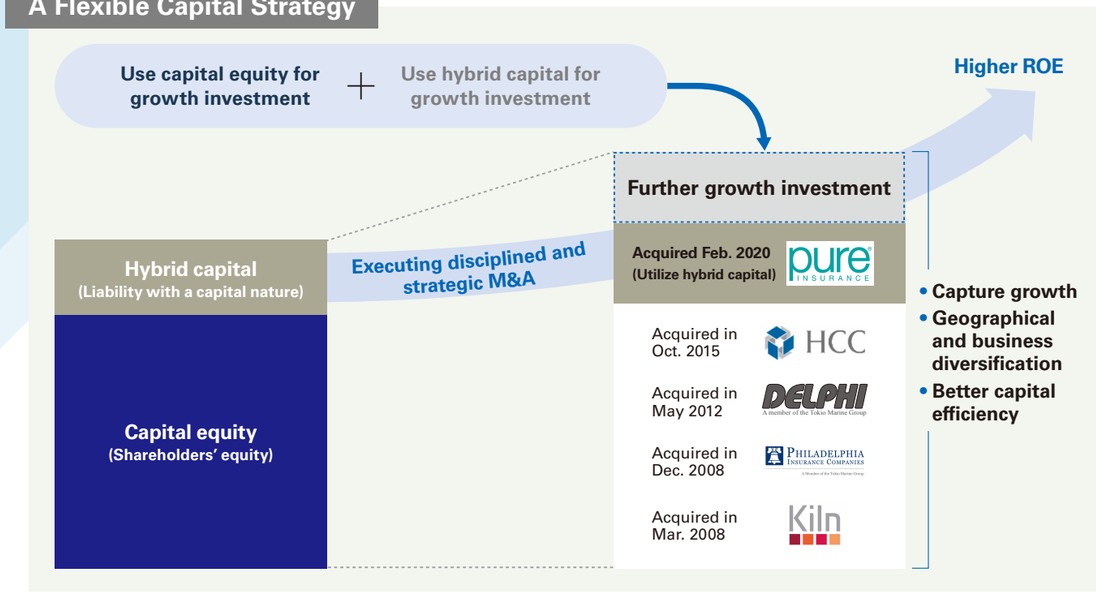
*1: An event involving the soaring insurance claim amounts caused by the proactive activities of lawyers and increase in jury verdicts favoring the plaintiff side.
*2: Cost required when a company procures capital

Achievement of the Three Targets of the Previous Mid-Term Business Plan

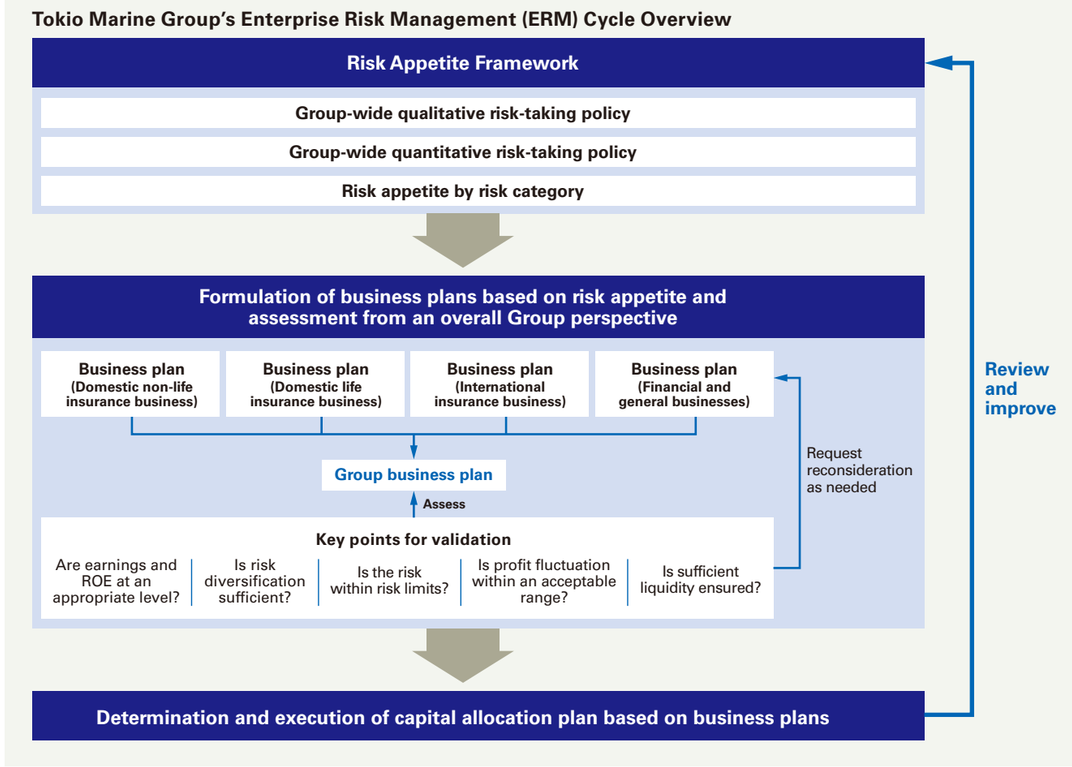


*1: Excluding the impact of COVID-19, natural catastrophes over annual average, and adjusted the market condition (FX and stock price) to the same level as at the end of Mar. 2018.
*2: Payout ratio to 5-year average adjusted net income

A Flexible Capital Strategy



Enterprise Risk Management Cycle



New Mid-Term Business Plan

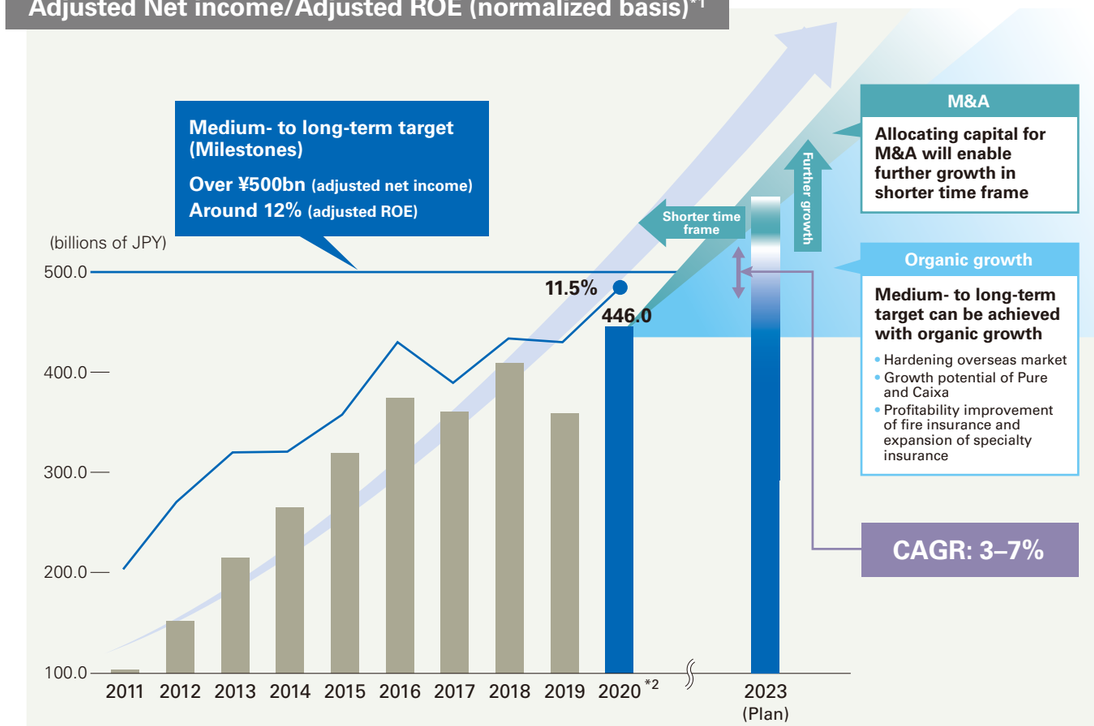
Under the new mid-term business plan, our KPI include growing adjusted net income at CAGR of between 3 and 7%, adjusted ROE of around 12% and payout ratio of 40% or more of adjusted net income on average. This will put us in a position to reach our mid- to long-term targets established in 2017 (adjusted net income of over ¥500 billion and adjusted ROE of around 12%).

This KPI is based on organic growth and does not include M&A. Our M&A is to diversify risk only if a promising deal presents itself. Therefore, I don't feel it is appropriate to incorporate the execution of M&A into the plan. In addition to organic growth, if a large and promising M&A opportunity arises, this will make further growth possible and shorten the timeline to reaching our targets.

The new mid-term business plan was formulated based on discussions not only by the board of directors, but also by CFO meetings and the ERM Committee that I touched upon above. During this process, discussions and reviews first focused on future assessment, including Tokio Marine's future vision, concerning the diversification of customer needs, growing complexity of social issues, low interest rates around the world, growing intensity of natural disasters, and developments in the insurance markets of each country. On top of this, the plan was developed by positioning enhancement of insurance business earnings and initiatives in new markets and growth areas as major growth drivers considering our mid- to long-term targets. Specifically, we will steadily implement our various growth measures, which include improving the profits of fire insurance and expanding specialty insurance in domestic non-life insurance as well as increasing rates and pursuing disciplined underwriting based on market hardening in the overseas insurance business and increasing the profits of the Pure Group acquired in 2020.

Since announcing our new mid-term business plan in May 2021, I have been engaging all of you in the capital markets and received positive responses in terms of the plan's details and probability of reaching its targets. At the same time, I feel some pressure (laughs) as many believe that adjusted net income of ¥500 billion should easily be achieved. As CFO, I will contribute to achieving the plan through steady capital strategy execution.

Adjusted Net income/Adjusted ROE (normalized basis)*1



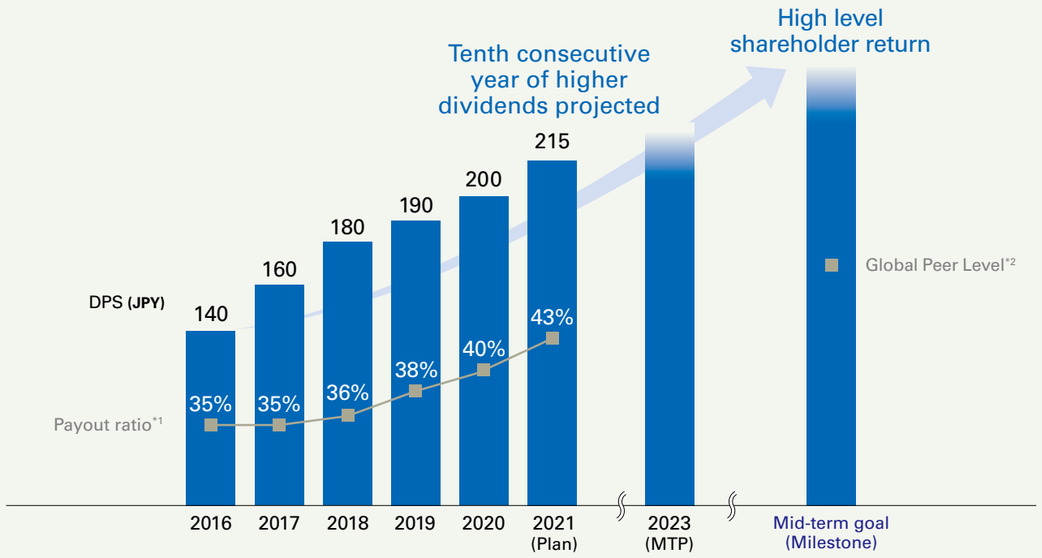
*1: Natural catastrophes are normalized to an average annual level, and the impact of reinstatement premiums is excluded for 2018 and 2019.
*2: FY2020 is based on the new definition adjusted basis excluding the impact of COVID-19 and FX as well as impacts of nat-cat underwriting reserves and provision for underwriting result in the first year.
Under the previous definition adjusted basis, adjusted net income is ¥423.0bn and adjusted ROE is 11.2%.

Shareholder Return

As for shareholder return, we will seek to sustainably increase the ordinary dividend, which will form the basis similar to the previous mid-term business plan, depending on profit growth. We will also increase the payout ratio in stages to the same level as global peers (around 50% at present).

Our approach to capital policy remains consistent with before. We will execute M&A for risk diversification if a solid opportunity presents itself and follow through with disciplined shareholder return if there are no M&A deals. Regarding methods to adjust capital level, starting in fiscal 2021 we have allocated at least ¥100 billion per year to both small and mid-sized growth investments and shareholder return from the perspective of further increasing transparency. Moreover, we will introduce a more agile approach to determining shareholder return, taking into account the M&A pipeline and share value, instead of the typical twice a year.

Trends in Shareholder Return



	2016	2017	2018	2019	2020	2021 (Plan)
Total dividends (billions of JPY)	105.3	117.6	128.0	133.0	139.1	149.0*3
Capital level adjustment*4 (share buybacks, etc.) (billions of JPY)	50.0	150.0	125.0	50.0	50.0	100.0*5

*1: Payout ratio based on the original projection basis.
*2: Payout ratio of global peers is currently circa 50%.
*3: The figure for 2021 (plan) is before reflecting share buybacks.
*4: Total amount approved by the announcement date of financial results of each fiscal year.
The figure for 2018 includes one-time dividends of circa 50.0bn yen and those for 2019 and 2020 include of circa 25.0bn yen, respectively.
*5: FY2021 (plan) is the total amount of small- to medium-sized business investment and capital level adjustment (guideline).

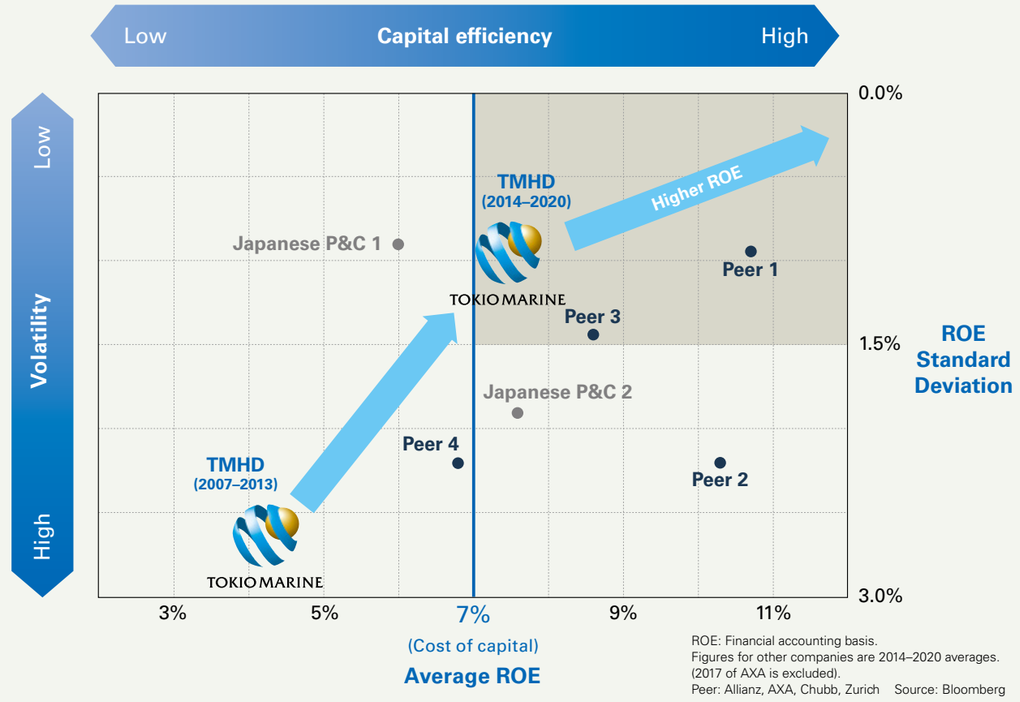
Trends in ROE

As a result of these initiatives, our adjusted ROE has been trending above a capital cost of 7%, which is calculated based on the capital asset pricing model (CAPM)*, since 2013. Our ROE level and its stability are approaching the level of our global peers.

Going forward, we will enhance capital efficiency in a stable manner while maintaining capital integrity through a disciplined capital policy.

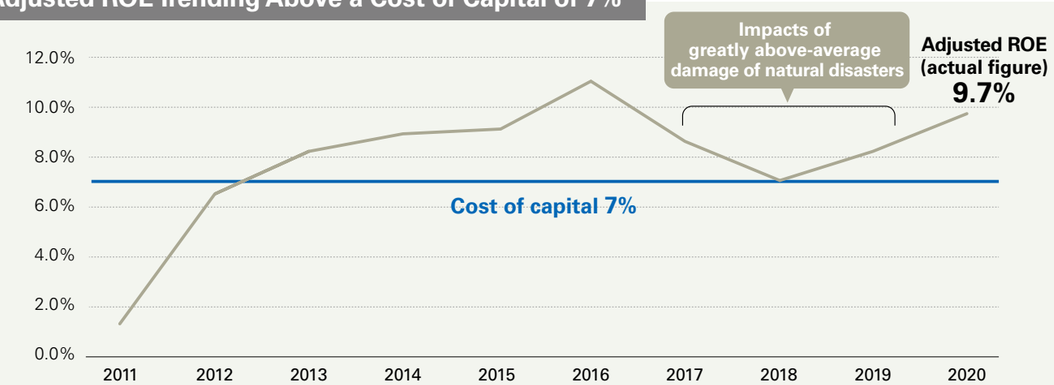
*: A method for calculating return that can be expected by investors. It is calculated as risk-free rate + beta (riskiness of an individual asset compared to the overall market) x market risk premium.

Stable ROE Improvement



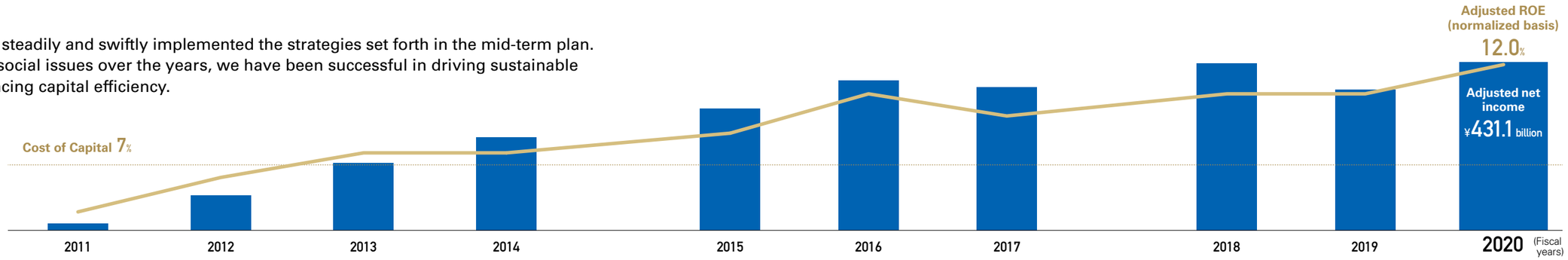
ROE: Financial accounting basis.
Figures for other companies are 2014–2020 averages.
(2017 of AXA is excluded).
Peer: Allianz, AXA, Chubb, Zurich Source: Bloomberg

Adjusted ROE Trending Above a Cost of Capital of 7%



Review of the Mid-Term Business Plan to Date

Tokio Marine Group has steadily and swiftly implemented the strategies set forth in the mid-term plan. As a result of resolving social issues over the years, we have been successful in driving sustainable profit growth and enhancing capital efficiency.



Mid-Term Business Plan

	Innovation and Execution 2014	To Be a Good Company 2017	To Be a Good Company 2020
Vision	A "global insurance group" that realizes sustainable growth by offering quality that wins customers over	A global insurance group that delivers sustainable growth by providing safety and security to customers worldwide —Our timeless endeavor to be a Good Company—	
Priority Strategies	• Structural reform to businesses that generate profit • Transformation into a well-balanced business portfolio	• Unlock our potential • Capitalize on changes • Pursue growth opportunities • Advance our business platform	• Further diversification of portfolio • Enhancement of business structure • Strengthening of integrated Group management
Main KPIs	• Adjusted ROE of 7% or higher • Improve combined ratio (C/R) of domestic non-life insurance business to 95% • Increase embedded value (EV) in domestic life insurance business by ¥180 billion (three-year total) • Adjusted earnings of ¥100 billion in international insurance business	• Adjusted ROE of approx. 9% • Adjusted net income of ¥350–¥400 billion • Steady growth of dividends in line with profit growth	• Adjusted ROE of 10% or more • Adjusted net income of ¥400–¥450 billion • Payout ratio of 35% or more

Review of Mid-Term Business Plan

Review of Priority Strategies

Innovation and Execution 2014

Realized ROE exceeding cost of capital (7%) through the following measures

- Significantly increased profitability in domestic non-life insurance business, which was a major issue, led by auto insurance
- Realized stable profit growth in domestic life insurance business by focusing on highly profitable living protection field
- Realized strong profit growth and contributed to Group business and geographic diversification through organic growth of international insurance business and acquisition of Delphi Financial Group
- Continually reduced risk, for example by selling business-related equities in the amount of ¥336 billion over three years

To Be a Good Company 2017

Realized sustainable profit growth and higher ROE primarily through the following measures

- Enhanced business model mainly by strengthening life and non-life cross-selling initiatives, providing products and creating a service system, which is resilient to wide-area disasters
- Reinforced R&D functions by providing products and services in anticipation of changes (such as insurance designed to promote health improvement and auto insurance using drive recorders) and establishing the Digital Strategy Division
- Advanced business through both organic growth and M&A, including expansion of specialty insurance in Japan and acquisition of HCC
- Enhanced business platform by strengthening integrated Group management, especially by establishing a Group Chief Officer system and launching and bolstering our global committees

To Be a Good Company 2020

Steadily strengthen earnings base primarily through the following measures

- Make strategic changes to portfolio that include acquisition of the PURE, continued bolt-on M&A and sale of Tokio Millennium Re Ag (TMR)
- Enhance business structure that includes creation of claim services using satellite images and AI, launch of digital labs in five locations worldwide and a system to promote the use of technology
- Strengthen integrated Group management by promoting the use of talent and spreading Group culture on a global basis. As a result, we have expanded more Group synergies

Achievement of Main KPIs

	2014 results	Mid-Term Business Plan (2014)	Achieved
Adjusted ROE	9.3%	7% or higher	✓
C/R (Tokio Marine & Nichido)	90.6%	95.0%	✓
EV increase (three-year total, Tokio Marine & Nichido Life)	¥357.5 billion	¥180.0 billion	✓
Adjusted earnings (international insurance business)	¥145.5 billion	¥100.0 billion	✓

	2017 results	Mid-Term Business Plan (2017)	Achieved
Adjusted ROE	10.0%*1	Approx. 9%	✓
Adjusted net income	¥397.0 billion*1	¥350–¥400 billion	✓
Annual dividends per share	¥160	Steady growth (¥95 in fiscal 2014)	✓

	2020 results	Mid-Term Business Plan (2020)	Achieved
Adjusted ROE	12.0%*2	10% or higher*3	✓
Adjusted net income	¥431.1 billion*2	¥400–¥450 billion*3	✓
Payout ratio*4	42%	35% or higher	✓

Issues remaining from 2009–2011 Mid-Term Business Plan
ROE exceeding cost of capital
(A critical challenge is to realize profitability in domestic non-life insurance business.)

Remaining issue
Build a foundation that enables sustainable profit growth and higher ROE

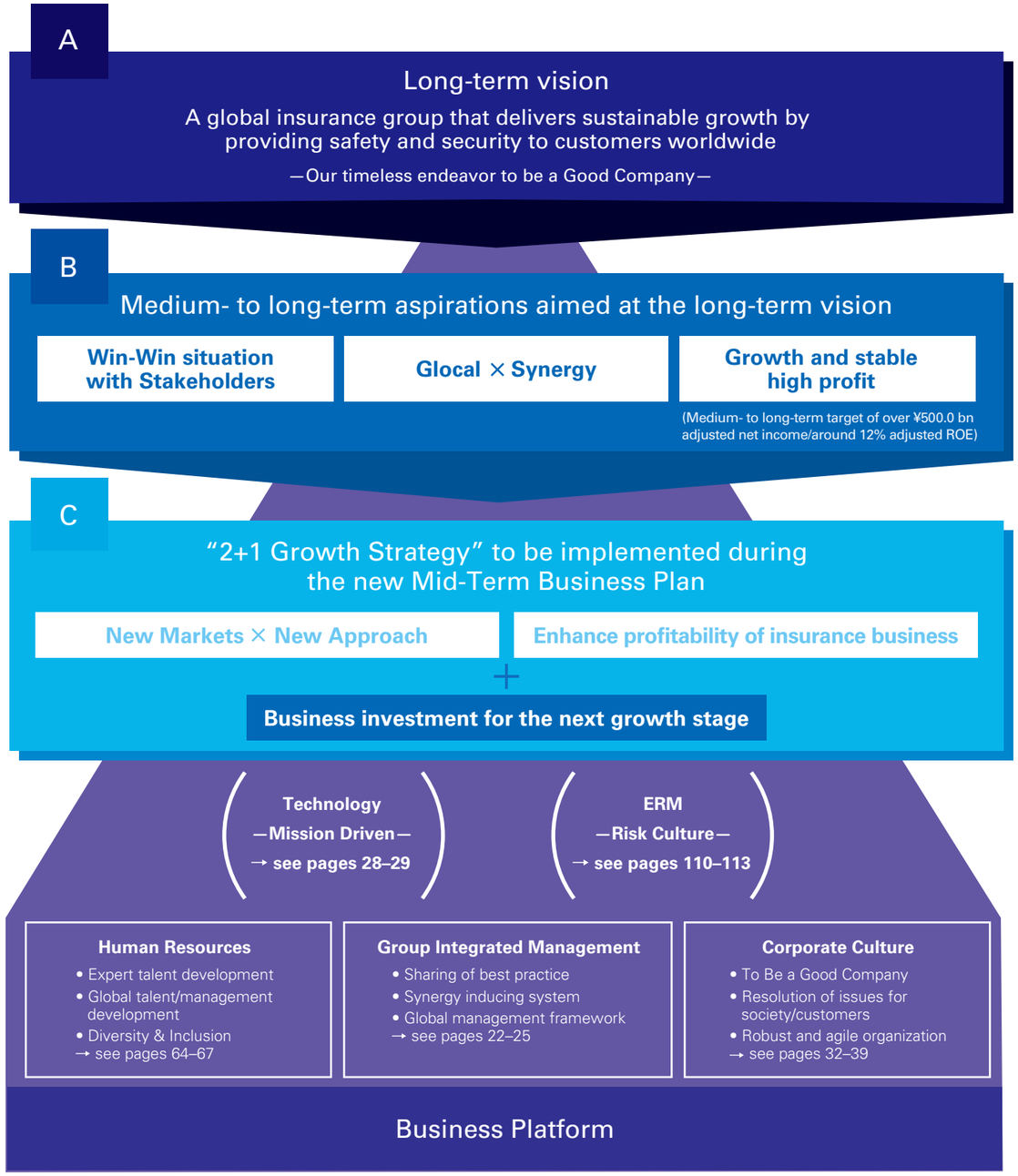
Remaining issue
Grow profit by establishing earnings base

Remaining issue
Advancement of greater risk diversification as well as further improvement of profitability in the insurance business and the ability to respond to an increasingly diverse range of issues

*1: Figures based on market environment as of March 31, 2015 excluding FX effects and the one-time impact of U.S. tax reform after impact of natural disasters normalized to average annual level.
*2: Figures based on market environment as of March 31, 2018 after adjusting natural disasters for normal years and excluding the impacts of the COVID-19 pandemic.
*3: Figures based on market environment as of March 31, 2018 after adjusting natural disasters for normal years.
*4: Payout ratio is on the five-year average adjusted net income. Based on original projections.

Mid-Term Business Plan 2023 —Adapt, Lead, Innovate—

In formulating our new Mid-Term Business Plan, we first (A) clarified our long-term vision, (B) formulated a "medium- to long-term aspirations" aimed at this vision, and (C) planned a "2+1 Growth Strategy" to be implemented during the new Mid-Term Business Plan (three years).
Here, we will explain about the "long-term vision," "medium- to long-term aspirations" and "2+1 Growth Strategy" in the new Mid-Term Business Plan.



A Our "Long-term Vision"

Our "long-term vision" is to become "A global insurance group that delivers sustainable growth by providing safety and security to customers worldwide—Our timeless endeavor to be a Good Company—." Since our founding we have grown in a sustained manner by contributing to solutions to various social issues changing with the times under our purpose of "protecting our customers and society in times of need." Going forward, we will aim to achieve this "long-term vision" by continuing to increase social value and economic value (profit growth) while resolving social issues important to all stakeholders around the world including the next generation through our business activities, even though these social issues are becoming more complex and serious in nature.

B "Medium- to long-term aspirations" aimed at the "long-term vision"

Aimed at our "long-term vision," our three aspirations are "win-win situation with stakeholders," "glocal x synergy" and "growth and stable high profit" (medium- to long-term targets include adjusted net income of over ¥500 billion and adjusted ROE of around 12%). A detailed look at these three areas is presented below.

Win-Win Situation with Stakeholders

- Penetrate the purpose of "protecting our customers and society in times of need" throughout the Group and provide even greater value to stakeholders including the next generation
- Continuously seek out the optimal solutions to integrating the interests of all stakeholders over the medium to long term

Glocal × Synergy

- Establish dominant competitive advantages in each region and market as a global insurance group
- Build a powerful business model that cannot be matched by other companies through utilization of talent and generation of synergies including rolling out best practices

Growth and Stable High Profit

- Continue to grow by correctly addressing changing social issues
- Build a lean management structure through risk diversification to become a "robust and agile organization" that achieves stable high profit no matter the business environment
- As a result, achieve adjusted net income of over ¥500 billion and adjusted ROE of around 12%

C Aimed at our "medium- to long-term vision" "2+1 Growth Strategy" to be implemented during the new Mid-Term Business Plan

Aimed at these "medium- to long-term aspirations," we will work toward the "2+1 Growth Strategy" which features business investment for the next growth stage complementing the two growth strategies of "New Markets X New Approach" and "Enhance profitability of insurance business."

2

New Markets × New Approach

- Precisely respond to the quickly changing customer needs and implement products/services and channel strategies reflecting the market

Enhance profitability of insurance business

- Optimize premium rates and increase rates based on market hardening
- Streamline operations while thoroughly utilizing digitalization

+

1

Business investment for the next growth stage

- Tokio Marine Holdings will take the lead in proactive risk diversification and allocation of capital for growth
- Prepare for new growth areas

KPI Targets in the New MTP

We aim to reach adjusted net income with CAGR of 3% to 7%, adjusted ROE of around 12% as KPI targets through the execution of our "2+1 Growth Strategy." Reaching these levels is in range to achieve our medium- to long-term targets of adjusted net income of over ¥500 billion and adjusted ROE of around 12%. These KPI targets account for organic growth only. If we find good M&A opportunities, we could be able to achieve the targets ahead of schedule or achieve results well in excess of the targets.
As for shareholder returns, we aim to achieve a payout ratio of 40% or higher in terms of ordinary dividend alone. We will also work to continuously increase the dividend depending on profit growth and flexibly make adjustments to capital levels.

	Medium- to long-term target	FY2023 Projection*1	FY2020
Adjusted net income	Over ¥500 bn	CAGR: 3–7% (circa ¥480–540bn) →See the next page for a breakdown.	¥446.0 bn*2
Adjusted ROE	around 12%	around 12%	11.5%*2
Payout ratio*3	On par with Global Peers*4	40% or higher	40%
Capital level adjustment	Flexible execution	Flexible execution*5	¥50.0 bn

*1: Parentheses indicate estimates.
*2: Based on new definition (natural catastrophes normalized to an average annual level, excluding impact of COVID-19 and FX as well as impacts of nat-cat underwriting reserves and provisions of underwriting result for the first year) to be applied to new MTP.
Based on the previous definition applied to previous MTP, adjusted net income is ¥431.1bn (+5.0% CAGR) and adjusted ROE is 13.1%.
*3: Payout ratio is on the five-year average adjusted net income. Based on original projections.
*4: Payout ratio of global peers is currently circa 50%.
*5: Set total amount (guideline) for small- to medium-sized business investment and capital level adjustment (FY2021 budget is ¥100.0bn)

(Ref.) Breakdown of Adjusted Net Income (Business Unit Profit KPI Targets)

		FY2023 Projection*1	FY2020
Adjusted net income		CAGR: 3-7% (circa ¥480–540bn)	¥446.0bn*2
Breakdown by Business Unit			
Business Unit Profits	Domestic Non-Life Insurance (TMNF)	CAGR +6% or higher (Approx. ¥160 billion or higher)	¥138.5 billion*6
	Domestic Life Insurance	Secure at ¥50 billion consistently	¥52.7 billion
	International Insurance	CAGR approx. +9% (Approx. ¥230 billion)	¥180.1 billion*7

The difference between total business unit profit (fiscal 2023 plan: approx. ¥440 billion; fiscal 2020 results: ¥371.3 billion) for the above three business units and adjusted net income mainly consisted of gains on sales of business-related equities (fiscal 2020 results for Tokio Marine & Nichido was ¥83.0 billion).
Sales of business-related equities are included in adjusted net income, which is a source of shareholder returns, but excluded from business unit profit.

(Ref.) Top Line KPI Targets by Business Unit

		FY2023 Projection*1	FY2020
Top line	TMNF (Net premiums written)	CAGR +2% or higher	¥2,021.9 billion
	Domestic Life Insurance (New Policies ANP)	CAGR approx. +5%	¥43.3 billion
	International Insurance (Net premiums written)	CAGR approx. +5%	¥1,734.5 billion*8

*6: Natural catastrophes are normalized to an average annual level and the impact of COVID-19 is excluded.
*7: Natural catastrophes are normalized to an average annual level and the impact of COVID-19 and FX are excluded.
*8: Excluding the impact of FX.

Domestic Non-Life Insurance

Creation of Stable Profit in the Automobile Insurance Market

Although Japan is expected to see the number of automobiles on the road decline gradually in the future, we will introduce a number of high-value-added products and address new risks and needs from the changing environment to ensure we continue to generate stable profits.

Steadily Expanded Market Share and Supported Growth

Our core automobile insurance line has consistently grown our top line, regardless of rate revisions, while harnessing our strengths in appealing products and services and high-quality claims services. This line continued to grow in fiscal 2020 despite COVID-19, placing us atop the industry in terms of top line performance and year on year growth rate. Moreover, with a sound combined ratio, the line continues to generate stable earnings.

Limited Impacts from Environmental Changes Such as Autonomous Driving Technologies

Going forward, the automobile insurance market is expected to see progress in autonomous driving technologies, a declining number of automobiles on the road in Japan following the country's changing demographics, and the spread of electric vehicles (EVs).

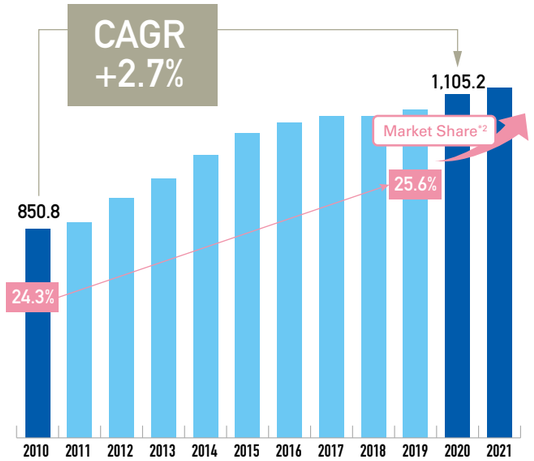
However, considerable time is still needed until the complete adoption of autonomous driving technologies, and since this will increase the insurance premium unit price, we believe the impacts on claim cost will be limited (for details, see page 53).

While the number of automobiles will decline, quantitatively speaking, the CAGR of vehicle ownership is expected to be around -0.4%[*4] from fiscal 2019 to fiscal 2030, meaning any impacts should not be substantial. Furthermore, the spread of EVs will not necessarily lead to market contraction because of rising insurance premium unit prices and the possibility of unique risks associated with EVs.

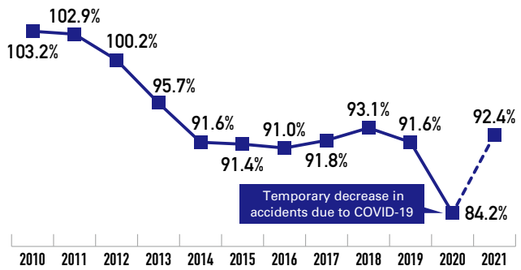
Continuing to Generate Stable Profits by Introducing a Number of High-Value-Added Products

Tokio Marine became the first in the Japan's insurance industry to provide customers with a dual-camera driving recorder in April 2021 and we are currently seeing policy growth with this product. We will continue to roll out similar high-value-added products and provide them to customers, while thoroughly utilizing digital technologies, to sustainably expand market share. Additionally, we will continue to generate stable profits going forward by addressing new risks emerging from the progress of autonomous driving technologies and spread of EVs and responding to new needs associated with the growing complexity of liability.

■ Top line[*1] (billions of JPY)



■ Combined Ratio[*3] (Private insurance E/I basis)



*1: Net premiums written
*2: Direct net premiums written
Source: Insurance Statistics (Sonpo Toukeigo) Vol.4864
*3: C/R = E/I loss ratio + W/P expense ratio
*4: Calculated by the Company based on Automobile Dealers Vision (fiscal 2019)

Reference: Impacts on automobile insurance market due to advancements in autonomous driving technologies

Impacts from advancements in autonomous driving technologies are limited for the time being, but over the long term there are growing expectations in insurance companies as a form of social infrastructure underpinned by advancements in automobiles and growing complexity of liability.

Impacts from Advancements in Autonomous Driving Technologies

Autonomous driving technologies are making moderate progress, as symbolized by the release of the Honda Legend featuring the world's first Level 3 self-driving tech in March 2021 (the Government of Japan's targets appear at right). The insurance industry is expected to be impacted by declining accident frequency and growing complexity of accident liability as a result of such progress in technology.

Impacts from Declining Accident Frequency

Progress of autonomous driving technologies will indeed help reduce the frequency of accidents, but the impacts on the insurance industry are expected to be limited for the time being for the following reasons.

- Vehicles have various replacement cycles and it takes more than 15 years until all vehicles on the market are replaced with new ones[*3]. Furthermore, even if a Level 4 automobile came to market, autonomous driving will only be limited to expressways (accounting for around 3% of accidents). This suggests that the decline in accident frequency will only be moderate.
- In terms of claim cost, although accident frequency will decline moderately, repair costs are expected to increase because of the high cost of EV parts. Therefore, any impacts will be limited for the time being.
- Moreover, responding to the new risks emerging from technological progress (cyber risk, etc.) can become an opportunity for the insurance industry.

Furthermore, a research working group of the Ministry of Land, Infrastructure, Transport and Tourism[*4] concluded that it is appropriate for drivers to remain the primary party of liability up to Level 4 self-driving. As a result, today's automobile insurance will remain relevant.

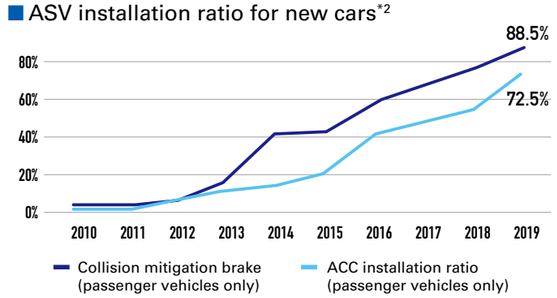
Impacts from Growing Complexity of Accident Liability

There is concern about the growing complexity of accident liability in the event of accidents caused by autonomous vehicles because in addition to the at-fault party and no-fault party, claims for damages could also be brought against manufacturers or software companies. We are launching products ahead of competitors that ensure victims are quickly compensated in contributing to the realization of a safe and secure automotive lifestyle even in the current environment.

■ Progress in Autonomous Driving Technology

Level of Autonomous Driving		Driver	Government Target (private vehicles)
LEVEL 0	(zero autonomous)	Human	
LEVEL 1	(driving support)	Human	
LEVEL 2	(partially autonomous)	Human	
LEVEL 3	(conditional autonomous)	System	by 2020, autonomous driving on expressways[*1]
LEVEL 4	(highly autonomous)	System	by 2025, autonomous driving on expressways[*1]
LEVEL 5	(fully autonomous)	System	TBD

■ ASV installation ratio for new cars[*2]



■ No significant changes to claims cost for the time being

Claims cost = Lower accident frequency × Higher insurance unit price

- Higher repair expense unit price due to expensive parts
- Possible increase in assessment cost

■ Support for saving victims (Japan's first)

April 2017: Launched coverage riders for expenses for saving victims
April 2021: Auto accidents during autonomous driving have no impact on the grade rating system for non-fleet auto insurance

*1: Based on our data, insurance payment for expressway accidents comprise about 3% of all accidents
*2: Based on MLIT Survey on Penetration of ASV Technology, Dec. 2020
*3: Public-Private ITS Initiative / Roadmaps 2020.
*4: Mar. 2018, MLIT Research Group on Liability for Accident Compensation concerning Autonomous Driving

Domestic Non-Life Insurance — Creating New Markets by Expanding Specialty Insurance

Through contribution (new market creation) to solving the growing risks and continually arising social issues in these uncertain and unstable times, over the next three years we will increase revenue by more than ¥100 billion and strongly drive the growth of domestic non-life insurance.

Occurrence of New Social Issues

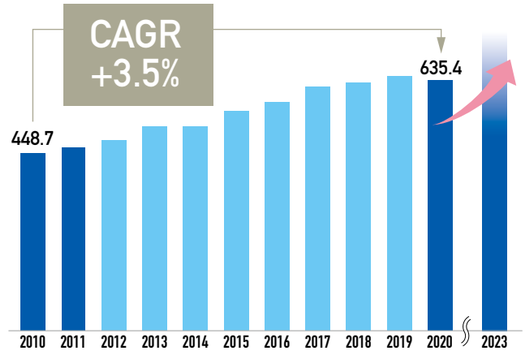
In these times of uncertainty, risks are rising and social issues are becoming more complex. In addition to the major worldwide social issues of the transition to renewable energy and growing cyber risk, Japan, too, faces the issues of an aging population and the decline of regional economies, which are becoming more serious. This has resulted in ever-higher expectations being placed on insurance companies as a form of social infrastructure.

Unlocking Robust Growth through Resolutions to Issues to Grow the Line into the Next Pillar after Automobile Insurance

As a company that has grown sustainably through its solutions to social issues, we perceive these environmental changes as an opportunity to seize. For example, the insurance enrollment rate of small- and medium-sized enterprises (SMEs) believed to account for over 99% of Japanese companies is low, making it a major untapped market. We hope to deliver high-value-added products that meet all needs of these SMEs to every corner of Japan through increased collaboration with commerce and industry associations and local governments along with the utilization of digitalization. Our goal is to increase our brand recognition to the point where SMEs recognize Tokio Marine's unique value proposition.

Furthermore, automobile insurance is expected to decline over the next 20 to 30 years, but specialty insurance will take its place with robust growth.

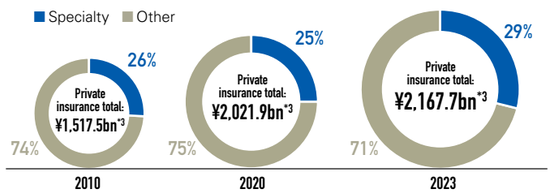
■ Top line*1 (billions of JPY)



C/R	97%	90%	91%	96%	91%	92%	90%	91%	89%	95%*2	91%

(FY2010–2020 average: 92.2%, FY2016–2020 average: 91.4%)

■ Transform business line portfolio



■ Creation of new markets

Priority Areas	Initiatives	Three-year Revenue Growth Plan	Reference
Health care	• Respond to higher health awareness and the need for balancing treatment (nursing care) and work • Increase revenue for wide area public sector/corporate workplace with new sales model and digital application procedures	+¥20–30bn*4	PP. 82–83
SME	• Current market size of about ¥400bn*5 • Premiums*6 increased more than fourfold in 10 years • Increase revenue by strengthening alliance with commerce and industry associations and improving product appeal	+¥15–25bn*4	—
Offshore wind	• Global market size in 2030: ¥200bn • Establish "GX*7 Office" in June 2021 • Increase revenue by enhance Group-based initiatives including utilization of the abundant expertise of GCube	Around+¥5bn*4	PP. 78–79
Cyber insurance	• Current market size of about ¥180bn (according to research firm) • Double digit increase in our premiums each fiscal year • Increase revenue by capturing stronger risk awareness and revised Personal Information Protection Law (2022)	Around+¥5bn*4	PP. 80–81
Other New risks, etc.	• Increase revenue with coverage for various new risks including M&A, local government related area, etc. • Create new market by leveraging on the strength of core data company Tokio Marine dR to be launched in July 2021	+¥20–30bn*4	PP. 28–29

*1: Direct net premiums written, including P.A. *2: Temporary rise in C/R due to specific contract *3: Net premiums written, including P.A. for specialty
*4: Net premiums written during 3 year new MTP period *5: Estimated from public data and actual sales of our packaged products for SMEs
*6: Our packaged product for SMEs *7: Green Transformation

Domestic Non-Life Insurance — Improving Fire Insurance Earnings

We will build a sustainable fire insurance system while contributing to a society that is resilient to disasters by implementing a number of countermeasures comprehensively. Over the next three years we will improve earnings by more than ¥26 billion and several years thereafter we will secure profitability commensurate with capital cost.

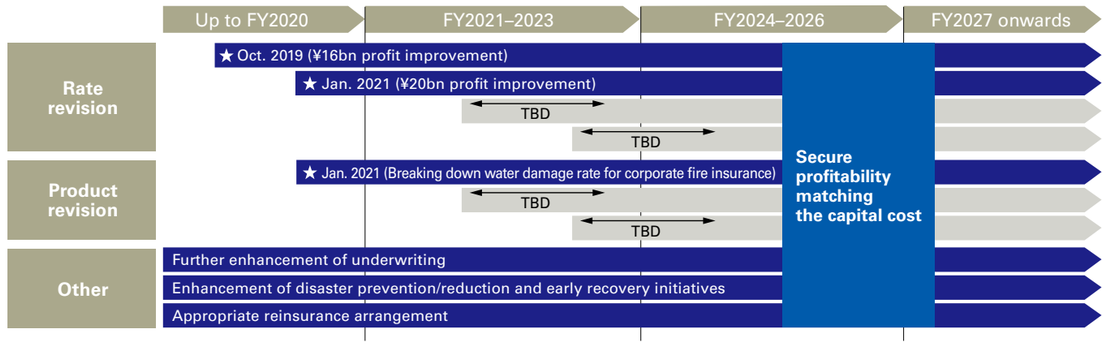
Building a Sustainable Fire Insurance System (Earnings Improvement)

As a one of the most disaster-prone countries in the world, Japan's fire insurance system is extremely important, but it is hardly sustainable if the business experiences chronic losses.

In addition to our own efforts to reduce costs, we will accelerate comprehensive initiatives including rate revisions, product reviews, stricter underwriting, disaster prevention and mitigation, and early restoration, which enable us to build a sustainable fire insurance system.

We will execute the road map below with conviction and over the next three years we will improve earnings by more than ¥26 billion (before tax) and several years thereafter we will secure profitability commensurate with capital cost.

■ Road map for improving fire insurance earnings



Supporting Disaster Prevention and Mitigation and Early Restoration (From Payer to Partner) (please see pages 28-29)

The payment of claims is an insurance company's most important function, but we believe that this alone will not enable us to protect our customers. Tokio Marine believes that it is even more important to provide value that goes beyond the payment of claims to deliver peace of mind before and after an event. This includes preventing accidents, mitigating customers' burden in the event of an accident, helping early restoration and preventing recurrences.

Toward that end, we will utilize digitalization and data in a sophisticated manner. Specifically, we will hire a team of experts in digitalization at Tokio Marine dR Co., Ltd., our core data company established in July 2021. This will allow us to speed up initiatives and tackle new challenges so that we can support customers in their time of need and evolve into a company that always supports its customers.

(Before event) Disaster prevention/reduction → Speedy insurance payout → (After event) Early recovery from disaster

(Before event) Flooding risk projection system

Visualize at-risk area with real time flooding area projection to support local government decision making at time of heavy rains. Minimize damage to local residents to reduce loss ratio.

(Before event) Total assist fire insurance x Red Feather Disaster prevention/reduction program

Donate part of the expenses saved with online contracts/policies. Donations will be used for disaster prevention/reduction activities and recovery support in the customers' community, leading to reduction of loss ratio.

(After event) Restoration by BELFOR

Utilize advanced cleaning technology of a disaster recovery specialist. Support early business reopening to reduce loss ratio.

(Before event) Flooding risk projection system

Before restoration — After restoration

(After event) Restoration by BELFOR

Domestic Non-Life Insurance

Achieving Sustainable Growth by Improving Business Efficiency

We will thoroughly reduce internal admin and increase productivity by utilizing digital technologies to a high degree. The time created will allow us to turn our attention to top-line expansion through resolving new social issues, which will lead to our sustainable growth.

Since launching its Business Process Reform Project 13 years ago, Tokio Marine has reduced internal admin by around 30%. This has allowed us to shift freed up personnel to sales, driving the sustained growth of our market share.

The initiatives indicated below represent a company-wide project launched in fiscal 2020 by TMNF. Over the next three years, we will commit ¥40 billion mainly to digitalization investments to thoroughly reduce internal admin (our goal is to reduce workload by 15% at the end of fiscal 2023 and by 20 to 30% at the end of fiscal 2026). The time created from these efforts does not mean we will reduce personnel; rather, we will turn our attention to top-line growth through resolving new social issues, improving the loss rate, and supporting human resources development, which will lead to our sustainable growth without diminishing the equilibrium.

Specifically, sales departments will thoroughly reduce internal admin such as response to inquiries, policy management, and accounting and use the capacity freed up to focus on top-line growth mainly in specialty insurance. Claims departments, too, will digitalize all processes to thoroughly reduce admin and use this time instead to enhance our provision of peace of mind before and after events.

Initiatives to improve business efficiency

Business expenses (sales departments)

- Sales activity, etc. (2)
- Inquiries
- Policy management / reporting
- Other internal administration

(1)

- Digital contact points with customers
- Automated/efficient response to inquiries / internal administration
- Expand coverage areas for Group companies
- New agency system

Loss adjustment expenses (claims departments)

- Accident reception / initial response
- Loss review, etc.
- Settlement negotiation / progress report
- Various inspections / insurance payment
- Detection & prevention / follow-up services etc. (2)

(1)

- Digital contact points with customers
- Accident reenactment system
- Expand coverage areas for Group companies
- Full application of various AI (Image recognition, fraud elimination, speech recognition)
- Communication improvement

Expected effects

(1)
- **Reduce internal administration**
  ➡ **Improve expense ratio / loss ratio**

Effects of reduced internal administration
FY2023 **-15%**
(Equivalent to ¥20-25bn p.a.)
FY2026 **-20–30%**
(Equivalent to ¥30-50bn p.a.)

(2) Time generated by leveraging on strength of human communication and full utilization of digital tools:
- **Promote sales**
  ➡ **Contribute to top line**
- **Provide safety in preparation and recovery**
  ➡ **Contribute to top line**
  ➡ **Improve loss ratio**

Key profitability improvement Initiatives
Profitability improvement of fire
(please see page 55)

FY2023
C/R improvement of 1.0pt*
(FY2020 results: 93.2% → FY2023 projection: 92.2%)

Key contributions to top line
Specialty insurance growth
(please see page 54)

*: Private insurance. For FY2020, impact of natural disasters normalized to average annual level, and the impact of temporary deterioration in losses from COVID-19 and overseas contracts are excluded

Domestic Life Insurance

Risk Diversification and Long-Term Growth Drivers

We will break through ¥100 billion in profits over the long term and contribute to the company's long-term growth and risk diversification.

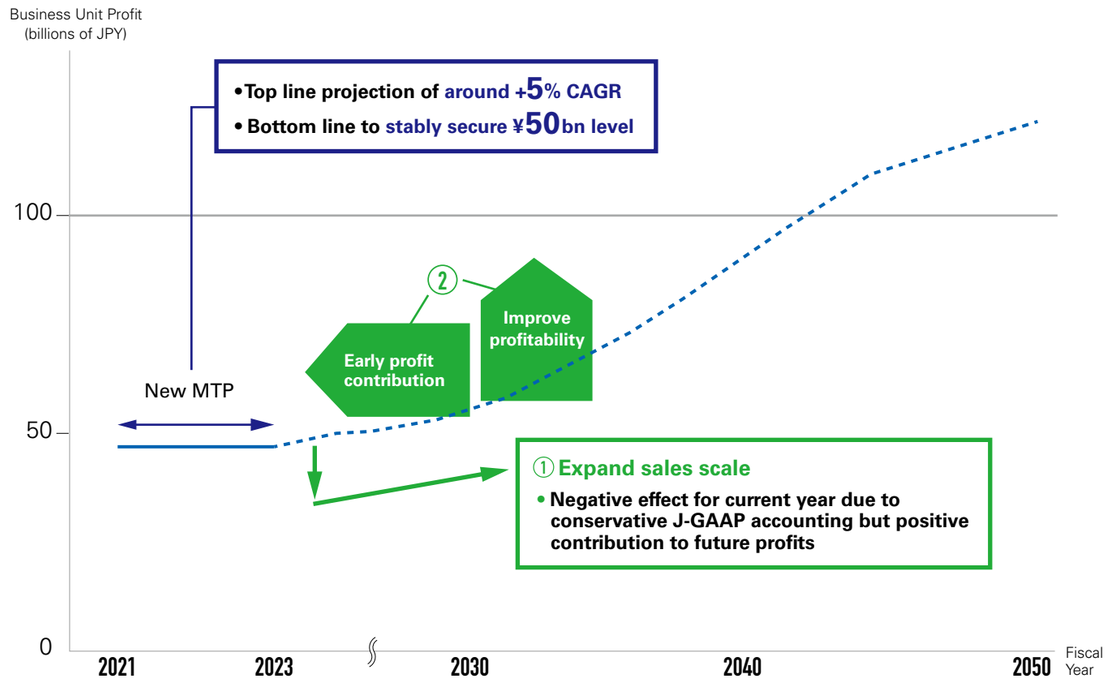
Profit Growth of Domestic Life Insurance

Under the new MTP for Domestic Life Insurance, we aim to grow the top line of new policies annualized premiums (new policies ANP) by around 5% CAGR driven mainly by sales growth of protection-type products and installment variable annuities.

We expect that the bottom line of business unit profit will trend stably around the ¥50 billion level. This is because the conservativeness of financial accounting[*1] results in a structure where the accounting expense burden is high in the first fiscal year of policies and profits are depressed because of new policy underwriting. Meanwhile, over the long term we will break through the ¥100 billion mark in profits. In this manner, the domestic life insurance business, which underwrites risk with a low correlation to non-life insurance, will contribute to Tokio Marine's risk diversification and act as a driver for long-term growth.

To achieve the new MTP along with long-term risk diversification and profit growth, Domestic Life Insurance will work to (1) expand sales scale and (2) improve profitability and accelerate profit contribution.

■ TMNL profit growth curve[*2] (image)



*1: Financial accounting for domestic life insurers is being conducted under conservative rules, such as recognizing the full amount of expenses required for new policy underwriting (agency commissions and fees for medical examinations, etc.) as expenses for the first fiscal year of policies.
*2: Assuming top line growth of about +5% CAGR to 2024–2029. Flatten from FY2030.

Strategies during the New MTP

Under the new MTP, we will work to (1) expand sales scale and (2) improve profitability and accelerate profit contribution, and achieve Tokio Marine's long-term profit growth, while contributing to the resolution of social issues, such as extending healthy life expectancy and asset life expectancy. We will continue to deploy this win-win strategy.

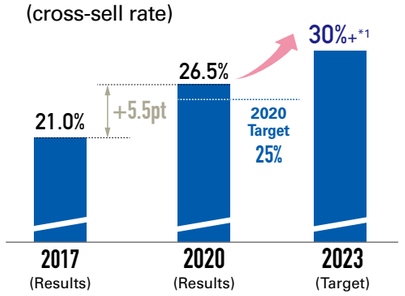
(1) Expand sales scale

The categories of life and non-life are profit centers for insurance companies and represent the only types of insurance that protect customers in times of need. Consequently, we will safeguard customers from all forms of risk by providing seamless protection using the integrated business model for life and non-life exemplified by our integrated life and non-life insurance product, Super Insurance. Through this world first initiative, not only we have boosted the cross-selling rate, but we are also further increasing this rate by developing unique customer-oriented products.

In fiscal 2020, we launched Medical Kit Yell, a new medical insurance for seniors with relaxed underwriting criteria. We increased the cross-selling rate and reached around 50,000 policies in the first eight months following its launch, which also marked the highest sales scale in the insurance industry.

Under the new MTP, we will focus on the growth areas of seniors, healthcare, and asset formulation and bring peace of mind to a larger number of customers by speeding up cross-selling using the customer base of TMNF.

■ Super Insurance: Ratio of the number of policies with either life or third sector (cross-sell rate)

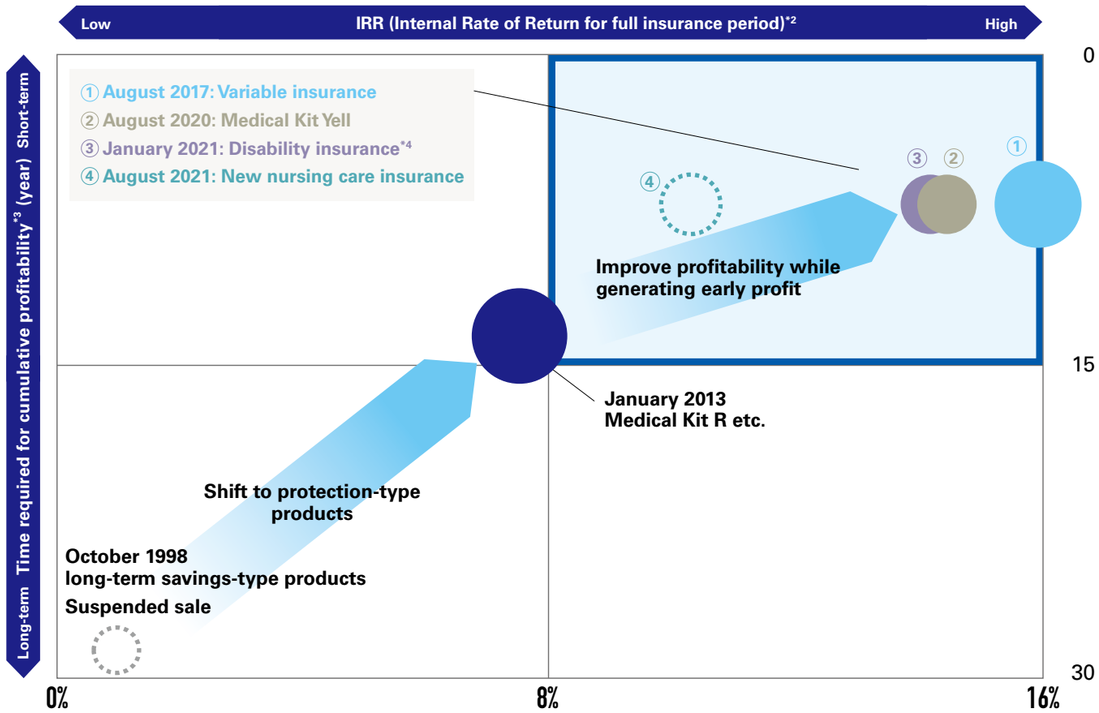


(2) Improve profitability and accelerate profit contribution

TMNL was established in 1996 as an antithesis to conventional life insurance where people change their lives to suit life insurance.

TMNL was the first to focus on risks during life, such as treatment after hospitalization, inability to work, and nursing care, which are not covered by conventional life insurance, releasing a number of innovative protection-type products. This gives us the track record and pride that has continued to drive our success in the living protection field.

Under the new MTP, we will further increase product appeal and mainly introduce products with high profitability that make early profit contribution to accelerate growth while directly contributing to the resolution of social issues.



*1: 35% or higher for TNP / TQ agents
*2: IRR indicates profitability as expected returns on expenses for the entire insurance period on financial accounting basis (FY2016 for long-term savings-type products, FY2020 for others)
*3: Time required for cumulative profits on financial accounting basis to turn positive
Size of the bubble indicates new policies ANP for the product (FY2020, FY2021 projection for (4))
*4: Includes household income protection with death benefit

International Insurance (Developed Markets Strategy)

Achieving stable and high profitability centered on specialty insurance

Through the three major initiatives of increasing underwriting profit, driving growth for PURE, and continued bolt-on M&A, we will achieve profit growth with a CAGR of approximately +6%.

While maintaining the top class position we have established, we are aiming for further growth under the new MTP.

We have formed a well-diversified portfolio and have recorded stable and high profits mainly by providing a wide range of products to corporations in developed countries. This has allowed us to establish a top 10 position in commercial lines in the U.S. market, as well as a top class position in the specialty insurance field and at U.K.-based Lloyd's. To further increase profit growth, we are engaging in the following three initiatives.

(1) Increasing underwriting profit

The market is continuing to harden, with a rise in premium rates due to the increasing frequency of natural catastrophes, the low interest rate environment, the impact of COVID-19, and an increase in loss cost caused by factors such as social inflation. Although it would not be too difficult to simply grow our top line in this environment, we are not pursuing short-term top-line growth. Focusing on the bottom line, we are harnessing our strength in underwriting and risk underwriting to reduce future reserve risk while accurately ascertaining the increase in loss cost and the profitability of each business line via a forward-looking approach. In addition, through working to further increase operational efficiency, we aim to drive sustainable profit growth while continuing to maintain high profitability in a stable manner.

Quantitatively, during the new mid-term business plan (MTP) period we aim to boost underwriting profit by generating robust growth in the top line with a CAGR of approximately +5% while maintaining a combined ratio (C/R) that compares well to our global peers of approximately 93% (fiscal 2020: 93.3%, barring unforeseen circumstances).

Main measures

Maintain strict underwriting discipline

- Improved the quality of portfolio during the previous MTP period through rigorous efforts to reduce unprofitable business lines
- Continue to build a strong underwriting portfolio while paying close attention to trends in profitability in light of issues such as rising social inflation

Premium rates increases

- Leverage strengths of each group company and achieve rate increase exceeding loss cost

FY2020 results

PHLY: +circa 11%, TMHCC*1: +circa 15%, TMK: +circa 10%

*1: Excluding A&H, Surety and Credit

New risk-taking

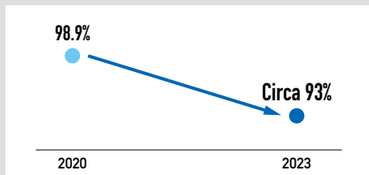
- While ascertaining profitability, engage in new risk-taking in lines where high returns are expected thanks to the hardening market

Improve operational efficiency

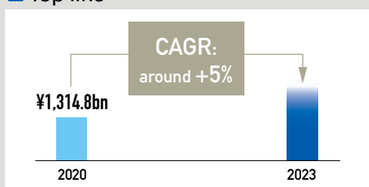
- Improve administrative processes and work to reduce the expense ratio at each Group company

Our Aspiration (Maintain a C/R of approx. 93% and achieve a CAGR of approx. +5%)

■ C/R*2



■ Top line*3



*2: North America + Europe segments. Include policies with high C/R such as DFG's excess workers' compensation and life insurance. 2020 is actual figure. Adjusted base normalizing natural catastrophes and excluding the impact of COVID-19 is 93.3%.
*3: Total NPW of North America and Europe segments. FX rate is as of Mar. 31, 2021.

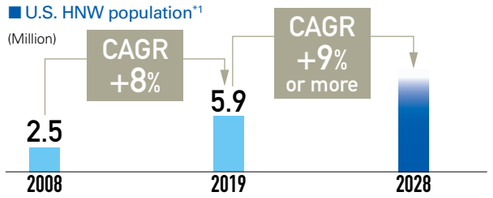
(2) Driving growth for PURE

PURE joined the Group in fiscal 2019 and is a specialty insurance group that targets the high-net-worth (HNW) market in the United States. Within this expanding market, the company has taken advantage of its customer loyalty rate that is well above the industry average and has achieved major growth. Through creating synergies that leverage the different benefits it has brought to the Group and their North American-based sales platform, we will further accelerate growth and achieve profit growth with a CAGR of over 20%.

PURE's strengths and main initiatives

Focus on HNW market with high growth potential

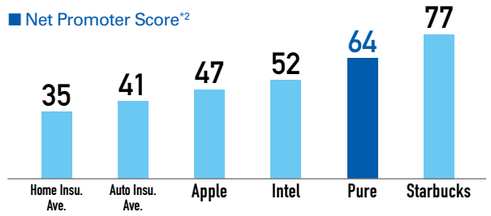
■ U.S. HNW population*1



*1: Estimated from past 10-year growth of U.S. HNW population (i.e., population with investable asset of more than USD 1M) etc. based on data from Capgemini, BMI, and Euro monitor

Strong customer loyalty

■ Net Promoter Score*2

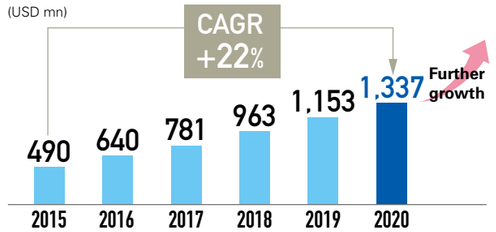


*2: Indicator to measure customer loyalty and their willingness to use products/services continuously. It shows how likely a customer recommends a brand to others
Source: Customer GURU, NICE Satmetrix 2020 Consumer Net Promoter Benchmark Study

Growth acceleration with AM Best rating upgrade
(Apr. 2021: A → A+)

In business that targets the HNW market, insurance company ratings are important points to customers. New policy premium per year grew from around $160 million to $200 million (over +20%) following the rating upgrade in August 2018 (A- to A), and similar effect is expected for the current upgrade.

■ Premiums under management company



Further expanding synergies that harness the Group's foundation

■ Major initiatives

- Connect the leading agents and brokers of PHLY and PURE
- Introduce the top-level business partners of DFG to PURE
- Collaborate with our local subsidiary in the state of Hawaii
- Joint development of cyber insurance products with TMHCC for individual clients

etc.

(3) Continued bolt-on M&A (please see page 61)

Under the proactive governance of Tokio Marine Holdings, we will further enhance the quality of our bolt-on M&A deals and accelerate growth by utilizing, within each Group company, TMHCC's know-how that they have developed through over sixty successful bolt-on M&A deals in the past.

Latest M&A deals

Standard Security Life Insurance Company
A Member of the IHC Group

- Provides paid leave protection insurance, a market that is expected to expand throughout the United States
- Expects to become a top 3 company in the industry in the state of New York and achieve after-tax profit of ¥1.5–¥2 billion after the M&A
  Will further expand insurance for employee benefits through cross-selling synergies with DFG

Acquired by DFG in Apr. 2021 (Acquisition price: circa ¥19.8bn)

WORLD WIDE Specialty Programs

- Will become a leading company in the temp staffing industry in the United States as a result of the M&A
- Has acquired an overwhelming competitive advantage in this highly profitable market

Acquired by PHLY in Dec. 2020 (Acquisition price: below ¥10.0bn)

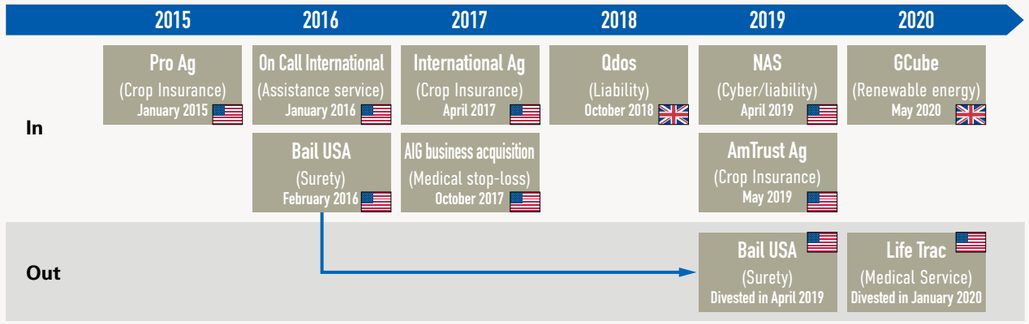
Bolt-on M&A of TMHCC

Susan Rivera
Chief Executive Officer of HCC Insurance Holdings, Inc.
(Serves concurrently as Executive Officer of Tokio Marine Holdings)

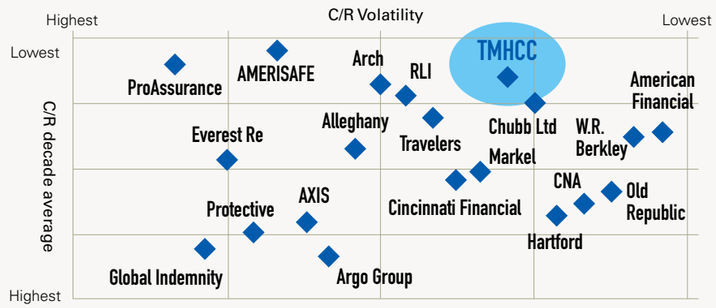
We have executed more than 60 forward-looking bolt-on M&A deals and tactical business divestments since 1994, aiming for profitable growth through strengthening existing businesses and diversifying risk.

Bolt-on M&A deals have predominantly targeted companies and businesses with which we have had a long-standing business relationship. That is why we have in-depth knowledge of their business and relationships of trust with the management of target companies. In addition, we have made steady progress with post-merger integration (PMI) based on our wealth of experience and robust framework. That leads to a high rate of success in our M&A deals. As a result, we now underwrite more than 100 classes of specialty insurance with low risk correlation, and our diversified portfolio has helped to keep our combined ratio consistent at around 90% while expanding our businesses.

■ Track record of continued bolt-on M&A and our flexible portfolio reshuffling (since 2015)



■ Achievement of a stable and low C/R compared to peers



Source: Created by Tokio Marine from Company Reports, Dowling & Partners Analysis (based on data through Dec. 31, 2020)

Moreover, these bolt-on M&A deals have not only led to TMHCC's own profit growth, but also increased synergies within Tokio Marine Group mainly in the following two areas.

First is the acquisition of talent. TMHCC has utilized key persons of acquired companies, resulting in many people playing broader more motivating role in important posts in specialty areas and reinsurance, among others not only within TMHCC but also now across the entire Tokio Marine Group (please see pages 24-25).

Second is the rollout of knowledge across the Group. Our knowledge of bolt-on M&A is widely shared with other Group companies through global meetings and other means. This process is now standardized by Tokio Marine Holdings and applied at other Group companies as a guideline. I believe this contributes to the improved quality of bolt-on M&A deals across the entire Group, along with risk diversification and profit growth.

Going forward, we hope to use bolt-on M&A to contribute to the further growth of the entire Group as one of our strengths.

International Insurance (Emerging Countries Strategy)

Capturing the market's high growth to contribute to greater profit

By implementing a growth strategy with the goal of diversifying geographical risk and capturing high growth in the market, we aim to achieve profit growth with a CAGR of at least +10% and build pillars of future growth.

Aiming to further diversify risk and contribute to greater profit

We have been implementing an emerging countries strategy that focuses on geographical risk diversification and capturing high growth. Although there are various countries comprising these emerging countries and it is essential to strategically develop our business in light of each of their situations, as a result of our efforts, we have achieved top-line growth that outperforms the market. Also, we have expanded the scale of our bottom line in countries such as Brazil and Thailand from a few billion yen to ¥10 billion. Under the new mid-term business plan (MTP), we aim to contribute to greater profit and implement various growth strategies in order to build more pillars of future growth.

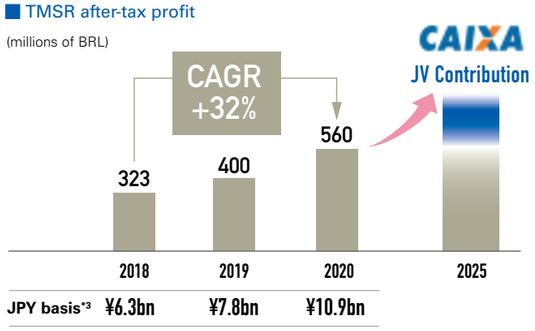
The information below highlights Brazil and India, which are profit drivers for the new MTP.

Brazil: Establish JV with Caixa Bank and accelerate growth

Under their CEO who has a background in IT, Brazil-based TMSR has improved profitability for their key product line of automobile insurance through efficient operations that utilize digital technology, developing a system with high usability for brokers, and improving their ability to respond to customers. As a result, they have achieved profit growth with a CAGR of over +30% since fiscal 2018, and have already generated profit of ¥10 billion level. In addition to this strong existing business, with the aim of diversifying our portfolio and achieving further growth, we established a joint venture (JV) with Caixa Bank, which is Brazil's largest banking group and has a roughly 70% share in mortgage market. The JV commenced operations in February 2021 and primarily provides mortgage insurance*1 and homeowners' insurance. Thanks to the strong mortgage market in Brazil, the JV made a strong start; its operations began without delay and plans were upwardly revised. Going forward, we aim to increase our after-tax profit by approximately ¥6.5 billion*2 by fiscal 2025 through expanding sales for home insurance, which is expected to generate high profitability.

*1: An insurance product that combines credit life insurance and home insurance for the purpose of compensating a lender in the event that the borrower cannot repay their home loan.
*2: Exchange rate at time of publication

■ TMSR after-tax profit



*3: Exchange rate as of end of Mar. 2021

Brazil Home Insurance Market*4	
2020 Home insurance market premium	$1.5bn
2015-2020 Home insurance market CAGR	+7.5%

*4: Source: Brazilian insurance regulator SUSEP

Reference: Further expansion of mortgage market in Brazil

Circa 25 million of housing demand is expected based on new housing demand of 16.9 million by 2040 as well as current housing gap

India: Further utilize IFFCO's network and Group know-how

In India, we are providing automobile insurance, medical insurance, and agriculture insurance, by utilizing a network of 36,000 branches operated across India by our partner IFFCO. Going forward, we will further expand sales for rural areas where growth among the middle class is expected, and while maintaining an industry-leading expense ratio and level of productivity, we will harness our know-how in underwriting and digital technology with the aim of making approximately ¥4.5 billion in after-tax profit in fiscal 2023, doubling the amount reached in fiscal 2020.

IFFCO-TOKIO GENERAL INSURANCE Muskurate Raho

Indian market*5	
2020 Non-life insurance market premium	$27.2bn
2015-2020 Non-life insurance market CAGR	+15.6%

*5: Source: General Insurance Council, IRDAI

Asset Management

Increasing income by leveraging our strength in credit management even within the low interest rate environment

Given the anticipated lengthening of the low interest rate environment, we will increase investment income utilizing the ability to spot good investment targets in the credit market

Expanding Disciplined Credit Management in the United States

Tokio Marine's asset management policy focuses on increasing long-term and stable investment income based on the characteristics of insurance liabilities. In particular, we will utilize Delphi's asset management prowess to invest funds from Group companies inside and outside of Japan mainly into credit assets in the United States, and we achieve high returns while conducting appropriate monitoring and risk control. This integrated asset management style combining Japan and the United States marks Tokio Marine's strength. Under the new MTP, credit management in the United States forms a key point of our investment income.

Low interest rates continue to prevail around the world. For this reason, we believe that the decline in income yield is inevitable to some degree. Nevertheless, we aim to increase assets under management (AUM) following the growth in insurance underwriting and enhance investment income while controlling credit risk appropriately within our Group-wide ERM framework and utilizing the ability to spot good investment opportunities of DFG, which excels at credit management.

	Overseas AUM*1		Income yield		Income gain
FY2020 Results	¥6.0 trillion	×	4.6%	=	¥274.9 bn
FY2023 Plan	Overseas AUM ↑ ¥6.8 trillion	×	Income yield ↓ 4.1%	=	Income gain ↑ ¥279.2 bn

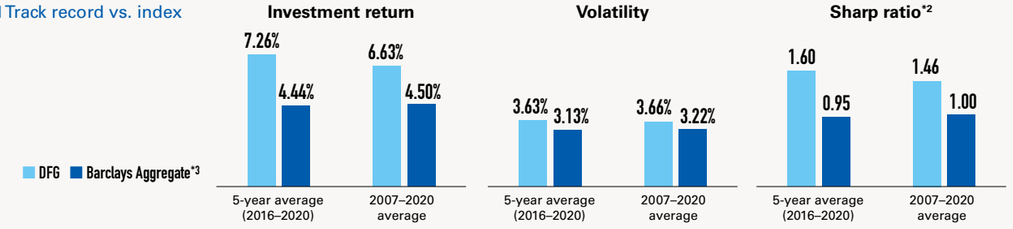
*1: Assets of U.S. 5 major GCs (DFG, PHLY, FICOH, TMAIC, TMHCC) + Assets entrusted by domestic 3 GCs.

Reference: Strengths of DFG's Investment Team

DFG is firmly taking earnings opportunities by shifting the portfolio nimbly based on economic phases, utilizing its advanced expertise, in-depth experience, and information collection and analysis capabilities using our broad network. In addition, the insurance liabilities that underpin investment are backed by a stable, long-term cash flow derived from products such as insurance for employee benefits and excess workers' compensation. Therefore, DFG can hold investment assets to redemption without worrying about short-term market turbulence. As a result of this investment style, it continues to generate high returns versus indexes.

Moreover, despite the COVID-19 pandemic, DFG will identify information on promising opportunities and execute investments at attractive prices with a sense of speed.

■ Track record vs. index



*2: Measures excess return per unit of risk. Calculated as "(Investment return – risk-free rate) / Volatility". Risk free rate: LIBOR3M
*3: Bloomberg Barclays US Aggregate Bond Index

Human Resources Strategy / Message from CHRO

To protect our customers in their times of need as a "Good Company" for the next century, we will develop the Group's management talent and support our employees' diverse working styles and enhance engagement.

Kenichi Kitazawa
Managing Executive Officer
Group Chief Human Resources Officer

Taking the baton and passing it on to the next generations

Insurance is a people's business and people are truly the source of the Tokio Marine Group's competitiveness. To flexibly address and resolve the increasingly complex social issues of today, it is crucial to develop a workplace environment that fully harnesses the strengths of the Group's workforce of more than 40,000 employees. As CHRO of a "Good Company" that protects customers in their times of need, I am particularly focused on hiring diverse personnel, training them in a systematic manner, and creating mechanisms to support this process, both inside and outside of Japan.

As one example, we hold discussions about our diverse worldwide workforce and we are expanding cross-border training programs to develop our global management talent. For instance, on the Global Executive Program, senior leaders from around the world eat and sleep together under extreme conditions, which built a strong relationship of trust among the participants, and led to further synergies across the Group.

Sustainable growth requires supporting the diverse values and flexible working styles of employees and encouraging them to tackle new challenges, so it is essential to rethink our HR systems and operations and further develop our remote work infrastructure. During the COVID-19 pandemic, up to 70 percent of companies in Japan and nearly 100 percent of companies in North America and South America had their employees work from home at some point. Experiencing remote work, employees around the world have had the chance to think about their style and increase their productivity. Tokio Marine is now developing systems to enable their productive and diverse working styles.

For example, at TMNF we introduced the "Super My Select" System, where employees have flexible working hours to accommodate diverse working styles and increase motivation, and the Project Request System, where employees nationwide can apply to take part in projects for corporate departments at the headquarters in parallel with their regular positions. In order to realize sustainable growth of both employees and the company, Tokio Marine is eliciting employees' ideas and enabling them to play a greater role even if they have childcare or nursing care obligations, while eliminating the constraints of place and time wherever possible.

At Tokio Marine our core identity —"To Be a Good Company"— unites our highly diverse people. During the COVID-19 pandemic, we have continued to strengthen this core identity. Meetings called "Majikirakai" (where employees can talk about serious matters in a casual setting) are held remotely to foster open and free discussions among our employees around the world on how to be a Good Company.

Of course, our workplaces must be environments where employees can work and remain physically and mentally healthy. In my other position as CWO of the Group, I am working on health and productivity management, while CDIO Mika Nabeshima, who was appointed in April, is taking the lead in promoting diversity and inclusion.

These are but a fraction of our people-related initiatives. We will continue to elevate our talent and increase the Group's collective strengths to protect our customers in their times of need over the next century as a Good Company.

Experiential Learning at sea on the Global Executive Program

Visiting a disaster area at MGL

CEO Komiya's remote "world tour" (CEO meetings)
CEO personally working to reinforce our core identity

Pursuing the Optimal Human Resources Portfolio

New HR System at Tokio Marine Holdings

From fiscal 2019, Tokio Marine Holdings implemented an HR system aimed at acquiring top talent and fostering global management personnel. Specifically, we develop human resources faster by entrusting talented managers with important roles at an early stage irrespective of age or tenure with the company. Also, we established an evaluation system that better reflects the skills and performance of each individual based on expertise and created mechanisms that allow employees to develop their careers over the medium to long term with market-competitive compensation levels.

Talent Development and Skills Building

Training Programs for Developing Global Management Talent (please see page 102)

- Global Executive Program
- Middle Global Leadership Development Program (MGL)
- Management Academy
- Management School

Data Science Hill Climb

This is an original program to foster data scientists with real capabilities to drive the Tokio Marine Group's digital transformation. Under the supervision of Professor Yutaka Matsuo of The University of Tokyo's Graduate School of Engineering, participants receive extended training totaling more than 200 hours, systematically learning skills for utilizing data in business.

TMNF's Employee Training (Fiscal 2020)

- Total training time: around 226,000 hours
- Total cost of training: around ¥700 million

Increasing Employee Engagement

Instilling Our Core Identity

We continued to instill our core identity even during the COVID-19 pandemic by holding remote "Majikirakai" meetings where employees can talk about serious matters in a casual setting. "Majikirakai" cover such themes as the "Good Company", work issues, and careers and may be attended by the CEO and corporate officers or held in individual work units.

Culture and Values Survey

Despite the COVID-19 pandemic, scores on the Culture and Values Survey conducted at Group companies inside and outside of Japan for fiscal 2020 reveal positive strides and improvements are being made. We are now working on further improvements at the Group level with the involvement of Tokio Marine Holdings.

4.3 out of 5 (Group Attachment)

Promoting Highly Productive and Diverse Working Styles

'Super My Select' System

This system enables employees of TMNF to set their own seven-hour work time between the hours of 5:00 am and 10:00 pm. Implementing such diverse and flexible work styles will improve employee motivation.

Project Request System

This system allows employees of TMNF throughout Japan to participate in projects with the headquarters corporate departments based on their own will in parallel with their main assignments.

Promoting Diversity and Inclusion

Please see pages 66–67.

Promoting Health and Productivity Management

Please see pages 82–83.

Diversity and Inclusion/Response to Human Rights Issues: Message from the Group CDIO

We will create workplaces where all forms of diversity are embraced, cultivated and respected, so that all employees can provide maximum value to customers, business partners, shareholders and society. We are committed to implementing our diversity and inclusion strategy to ensure Tokio Marine Group's continued growth.

Mika Nabeshima
Executive Officer
Group Chief Diversity & Inclusion Officer

Diversity and Inclusion as a core management strategy and a key to our competitiveness

Over the past two decades Tokio Marine has made great strides in diversifying its human resources, regional and business portfolios through proactive global expansion. We have grown by building inclusive workplaces where employees respect one another and incorporate the ideas and perspectives of newly acquired employees and businesses. On the other hand, social issues are becoming more complex, uncertainty is rising, and the world is facing an increasing number of risks. Tokio Marine recognizes that further promoting diversity and inclusion is essential to addressing the growing breadth of social issues and the needs of customers, both of which will diversify in the future. We view diversity and inclusion as a core management strategy, and we established the Diversity Council and the position of Group Diversity & Inclusion Officer (CDIO) in April 2021. As CDIO I am dedicated to promoting and instilling diversity and inclusion from various angles, including closing the gender gap and leveraging our global talent pool.

First, in terms of closing the gender gap, women are already playing an active role in various positions at Tokio Marine. Over 30 percent of leadership positions globally across the Group are held by women and we are working on further initiatives tailored to the unique challenges of each Group company. TMNF, our core company in Japan, has focused on closing the gender gap as part of its growth strategy. We are focusing our efforts on fostering female leaders and expanding their opportunities in order to have women participate in all decision making processes. We created an action plan under the Act on Promotion of Women's Participation and Advancement in the Workplace with a target of having women in 50 percent of leadership pipeline positions by fiscal 2023 and reached it ahead of schedule. We are now redoubling our efforts toward a new target of having women in 30 percent of leadership positions by fiscal 2030. Additionally, in April 2019, we established the Tokio Marine Group Women's Career College to help women develop their own career vision and leadership skills so they are confident to take on even more active roles and greater responsibility at the company. The college added an advanced program in 2021.

Furthermore, each workplace is seriously working on a daily basis to develop and engage female leaders, in order to further drive the Group's growth.

Next, on leveraging our global talent, we believe that matching our Group's diverse talent with the right assignments will help to resolve emerging issues and produce growth. For instance, Caryn Angelson, CHRO and CLO at TMNAS, a Group company in the United States, also has a role in HR at Tokio Marine Holdings. She works closely with me on our global strategy for talent management, diversity & inclusion, and learning & development, while playing a key role in the global HR community. She also serves as an instructor for our diversity and inclusion leadership training program for the Group. In addition to Caryn, global talent with functional expertise participate in our global committees, such as the ERM Committee, International Executive Committee, and Global Retention Strategy Committee. Their wisdom is helping resolve global management issues for the Group.

The examples here are only a few of our initiatives. We are dedicated to promoting the Group's diversity and inclusion strategy to fully engage the skills of our diverse talent around the world. This will enable us to provide greater safety and security to our customers globally, contribute to sustainable growth for the Group, and continue to provide value to all of our stakeholders.

Middle Global Leadership Development Program

Tokio Marine Group Women's Career College

Diversity Policy

Tokio Marine Group believes the power of its people is the driving force for realizing its vision of be a "Good Company."
For the insurance business, which is said to be a "people's business," the people involved and the trust they create are the source of our competitive advantage. We will promote diversity on a global basis to maximize the potential and facilitate the active participation of some 40,000 employees worldwide regardless of gender, age, nationality or disability, and to strengthen our competitive advantage.

Nationality

- The ratio of international employees to the Group's 43,260 employees is more than 40 percent (as of March 2021)
- Human resources acquired through overseas M&A are matched globally to the right assignment or their talents

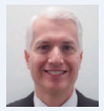
TMK CEO
Brad Irick
(Transferred from TMHCC)

Specialty Lines
Philippe Vezio
TM Asia Deputy CEO & Chief U/W Officer
(Transferred from TMHCC to TM Asia)

Reinsurance
Barry Cook
CEO of International Group at TMHCC
(TMHD Global Reinsurance Advisor)

HR and Legal
Caryn Angelson
TMNAS CHRO & CLO
(Concurrent post with TMHD)

Cyber Insurance
Daljitt Barn
Global Head of Cyber Risk



Insurance reserving
Daniel Thomas
International P&C Reserving Actuary Committee Chairperson

Gender

- In 2019, we established the Tokio Marine Group Women's Career College in order to help female employees to develop their own career vision and leadership skills so they are confident to take on more active roles. (Lectures led by outside instructors are held about six times per year on the theme of women and leadership; attended by about 100 female employees from various Group companies in Japan)
- Women hold 30 percent of leadership positions within the Group globally; Over 10 percent of corporate officers are women (as of March 2021)
- Women hold 54.9 percent of leadership pipeline positions at TMNF (April 2021)

Generational

- TMNF's internal venture program, Tokio Marine Innovation Program, encourages young and older employees to propose transformative ideas, and new rules allow sideline work.
- The turnover rate at TMNF is 2.0 percent (fiscal 2020, based on voluntary resignations, excluding mandatory retirement)

Employment of Persons with Disabilities

- The Tokio Marine Group encourages the hiring of persons with disabilities and works to promote normalization; in particular, Tokio Marine Business Support Co., Ltd., a special-purpose subsidiary under the Act for Promotion of Employment of Persons with Disabilities, provide the Group administrative support such as: printing, logistics, mail room operations and novelty sales operations.
- TNMF works with Mirairo Inc. on consulting services using gazing point measurement data (first in Japan) to provide assistive services for seniors and persons with disabilities.
https://www.tokiomarine-nichido.co.jp/company/release/pdf/210409_02.pdf (Japanese text)

Response to Human Rights Issues

- Tokio Marine supports and respects the Universal Declaration of Human Rights, OECD Guidelines for Multinational Enterprises, the international labor standards of the ILO, the UN Guiding Principles on Business and Human Rights and ISO 26000, and is a signatory to the United Nations Global Compact
- We conduct human rights due diligence in accordance with the UN Guiding Principles on Business and Human Rights and take corrective action where necessary.

Special Feature 2 Response to COVID-19

We are providing greater value to all stakeholders even during the COVID-19 pandemic. Having taken action to address changes and issues presented by this communicable disease, we are fully prepared for our next stage of growth.

Tokio Marine's response to COVID-19 —Providing even greater value than before—

The profound worldwide impacts of the COVID-19 have affected Tokio Marine, too.

We established the COVID-19 management task force on February 4, 2020, following the WHO's declaration of a pandemic and the virus spreading to other countries and regions outside of China at the end of January 2020. Despite the pandemic, we maintained our insurance business functions as a part of social infrastructure by responding to customers while adopting remote work and striving to ensure the safety of employees and stop the spread of infections.

Also, from well before the start of typhoon season, we ran simulations to ensure we could sustain our operations even if multiple large-scale natural disasters struck during the pandemic, based on the recognition that an earthquake could strike Japan anywhere and at anytime. Later, Japan was actually hit by major natural disasters in the form of torrential rains in July 2020 and the earthquake off the coast of Fukushima Prefecture. Our careful preparations paid off as we were able to payout insurance claims smoothly and provide the same value to customers as before the pandemic.

As a result of these initiatives, we expect to increase our dividend to shareholders for the 10th consecutive year. In addition, we also made a number of donations as part of our social contribution efforts, providing even greater value to our stakeholders than before.

Customers

Contactless customer service

- Remote customer service by expanding smartphone apps and web conferencing system, etc.
- Free online health consultations

COVID-19 insurance claims over ¥100 billion*

- Payouts mainly entailed event cancellations and business interruption insurance overseas

*: Estimate of insurance claims related to COVID-19

Society

Social Contribution Activities

- Provided or donated masks and protective clothing to medical institutions and other facilities
- Group companies worldwide made donations reflecting the conditions and needs for support in each region
- Donations by the entire Group to various organizations reached over ¥1.1bn

Shareholders

10 consecutive years of higher dividends (projected) amid increasing capabilities

- Adjusted net income in fiscal 2020 accounting for the impacts of the COVID-19 totaled ¥431.1 billion and adjusted ROE was 12.0%, achieving the targets set out in the previous MTP on a real basis
- The payout ratio for fiscal 2020 was 42% (35% or higher in previous MTP)

Employees

Ensuring the safety of employees and their families

- Up to 70% of employees in Japan and 100% overseas worked from home
- Handed out masks in Japan and adopted flexible working hours

Ran business continuity simulations in case of a large-scale natural disaster

Post-COVID-19 Strategy —Further Accelerating/Upgrading Initiatives—

The COVID-19 pandemic brought about a number of profound changes in customer needs and the working styles of employees. Tokio Marine launched the Post-COVID-19 Task Force including outside experts in July 2020 in order to once again review and examine the Group's medium- to long-term strategies in a post-COVID-19 world. The review process involved top management from our overseas subsidiaries, leading to discussions involving representatives across the Group.

The figure below presents the results of these discussions. The challenges before and after the pandemic have not necessarily changed all that much. However, we believe that we will need to further accelerate or upgrade our previous initiatives.

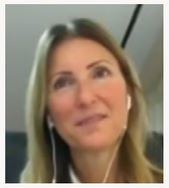
The key is taking core actions and execution. For example, in calculating probable maximum loss (PML) for pandemic risks, although we previously estimated the risk amount mainly related to life insurance, in fiscal 2020 we updated risk measurement methods regarding non-life-insurance lines in fiscal 2020 taking into account the COVID-19 pandemic.

In this way, we are working to further accelerate or upgrade our previous initiatives from various angles and we have already embedded this into the strategies of each company.

In addition, through Group-wide cross-functional discussions, we found there to be room for generating further synergies, which served as an opportunity to foster greater collaboration between related parties. We are fully prepared for the next stage of our growth in the post-COVID-19 world.

Changes and challenges post COVID-19	Our understanding	Measures
1. Continuation of operations during an emergency 2. Priority placed on the safety of the lives and health of individuals 3. Agents mainly offering insurance products face to face will find it harder to capture clients 4. Accelerated use of data / digitalization to offer high-quality, non-face-to-face customer experience 5. Increasing needs to improve cost efficiency in response to growing cost awareness from clients	Existing initiatives will be further accelerated	1. Teleworking of all employees during an emergency 2. Offer high value-added products / services for prevention and other healthcare needs 3. Support for digitalization of agents 4. Measures to address skills gap (e.g., recruiting digitalization personnel) 5. Further improve operation efficiency through high-level use of AI
6. Accumulation control of pandemic risk	Further advancement post COVID-19	6. Further upgrade risk management of pandemic (e.g., risk measurement method)

Voice of Member of the Post-COVID-19 Task Force



Tokio Marine HCC

Susan Rivera
Chief Executive Officer of HCC Insurance Holdings, Inc.

Discussions during the project workshops were very meaningful. All the participants focused on further improving and strengthening our businesses, and I felt an even greater sense of solidarity to utilize the Group's strengths.

Hollard Group

Saks Ntombela, CEO
Hollard Group

South Africa's insurance industry, too, has been affected by COVID-19. Hollard Group will focus on delivering safety and security to customers, digitalizing and simplifying processes, streamlining operations, and building a resilient business foundation.