

(Unofficial Translation)
Financial Analyst Meeting for the Fiscal Year Ended March 31, 2019
Q&A Summary

Date: May 23, 2019 10:00 - 11:00
Participants: Seiji Inagaki, President and Representative Director, Dai-ichi Life Holdings, Inc.
(the “Company”)
Tatsusaburo Yamamoto, Managing Executive Officer
Taisuke Nishimura, Chief of Corporate Planning Unit

[Questions and Answers]

(Note) The name of the respondent is mentioned at the end of each answer.

Reinsurance Transaction

Q1: What is the impact of reinsurance transaction of in-force policies, described on page 18 of the presentation material, on accounting basis profits and risk reduction?

A1: For fiscal year 2018, we expensed 128.9 billion yen in reinsurance premiums and 98.6 billion yen of accrued policy reserves were reversed as an income. Though it resulted in net one-time after tax loss of approximately 20 billion yen, the assumed interest liability from fiscal year 2019 onward is expected to decrease. We have reinsured whole life insurance block of policies with premiums paid in full. The high assumed rates of return, exceeding 5% for these policies, were lowered to 2.75% with additional policy reserves. Though the scale is small this transaction contributes to the ESR improvement. (Nishimura)

Considering that Dai-ichi Life's liabilities are about 30 trillion yen, the book-value relating to this transaction is relatively small at around 100 billion yen. The impact on risk reduction, specifically the impact on ESR or narrowing of the duration gap is limited. Given the challenging investment environment, reinsurance is a means to reduce risk while avoiding increase of investment risk through liquidating liabilities rather than buying 30-year bonds with low returns. (Inagaki)

Q2: Considering the capacity of reinsurers, could you give us an idea on how much of in-force policy blocks could be ceded in future?

A2: Going forward, we will make decisions based on reinsurance market as well as the economic environment. The key point is that this was a major step forward for us in that policies with high assumed rates of return were valued at par with EEV. (Inagaki)

Q3: Theoretically, do you think the reinsurance transaction could be valued under the same assumptions even at ten or twenty times larger scale?

A3: We did not discuss valuation based on size in this case. The reinsurance market is a global market and we intend to continue to consider various options. (Nishimura)

Q4: In this reinsurance transaction, you managed to sell at almost par value with EEV. Looking at EEV as corporate value, why do you think the stock market undervalues the Company?

A4: Shareholders are exposed to the risks of market value fluctuations and realization of economic value. Despite our efforts to reduce risk, the high volatility of the stock market gives us a discount based on future uncertainties. In this sense, this transaction was meaningful to verify the viewpoint of reinsurance market on the valuation of liabilities. (Inagaki)

Dementia Insurance

Q5: The assumed rates of return have declined to 2.22%. Do you think the pace of decline will continue?

A5: The assumed rates of return decline by about six basis points each year. Ultimately, we believe it will further decline as we expand our policy base by offering products that fulfill the needs of a broad range of customers. (Yamamoto)

Q6: In addition to medical care, nursing care and income protection, the dementia insurance has recently become a major hit product. It seems that core needs in the third sector have largely been covered. Do you think growth in the third sector will stop when dementia insurance penetrates the market up to certain level?

A6: We will continue to offer products that cater to customer needs. In addition to insurance benefits when diagnosed with dementia, we also aim to prevent dementia by offering additional services such as dementia prevention software application. In the future, the way insurance companies provide value will change as customers' expectations are changing. I believe there is still plenty of room to develop such new products and services. (Inagaki)

Q7: After covering your existing policyholders' needs, what would be next target for dementia insurance?

A7: Dementia insurance targets a wide range of seniors and it is also well appraised by our existing policyholders. They appreciate dementia insurance's complementing services such as an easy notification that simplifies entering even with chronic diseases, visiting service of policyholder on behalf of relatives and "Kenko Dai-ichi" dementia prevention software application. In addition, as policyholders assign their children or grandchildren to claim insurance benefits, we also expect the effect of expanding new contacts with such people. (Yamamoto)

Domestic Life Insurance Business

Q8: While you are expanding agency channel sales what are your plans for future usage of this channel?

A8: We were able to build new markets by providing Neo First Life products to the nationwide agency network that Dai-ichi Life has built. We will continue to provide products that meet customers' various protection needs through established connection with these agencies. (Inagaki)

Q9: Recently, branches consolidation and closure became a trend at bank and securities companies; is there any possibility that you would follow similar strategy?

A9: Currently our branch strategy focuses on concentrating middle office operations at one location to promote efficiency. At the same time, mainly in urban areas where market exists we aim to increase new branches that are not burdened with clerical tasks. Through such initiatives, we aim to reduce costs and increase revenue. We plan to continue our sales branches allocation according to each market characteristics. (Inagaki)

Q10: It is expected that the demand for business owners insurance will decline; how much of business owners insurance sales you have included in your guidance for FY2019?

A10: Currently, we have stopped sales of the business owner insurance products and FY2019's guidance does not include impact from restarting such sales. With the release of official notice after the public comments, we will review our related strategy. (Inagaki)

Our estimates for overall value of new business will fall slightly year-on-year as it is also do not include business owners insurance sales. But the impact will be partially offset by the increase in value of new business due to expansion of sales channels associated with overseas acquisitions. In addition, excluding the impact of business owners insurance the value of new business at domestic life business is expected to be slightly higher year-on-year. (Yamamoto)

Q11: Investment related with IT system at Dai-ichi Life has a downward pressure on business results for FY2019, how we should we look at it?

A11: As it is stated in the current medium-term management plan, in the next 5 years we will streamline the work of approximately 2,100 people, equivalent to approximately 20% of Dai-ichi Life office employees. We plan to shift employees from the middle and back office to the front sales. IT investment is a part of this effort, but the investment amount is not as large as it could be observed at the banking industry. (Yamamoto)

Others

Q12: Even if the Group Adjusted Profit may decline, will you maintain the total payout ratio at 40%?

A12: During the current medium term management plan we would like firmly maintain payout ratio at 40%. (Inagaki)

Q13: As your Asian businesses' contribution to profits is growing, please let us know the prospects for the growth potential of Dai-ichi Life Vietnam and future competitive landscape?

A13: We have been investing capital in Dai-ichi Life Vietnam since its value of new business has grown by more than 40% over the previous year, but we expect it will gradually enter capital recovery stage. However, as insurance penetration rate in Vietnam is still low, we recognize that it is still in the insurance penetration growing stage. In recent years, Dai-ichi Life Vietnam, in addition to expanding its dedicated sales force channel, also increased sales through new channels such as bancassurance and post offices. Therefore, in terms of market share we think there is still room for growth. (Inagaki)

Q14: Your ESR is close to your medium to long term target level. At the analyst meeting held in November, last year, you emphasized on the reduction market risk related with equity holding; any progress since then?

A14: The sale of equity is carried out based on the medium term management plan and we have not revised that plan. (Inagaki)

Q15: Do you have a sense of crisis as current yield curve is flattening and such situation may continue for a while?

A15: At management side we have a sense of crisis regarding current interest rates situation and in our stress scenarios we use flat interest rates to assess our profitability and financial soundness under such circumstances. (Inagaki)

Q16: How the ratio of retained Adjusted Profit is decided in case of Group companies and what are your views on KPIs imposed on Group companies?

A16: The ratio of Adjusted Profit retained at each Group company is determined through dialogue with each group company. For example, in the case of Protective, we decide the budget considering that investment in acquisition of in-force blocks can be recovered in a short period and prospective capital investment opportunities. To decide the ratio of retained Adjusted Profit at Holding company we always consider where we can invest. As for KPIs, we flexibly change them based on the growth stage of each Group company. For emerging countries we emphasize on the value of new business and for developed countries we allocate more weight on accounting profit, etc. (Inagaki)

Note: We made partial additions and alterations in preparing the above summary for clarity.

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