(Unofficial Translation)

FY2019-2Q Financial Results Conference Call for Institutional Investors and Analysts Q&A Summary

Date: November 14, 2019 18:30 - 19:30

Respondent: Taisuke Nishimura, Chief of Corporate Planning Unit
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Overall Performance

Q1: In terms of group adjusted profit, you mentioned that the progress rate versus annual forecast is on track at 76%. Does this mean the increase in adjusted profit at Dai-ichi Frontier Life (DFL) is also on track? In addition, if increase factors related to market fluctuations remain in the second half, can we assume higher than expected results?

A1: With regard to our annual forecast for group adjusted profit, favorable results accompanied by DFL annuities products reaching maturity, were in line with our expectations from the beginning of the period. We maintain our annual forecast under the assumption that derivatives gains and losses at Dai-ichi Life will fluctuate depending on market conditions. We will also continue to consider reinsurance initiatives to improve capital efficiency as we did in the previous period.

Q2: Comparing ordinary revenues on a consolidated basis and the total of your 4 major group companies, there seems to be a significant difference. Was there any special reason for this?

A2: For DFL ordinary revenues, reversal of policy reserves is an increase factor. However, on a consolidated basis, this is offset with provision for policy reserves of other group companies, which is why there is a difference.

Q3: With regard to net capital gains for Dai-ichi Life, why did foreign exchange losses increase by 27.1 billion yen from the first quarter? Also, why did derivatives transaction gains increase by 6.8 billion yen? What is the outlook for the second half?

A3: The increase in derivatives transaction gains was due to a market decline after the summer season. Gains were mainly due to yen appreciation as we held a hedge position in preparation for a market decline. Hedging costs increased because we increased our position in hedged foreign currency bonds. I will refrain from commenting on the outlook for the second half since it depends on market fluctuations.

Dai-ichi Frontier Life Performance

Q4: Can you explain more on why you reclassified policy-reserve-matching bonds to available-for-sale securities? From a profit/loss perspective, it doesn't look like it had the desirable effect.

A4: There was considerable net losses on an accounting basis due to market value adjustments. Market interest rates were significantly lower than expected interest rates. Upon considering the variance in valuation of assets and liabilities, we reclassified to available-for-sale securities. We did not record the effect of this reclassification to our Profit and Loss Statement but net assets increased on an accounting basis and the solvency margin ratio improved as a result.

Q5: There is a significant increase in accounting capital. Was it really necessary to make such a large-scale reclassification? Didn't you have the option to reclassify to trading securities so that profit can be booked when interest rates decline? What is the outlook for the second half?

A5: Our approach regarding the reclassification is based on accounting rules and is accepted by the Company's independent auditor. Based on Asset Liability Management (ALM), we have been matching policy-reserve-matching bonds with liabilities while recognizing the liabilities side is not completely market value. Reclassification was done because the variance in evaluation criteria expanded due to a more than expected drop in interest rates.

Q6: Reversal of contingency reserves increased from the first quarter. What is the outlook for the second half?

A 6: We will not see leveled reversal of contingency reserves because this procedure is initiated only when a given policy reaches maturity.

Q7: There was 23.3 billion yen in reversal of contingency reserves. Did you expect this at the beginning of the fiscal year? Also, can you explain if we will see such figures in the future? If so, will reversal of contingency reserves be recorded for annuities at same levels going forward?

A7: We accounted for the amount relating to variable annuities expected to reach maturity in our initial forecast. An increase in ceding during the period was also a factor that drove the reversal. However, reversal for the ceding portion is not a regularly booked item considering its nature. Contingency reserves related to minimum guarantee are reversed when variable annuities reach maturity. However, this amount is dependent on sales volume of variable annuities for each previous year. Reversal is larger particularly for this year.

TAL Performance

Q8: TAL seems to be facing a difficult situation looking at first half profit versus annual forecast. The business environment for TAL is has become ever more challenging. How do you plan to deal with the situation?

A8: Profit for the first half has decreased significantly. However, we do not believe this downward trend will continue. Due to legislative reforms to group insurance, there was a temporary increase in claims which put pressure on profit especially in the first half. In the third quarter, we are expecting 15.0 billion yen in value of new business from a large-scale group insurance deal in the third quarter.

Q9: How is TAL affected by the legislative reform to superannuation?

A9: Superannuation without contributions for a certain period of time affects us due to the requirement to confirm intention to opt-in. In April 2020, this requirement will be applied to younger people and those with a low superannuation balance and we expect to be affected by.

Q10: What other affects due you expect from the legislative reform? (e.g. maximum limit to commissions)

A10: We do not expect a significant impact at this point in time.

Q 11: What is "Other" in the Underlying Profits graph on page 11 (right side) of the conference call material?

A11: This mainly consisted of corporate expenses.

Q12: What measures will you take to counter the decrease in policies in-force due to the legislative reform?

A12: As mentioned, we are expecting value of new business of 15 billion yen in the third quarter from a large-scale group insurance deal. In calculating this figure, all known affects from the legislative reform have been taken into account.

Protective Life Performance

Q13: Profit from Life Marketing seems weak. Why is this?

A13: This involves various factors. The mortality rate is reassessed each year based on the external environment. There can be an effect to a particular year if risk margins may narrow. Also, deterioration of certain reinsurance rates has an effect.

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

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