(Unofficial Translation)
FY2020-1Q Financial Results Conference Call for Institutional Investors and Analysts
Q&A Summary

Date: August 12, 2020 17:00 - 18:00

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1Q Financial Results

Q: What factors lead to the derivative transaction losses of 115 billion yen at DL? Moreover, considering that financial environment as of end of June assumed to be flat, do you expect same level of losses for the full-year results?

A: Derivatives held mainly for hedging purposes at DL recorded a valuation gain at the end of the previous fiscal year, but since the beginning of the current fiscal year, the market has recovered (increase of stock prices and depreciation of the yen), resulting in a valuation loss. Regarding the full-year forecast, based on our assumption that the financial environment remains flat, there will be no major changes in valuation loss.

Q: Can you elaborate on the breakdown of DL derivative transaction losses?

A: Around 70% was due to the hedging position, half of which was related with equities and another half related with foreign exchange positions. The remaining 30% was due to portfolio adjustments, mostly related with foreign exchange positions.

Q: What is the reason for the significant increase in PLC sales in the January-March period?

A: Sales of fixed annuities were strong due to competitive assumed rates setting.

Q: Please explain the reason for surrender and lapse rates at DL to be lower than comparable rates in the past several years?

A: We think that there were fewer customers who surrendered their policies amid the spread of COVID-19. In addition, considering the financial wellbeing of our customers, we have set the grace period for insurance premiums payment and also offering interest-less policyholder loans. The newly applied amount of policyholders loans in the 1Q was about 20 billion yen for DL and about 2 billion yen for NFL.

Earnings Forecast

Q: Regarding group adjusted profit, at the financial results conference call meeting in May, 2020, President Inagaki said, "We are taking seriously the target of 250 billion

yen because FY2020 is the final year of the mid-term management plan." Now, 3 months later, what factors have you considered when setting the forecast of 180 billion yen?

A: As shown on page 5 of the 1Q conference call material, the impact of the temporary factors due to the changes in the financial market environment is large, such as deterioration of capital gains (losses) at DL and one-time losses at PLC. We will aim to return to the growth trajectory in the next mid-term management plan.

Q: Although the difference between group adjusted profit forecast of 180 billion yen and the mid-term management plan target of 250 billion yen was explained, what would be the actual level of profit excluding one-time factors such as (1) derivative transaction losses at DL, (2) increase of insurance claims at PLC and TAL and (3) the investment and credit related losses at PLC?

A: As a one-time factor, in addition to the provision of approximately 10 billion yen of allowance for expected credit losses at PLC due to the adoption of new accounting standards, we expect an increase in COVID-19 related insurance claims of approximately 7 billion yen at PLC and about 3 billion yen at TAL. At DL, the deterioration of derivative transaction gains(losses) has an adverse impact YoY. Overall, it is difficult to indicate the exact amount of the actual level of profit, but we assume that the one- time impact will be around 60 billion yen.

Q: Can you confirm my understanding that if the impact of COVID-19 of 60 billion yen added to the forecast of 180 billion yen totals 240 billion yen, then there is not so much different from the 250 billion yen target in the mid-term management plan?

A: That is theoretically correct. When looking to future profits recovery, we should state that our business profit structure, where the majority of profits are generated from in-force policies, not expected to change suddenly and the increase in insurance claims related to the COVID-19 can be considered a temporary effect. On the other hand, the persistence of the low interest rate environment will need to be carefully monitored.

Q: Will you accrue the gains on the reversal of policy reserves due to the decrease in new business at DL for FY2020?

A: Since DL has a large amount of in-force policies, the profit contribution from the decrease of new policy reserves provisions is not material.

Q: Please explain your earnings forecast assumptions related to capital gains (losses) at DL?

A: In the second half, we expect an improvement of capital gains (losses) due to gains on sale of securities.

Q: What factors should be considered to forecast derivative transaction gains (losses) at DL and MVA related gains (losses) at DFL?

A: For MVA related gains (losses) at DFL, if U.S. and Australian interest rates fall, the provision of policy reserves will increase. Regarding derivative transaction gains (losses) at DL, as the unrealized gains (losses) from the risk hedging positions will be reflected in the income statement, if the financial market improves, derivative transaction loss will be recorded.

Q: Can you explain the breakdown of the factors impacting decrease of the operating earnings forecast at PLC?

A: In addition to the expected 7 billion yen of COVID-19 related claims, there were impacts from changes in assumptions for calculating amortization of DAC/VOBA etc. (unlocking) due to lower interest rates and the decline in earnings in the retirement business due to lower account values.

Q: What is your expectation for the impact from changes of assumptions due to lower interest rates (unlocking) in the earnings forecasts at PLC?

A: We expect the impact of lower interest rates on earnings at PLC to be around US$30 million.

Shareholder Returns

Q: Group adjusted profit, a basis for shareholder returns, is expected to reach 180 billion yen in the current fiscal year, will you make adjustments to group adjusted profit for the impact of comprehensive foreign currency hedging, like you conducted in the previous fiscal year?

A: In the previous fiscal year, there was a sudden and significant change in the financial market environment observed in March 2020, and we decided to exclude the part of derivative valuation gains from group adjusted profit for shareholder return calculation of the previous fiscal year. However, this was an unconventional measure, therefore it does not necessarily mean we automatically add or subtract any specific item from group adjusted profit. How we will handle derivative valuation losses for this fiscal year is not decided at this stage.

Q: The group adjusted profit forecast of 180 billion yen means that the share buyback will be in the few tens of billions of yen, but will it be conducted even if share buyback will be lower than 10 billion yen?

A: We are focused on a total payout ratio of about 40% of group adjusted profits in the current mid-term management plan, but we are not able to further comment on the details of the actual payout at this moment.

COVID-19 Related

Q: Regarding sales, how has the performance changed from July comparing to the situation in April-June?

A: DL's life plan designers channel sales are expected to average 40% YoY for the July-September period, but the performance for July has not reached such level. Assuming that sales activities will normalize after October, we expect sales to be at a similar level YoY in the second half, as a result, the full year sales will be 30% to 40% lower YoY. For DFL we continue to expect about 50% sales performance YoY. NFL was relatively strong YoY in April-June, but is expected to reach 80 to 90% YoY in comparison to strong performance in the previous term since August.

Q: Please explain the impact of COVID-19 on TAL?

A: Regarding TAL, we believe that the increase in payments for income protection will have an impact of approximately 3 billion yen. It is the impact of an increase in unemployment rates due to the deterioration of the economic environment caused by the spread of COVID-19. While we have accounted for a certain level of increase in unemployment rates in the earnings forecasts for TAL, we will continue to pay close attention to the unemployment trend.

Q: If the spread of COVID-19 continues in the second half, will the salary guarantee for the life plan designers be continued?

A: Though we have assumed that new business at DL will decrease by 30 to 40% YoY for the FY2020, it is still difficult to assure that it will normalize, considering the current spread of COVID-19. Due to the fact that a state of emergency had been issued until May-end, the Company decided not to carry out sales activities in principle and instruct our life plan designers to engage in activities avoiding face-to-face interaction by working from home. After withdrawal of the state of emergency, activities are being resumed step by step in each region, taking into account the status the COVID-19 spread, and as of the end of June, basic sales activities are resuming in Japan. However, until the end of September we still have put the highest priority on ensuring the safety, and the Company will provide salary guarantee until the end of September without setting sales targets. Whether salary guarantee will be carried out after October is undecided at this stage.

Q: Please share the status of your efforts for establishing sales capabilities that exclude physical interaction, including the use of digital technology. Also, will the domestic sales volume from the next fiscal year onwards be reduced to some extent?

A: Though the digital technology is not planned to be introduced immediately from the second half, we are gradually proceeding with the distribution of smartphones to sales staff and preparations for sales activities utilizing SNS, etc. in post-COVID-19 period. Regarding the application procedures, while it is currently handled face-to-face, we are considering a revision of sales procedures that includes contactless handling. Therefore, if the spread of COVID-19 continues in the second half, we believe that there will be some downward pressure on sales performance. As we believe that it is too optimistic to think that the sales results will recover in the next fiscal year, we will steadily promote efforts for adopting to post-COVID-19 environment.

European Embedded Value (EEV)

Q: Group EEV has increased by 620 billion yen since the end of March 2020 to the end of June 2020, please elaborate on the breakdown of the factors behind this change?

A: The increase in unrealized gains on domestic stocks is about 200 billion yen, and the positive impact from rising interest rates is about 350 billion yen. Please refer to page 27 of the conference call material for the status of unrealized gains (losses) on securities at DL.

Q: Where the 60 billion yen of expense excluded from the value of new business at DL reflected in the income statement?

A: Sales expenses of approximately 60 billion yen are incurred throughout the year and are not just expenses for the first quarter. It is planned to be included in the operating expenses in the income statement.

Q: Last year EEV at DFL decreased by about 200 billion yen due to widening of the credit spreads, in 1Q it has improved by 150 billion yen, is this increase explained by recovery of credit spreads?

A: Part of the recovery of EEV at DFL from the decline observed in the previous year, was due to narrowing of the U.S. corporate bond spreads.

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

[Abbreviated company names]

DL: Dai-ichi Life, DFL: Dai-ichi Frontier Life, NFL: Neo First Life, PLC: US Protective, TAL: Australia TAL

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