(Unofficial Translation)

FY2020 Financial Results Conference Call for Institutional Investors and Analysts

Q&A Summary

Date: May 21, 2021 15:00-16:00

Respondent: Seiji Inagaki, President and Representative Director,
Toshiaki Sumino, Managing Executive Officer
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<u>DL Earnings and Asset/Liability Cash Flow Structure</u>

Q Please explain expected future profits distribution from the new business shown on page 9. Looking at the stock price to EV multiples of Japanese life insurance companies as well as global players, it seems that the new business with initial expenses payback period over a long time horizon is one of the discount factors for the stock price. And the portion of DL's future profits to be generated from new business beyond 10-year period is larger than my expectation. Can you share whether the current contract period and initial expenses payback period for new business is adequate?

A We are well aware of the investors' views for DL's long-term earnings structure. In terms of the in-force business shown on page 9, we would like to share that the scale of profits to be generated over the next 10 years is large. However, on the other hand for new business, initial expenses are inevitably incurred due to the characteristics of life insurance business. In fact, the situation in FY2020 was unusual including from the sales volume perspective; usually initial expenses can be recovered within 10 years. Our current main product is a 10-year renewal-type, therefore the initial expenses payback period is shorter compared to the past product mix that was inclined to whole life insurance. However, not only providing short term products, to cover customer needs it is necessary to have a lineup of long-term products as well. In our product strategy, we are managing profitability of the product taking into account payback period and IRR for new business, considering the investors' expectation for a shorter period of profit generation.

Q We recognize your efforts to mitigate long-term interest rate risk by asset/liability matching. On contrary, you also underwrite long-term insurance policies to address social needs. Can you elaborate further on this point?

A As you correctly mentioned, in Japanese life insurance market customers seek to maintain long-term protection by paying regular premiums from the younger age. The current 10-year renewal-type mainstream product designed to be less sensitive to long-term interest rate risk because premiums could be revised at renewal. Including in-force policies as we have decided to reduce interest rate and equity risks, and we will avoid taking unnecessary market risk.

Q **In the asset/liability cash flow structure shown on page 10, the sum of cash flows over 30 years results in a net liability position of 7 trillion yen. Please explain how will this position change after the market related risk reduction in the new medium-term management plan or five years from now. Should we assume that even after your risk reduction efforts in the last fiscal year, the net liability position could not improve? Or can we expect that duration mismatch between asset and liability will be approaching zero and the EEV sensitivity to interest rate movement becoming much smaller?**

A It would be fair to say that it will not be easy to decrease significantly the outstanding amount of super-long-term negative cash flow from the liabilities during new medium-term management plan. Nevertheless, we will continue to lengthen the duration of our assets. Our ultimate goal is to achieve capital efficiency exceeding cost of capital, and we consider controlling our economic risk profile and EEV interest rate sensitivity as a way of achieving goal. Although we do not have a specific target for the status of duration mismatch, we will control appropriately depending on the situation. Even with proper control, it is difficult to eliminate interest rate risk due to the absence of investable assets with duration exceeding 40 years. Roughly speaking, we think that it is possible to reduce interest rate risk by up to 80% for DL, and we will take all possible measures to achieve it.

<u>**Use of excess capital**</u>

Q **Please explain about economic solvency ratio (ESR) and capital policy, described on page 12. As you continue to promote interest rate and equity risks reduction, ESR would increase significantly. Please share about your management actions when ESR exceeds 200%. During new medium-term management plan, do you consider M&A that could change your business structure, or the possibility of accumulating capital in preparation for the next medium-term plan?**

A Naturally, we consider M&A as a one of the options for realizing further business growth. Although we cannot completely deny the possibility of large-scale M&A in a near future, as of now we do not expect such M&A. On the other hand, in light of the business domains explained in the new medium-term management plan, we would prefer small- to medium-size M&A to acquire new capabilities in the digital and other related areas, rather than typical M&A of insurance companies. We will fulfill our accountability regarding management decision on the balance between shareholder payouts and strategic investments. Although we do not deny the possibility of M&A that would change business structure or accumulation of capital for strategic opportunities for the next medium-term plan as you mentioned, we do not have an intention to continue to hold surplus capital in the absence of concrete investment opportunity.

Q **When conducting M&A during new medium-term management plan, can we assume that your hurdle rate to be 10% or more?**

A Although, we redefined our cost of capital to be 10%, it will be monitored regularly during new medium-term management plan. Accordingly, the hurdle rate for strategic investment opportunity will be determine based on the cost of capital that is appropriate for that time and circumstances, etc.

Q **I recognize the company has done very good efforts such as changing standards for ESR, redefining the cost of capital, and recent decision for share buyback. Nevertheless, generally speaking, the stock market reaction is short-term and the market would soon seek the next. If the risk reduction progresses earlier than planned, it is expected that there will be a room for additional capital surplus in the next fiscal year. Considering all this, how will you communicate with the market going forward?**

A We are willing to achieve capital-efficiency exceeding the redefined cost of capital as soon as possible. In order to achieve our goal, reducing market risk would be accelerated when there is such opportunity. Rather than allocating all surplus capital solely to shareholder payouts, we want to also consider strategic investments for continuous growth of the company. We will continue communicating with the market on how to balance strategic investments and shareholder payouts with a commitment to capital efficiency.

Cash Position of Holding Company

Q **Please share about the minimum level of retained cash required for the holding company as shown on page 11. Can you explain if there is any appropriate indicator to check the change in excess cash for each reported period going forward?**

A For the group to conduct stable business operations, it is required to retain cash in the amount of a few 10s of billion yen so that the holding company can accommodate capital and funds to the group companies if necessary. We are controlling the amount throughout the year based on the cash flow outlook and stress analysis and therefore the amount is not fixed. We will continue to show a high degree of transparency regarding our cash position and surplus going forward.

Business Strategy

Q **Can you share which indicator would be a key in evaluating your growth over the next 5 years, such as amount of premium income or new business sum insured?**

A In the domestic life business, we want to focus on the number of customers. Unfortunately, in the previous medium-term plan, we were not able to reach anticipated target for the number of customers. Domestic life business including DL is considered to be mature, and many new business is coming from existing customers. In addition, DL customers as a whole are on an aging trend, so the group will leverage channels such as NFL and Dai-ichi Smart to expand its reach to Millennial and Z generation, whom we were not been able to reach to date. In addition, at DL the CX design system is expected to expand points of contact with customers and broaden our business base to include new customers. As a result of these efforts, we intend to increase the number of customers in the domestic business as a whole.

Q **One of the factors that insurance companies are valued globally is digital transformation (DX), and new attempts to increase monetization points are observed in the market. Can you share whether you have any initiatives for creating various point for monetization that differ from traditional approach?**

A Creating monetization points is our focus. So far our group had segmented businesses domestically and in overseas markets by region and individual company such as DL, DFL, and NFL. Under the new medium-term management plan, we focus 4 experiential values that support customers' "well-being." Protection field will continue to be a core business domain, and asset formation and succession domain will expand and strengthen the value chain and monetization points with asset management capability. While the health and medical care domain is currently at starting point, but it is a field that has a deep relationship with insurance underwriting, etc. We would like to turn it into the next point of monetization. In addition, we will continue to explore what can be monetized by offering various services utilizing digital technology. We will take on the challenge of expanding the monetization points through offering customers 4 experiential values.

Q **With respect to asset formation and succession domain on page 26, will you shift to full-fledged product sales from product manufacturing, going forward? Considering there are competitors in the same field including banks, securities companies, and robo-advisors, are you going to distribute the product only through Total Life Plan Designers channels, or do you consider any opportunities for establishing broader alliances?**

A We will shift to full-fledged sales in the asset formation and succession domain. The background for such shift is a depletion of assets and shortage of savings in a hundred-year life society. The main customer base is the so-called mass segment, which is different from banks and securities companies' customer, which mainly target more affluent segment. On the other hand, customer base of market players utilizing digital technologies, including robo-advisors, overlap with our target, so if there is any possibility of collaboration, we will consider such opportunities. We will also continue to make an effort to provide asset formation solutions through Total Life Plan Designers channel.

Q Although we recognize that PLC and TAL in the overseas business have continued to grow until now, recent growth of profit seems to be under pressure. Especially PLC is said to continue the acquisition of closed policy blocks for its growth, but is there any room for reconsidering PLC business model?

A TAL has recently been affected by the spread of Covid-19 and the tightening of regulations in Australia. Although profitability is declining in the short term, we expect recovery to a stable profit growth trajectory in the medium-term. With regard to PLC, we continue to recognize that there are opportunities to acquire closed policy blocks, primarily in term-life insurance area, in which PLC have expertise, as changes in the market environment force other companies to exit insurance business and to restructure their business portfolio. Even when competitors such as private equity funds have stepped into the acquisition market, PLC has strengths including the reputation and track record it has from the past, in addition to its ability to leverage synergies through system integration with existing businesses. At least for the foreseeable future, we do not see the need to substantially transform such business model. Even in the context of the spread of Covid-19, we can confirm the PLC’s high level of discipline for business efficiency, and we will continue to focus on the group governance.

<u>Total Shareholder Return</u>

Q We recognize newly established total shareholder return (TSR), shown on page 17, as a KPI focusing on per-share performance. In this aspect, please explain how cash usage would change going forward. So far the cash generated from the sale of equities held at DL has been used to reduce interest rate risk. Will you prioritize efforts, such as using share repurchases to increase EEV per share?

A The proceeds from the sale of equities held at DL are attributable to the policyholder funds category and shall be reinvested within same category, such as long-term government bonds and hedged foreign bonds. The holding company's shareholder payouts and strategic investments are basically funded by remittances from group companies including remittances from DL's retained earnings that is based on DL’s adjusted profit.

Q Can you share if there are any specific initiatives for achieving the TSR target?

A We can assume change in risk taking based on the ERM framework. From the standpoint of earnings quality, the profits from market risk are volatile in the sense of return-on-risk, on the other hand, the profits from core underwriting business considered to be of higher quality. Shifting towards core underwriting business will lead to capital efficiency exceeding cost of capital. We will continue our efforts to achieve TSR that outperforms competitors.

Even in the previous medium-term management plan, we had a KPI regarding share price performance (against TOPIX and TOPIX Insurance Index as a benchmark). In the new medium-term management plan, because there are not many competitors in the Japanese stock market, we decided to benchmark foreign insurance companies based on our overall business strategy. In order to benchmark with competitors in global markets, we have adopted a TSR that includes dividends, rather than stock prices, because dividend policy may vary from region to region. In addition, there has been a general spread of TSR-based evaluation in the Japanese market.

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