(Unofficial Translation)

FY2021-2Q Financial Results Conference Call for Institutional Investors and Analysts

Q&A Summary

Date: November 18, 2021 9:30-11:45

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1st Section: Overseas Business (Developed Markets)

Q **It can be seen that more than 50% of cash contribution is planned to be generated from synergies. Can you explain what kind of initiatives are planned, and how those initiatives are superior compared to peers in the industry?**

A (TAL) Let me break that into three parts. I would say our primary area that we would be focusing on in relation to creating synergies will be around our expense initiatives. Similar to what we have done in the Asteron Life acquisition, where we have been looking to optimize distribution channels across the two entities as well as removing functional duplication as these are very similar businesses. In addition, we have looked to leverage scale with our suppliers. Those are the initiatives from an expense perspective, but we also see a range of initiatives to achieve synergies both in relation to capital and pricing.

And finally, we will be looking at reinsurance initiatives across these books, either through TAL or DL.

Regarding our competitive advantages, I refrain from talking about our competitors, but I would say when we look at the M&A deals, we have focused really clearly on making sure that we have the right strategic outcome. We believe that Westpac, with its 13 million customers and the 20-year distribution arrangement as well as their digital and data backbone, is a really good strategic partner. From a financial discipline perspective, we have looked at the financial criteria that we wanted to meet and believe we have met those.

Finally, from an execution perspective, our competitive advantage is that we have a very good execution team in relation to integrations. That team has just finished working on the Asteron Life integration and we will leverage the team now on the Westpac Life integration.

Q **For PLC and TAL, can you tell us the average duration, IRR target, and hurdle rate of the new business?**

A (PLC) As far as the acquisition business is concerned, duration could be different depending on the nature of policy block targeted, whether it would be a life mortality or annuity block. Life

blocks tend to have longer duration of liabilities. And for acquisition business, we are focused on life blocks but in some cases deal would have a mixture of life and annuity blocks like in cases of Liberty Mutual or Great West transactions. For every deal we analyze risk, set hurdle rates and compare with IRR, however we do not disclose such figures.

(TAL) We look at duration as well. If the policy blocks are in the retail business, usually they have a longer duration as it was in the last two transactions. Similarly, to PLC, we would not disclose the hurdle rates we use for individual transactions. Regarding the IRR, as I have mentioned on page 15, we are targeting a return on equity of greater than 10%.

Q **Rather than acquisition, how about for the business as usual in terms of the duration, IRR, and hurdle rate? In addition, how do you control those indicators?**

A (TAL) We have different duration depending on the business line, in the case of Retail business it would be longer duration with longer insurance policies. In the case of our Group insurance business, where customers are institutional, we see duration being generally shorter but this depends on how products are structured. From an IRR perspective, although I refrain from sharing the IRR for individual businesses, we continue to improve IRR by looking at product mix change and what additional solutions we can offer to customers. For example, as I mentioned in the presentation we are considering adding retirement solutions and such initiatives should improve our IRR.

Q **New accounting rule for long-duration insurance contracts of FASB is scheduled to be effective from 2023 in the U.S. While the effective date for PLC is different as PLC is an unlisted company, can you explain about the impact after PLC applied this new rule?**

A We will not be required to implement the rule in 2023 like other listed companies, and we will have the ability to apply it in 2025. Currently we have established a working group internally and also working with outside advisors to exploring possible impacts. Although we do not have any quantitative impact figures we could share with you now, I should mention that we did reset our balance sheet when we were acquired by DL in 2015 to adjust balance sheet items to a fair value at that point, so we would expect that impact in our case would be less compared to other peer companies that had not done such adjustment.

Q **We assume that the decrease of profits in Retail Life and Annuity segment for the period from July to September is due to the assumption changes of policy reserves such as mortality assumption. If PLC incorporates the Covid-19 effects into it, should we expect similar assumption changes to occur going forward, or, it is a one-time assumption change?**

A (PLC) The 3Q of FY2021 have three materials impacts on our financial results:

The first impact was an increase in mortality due to delta variant. We saw decline in Covid-19

related claims in the 2Q but the delta variant increased mortality in the 3Q impacting the Retail Life and Annuity business. The mortality variance was in the range of $86m on company level for the 3Q. The other thing we saw in the 3Q is the increase of deaths among younger ages resulting in the higher impact than we had seen before. An average age of claimant for 3Q was 63 years while it was 73 years for YTD, reflecting impact from not vaccinated younger age population.

Also in the 3Q we have updated our assumptions, called "unlocking" in the US-GAAP and prospectively unlocked some of our assumptions. The most material impact came from mortality assumption change that was not related to Covid-19 but it was more related to Term-UL (universal life) large block of business, so we have increased mortality assumption on that business resulting in a mortality unlocking impact of $92m mainly to Retail Life and Annuity business. We have not significantly updated our assumption for Acquisition business; we are comfortable with the current mortality assumption in the Acquisition business and recently-underwritten business have appropriate profitability.

Third material impact we saw in the 3Q was a significant increase in mortgage and security investment income that exceeded our plan by $47m. And we saw a record in mortgage loans prepayments and participating income which had $37m positive impact. We are seeing some favorable income items that offset the negative impact. Moreover, the Stable Value business also had higher balance and spread than we had planned for the quarter.

Q Can we assume that unfavorable results of Term Universal Life products are due to the effect of Covid-19?

A (PLC) Certainly it has been impacted by Covid-19, but it is a business predominantly underwritten in 2010 and 2017, and acts as a term life but on the universal life chassis in terms of product and therefore we had to do a prospective unlocking. That particular business represented $200 billion of our total in-force business, and it was a very large block that we had produced during that time. We have increased the mortality by 4% based on the comparison of actual to expected claim ratio over the past 5 years. The period we had analyzed was the pre-Covid-19 period, therefore while we also see Covid-19 related mortality increase recently, we expect it to be a temporary impact.

Q It was explained that PLC's acquisition business aims to acquire mortality risk. Does it mean that PLC's targets are the companies or insurance blocks which underwrite the insurance policies mainly for the mortality risk? In addition, can you explain the strategic context for targeting those risks.

A (PLC) We typically favor mortality blocks because they have less interest rate sensitivity than annuity block of business, and some of the new entrants in the space in the U.S. have been more targeted towards annuity blocks because they can have more alternative asset

investment strategies. We don't try to compete head to head against those players, and also prefer the mortality blocks because we have many years of experience on those blocks. We've had a very good mortality experience on our block of businesses that we have acquired over time. Moreover, those blocks have very predictable cash flows.

Q **Since it is said that the mortality rate in Japan is in a downward trend, the profitability of mortality protection is getting better, there are many companies which consider to acquire those companies and/or insurance blocks. On the other hand, the mortality rate in U.S. is in an upward trend and there seems to be a possibility that the profitability after the acquisition may get lower than expected. Can you explain how those risks are managed?**

A (PLC) We take a closer look at the blocks that have been closed for new business for several years, or in some cases for up to a decade or longer. That gives us the ability as well as confidence to see very steady cash flows we could expect in the acquisition of mortality block of business based on historical information. We have to make future assumptions around mortality or other things that go into future projection, but having the previous experience enables us to make sense of possible positive or negative impacts in various factors in terms of lapse and also levels of mortality improvement that we could expect.

Q **In the next year onward, the tapering led by FRB is anticipated to be progressed further, and yield curve may be fluctuated under the shift of economic environment. In this situation, can you explain how PLC sees the impacts brought to the business environment, investment strategy, acquisition business, and so on?**

A (PLC) We have been able to operate in this low interest rate environment. We've been able to emphasize our Stable Value business, which benefits from a steeper yield curve, and lower funding costs of those contracts. Those are funding agreement backed notes where we can get some nice spreads off of that business when rates are low.

If rates start to move up that will obviously help our spread-based businesses and allow us to offer a better crediting rate to the consumer as well as have better profitability on the in-force that we can achieve higher yields on assets that need to be reinvested.

With respect to acquisition, I think the level of interest rates will get priced into the deal. Based on our expectations, we don't get aggressive where we look at current rates at the time that we price an acquisition and we do sensitivity analysis to see how the block performs with various rate environments in terms of rates moving up or down and factor that into our pricing when we price a block of business. With rates moving up that generally would be helpful to our in-force business but also could allow us to see some more opportunities in the acquisition business.

Q **While it is anticipated that the credit spread is going to be deteriorated, what kind of influences are expected in the risk appetite of investment?**

A (PLC) It depends on the type of business that we are dealing with. We have been moving towards less interest rate sensitive products. In our retirement division, we have been focusing on separate account business including corporate owned life insurance (COLI) and variable annuity business which we do not take spread risk. The chart in the presentation showed that we are ahead of our plan in terms of the business mix of new sales being shifted towards less interest rate sensitive products. For the spread businesses, we are being very cautious in terms of how we price them, and making sure that we can get an adequate return.

Q **While PLC's RBC Ratio is 490%, which exceeds the target level (400%), can you explain the priority of capital utilization? In addition, while it was mentioned that the valuation of annuity business is getting higher due to that many companies aim to increase the AUM, can you explain how PLC sees the valuation of mortality risk business?**

A (PLC) We recognize RBC ratio of 490% as a strong capital ratio. Our debt to capital ratio is below limit of target of 25% and risk limit of 30%. We've been able to deploy capital in increasing our sales in both the retirement and the protection division. That's where we use more capital than we had in our plan for FY2021. We closed an acquisition at the beginning of FY2021 in our Asset Protection segment, the Revolos. It is also performing well, and we deployed some capital there too.

Going forward we would like to continue to deploy capital for acquisitions as well, as long as we make sure it meets our risk appetite and our return targets, while we saw a very active M&A market in the US right now. I think one of the drivers is forthcoming accounting changes. With long duration targeted improvements to US-GAAP, I think it will cause some organizations to free up capital in certain lines of business and I think that it will provide opportunities for us as we move forward.

Regarding, the pricing for M&A deals, with respect to mortality opportunities, it depends on the block of business that's being sold. Certain blocks that are being marketed by sellers may be products that have challenges from a yield perspective. Some deals have been transacted with fairly low purchase prices or in some cases with negative ceding commissions. As long as we can understand and get comfortable with the predictability of cash flows of mortality blocks, we would not shy away from those deals insofar as it meets our risk tolerance.

Q **We are concerned about TAL's market share in future. While TAL is going to expand the distribution channel further, to what extent TAL considers to be able to increase its share in next 5 years, in which it has already reached high market share of 27%? Can you explain about those possibilities in Retail, Partner & Direct, Group, respectively?**

A (TAL) One of the reasons why we have been looking at the transactions that we have done is

related to Retail channel enhancement opportunities. As I explained in the presentation optimizing those distribution models would give us future organic growth in those channels. We are expecting further growth in those channels with contribution from the Asteron Life, and Westpac Life acquisitions. Moreover, we also expect to grow in our group business. I mentioned to you that the Group channels and our partners in those channels are very important. We have seen consolidation in this channel. And we believe that we have back the right partners in relation to probable consolidation in other superannuation funds, thus allowing us to continue growth through our fund partners. We expect to see growth from both consolidation and organic growth in this channel, with broadening with retirement products.

The final piece I would touch on in relations to growing market share is the growing bancassurance arrangements that we have got into. We believe that through the very strong relations that we have with our banking partners, and our digital experience, we should be able to meet the customer needs that are sitting within those channels. The bancassurance channels in Australia used to be a significant channels for customers seeking life insurance. The model has changed but we believe with strong digital and data capabilities that we should be able to bring this channel back to a similar scale to what it may have been in the past, leading to growth in our market share. I will not give exact numbers for market share, but you should see us growing well over the next two to three years.

Q While it was mentioned that the increase of mortality rate is being concerned, doesn't it bring the favorable impacts to annuity business which is supposed to be benefited by the increase of mortality rate? Or, are the unfavorable impacts on life insurance business due to the increase of mortality rate much larger?

A (PLC) The death rate or COVID-19 claims has definitely impacted our life mortality. At the end of the third quarter YTD basis, we had about $130 million negative mortality impact versus our plan. We did see a positive mortality impact of about $34 million in our annuity business. Given the size of our life insurance in-force, the negative impact is much larger than positive impact from annuity business. So net on net basis for nine months our mortality variance was a negative $96 million on a pre-tax basis against the plan.

Q While the outlook of PLC's operating income (pre-tax) for the next three years was indicated in March 2021, can you explain the variable factors which we should be aware of on the basis of underlying profit, if any?

A (PLC) Now, we are right in the midst of our FY2022 planning process working with HD, and I think it is early to judge those numbers given the current situation. Particularly related with COVID-19 we expect some uncertainty about the impact in FY2022 and FY2023.

As explained in the presentation, we could see some offset to the excess claims from COVID. For example, in annuity business we see some reserve release on death that provides some

offset. Moreover, there is a phenomenon identified as replacement death where some of the COVID-19 excess life claims observed in the last couple of years would occur anyway over the next five years given the age of the policyholders. We believe that there will be some offset to those death claims in future years, we are not able to quantify that at this point. I think it would be premature to provide guidance for any future periods at this point.

2nd Section: Finance/KPI, Domestic Business Strategy

Q **Based on the portion of the economic solvency ratio (ESR) that exceeds 200% (page 10-11), it can be inferred that excess capital is ¥600 billion or more. Can that excess capital be expected as a room for additional payouts in the forecast of share buybacks for the next fiscal year onward or should we consider additional payouts based on the FY2022-23 cash outlook at HD?**

A It is the latter. Based on the cash outlook for FY2022-23 at HD, we will consider how to distribute approximately ¥600 billion to shareholder payouts and strategic investments. ESR is an economic value indicator that also includes the present value of future profits and some items that cannot be immediately turned to cash meaning that the portion exceeding 200% is not immediately usable for shareholder payouts.

Q **Regarding HD's cash position shown on page 10, the pace of increase in remittance amounts from subsidiaries was slower than the expansion of economic surplus capital on ESR basis. Do you have any plans to improve this situation? If increasing leverage through additional borrowing is not an option, what other measures, such as further increase of remittance rates from group companies, can be considered?**

A There is no change in our view that HD cash position, which is the source for shareholder returns and strategic investments, will be mainly build through organic remittances from group companies each fiscal year. While recognizing the appropriate use of leverage, a certain level of discipline is necessary for considering additional leverage. Regarding remittances from group companies, we plan to set a remittance rate of 100% for DL, the main subsidiary. For PLC and TAL as well, we are discussing how we can enhance remittance operation from the perspectives of capital policy and cash management. Moreover, DFL has not paid dividends to HD due to accumulated accounting losses, but we expect DFL will be able to begin paying dividends during current medium-term management plan. In this way, while recognizing the use of leverage as an option, our basic policy is to increase remittances from organic profit growth at each subsidiary.

Q **While you are considering shareholder returns on a cash basis, why do you stick to cash when recently we can observe a general trend in insurance company management and risk management is shifting to an economic value basis?**

A We are closely monitoring both indicators the economic value and the cash basis. There is no change in our capital allocation policies, including shareholder returns, that is based on maintaining an economic value basis in the range of ESR 170-200%. However, for actual shareholder returns it will be extremely important to monitor remittances expected from our subsidiaries such as DL, PLC, TAL, and other group companies as restraining factor for HD cash position, a source for such shareholders returns.

Q Given generated excess capital on economic value basis, is it realistic to conduct shareholder returns funded by intra-group loans from DL to HD other than remittances from subsidiaries for example?

A Currently, between HD and its core operating subsidiary DL, there are already intra-group loans for a certain use and purpose. However, if we consider the loans to be provided to HD for the purpose of shareholder returns, discipline on the appropriateness of such financing would be required from the viewpoint of policyholder protection and business operations in stand-alone basis at DL. There are also restrictions on loans provided by insurance company to the same legal recipient, referred to as the same legal entity regulation. Within such constraints, we would like to consider the use of intra-group finance that is economically rational.

Q Please share about HD's appetite for M&A in relation to capital allocation for strategic investments.

A We think that opportunities for strategic investments could be expected in asset formation/ succession domain and overseas businesses. While ensuring appropriate shareholder returns, we will consider investments that shift our risk profile from market-related risks to insurance underwriting and other businesses with lower market risk.

Q Regarding cash position at HD, it seems that the expected balance of the cash at the end of March 2022 was adjusted to ¥200 billion by the additional remittance from DL. What level of liquidity do you want to stably secure at HD?

A The needs for liquidity on hand for HD will depend on the situation, but generally we would like to secure around a few ¥10 billion. Additional remittances from DL were planned repayments associated with intra-group financing when we had transferred to a holding company structure rather than liquidity needs at HD and it was previously planned.

Q Are there any further planned repayments from DL included in the outlook for cash position at HD?

A The planned repayment from DL was completed this time therefore nothing was included in the forecast. Going forward DL will remit 100% of adjusted profit to HD.

Q **While the progress of interest rate risk reduction shown on page 9 seems steady, how should we understand the decrease in the balance of swaption positions disclosed on November 12 financial results conference call materials page 11, relating to risk reduction?**

A Interest rate risk reduction is balanced by utilizing both derivatives such as swaptions and additional purchases and replacements of bonds. In the first half of the fiscal year, we reduced derivative positions as the purchase of super-long-term bond progressed smoothly. While we consider the interest rate risk reduction is aggregate of the impact from bond and derivative transactions, the progress of risk reduction was ahead of plan. The impact from reinsurance ceding of policy reserves of ¥300 billion at DL was also included in the reduction in interest rate risk.

Q **The target for the market-related risk reduction includes reducing interest rate and equity risks by approximately ¥280 billion respectively during the current medium-term management plan. Is it correct to assume that the progress for interest rate risk reduction was at a somewhat high pace and equity risk reduction was largely in line with the plan?**

A Regarding the risk reduction targets, one-sixth of the three-year medium-term management plan passed by the end of this first half, the pace of interest rate risk reduction was significantly ahead of the plan. With regard to equity risk reduction consists of selling equities and building derivative hedging positions, the progress was in line with the plan.

Q **You have revised down the forecast for the group value of new business from ¥159 billion to ¥119 billion for the current fiscal year. Given that the 1H result was ¥70.9 billion, do you expect any negative factors in the 2H compared to the 1H?**

A No particular irregular factors are anticipated in the 2H of the fiscal year. Currently observed increase in unit costs was incorporated in the full year value of new business calculation.

Q **I recognize that the downward revision of value of new business for DL from initial forecast was due to a deterioration of product mix and an increase in unit costs. How will these negative factors observed in the current fiscal year be eliminated in the next fiscal year?**

A In the current fiscal year, amid the spread of Covid-19, the conversion of policies for existing policyholders was relatively large which resulted in the decline of value of new business per policy. In the next fiscal year, we would like to improve the product mix to address the issue. The number of new policies in the 1H was about 125% compared to the pre-Covid-19 period, showing that sales volume was maintained. The deterioration in the product mix is likely to be improved by shifting to products with higher new business value. Unit cost depends on sales

volume, so we expect it to decrease with a product mix improvement. We believe that efforts to strategic personnel shift through work style reforms and digitalization will also lead to improvement in unit costs.

Q **I assume that the decline in the value of new business at DL was due to an absence of sales targets for sales representative channel in the current fiscal year. Please share your evaluation and view on the future sales policy?**

A The decrease in the value of new business at DL in the 1H is an issue. However, we do not think that it was caused by the absence of sales targets for sales units, but it was mainly due to the relatively large number of policy conversion. The number of policies sold indicates that sales volume was higher than that of pre-Covid-19 period. Regardless of the absence of sales targets the morale of sales representatives was high, and I have confidence about sales activities. As a management we will work on improving the product mix.

Q **The number of highly efficient sales representative accounted for 20% of the channel. What percentage of DL's value of new business was generated by those people?**

A As a rough estimation, about a half of the value of new business for individual insurance and annuities at DL was generated by highly efficient sales representatives.

Q **What is your view on the long-term outlook for the domestic life insurance business? Given that DL's current business model is based on the existing sales representatives channel, how do you see the next five to ten years? Do you think that digital distribution will become a mainstream or sales representative channel will continue to be the main distribution channel?**

A We do not anticipate a sharp decline in the share of sales representative channel and that it could be replaced by digitalization. The sales representative is expected to remain a core channel while it will leverage digitalization to increase its productivity. We plan to revise the system for new recruitment from the next fiscal year, including a new compensation system with a larger proportion of fixed salary, and will focus on productivity rather than the number of sales representatives. We assume that digital tools will play an important role in the sales of life insurance as well as in general lifestyles. We will pursue an improvement both in productivity through OMO (online merges with offline) and in customer experience. There is a room for growth in terms of integrating digital with physical sales channels, which is considered to be DL's strength.

Q **Experienced sales representatives with high performance are perceived to be more elderly mainly in rural areas. Can you maintain the same performance in five or ten years ahead as they reach retirement age?**

A We recognize the succession planning in the sales representative channel to be an important management issue. We also anticipate the succession of staff in charge of customers, so it will be important to properly collect customer information utilizing digital tools. Going forward, we will establish a new sales representatives system that would make such succession smooth.

Q Regarding the ¥30 billion cost reduction plan at DL (page 19), please share the progress so far and anticipated initiatives.

A With regard to the cost reduction plan of ¥30 billion, six months have passed since the announcement of the new medium-term management plan. We have clear prospects for the majority of initiatives, including the allocation of personnel to new business opportunities. Investments related to CX/DX strategies will be made mainly in the first half of the six years, the period including the next medium-term plan. And the impact of such investments is expected in the second half. It is important to make digital investment with significant reward.

Q Regarding fixed cost reduction and CX/DX investment at DL (page 19), please share the breakdown of total cost of ¥240 billion, as well as the breakdown of new and recurring IT cost. Also can you share the current and the future outlook?

A Total cost subject to reduction of ¥240 billion, is the amount obtained by subtracting direct operating expenses (salaries of sales representatives, etc.) from the total operating costs of DL on a non-consolidated basis. Within total annual IT cost of around ¥60 billion, recurring expense is around ¥20-30 billion and ¥30-40 billion is incurred on depreciation, deferral expenses, etc., and on the top of that we have investment for digitalization. Going forward, we will continue to focus on appropriate implementation of IT investment management.

Q Do you have any update on the impact of the recent regulation tightening, including introduction of standard policy reserves for foreign currency-denominated savings-type insurance, both from qualitative and quantitative aspects?

A Analysis on the reference interest rates at DFL confirms that there will be no material impact including impact on its product competitiveness.

Q Regarding initiatives for business alliances with other companies, please share the expected quantitative impact, such as an increase in profits and decrease of policy cancellations.

A While we anticipate an increase in the number of customer touch points through our collaboration with business partners such as DeNA and utilization of digital tools, we have not yet quantified expected results. Analyzing past policy cancellation trends and customer satisfaction surveys, we find that customers with whom sales representatives maintain regular contacts tend to have a high level of satisfaction. By establishing continuous contact with

customers using digital tools, we hope to eliminate distance or time restrictions and improve productivity by increasing the number of customers per sales representative.

Q What are the unique aspects of initiatives such as CX design strategies that differ from competitors?

A It seems that that our three-tier system for customer engagement, such as data lakes, marketing engines, and communication interfaces, is a pioneering initiative within the industry. Going forward we will continue aim taking the lead in the industry.

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

[Abbreviated company names]

HD: Dai-ichi Life Holdings, DL: Dai-ichi Life, DFL: Dai-ichi Frontier Life, PLC: US Protective, TAL: Australia TAL,

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