(Unofficial Translation)

FY2022-1Q Financial Results Conference Call for Institutional Investors and Analysts Q&A Summary

Date: **August 10, 2022 16:50-17:40**

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COVID-19 Impact

Q **Regarding the impact of COVID-19 insurance claims, the hospitalization benefits for April-June was ¥22.2 billion. Can we understand that this 1Q payments were covered by your budget of ¥30 billion estimated for this fiscal year? Also considering that the payments in the current 7th wave of COVID-19 expansion is expected to be several times of the 1Q, what items could offset this impact?**

A DL paid ¥21.4 billion in hospitalization benefits in the 1Q as a part of ¥30 billion factored in the annual forecast, but even considering this 1Q payments associated with the 6th wave of COVID-19, a slight buffer still remains. Based on the past experience, DL recorded approximately ¥400 to 500 million of hospitalization benefits per 100,000 new infected cases. If we assume that there are 3,570,000 people newly infected in July, rough estimate of benefit payments for DL could be more than approximately ¥15 billion. We will closely monitor the trends in COVID-19 related hospitalization benefits and take appropriate risk management. We expect that additional payments can be offset to a certain extent by capital gains and other items in investment management. Although there is uncertainty, our earnings forecasts remain unchanged at this time.

Q **How do you define the home-treatment as equal to hospitalization covered by insurance benefits? In addition, if there is no revision to the five category under the Infectious Diseases Act, in what form the benefit payments for the treatment could be handled?**

A There is no clear provision for the home-treatment to be deemed as hospitalization in the general policy conditions. Hospitalization benefits for such cases are ultimately paid at our discretion in light of request from Japanese FSA via the Life Insurance Association. Hospitalization is defined in the terms and conditions as "focus on treatment under the control of doctors at hospitals or clinics as there is the necessity of treatment by doctors and the difficulty of treatment at home or other places." In light of the situation in which hospitalization was unavailable due to the tightening of the medical system at the time of the initial spread of COVID-19 and there were many people who had to be home-treated, etc. according to the instructions of doctors, the payments started by interpretation of the general policy conditions. We have been continuing the payments based on this judgment.

It is anticipated that the handling of COVID-19 could change in the national and local governments in the future. In light of this situation, the appropriate response from the Life Insurance Association is also expected.

Q Regarding the insurance claim payments associated with the COVID-19 at DL, what is the breakdown of the share between individual insurance and group insurance?

A Almost all claims are from individual insurance.

Impact of Interest and Foreign Exchange Rates Fluctuations

Q Regarding the ¥40 billion increase in hedging cost at DL due to overseas interest rates rise, which investment income gain could offset this increase? Also assuming the interest rate level as of end of June, the hedging cost is expected to increase to ¥90 billion, is there any possibility for further increase in the future?

A Interest income from foreign currency-denominated bonds is expected to increase thanks to the yen depreciation. Dividends from alternative assets would also increase. We expect favorable performance from hedge funds such as fixed income arbitrage and long/short equities. Since the hedging cost for foreign currency-denominated bonds may increase in the future, we have continued the reduction of hedged foreign currency-denominated bonds in July as well, and plan further reduction going forward.

Q Can we understand that the capital losses derived from the reduction of hedged foreign currency-denominated bonds at DL can be absorbed by gains from sale of securities? Can you also confirm that the earnings forecast was not revised even if such impacts taken into consideration?

A The reduction in hedged foreign currency-denominated bonds has been conducted not to incur capital losses as little as possible through considering the timing for execution in the interest rates movement. We will continue in the same approach going forward. Based on such assumption, we have not revised our earnings forecasts at this time.

Q Regarding the capital gains (losses) at DL, what caused a significant improvement of derivative transaction gains (losses) and foreign exchange gains (losses)?

A The improvement in derivative transactions gains (losses) was derived from gains on valuation of swaptions held for the purpose of hedging the rise in domestic interest rates. The improvement in foreign exchange gains (losses) excluding hedging cost was from foreign currency deposits and margins due to yen depreciation. With regard to the improvement in gains on sales of securities, realized gains from the sale of domestic equities and the replacement of yen-denominated bonds have been recorded.

Q Can we assume that the valuation losses associated with rising interest rates will continue to be a negative factor for adjusted profits in the 2Q and beyond for PLC?

A While operating income was strong, PLC incurred valuation losses from modified coinsurance-type reinsurance and corporate debt-type preferred equities. It is a valuation loss and we do not anticipate any special measures to offset them at this time.

1Q Performance

Q Regarding the new business performance at DL, it was explained that the share of policy conversion sales in the new business was declined YoY. Can you elaborate the current improvement status on the new business performance?

A New business performance last fiscal year at DL was impacted by large number of policy conversion sales, but the share of sales to new customers increased in this fiscal year. Sales of DFL products through DL sales reps channel was also strong. DL is currently striving to restructure its sales process through reviewing consulting methods and product system since July. Although it is taking time to instill the new process due to the difficulty of contacting customers amid COVID-19, we will continue to closely monitor the situation.

Q Regarding the reinsurance ceding transaction at DL in this fiscal year, can you update on the size and the timing of transaction amid the upside potential for P/L becomes smaller due to an increase in payments associated with COVID-19 and hedging cost?

A The earning forecast for this fiscal year includes reinsurance ceding of approximately ¥100 billion in policy reserves and has not been implemented. Our understanding is that the cost of ceding is expected to decline slightly in line with the rise in interest rates. Going forward, we will make judgment to conduct by looking at the volatility of interest rates and other factors. On the other hand, under the situation that interest rates rise, interest rate risk reduction by accumulating policy-reserve-matching bonds become easier to execute. We will decide whether to go for reinsure or purchase more bonds, by taking into account the advantages and disadvantages of each.

Q Can you explain what factors lead to a duration shortening of assets and liabilities?

A The shortening of the duration was affected by the rise in domestic interest rates. Efforts to the interest rate risk reduction have been continuing from the previous fiscal year to increase the amount of policy reserve-matching bonds, which has been effective in reducing the duration gap.

Q **Can you explain the factors behind changes in the group EEV since the end of March?**

A Group EEV decreased by approximately ¥110 billion since the end of March. First of all, a decrease due to the payment of shareholder dividends was largely offset by the positive effect of the yen depreciation at overseas subsidiaries, which resulted in a net decrease of approximately ¥10 billion. Value of new business and expected existing business contribution recorded approximately ¥100 billion, while economic variances had a negative impact of approximately ¥200 billion. The composition of the economic variances is as follows. The impact of yen-denominated bonds and foreign bonds largely offset each other by an increase of approximately ¥300 billion and a decrease respectively, due to the rise in domestic and foreign interest rates. In addition, domestic and overseas equities declined by approximately ¥150 billion due to the fall in stock prices, and other factors recorded approximately ¥50 billion decline.

Q **While group EEV decreased since the end of March 2022, the capital for ESR increased, can you explain the difference in this movement?**

A Both indicators basically move in the same direction. The difference this time was due to the timing difference in the deduction of shareholder dividend payment from capital in the calculation. For ESR the planed dividend payment was deducted as of end of March while for EEV as of June after execution.

Q **It seems that the profit progress at each group company, including the impact from an increase in payments associated with COVID-19, has been different against your initial expectation in the earnings forecast. Though there are no revisions to the earnings forecasts, can you share your views on the outlook for the annual results?**

A Compared to the initial expectation, the outlook is different mainly due to the rise in overseas interest rates and an increase in insurance payments associated with COVID-19. In the 1Q, within fundamental profit at DL, gains from core insurance activities declined YoY mainly due to an increase in payments of insurance claims, while the positive spread increased. Valuation gains also contributed positively to the net capital gains (losses). However, fundamental profit at DL will be affected by an increase in hedging cost toward the end of this fiscal year. Though DFL has experienced negative impact from the sale of bonds due to rebalancing in the rise in overseas interest rates, this is also an unexpected temporary factor associated with the rise in interest rates. With regard to PLC, profits have been under downward pressure due to valuation losses related to investment management associated with financial market fluctuations that lead to deterioration in non-operating income.

Shareholder Payouts and Remittances from Group Companies

Q **Can you update about the progress of share buybacks?**

A There is no change in the policy of a maximum share buyback amount of ¥120 billion that has been decided and we will conduct them appropriately.

Q **DFL remitted dividends to HD for the first time in this fiscal year. Even if it is one-time items, retained earnings will decrease when accounting losses occur at the end of this fiscal year. As a result, is there any possibility that DFL might forgo next remittance to HD based on this fiscal year's result?**

A DFL eliminated its cumulative losses in the previous fiscal year. Currently the amount of dividends for DFL is not determined by setting specific remittance rate based on adjusted profit. Going forward, we will discuss with DFL toward the end of the fiscal year considering the economic environment, the distributable amount on accounting basis, the status of surplus capital, etc.

Others

Q **As DFL's sales of foreign currency-denominated insurance products sharply increased, can we understand that product explanation to customers is at the adequate level?**

A Sales of foreign currency-denominated insurance are conducted appropriately in accordance with laws and regulations. As it is true for PLC as well, an increase in the assumed interest rate in line with rising interest rates is contributing to an increase in sales.

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: Protective

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