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FY2023-Q2 Financial Results Conference Call for Institutional Investors and Analysts Script

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- Thank you very much for taking time out of your busy schedules to join us today. This is Nishimura, CFO.
- Today, we have announced our financial results for the Q2. I will make an overview of the contents according to the materials.
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- Here are today's two key highlights.
- First, I will review our financial results for Q2. Group adjusted profit was ¥173.2 billion. We are making steady progress toward the FY2023 profit forecast of ¥270 billion. There was downward pressure by the decline in interest and dividend income associated with the sale-off of currency hedged bonds in the previous fiscal year at DL, and by the increase in reserves and expenses associated with the strong sales at DFL. However, gains from core insurance activities at DL improved significantly due to the absence of the payments related to COVID-19, and TAL in Australia has already exceeded its full-year target profit as of Q2 by improvement of underlying profit and profit increase with economic factors. As a result, the progress rate toward the full-year forecast of group adjusted profit was 64%, and we believe that this number is steady level. I will explain the detail later.
- Group EEV increased 8% from the end of the previous fiscal year to ¥7.9 trillion as of the end of September. The increase in Group EEV was mainly due to an increase in the value of in-force business at DL resulting from domestic interest rates and stocks price rising.
- The second point is the new business performance.
  In terms of the group new business ANP, sales at DFL continued to be strong and the result was ¥239.5 billion, which was significantly higher than the same period of the previous fiscal year. Even excluding the factor of depreciation of JPY, new business ANP increased by 28% YoY.
  Meanwhile, group VNB decreased to ¥5 billion, down from the same period of the previous fiscal year. We recognize that group VNB continued to be a challenging level.
  This was mainly due to the fact that the sales volume of DL has been on the way to recovery as we had explained the other day, and that the VNB of PLC and DLVN remained at low levels due to technical factors in calculations and the sluggish sales volume for each.
- In light of the results up to Q2 and the misstatement at DL, which we announced in September this year, we downwardly revised full-year forecast for the group VNB to around ¥25 billion from the ¥85 billion announced in May. I will explain factors and our recognition for this later.

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- I will explain the progress rates toward the full-year forecast of adjusted profit for the domestic and overseas business and the main factors behind them.
- The progress rate for the domestic business was 57%. For DL, while a decrease in interest and dividend income due to sale of currency hedged bonds continued to put downward pressure on profit as in Q1, gains/losses from core insurance activities improved significantly due to rebound from the COVID-19 related payments in the previous period, and positive investment spread also exceeded the budget level, and together with the progress in capital gains and losses, DL's adjusted profit progress rate was 64%, which we think is on track.
- For DFL, on the other hand, the continued strong sales in the current period have led to an increase in new policy related expenses such as provisions to the regular policy reserves for foreign currency denominated products, contingency reserves, and agent commissions paid, which put downward pressure on profit, resulting in the low progress rate. From October this year, the company has been utilizing reinsurance transactions to mitigate new policy related expenses on subsequent new policies.
- Next is the overseas business. First, for PLC in the US, although there was a lift in profits due to the weak yen, the progress rate remained low because of the loss recorded in Q1 relating to the bankruptcy of FRC, etc. For TAL in Australia, the company has been progressing extremely well, exceeding its full-year forecast of adjusted profit as of the end of September, as the underlying profit progressed well due to the continuous contribution from TLIS (Westpac Life), and the profit from rising interest rates continued. For DLVN, the progress was behind due to an increase in policy reserve of universal life insurance resulting from a decline in interest rates, etc. Overall, the overseas business is making steady progress at 69%, driven by excellent progress at TAL. When profit contributions from other businesses are added together, the Group's overall adjusted profit progress was over 60%, which we think is steady.
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- The YoY change in group adjusted profit is shown on this page. Group adjusted profit increased by 24% YoY, to ¥173.2 billion.
- Regarding to domestic businesses, DL experienced a decrease of positive spread caused by a decrease in interest & dividends income and hedging costs. However, such negative factors were offset by the significant improvement on gains/losses from core insurance activities which was no more affected by hospitalization benefit payments for COVID-19 compared to the same period of the previous year.
- Deterioration in gains/losses on derivative transactions was also offset by gains/losses on sale of securities and foreign exchange gains/losses. As a result, it remained almost the same level on YoY basis.
- With regard to DFL, losses increased on YoY basis. The increase of foreign currency standard underwriting reserve due to continued strong sales and contingency reserve due to JPY depreciation had negative impact on it. New policy related expenses including the agency commissions due to increased sales volume was also the main reason.
- In terms of overseas business, adjusted profits were generally firm, partly due to the impact of JPY depreciation. TAL and

PLC's adjusted profits increased YoY as the existing protection business of TAL and TLIS (Westpac Life) which was acquired through TAL last fiscal year performed well, and the PLC bounced back after the valuation losses in the last fiscal year.

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- This page is about economic value indicators.
- Group VNB declined 92% YoY to ¥5.0 billion. DL continued to be on the road to recovery, and the VNB remained low due to sluggish sales volume. Details are provided on the next page. Although the value of sales revenue, activity amount, premiums per policy, and DFL products sales, are on the road to recovery, it is expected to take some time for DL to recover the performance as an insurer. At DFL, although the volume of new sales increased significantly, the VNB remained low. This was because the increase of excess spread, which was not reflected in EV calculation, along with investment portfolio. Although this gap was not reflected in EV calculations, DFL secured a yield that met its budgetary targets in terms of internal indicators.
- In relation to overseas, at PLC, the impact of sales of business owners insurance, which was strong in the previous year dissipated, and inversed yield in the U.S. contributed negatively to the calculation of VNB in the stable value business. In addition, the difference between the discount rate and the actual investment yield was not reflected in the calculation in the retirement business. As a result, the VNB remained low for PLC. The slump in new business in DLVN also had a negative effect on the outlook for VNB, and resulting in a VNB of minus ¥1.5 billion for the entire overseas business in Q2.
- The difference between the actual investment yield and the yield used in calculating the VNB at DFL and PLC will be reflected as excess earnings over time for EV computation purposes.
- Group EEV increased to approximately ¥7.9 trillion compared with the end of the previous fiscal year, mainly due to an increase in the value of in-force policies of domestic companies in line with an increase in domestic interest rates and stocks price.
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- I will then explain the update for the full-year forecast of VNB.
- The group VNB for this fiscal year remained at the slow progress of ¥5 billion as of the end of September. DL is still on the way to recovery.
- There was a recovery trend in the value of sales revenue including group products, however, it is expected to take a certain amount of time for its full recover in sales performance. Despite the strong new policy sales of DFL thanks to the rising overseas interest rates, along with investment portfolio change for excess earnings, the increase in assets which investment yields were not reflected in the calculation prevented the growth of full-year VNB forecast in proportion to sales volume because such excess spread was not included in the EV calculation. In addition, sales volume of NFL's medical insurance products which was its core business was sluggish. As a result, the VNB in domestic businesses is expected to decline by approximately ¥25 billion including the influence from the DL's VNB revision that we announced in September this year.
- In overseas businesses, PLC struggled with its results mainly because the actual investment yields in the retirement business

are different from the discount rates used for its VNB calculation. Growth in DLVN was also sluggish due to its low sales volume. Therefore, the full-year forecast of VNB for overseas businesses is expected to decline by ¥35 billion.

- Considering these impacts, we have revised down the full-year forecast for VNB to ¥25 billion from ¥85 billion. However, just like DFL, PLC was negatively affected by the fact that actual investment yields were not reflected in the EV calculations for its retirement and stable value businesses. Thus, this exceeded part of the investment yields that were not reflected in the VNB would be reflected in the EV calculation over time.
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- New business ANP is explained here.
- For the domestic business, new business ANP exceeded the level of the same period of the previous year following Q1 as DFL led the Group, as explained at the beginning. At DFL, sales of foreign currency-denominated insurance products, including US dollar-denominated products, have continued to be strong, and sales of yen-denominated products have been also steady, due in part to the impact of rising Japanese interest rates.
- At NFL, its new business ANP increased YoY, due in part to the effect of the revision of income protection insurance, etc. in April. Sales of cancer insurance, which was launched last year, have also been strong. The product advantages including flexibility of design have been favorably received and the product has been highly evaluated.
- For overseas companies, DLVN sales volume declined mainly in the banking channel, but the impact was due to lower momentum in the industry as a whole, and the percentage of decline in DLVN sales volume relative to its peers was limited. Due in part to this impact, Q2 cumulative results were lower than the same period of the previous year in yen terms as well, despite the yen's depreciation compared to Q1.
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- Next is the full-year forecast.
- There is no revision to the full-year forecast except for Group VNB which I explained.
- Thanks to the strong sales of DFL and positive impact from depreciation of JPY, we have seen a high progress on the ordinary revenue.
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- Finally, this is about DL's foreign currency hedged bond investment.
- DL continued to reduce the balance of foreign currency hedged bond in Q2, and as of the end of September, the amount of currency hedged bonds using currency forwards is below ¥1 trillion on a book value basis. As of August, the full-year forecast of the hedging costs was, therefore, expected to increase by about ¥10 billion from ¥70 billion, which we had forecasted at the beginning of the fiscal year. However, given the interest rate environment and the balance we hold as of the end of September, the full-year forecast of it remains the same as our initial forecast of about ¥70 billion. We will continue to closely monitor the interest rate environment.

- This is the end of my presentation. Thank you for your attention.

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: Protective Life Corporation,

TAL: TAL Dai-ichi Life Australia, DLVN: Dai-ichi Life Insurance Company of Vietnam