(Unofficial Translation)

FY2023-1Q Financial Results Conference Call for Institutional Investors and Analysts Q&A Summary

Date: **August 10, 2023 16:50-17:40**

Respondent: **Taisuke Nishimura, CFO, Chief of Financial Planning Unit**
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Domestic Business: Sales Strategy, New Business Performance, etc.

Q **It was mentioned that the decrease in the Value of New Business (VNB) at DL was due to the decrease in the number of sales reps, etc. Have there been any revisions to the assumptions used in calculating unit costs and the allocation of costs between new business and in-force business, as a result of the decrease in the number of sales reps? Regarding the new business performance, there was a comment that a further recovery is expected in the second half of the fiscal year. What factors, if any, should be taken into account at this point to improve new business performance in the second half of the fiscal year?**

A In calculating EV, overall costs, including fixed costs, are allocated between the cost of acquiring new policies and the cost of maintaining policies in force, in accordance with the volume of activities, etc. On the other hand, the number of sales reps basically affects only the allocation of the cost of acquiring new policies, not the maintenance costs of in-force contracts.

As for the outlook for new business performance, although specific figures such as VNB for July have not yet been confirmed, preliminary indicators utilized by the sales force show signs of an improvement in July, continued from June. In terms of operations, sales promotion has been strengthened compared to the previous fiscal year. In order to increase the volume of activities of sales reps, we are working to raise the overall level of it as a whole by implementing company-wide measures for the areas that varied among sales offices, while maintaining a thorough training system for new employees and making improvements to the system to enable them to acquire new policies more quickly. In addition, DFL products continue to be well-received in the DL channel, and we plan to lead this trend to sales of DL products. Although each of these initiatives alone will not have a dramatic impact on the recovery of new business performance, we would like to further strengthen the recovery trend by accumulating these improvements.

Q **Is it correct to understand that DL's VNB of approximately ¥0 billion was not directly negatively affected by the decrease in the number of sales reps, but was due to that the sales performance has been sluggish?**

A Since there is a fixed cost to acquire new business, the VNB was approximately ¥0 billion due to that a decline in sales performance does not necessarily lead to a decrease of fixed costs.

Q **It was explained the improvement in the value of sales revenue per sales reps and the improvement in sales activities in July. At this point, do you consider that ¥30 billion of VNB at DL for the full year is achievable?**

A We are not revising VNB downward at this point. It fell short of plans in April and May but is recovering in June and July. We will strive for recovery based on this momentum.

Q **As a measure to expand customer contacts in the sales reps channel at DL, it was mentioned that ipet's pet insurance is a door-knocking product that can lead to customer acquisition. What was the number of policies for pet insurance sales at DL in 1Q?**

A While we expected 4,000-5,000 policies of ipet's pet insurance sold by the sales reps for the year, the sales is currently performing well exceeding the plan.

Q **With the rise of 10-year interest rate through yield curve control, the assumed rate of return for yen-denominated single premium whole life insurances could rise, which will lead those products to be attractive. Are you considering measures to increase VNB by selling the yen-denominated single premium whole life insurance that is sold through DL to the affluent customers through sales reps at DL?**

A We refrain from making definitive comments on our future product development stance, but we have been working to strengthen ALM with discipline. In particular, we have been developing attractive products in DFL, such as single-premium yen-denominated and dollar-denominated savings products for the affluent customers, and are selling them through the sales reps. We will continue to working on it, taking into account both risk and attractiveness to customers.

<u>**Domestic Business: Fundamental Profit, Capital Gains/Losses**</u>

Q **With regard to investment income at DL, it was mentioned that the current investment income exceeded the pace of full-year plan. What is the breakdown of it?**

A Yen depreciation had a positive impact on investment income in 1Q. We are also increasing long-term bonds, and we are making progress slightly above the pace of full-year plan.

On the other hand, although DL had a negative spread in 1Q, this is due to the seasonal factor that interest and dividends income are lower in 1Q, and we expect that it will turn out to be a positive spread for the full year.

Q **What did you evaluate the progress of capital gains/losses at DL, such as gains/losses on sales of securities, in 1Q compared to the plan at the beginning of the period? Also, what is the full-year forecast for capital gains/losses at DL?**

A We expect it to be in line with the plan. The pace of sales of domestic stocks differs from quarter to quarter, and there were more sales in the 1Q than in other quarters. We think we made a steady progress in 1Q.

Full-year forecast for capital gains/losses at DL is approximately ¥130 billion.

Q **Among capital gains/losses at DL, only gains/losses on sales of securities are around ¥70 billion, which it looks to be progressing well compared to the pace of full-year forecast. Is it correct to say that this is on-track in terms of progress against the plan? How do you recognize it, in the context of the overall status of capital gains/losses?**

A In terms of capital gains/losses in 1Q, gains from the planned sale of domestic stocks had a positive impact, while losses from hedging positions such as swaptions had a negative impact on gains/losses on derivative transactions. Gains and losses from swaptions fluctuate depending on the level of domestic interest rates.

Although the losses on derivative transactions appear large, they include gains and losses from hedge positions that do not qualify for hedge accounting, which are offset by foreign exchange gains/losses from assets that intend to be hedged.

Q **How much were the insurance claims related to COVID-19 paid in 1Q in domestic business? To what extent did it contribute to the increase in gains from core insurance activities?**

A Although we continue to make a certain number of payments for those hospitalized as a result of infecting COVID-19, we have not conducted an internal tabulation because of the termination of special treatment for COVID-19 in individual insurance.

On the other hand, there is a positive contribution of approximately ¥20 billion to gains from core insurance activities on a pre-tax basis compared to the same period of the previous year.

Q **With regard to the full-year forecast of the Group adjusted profit, what factors will offset the impact of an increase of approximately ¥10 billion in DL's hedging costs?**

A Even after factoring in the decrease in interest and dividend income and the increase in hedging costs from the sale of currency hedged bonds in this fiscal year, we expect the full-year forecast to be achievable with a high degree of certainty.

The balance of DL's currency hedged bonds continued to be reduced in July as well with the pace faster than the initial plan and has already been reduced to the level close to the targeted balance assumed at the beginning of this fiscal year. We will continue to proactively control hedging costs.

Q **Regarding DL's 1Q results, is it correct that the high progress rate is due to gains from core insurance activities and expense profits? If the progress is in-line, will the progress rate slow down from here on to the target of the Group adjusted profit for the fiscal year?**

A DL's results are generally in-line with the budget. We are aware that gains from core insurance activities are slightly positive, but in general they are in-line. At this point, we do not expect any revision to the budget, and we do not anticipate factors that will have a negative impact from the 2Q onward.

Overseas Business: Investment Risk

Q **What is the outlook for PLC's credit costs for commercial mortgage loans, etc.?**

A Since PLC's 2Q results have not been disclosed at this point, we will answer a direction.

In 1Q, we made a provision of approximately US$26 million (after tax) for CECL (current expected credit loss), and we expect the provision in 2Q to be lower than in 1Q. Around two-thirds of the provision is not for individual loans, but a comprehensive provision for the sectors as a whole, calculated based on market indices, etc. The remaining one-third of the provision is for individual loans. Although we explained that there were individual provisions for some properties in 1Q, the impact is more due to the refinement of loss amounts in 2Q as a result of more precise estimate to be expected for sales, rather than an increase in number of loans which needs provisions.

We have diversified our commercial mortgage loan portfolio and do not expect significant losses at this point, and our full-year forecast remains unchanged. We continue to monitor the uncertainties related to the holdings of corporate bonds, etc. of the regional bank sector. We are also monitoring the balance and market value in a timely manner, but at this point there has been no significant decline in market value or impairment of assets.

Q **You have disclosed information related to PLC's commercial mortgage loans as of the end of March, but could you update the balance through June and July? Also, please tell**

us what the profile of the loans is such as whether they are non-recourse loans, what the Loan-to-Value level is, whether there are other investors with equity interests, what is the duration.

A We have no more information on the balance than we have disclosed until this time.
In terms of direction, there is basically no decision to significantly reduce the balance, and continues to be almost flat. As for the profile, we disclosed it including Loan to Value at our Financial Analyst Meeting on May 29, 2023, and PLC's 2Q results will be disclosed on its website on August 11, so please refer to that.

Q **PLC's disclosures show that it holds a reasonable amount of corporate bonds in the banking sector. Is there any impact or risk that we should take into account?**

A We monitor our positions and MTM in a timely manner, but there are no securities in which market value have been significantly affected by the downgrade at this point.

<u>**Intra-group reinsurance**</u>

Q **It was mentioned that the reinsurance transactions being considered in DFL for the second half of the fiscal year are expected to reduce the impact of the provision of regular policy reserves for foreign currency denominated products. Do you mean that by implementing the reinsurance, you can mitigate the burden which have already incurred in 1Q, or can mitigate the burden of what will be sold thereafter?**

A We cannot give you any definitive information at this point about the reinsurance transactions we are considering for the purpose of risk mitigation, but when we conducted intra-group reinsurance transactions for existing policies last fiscal year, the gains and losses resulting from the transactions were recognized in DFL's standalone basis, but eliminated in the consolidated results and the gains and losses were deferred. On the other hand, by utilizing reinsurance transactions, the provision of regular policy reserves for foreign currency denominated products, etc. at the time of new policy acquisition can be reduced consequently. Therefore, although the profit and loss impact of reinsurance transactions will be determined on a case-by- case basis, the downward impact on profit that occurs when new policies are acquired is expected to be mitigated to a certain extent.

<u>**Adoption of IFRS 17 in TAL**</u>

Q **TAL has restated prior year figures due to IFRS 17 adoption, and profits for the current period appear to have increased. Is it correct that this impact has been factored into the profit forecast?**

A We have spent more than a year preparing for TAL's adoption of IFRS 17. The budget for the current fiscal year has been set considering IFRS 17 adoption. On the other hand, it is true that in the process of retroactively adjusting the previous year's figures and recalculated based on the actual interest rates through the adoption of IFRS 17, there has been an upward swing due to impacts from interest rate that exceeded our initial assumptions. In the TAL's B/S in our material, the adoption of IFRS17 resulted in an adjustment in the B/S, such as an increase in insurance liabilities led by the decrease of DAC (deferred acquisition cost). As a result, when interest rates rise, the magnitude of the profit increase because insurance liabilities become smaller due to higher discount rates on insurance liabilities appears to be larger than before. This impact is counted in net income.

Management recognizes that the volatility of gains and losses due to interest rate fluctuations in these non-operating gains and losses in TAL and PLC is becoming larger. Therefore, how these gains and losses should be dealt in the group adjusted profit will be considered toward the next mid-term management plan.

From the perspective of capital circulation management, we put an emphasis on cash.

Whilst TAL's valuation gains and losses after adopting IFRS 17 will fluctuate depending on the external factors, TAL is able to hedge a volatility in capital caused by interest rate fluctuation. Hence TAL's dividend capacity is not as volatile as profit due to changes in interest rates. While we have not yet decided on a change in the definition of group adjusted profit, we believe that we will need to discuss and explain what level of remittance would be suitable, in the situation that interest rates were to fall and TAL's group adjusted profit were to be smaller, but TAL still had cash as capital surplus.

Q **With regard to TAL, you were supposed to forecast a year-on-year decrease in profit for the full-year forecast, but the profit for the 1Q has increased. Is this because the adoption of IFRS17 is having a more positive effect than initially expected?**

A Although there is a positive effect of increased income from protection type products and TLIS (Westpac Life) in Underlying Profit, the increase in net income due to the rise in interest rates has had a further large impact. While this impact exists even before the IFRS17 adoption, the magnitude of it become larger upon IFRS 17 adoption.

<u>Others</u>

Q **What is your view on changes in the market environment? Is there any change in your risk reduction policy (e.g., accelerating sales of stocks and increasing the volume of reinsurance) in response to rising stock prices and yield curve control change?**

A We are reducing market-related risks through sales of stocks, purchases of long-term bonds, and reinsurance transactions, with the aim of improving our risk profile to lower our cost of capital, without being impacted by short-term market fluctuations. Despite short-term fluctuations caused by yield curve control change, we believe that the current market environment, which combines a weaker yen and higher stock prices, and moderately rising yen interest rates, is relatively close to the ideal business environment for us. There have been no major changes in our policy of purchasing long-term bonds, reinsurance, and selling stocks and we have been executing it as planned without being influenced by the market environment.

Q **In Vietnam, it was mentioned that the local authorities are tightening the sales regulations in the banking channel. Is DLVN under investigation and what kind of action is needed?**

A As an industry-wide issue, the local authorities are investigating the banking channel sales, and we understand that DLVN is no exception.

The impact on DLVN's new business performance is not small, but compared to other competitors in the industry, the impact is relatively modest. There could be a temporary impact from authority inspections on past contracts, and regulatory changes as well. DLVN has achieved high growth so far, but it will be required to strengthen its compliance system going forward. However, DLVN has a high market share, therefore, the long-term prospects for its business remain unchanged.

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, ipet: ipet Holdings, PLC: Protective, DLVN: Dai-ichi Life Vietnam

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