

(Unofficial Translation)
FY2024-Q2 Financial Results Conference Call for
Institutional Investors and Analysts
Q&A Summary

Date: November 14, 2024, 16:55 - 17:40

Respondent: Taisuke Nishimura, Executive Officer (CFO)

[Earnings Outlook]

Q As described on p4, in the first half of the year, DL replaced a large amount of ultra-long-term JGBs. Is it correct to understand that the aim is to improve the portfolio by cutting losses on bonds with large unrealized losses and that the rebalancing had little impact on the duration matching? In addition, even after factoring in the extraordinary loss of ¥15 billion that is expected to be recorded in the current fiscal year due to the Second Career Special Support Framework, Group adjusted profit is still expected to be higher than the full-year forecast. The reason you are still keeping your earnings forecast unchanged is, for example, because of the possibility of further costs in the second half of the year, which might be considered on-track against the forecast? Or, although you did not revise earnings forecast, you still expects to exceed its earnings forecast? Please tell us about these factors, including how you perceive the progress against the profit forecast for the first half of the year.

A Against a backdrop of the rise in Japanese interest rates, bonds in which the market value had fallen significantly have been replaced. As for the duration, it has been lengthened slightly. Partly due to the fact that the replacement of domestic bonds, which have a very low market value relative to their book value, has progressed to a certain extent in the first half of this fiscal year, we do not currently anticipate the same scale of replacement in the second half of the fiscal year. Regarding the full-year outlook for DL investment income and expenses, we assume the upward swing in the first half will remain in the second half, and that the full-year forecast will be approximately ¥20 billion higher than the plan. In addition, although the results of capital gain in the first half of the fiscal year are higher than the initial plan, we believe that the capital gain for the full-year will be generally in line compared to the plan, partly due to the contribution of the advance of gains on the sale of domestic equities. The above-mentioned extraordinary losses will offset the upward swing in investment

income, but even taking these factors into account, we currently believe that DL will slightly exceed its full-year profit forecast.

Q Regarding the replacement of the domestic bond, if we assume a remaining duration of 20 years for example, is it correct to say that ¥140 billion divided by 20, which is about ¥7 billion, will boost the investment yield in the next fiscal year and beyond?

A As for the level of boost to investment yields, it feels not different at that level of ballpark.

Q I would like to review the progress of adjusted profit against the initial plan. For DL, it seems that the positive spread is expected to surpass the initial forecast by ca. ¥20.0 billion for the full year, and even after considering the anticipated extraordinary loss of ¥15.0 billion, it is projected to exceed the initial plan slightly. Are there any additional factors I should confirm for other subsidiaries? For instance, I understand that Benefit One's intangible asset amortization has decreased compared to the initial plan.

A For DL, there are additional positive factors, such as improved reinsurance costs due to rising interest rates. For DFL, we expect some of the upward swing in adjusted profit seen in the first half to remain for the full year. As for Benefit One, as you mentioned, the Purchase Price Allocation process resulted in a lower-than-expected intangible asset amortization, and its contribution to the group adjusted profit is expected to surpass the initial forecast. PLC is anticipated to achieve adjusted profit in line with the initial plan.

Q The progress of adjusted profit has reached 72% of the plan for the first half, with ca. ¥70.0 billion above the half of the full-year forecast of ¥170.0 billion. Ca. ¥20.0 billion is attributable to a higher positive spread, while the remainder appears to be the result of front-loaded capital gains. Is it correct to assume that these front-loaded gains will not carry over until the end of fiscal-year end?

A Regarding the sale of domestic equity, the proportion of book value and unrealized gains varies by each securities. In the first half, securities with significant unrealized gains were sold, leading to front-loaded profits. We are confident in achieving the full year adjusted profit forecast of ¥340.0 billion, but we are closely monitoring exchange rate fluctuations. Based on an exchange rate of ¥143 per dollar as of the end of September, we do not expect the adjusted profit to fall below ¥340.0 billion. However, given potential fluctuations in exchange rates and uncertainties such as the amount

of extraordinary losses associated with the Second Career Special Support Framework, we have decided not to revise the full-year forecast upward at this point.

Q Could you share the sensitivity of adjusted profit to exchange rate fluctuations?

A 1-yen appreciation of the Japanese yen is expected to have a negative impact of ca. ¥1 billion on annual adjusted profit.

[Sale of DL domestic equities]

Q Regarding the ideal level of domestic equities holdings, is there any update from what you mentioned "less than ¥2 trillion" in May? With reports that the FSA has added corporate life insurance contracts to its scope of investigation in response to the information leak issue, is there a possibility that you will accelerate the reduction of domestic equities of your business partners in the same way as in the P&C sector?

A We recognize that P&C insurers that are in process of selling domestic equities hold the shares of their business partners as cross-shareholdings, but DL's share holdings are pure investments except for two companies, so the situation is different. We are planning to explain the ideal level of domestic equities holdings, including the amount, etc., at the financial analysts meeting on November 29, and we believe that it is reasonable to hold a certain amount of risk assets, including equities.

Q Regarding the reduction of domestic equity to reduce market-related risks, the total reduction amount has already been nearly ¥400 billion in terms of market value. Considering the plan of selling ¥1.2 trillion over the three-year period of the mid-term management plan, averaging ¥400 billion per year, does that mean that no further equity sales will be made this fiscal year? Or will you actively sell ahead of schedule?

A Regarding the market price changes in p12, although the impact of the decline in the market value of shares held that have not been sold is included, the basic line is to reduce the amount to an average of ¥400 billion per year over the three years of the mid-term management plan. In the first half of this fiscal year, progress is ahead of schedule compared to the full-year plan. In addition, over the three-year period of the mid-term management plan, the amount of sales for the current fiscal year is expected to be slightly ahead of schedule.

Q On p12, the "net sales amount" of domestic equities is stated to be ¥260.2 billion. What did you netted-out from the gross number?

A We intends to reduce the balance of DL's domestic equities, but since they are for pure investment purpose, we have also made some reshuffles in our domestic equity portfolio by purchasing others, and the net decrease in the amount is shown on that page.

[ESR·EV]

Q With regard to Group VNB and EVs, will the measurement method of overseas subsidiaries be shifted to the new standard at the end of the fiscal year ending March 2025? Even after the transition to the new standard, is the Group VNB expected to exceed the full-year forecast of 105 billion?

A The full-year forecast of ¥105 billion for group VNB is expected to be achieved under the current standards, and no numerical measurements have been taken under the new standard at this point. Preparations are underway for overseas subsidiaries to transition to the new standards as of the end of March 2025.

Q Regarding the ESR measurement method, you mentioned that it could drop by 20-30% points after the overseas subsidiaries are transitioned to the new standard. Is it correct to understand that the figures as of the end of the fiscal year ending March 2025 will be disclosed at around May 2025?

A We are preparing based on that schedule.

Q Regarding the Ultimate Forward Rate ("UFR") set by your company at 2.5%, we have observed that the market yield on 40-year bonds has surpassed 2.5%. Since it applied by your company is now at a lower level, will you consider revising it if the current market environment persists or if interest rates rise further?

A A revision of the UFR may be possible in the future, but there are currently no plans to do so. It is estimated with the aim of mitigating volatility and risks when evaluating and calculating on an economic value basis. Therefore, we do not anticipate an immediate revision of it in response to rising interest rates.

[DL domestic new business]

Q As described on p7, the number of sales reps hired, which had been rising steadily, declined in the second quarter. Were there any seasonal factors or operational changes behind this?

A In the first quarter, we operated in such a way that the number of hires exceeded the planned number of hires, as the number of hires had been below the planned number up to that point. Basically, the operation is to recruit 1,000 people every quarter.

[Second Career Special Support Framework]

Q Is the Second Career Special Support Framework targeted at DL's employees other than sales reps? And am I correct to assume that 10,000 people are eligible for the program? In addition, through this framework, how effective will the reduction in business expenses be from the next fiscal year onward? In addition, in the calculation of EV, does it have any impact?

A The Second Career Special Support Framework is a system that supports career choices for employees who have achieved a certain level of career in the course of promoting the Group's transformation, and is intended for employees aged over 50 and those who have been with the company for 15 years or more. The approximately 1,000 employees will account for ca. 7% of the total number of such DL's employees other than sales reps and employees on secondment. It is currently expected that there will be a reduction in operating expenses of ca. ¥9 billion in the next fiscal year. For EV, although it is not reflected in the calculation of the figures at the end of September, it will have an impact as an operating expense from the Q4 onwards.

Q It is said that the Second Career Special Support Framework is not a personnel reduction, but does this mean that there is currently a surplus in the number of employees other than sales reps at DL's head office and branch offices? In addition, we think that some of the people who are eligible for this framework are excellent human resources in specific fields. If such personnel were also subject to the framework, it might have a negative impact on the company. Is it designed to prevent the outflow of those human resources?

A We intend to continue to promote investment in human resources, and this framework is designed to support employees who have reached a certain age and length of service by adding a support payment to the regular retirement benefit in order to support their second career. It does not target specific departments or positions for the purpose of cost reduction.

Q If the number of applicants is unevenly distributed among some branch offices and the head office, it could have a negative impact on organizational operations, but is such a situation to be prevented?

A In principle, all employees who apply for the framework are eligible, However, if there are more applicants than expected, or if it is expected to be difficult to continue stable business operations, it is designed to allow us to make a comprehensive decision on who is eligible.

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, PLC: Protective

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