(Unofficial Translation)
FY2024-Q2 Financial Analyst Meeting
Q&A Summary

Date: Friday, November 29, 2024 10:00 - 11:45

Respondent: Tetsuya Kikuta, President, and Representative Director (CEO)
Taisuke Nishimura, Executive Officer (CFO)
Toshiaki Sumino, Representative Director, President, The Dai-ichi Life Insurance Company, Limited

[Financial and Capital Strategy]

Q Assuming an ESR of 200%, equity risk could be considered to reduce by ca. ¥0.8 trillion by the end of FY2030, resulting in the release of ca. ¥1.6 trillion (over ¥200 billion each year) of capital. In that case, how will the capital to be released during the current mid-term management plan (MTP) period be utilized? In addition, you indicated that you may revise forecast of the adjusted profit for the current fiscal year at the time of disclosure of the Q3 results, please tell us if you are also considering to revise the shareholder return policy at this time.

A Our top priority during the current MTP period is to achieve capital efficiency that consistently exceeds the cost of capital. Based on our full-year forecast of ¥340 billion, the adjusted ROE for this fiscal year will be ca. 9%, which is about the same as the 9% cost of capital we recognize, and we still have not achieved capital efficiency that consistently exceeds the cost of capital. Regarding shareholder returns, especially cash dividends, although the dividend payout ratio has been raised to 40% from the current fiscal year, we do not think it is attractive from the perspective of dividend yields, etc. In light of this situation, we will consider overall shareholder returns, including share buybacks, considering HD's cash position at the end of the current fiscal year.

Q Given that your target for the balance of domestic equity holdings will be at ¥1.5 trillion or less on a market value basis by the end of FY2030, and assuming that ¥1.2 trillion will be reduced over three years during the current MTP period and an additional ¥1.2 trillion will be reduced over the next four years (until the end of FY2030), what will be the pace of reduction? Will the pace of reduction be ¥400 billion /year during the current MTP period and ¥300 billon /year during

the four years from FY2027 onward? Or is there a possibility that reductions will be made ahead of schedule, such as by bringing a part of the sale forward to the current MTP period?

A Regarding the sale of equities, our basic policy is to ensure the sale of ¥1.2 trillion during the current MTP period. While we do not deny the possibility of selling them ahead of schedule, we do not have such a plan at this moment. However, the balance of ¥1.5 trillion at the end of FY2030 is the maximum amount. Therefore, additional sales may occur depending on changes in the market environment, equity market trends, our risk profile, and other factors. Although we have not set an exact pace of selling them, we intend to reduce the amount ahead of schedule if possible, or at an even pace if not. We do not expect cases where sales will be inclined to backward.

Q Regarding the target ROE level for FY2030 indicated in the HD material (p17), if it reaches the mid-10% range, it will be about the same level as P&C Insurers, which is quite attractive, but what are your thoughts on the probability of achieving it?

A The capital efficiency of insurance groups in Europe and the U.S. is about 13-15%, which is almost the same level not only for insurance group centered on P&C, but also for the ones centered on life insurance. We intend to make more efficient use of capital by selling equities and allocating the cash generated from such sales to strategic investments. According to our internal estimates, we believe it is possible to reach this level. We believe that by reaching this level, we will be able to become an insurance group that can compete at the global top-tier insurers for the first time.

Q Regarding the cash generated from the sale of equities, we understand that during the current MTP period, the company intends to allocate the proceeds from the sale of equities to shareholder returns and strategic investments, while the book value portion will be invested in fixed-income assets and private assets in order to improve the positive spread. You explained that you plan to sell ¥1.2 trillion or more of domestic equities on a market value basis between FY2027 and FY2030. How will you use the cash generated from it? Do you expect to make any major strategic investments during the next MTP period?

A In the case of DL, equity holdings are linked to insurance liabilities as part of asset management, and the principal (book value) portion of the ¥1.3 trillion needs to be reinvested to match the insurance liabilities. The reinvestment targets are assumed to be long-term bonds and a certain amount of risky assets such as alternative assets.

However, the portion of the gain on sale, net of taxes, etc., will be remitted to HD and used for strategic investments and shareholder returns. Unrealized gains on the domestic equities at DL is large, and the break-even point for its unrealized gains is low, at ca. ¥12,000 based on the Nikkei Stock Average. Although it depends on the stock price level at the time of sale, at present more than two-thirds of the sale amount, minus taxes, will be remitted to HD. In terms of the use of the remitted cash, we plan to focus on shareholder returns in order to improve capital efficiency during the current MTP period. On the other hand, from FY2027 onward, assuming that the improvement of capital efficiency has been achieved, we will shift the use of cash toward strategic investments, with the aim of achieving higher profit growth.

Q **We have heard that you expect both Group EV and ESR to decrease due to the revision aligned to new economic value-based regulations for overseas subsidiaries as of the end of March 2025. The amount of risk will decrease with the announced sale of DL's domestic equities, but what is your expectation for the absolute level of Group EV and ESR in the future, and if you expect to take any action?**

A Regarding ESR, we plan to change to the method aligned to new economic value-based regulation for overseas subsidiaries from March 2025, and the disclosure is scheduled for around May 2025. Although the figures are only a rough estimate, we expect the Group ESR to decrease by about 20%-25％ points. However, as constraints on strategic investment and shareholder returns, we think there are two considerations such as HD cash constraints and the need to control the Group ESR to an appropriate level of 170% to 200%. There has been no change in our view that a level of 170% to 200% is necessary to aim for becoming a global top-tier insurers. Going forward, we will continue to maintain our ESR within appropriate range, utilizing subordinated debt financing if necessary, so that the level of ESR will not be a constraint on the use of HD cash generated from subsidiary profits for strategic investments and shareholder returns.

Q **We think you are currently holding about ¥1 trillion in subordinated debt, but how much more do you think you can raise? In addition, we believe you previously explained to us that if you changed your overseas subsidiaries to the method aligned to new economic value-based regulation, ESR would decrease by ca. 20% to 30% points, but we would like to know if you have updated information on this.**

A Our Group is trying to maintain the level of existing external rating, and our current leverage ratio on our internal model is ca. 25%. Based on the current capital structure (debt, loan, etc.), we think we have a capacity to raise an additional subordinated debt for ca. 5% in terms of the level of leverage ratio. Although we cannot give a detailed figure on how much the Group's ESR will decrease, we expect it to remain unchanged at around 20% to 30% points. However, we expect that it will remain within our target level of 170% to 200%, and that the downward shift will not be so negative as to affect our financial and capital strategy.

Q **Regarding the mass lapse risk, it was explained during the Q1 conference call that you will discuss how to treat this going forward. Please let us know if there is any update on this. Some other companies have suggested that they may revise the assumption of mass lapse risk. Is there a possibility that you will be managing and reviewing the risk based on an internal model separate from the pillar-1 of ESR?**

A It is difficult to consider the details of an internal model at this point as the FSA has not yet clearly indicated the basis for mass lapse risk. Research should be progressed by each individual companies, but we would like to consider including reflection of it on the internal model based on the discussion in the industry as a whole.

Q **The FSA is soliciting public comments. Are there many voices in the industry as a whole that say that the assumption of mass lapse risk should be reconsidered?**

A I cannot answer on behalf of the industry as a whole. From our perspective, it seems conservative to some extent.

Q **Looking at the stock price, the market capitalization of ca. ¥4 trillion, and the adjusted net assets for calculating adjusted ROE are ca. ¥4 trillion, so the market is pricing in a PBR of one time. On the other hand, the EV that incorporate future profits are about ¥8.8 trillion, which means that the market has not factored in future profits at all. For example, if you make a profit by selling existing contracts and buy back shares boldly, you may be able to achieve your target adjusted ROE level at the end of fiscal 2030 in a short period of time. If such insurance block transactions become easier as interest rates rise and foreign PE funds flock to Japan, is there a possibility that the**

management decisions and innovations which is different from the past will emerge?

A Our current EV multiple is in the 0.4 times range, as you have pointed out, which is very undervalued compared to the global top tier. Toward FY2030, we aim to improve not only P/B ratio but also P/EV ratio by improving capital efficiency. The trend of insurance companies affiliated with PE funds acquiring existing insurance blocks, which started in the U.S. in particular, has spread to Europe, and we recognize that such players are aggressively seeking to enter the Japanese market as well. In the U.S., there is also a movement to liquidate insurance blocks in the form of sidecars, and it is notable that the liquidity of insurance blocks is increasing. Therefore, we think it is important to closely monitor such trends, but we recognize that the liquidity of insurance blocks has not yet reached a situation where it is recognized and accepted by stakeholders such as society and customers in the Japan market, and we believe that it is premature to implement such measures on a certain scale from our perspective. In addition, especially in the domestic business, we believe that it is very important to ensure that customers are provided with safety and security, through ensuring that the ability to pay insurance benefits is guaranteed over a long period of time. At present, we would like to ensure the progress for improving capital efficiency and transforming our business portfolio. In addition, the effectiveness of reinsurance has increased significantly in the phase of rising interest rates. We intend to utilize reinsurance aggressively for the unprofitable blocks, such as the negative spread block in various forms.

Q Regarding the risk composition of risk assets in the HD material (P18), the target for FY2030 and beyond is set at one-quarter each for domestic securities, foreign securities, alternative securities, and real estate. Will this target be naturally achieved through a reduction in the risk associated with equities, or does it also require an increase in the allocation to other risky assets? Furthermore, is it possible to offset the decline in income gains resulting from the sale of domestic equities?

A Since equities are highly volatile and have a large amount of unrealized gains, we intend to continuously reduce our equity holdings to enhance capital efficiency. At the same time, it is extremely important to increase the profitability of the asset management portfolio while optimizing risk-return balance. While this depends on the market environment and interest rate levels, the principal (book value) portion generated from the sale of equities will be allocated to JGBs and other risky assets to strengthen the profitability of the asset management portfolio. In particular, we take pride in our pioneering efforts in alternative assets and have ample expertise in this area. We plan to continue actively pursuing opportunities in alternative investments.

Q **In the HD material (P19), it is stated that the dividend payout ratio is expected to be at the 50% level. Since it is currently at the 40% level, it will be increased by 10%. Is it correct to understand that the total return ratio will also increase by 10% points? In addition, dividends were calculated based on the three-year average of adjusted profit. Can we assume there will be no change to this approach?**

A Regarding the dividend payout ratio, we cannot specify a clear timing for raising it at this time, but we would like to raise it to the 50% level at an appropriate time. In addition, there is no intention to change the method of based on the average of the past three fiscal years of adjusted profit at this time. As for the total return ratio, we have maintained a level well above 50% in recent years, and we believe that it will not fall below 50%. During the current MTP period, the amount of share buybacks has been determined based on whether capital efficiency stably exceeds the cost of capital. From the next MTP onward, the level of share buybacks will be determined based on an assessment of whether capital efficiency, assuming it consistently exceeds the cost of capital, can be raise to the same level as major insurance groups in Europe and the U.S. toward the end of FY2030. After achieving a 50% payout ratio, we will not necessarily set a specific numerical target for the total shareholder return ratio but will conduct share buybacks as necessary to achieve our target.

Q **If the target adjusted ROE level is 13% to 14%, would it be correct to assume the total payout ratio would likely range from 70% to 100%? In addition, while the global top-tier companies may have similar ROE levels, they seem to have already established their business portfolios. Do you expect to complete the development of your business portfolio by FY2030?**

A If we aim to achieve a higher level of adjusted ROE than 10% on an organic basis in FY2030, the total shareholder return ratio would need to increase significantly. Our current focus is on transforming the Group's business portfolio. Our goal is to enhance growth potential by changing the business portfolio through M&A to some extent by FY2030. In that context, we do not foresee a significant increase in share buybacks after FY2027. While we do not rule out the possibility of share buybacks if no suitable M&A opportunities arise, our primary strategy after FY2027 will focus on making strategic investments to drive growth and restructure the business. In addition, from FY2031 onward, we aim to establish a business portfolio capable of achieving sufficient capital efficiency without relying on gains from the sale of domestic equities.

Q **Regarding the domestic equity reduction, while reinvestment is understood to be necessary, rising interest rates have resulted in significant unrealized losses on bond holdings. It seems that improving the quality of the ALM portfolio and the company's capital portion as an insurer is essential. Would it not be necessary to use the gains from the sale of equities to offset losses and enhance the robustness of the ALM?**

A While assets and liabilities are matched on an economic value basis from an ALM perspective, it is true that unrealized losses on an accounting basis, particularly in the ultra-long bonds, have been increasing. In the first half of this fiscal year, DL conducted a replacement operation for ultra-long-term bonds, not only to strengthen capital but also to improve the portfolio and profitability by realizing some unrealized losses on these bonds and reinvesting in higher-yield bonds. This operation utilized a portion of capital, funded through gains from both domestic and foreign equities as well as other investments. Of course, we recognize that the same capital is also used for shareholder return and strategic investments, so these operations are carried out modestly to avoid negative impact. For the second half of this fiscal year, given the current level of interest rate levels, we don't plan to conduct the same scale of massive yen-denominated bond portfolio replacement as in the first half of this fiscal year.

Q **In the HD material (p18), it is mentioned that "A fixed-income portfolio dedicated to insurance liabilities will be prepared separately" regarding the reduction of risk exposure within risk assets. Could you elaborate on what types of assets, other than risk assets, the released risk exposure will be reallocated to?**

A Within our portfolio of risk asset, the areas where we are increasing exposure primarily include private debt, private equity, and real assets (such as real estate and infrastructure). We are actively reinvesting in these domains, taking on reasonable levels of risk.

Q **The market seems to expect the cash generated from domestic equities sales to be largely allocated to shareholder returns and strategic investments. While**

the gains from the sale of domestic equities by DL are remitted to HD, serving as a source of dividends, bond sales resulting from the life insurance company's investment operation may incur losses, potentially reducing the cash remittance amount. We believe it is important for DL to clearly disclose to the market how much of the gains from the domestic equity sales are offset by losses from bond sales.

A The losses from the sale of JGBs of ca. ¥160 billion in the first half of this fiscal year were effectively offset by proceeds from sales of various assets, including but not limited to domestic equities. We also understand the importance of maintaining DL's financial soundness and robust solvency under accounting standards, as necessary.

[DL sales]

Q Since President Sumino was appointed president of DL in April 2023, could you share any differences between your expectations before assuming the position and what you actually observed during your visits to sales offices? In addition, you mentioned that DL does not plan to sell single-premium whole life insurance in the future, but given the market environment, we think it will be challenging to improve the bottom line while maintaining the top line in competition with large mutual companies. What are your thoughts on this?

A When I first assumed my position, there was a period when sales targets were not set because sales activities were restrained due to the Covid-19 and strict compliance measures implemented in response to the misconduct case. This led to a certain degree of diminished motivation and unity within the sales offices. The situation turned out to be more serious than initially anticipated, and addressing it required considerable time and effort. On the other hand, the focus on ensuring compliance helped lay a solid foundation for pursuing operational stability and management quality. Under these circumstances, although it took some time, we succeeded in fostering a sense of unity and reforming awareness among employees, making them realize that putting customers first and ensuring compliance could coexist with achieving sales growth and generating profits. This transformation has contributed to the positive results achieved in the first half of this fiscal year. In addition, Regarding the competitive environment, we are surrounded by mutual companies with different corporate structures, so elements such as policyholder dividends are not directly comparable. However, we strategically set the assumed rate of return for products such as term insurance and level-premium whole life insurance at 0.90% from FY2019 to align with customer needs and expectations.

However, we have refrained from selling single-premium whole life insurance, taking into account risk management, ALM considerations, and capital discipline. In addition, as a listed company with a holding structure, our group continues to expand into various business domains not only internationally but also domestically, as demonstrated by the integration of Benefit One into our group this fiscal year.

Q **Other competitors have been reported to be raising the assumed rate of return for their level premium products. Regarding DL's product strategy, will it be able to maintain the superiority of its products if competition arises to revise the assumed rate of return for its products in the future when interest rates rise?**

A Regarding the assumed rate of return, we believe our current levels are comparable to those of other companies. In an environment where interest rates are expected to increase again in the future, we will discuss what level should be set for various rates related to insurance products, including the assumed rate of return, in order to meet customer needs and enhance corporate value. In addition to the assumed rate of return, there are various ways to respond to product features, such as cash value, time horizon for its realization, and the presence of features like MVA. For example, our individual annuity, “Step Jump”, is a so-called fixed indexed annuities with a middle-risk, middle-return profile. In the past, there was no assurance that customers would fully understand these optional products. However, recent sales trends have been robust, reflecting the public's growing financial literacy and a broader shift toward Japan becoming a Leading Asset Management Center through initiatives like NISA and iDeCo. We will not be confined to fixed-rate products but will differentiate ourselves by introducing products that match market trends and meet the diverse needs of our customers.

Q What level of the number of sales reps in DL do you envision in your business plan for 2030?

A Regarding the number of sales reps, the background of the higher-than-expected number of decreasing in the past is as indicated in the DL material. We have been focusing on hiring and training in order to reverse this trend. What we want to make clear is that we are thoroughly committed to quality over quantity. As far as that quality can be ensured, management is strongly conscious of the importance of reversing the number of sales reps, including recovering the increased numbers of people that left the company in the last few years. Therefore, there is no doubt that we will aim the increased number of sales reps for 2030 compared to the current figure. On the other hand, considering that quality is more important than quantity, we recognize that it will be difficult to reach the past level of 40,000. However, although the number of sales reps will probably be below 40,000, we will aim for a higher level of sales reps numbers than at present while ensuring quality. Looking further ahead, we would like to shift to a business model that can ensure productivity, the top line, and the bottom line, even if the number of sales reps does not reach 40,000, given the declining birthrate, aging population, and competition for human resources throughout Japan in the time frame up to 2030.

Q **Looking at the MDRT members in DL, I feel that many of them are older. Considering the aging of the superior performers, I feel that it may be difficult to maintain the current scale of 33,000 members. Given this background, is it correct to understand that you are factoring in an increase in new hires?**

A The average age of sales reps, especially MDRT class members, is raising, but the new recruits hired under the new system are younger than in the past, and the retention rate is high. If we are able to recruit and train a solid number of people at a scale of more than 4,000 per year, we believe that we will be able to maintain the larger scale of the sales reps for 2030 than now.

Q Regarding the value of new business for DL, the performance in FY2024 is expected to be much higher than forecast, but please tell us what specific level of growth you expect during the current MTP period. The levels of the value of new business for Q1 and Q2 are almost the same, but considering what you are currently working for, which level of growth do you expect?

A We cannot give specific figures for the value of new businesses for the second half of the fiscal year, but we expect it to be about the same level as for the first half. We are currently preparing various measures to achieve another higher level of the performance for the next fiscal year, such as product development.

[Business Performance]

Q You explained that the improvement in investment yield at DL is expected to be plus ¥11 billion per year for FY2025 and FY2026 for the Group's adjusted profit target of ¥400 billion for the MTP period. Given that M&A in overseas business is expected to contribute to profits in the future, could you tell us if there are any other upside or downside factors that are expected at this point?

A As you pointed out, an increase in the positive spread on the back of rising interest rates in Japan at DL and other subsidiaries will be an upside factor. In addition, although it depends on the level of interest rates, we may aim to further increase the positive spread by accelerating the pace of ceding, as higher interest rates will enable the company to reduce losses related to ceding of insurance blocks with high assumed rates of return. Since the contribution to profits from the sale of domestic stocks is not permanent, we would like to establish a system that we can generate stable profits through income gains to achieve a profit level that ranks with the global top-tier companies. However, except for changes in the financial market environment, our business portfolio is well diversified, and we have established a structure that can secure stable earnings, mainly from overseas operations.

[Other]

Q Could the introduction of a stock compensation plan, which is only possible for listed stock companies, be a differentiating factor against competing mutual companies?

A Differentiation strategy is an important theme for us. The stock compensation plan is a differentiating factor unique to us, a listed stock company, and we believe that it has been particularly well received as a positive factor in recruiting human resources. The program is open to all employees who have a contract with DL, whether they are sales reps or not, and is actively used in a variety of ways, with an additional stock compensation scheme as an incentive plan for those who lead an organization including department heads and line managers. We believe that these will result in values that unites the mindset of all employees of our company, which is a listed stock company.

Q I would like to know the background to the fact that the "Second Career Special Support Framework" covers people in their 50s and over. Was there a gap between the human resources who joined the company when it was a mutual company and the image of the human resources that management is looking for now, due to the change in management policy after the company went listed? Also, is there a possibility that people like the heads of each department will also apply for it?

A The "Second Career Special Support Framework" is designed to meet the needs of employees who want to continue working beyond the age of 60s or 70s in the age of 100-year life. Retirement benefits were limited for those who left the company in the middle of the term, and sufficient support was not provided to help them consider their next career. The aim of the framework is to support this, and we would like to support the employees to consider a variety of options while taking into account the differences in individual values. Those who serve as heads of each division are not eligible for it.

Q **The FSA has conducted a survey on the sale of savings products denominated in foreign currencies, and many insurance companies are considering reviewing sales from the next fiscal year onward, but will this affect DFL's performance in the next fiscal year? In addition, I think, with the revision, sales commissions will be spread over the second and subsequent years, instead of being paid in a lump sum in the first year. While there is an advantage of reducing the costs recognized in the first year of the DFL (according to Japan accounting standards), there could be a disadvantage in reducing the first year's commission for the sales reps of DL who sell the products. Is it conceivable that this would reduce the willingness of DL sales raps to sell the products?**

A Regarding DFL's foreign currency-denominated products, it is true that some have pointed out that target attainment (a mechanism for shifting to yen-denominated whole life insurance when the target value set by the customer is reached in advance) may have a slightly different effect from the original role of insurance products, like early prepayment, and that commissions are too biased toward the first year. Regarding these points, the Group is voluntarily making improvements without waiting for the next fiscal year. Specifically, the Group is taking steps to raise the level of target attainment, to eliminate target attainment for some products, and to lower the level of commissions for the first year in advance. In addition, the percentage of DFL's foreign currency-denominated products has been declining due to rising yen interest rates and increased volatility of foreign exchange rates, while yen-denominated products have been performing well, so we recognize that the review of product features and fees will not have a significant impact on the company's performance. If the commission structure of DFL is changed, there will be a certain impact on the commission income of DL and sales reps. However, compared to FY2022 and FY2023, when the sales weight of DFL products was high, the current policy is to strengthen sales of DL's own protection and savings products on the premise that customers' needs are the top priority, rather than being overly inclined toward foreign currency denominated products which sales volume fluctuates depending on interest rates and foreign exchange rate levels. Therefore, the dependence on DFL products and their commissions has been decreasing from the second half of last fiscal year to this fiscal year, and the impact of the DFL commission review is considered limited at this point.

Q **The allowance ratio for commercial mortgage loan (CML) risk held by PLC remained very low at the end of September. I understand that one factor is that the office proportion is lower than its peers, but please explain why no major payment delinquencies have emerged and provisions remain low. In addition, it appears that U.S. interest rates will remain high for some time, but have you raised your view of risk?**

A As indicated in the 2Q conference call material (P34), there has been no significant change in the CML of PLC as of the end of September since the end of June. While the company has made a few million US dollars of provision for individual CML, there has been a reversal of provisions based on the economic outlook. This is due to the fact that, with the exception of some properties acquired through acquisitions of insurance blocks, the company has been investing in a small number of properties at fixed interest rates and focusing on investments with low loan-to-value ratios.

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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