(Unofficial Translation)

FY2024-Q1 Financial Results Conference Call for Institutional Investors and Analysts

Q&A Summary

Date: August 9, 2024 16:55-17:40

Respondent: Taisuke Nishimura, Executive Officer (CFO)

Akifumi Kai, Executive Officer

【ESR・Value of New Business(VNB)】

Q Although the actual number of lapse has not increased significantly, the mass lapse risk mentioned in page 9 is a negative factor for ESR due to the increase in the amount of risk. Previously, you have a concern whether the mass lapse risk under the J-ICS standards is in line with reality, but has this perception changed? In addition, there is a statement that seems to indicate the potential changes in the use of hedging and product strategies. Please tell us your thoughts of this statement, including the future direction of the company.

A The mass lapse risk under the J-ICS standards as currently indicated is the amount of risk if 30% of individual contracts and 50% of corporate contracts are immediately cancelled, and we recognize that this is a risk scenario that is somewhat different from the actual situation of our company. On the other hand, we are also discussing internal models, but we think that it is difficult to make a unique conclusion, for example, how to consider the immediate cancellation rate of individual contracts in a risk scenario, such as whether 20% is acceptable if 30% is not. Regarding product strategy, we do not currently anticipate any major changes to our current strategy stance. While we recognize that the mass lapse risk will increase when interest rates rise for savings products with single premium and insufficient surrender deductions, we do believe that this will not significantly change our product strategy. However, if the current version of J-ICS standards were to be implemented as they are, we are still considering how we should control the mass lapse risk. As an example, we considered the idea of using something similar to CAT (catastrophe) risk reinsurance, but it would be difficult from a protection gap perspective when considering a whole market. With the current sufficient level of ESR, we are in a situation that our capital policy is constrained by HD cash, rather than the level of ESR. Therefore, even if mass lapse risk is taken into account, it does not have an immediate impact on shareholder returns or strategic investments. We will continue to discuss how to organize the treatment of mass lapse risk and what risk appetite should be adopted.

Q **Regarding the domestic VNB, it has progressed to ca. 40% of the full-year forecast at the end of Q1. Can we expect the recovery of VNB to continue throughout this fiscal year?**

A We currently assess that DL's VNB is recovering steadily. We will continue to discuss internally how to further recover our sales performance, including maintaining sales momentum by launching attractive products and maintaining and improving the activity volume through various sales promotions.

Q **Is the result of ca. ¥20 bn in VNB for Q1 in line with the full-year forecast of ¥35 bn for DL?**

A It is generally in line with our expectations.

Q **The progress rate of DL standalone VNB exceeded 50% of the full-year forecast in Q1 alone. We heard that the new product "Step Jump" has a low new business margin. What is the driver of such a large increase in DL's VNB since April?**

A VNB is calculated by deducting costs from revenues, and for savings products, the effect of interest rates is taken into account. Since "Step Jump" is an annuity product, profitability was partially affected by the change in interest rates between the time the product was launched and now. In addition to "Step Jump," sales of the protection product that was recently released and the business owners' insurance product that was slightly revised in terms of product details were also strong, contributing to the increase in VNB.

Q **How much of DL's VNB of ca. ¥20 bn is contributed from "Step Jump"?**

A The estimated amount is ca. ¥5 bn, including cost allocation effects due to the large increase in the number of new policies.

【Oversees Insurance Business】

Q **If U.S. interest rates decline, will the PLC's adjusted profit be affected through valuation gains or other factors?**

A Until FY2023, PLC's adjusted profits were defined as net profit after tax (NPAT) under US-GAAP, making the adjusted profits highly sensitive to interest rate changes due to the impact of accounting valuation gains/losses. Starting in FY2024, we have updated the definition of PLC's adjusted profits, excluding accounting valuation gains/losses from the calculation. Although there is some impact of interest rate changes on operating activities, the new definition eliminates the impact of accounting valuation gains/losses, which can cause significant changes in adjusted profit. Similarly, both TAL and Partners Life have also revised their definitions of adjusted profits with this in mind.

Q **Could you tell us if there is any update on PLC's financial results from the time you disclosed your full-year outlook in May, including the status of commercial mortgage loans?**

A For commercial mortgage loans, slides that were previously disclosed at the financial analyst meetings are now included within the conference call materials. The current expected credit losses (CECL) includes a general allowance based on macroeconomic information, etc., and an individual allowance estimated for each property, the latter of which decreased in Q1 as the allowance decreases when the loans are written off. We will continue to monitor the commercial mortgage loan market closely, but we don’t see any major concerns at this time based on the level of DSCR and other conditions in the U.S. market.

Q **When looking ahead to the annual unlocking process, is there any particular concern about negative impacts due to current market fluctuations, etc.?**

A PLC discloses the impact of unlocking at the timing of each fiscal year's Q3 financial results, so we cannot answer the impact for FY2024 at this time. Although there have been cases in the past when interest rates have risen, which have impacted PLC’s performance because of an increase in the lapse rate, we don't recognize any particular items for concern at this time.

【DL's Asset Management】

Q **Regarding the sale of domestic equities, if ca. ¥1.2 tn, which is 30% of the ¥4 tn market value of holdings as of the end of March 2024, is to be sold over three years, it would mean an average sale of ¥400 bn per year. Is the current pace of equity sales ahead of schedule? Also, in terms of your approach to the reduction of domestic equities, which is more emphasized, the ¥1.2 tn amount of equities sold or the 30% reduction ratio? Please also tell us how you would handle in case the stock prices decline.**

A The sale of equities will be executed by considering fluctuations in market value, capital conditions, and the use of capital. Therefore, the amount of equities sales is not determined digitally, and our policy is to respond flexibly. Under this policy, stock sales are progressing ahead of plan in Q1.

Q **Q1 Gains/losses on sales of securities was ca. ¥40.0 bn higher than the forecast. Will this figure be overachieved the full-year plan, or is this just the gain recorded ahead of schedule within the full-year plan? In addition, what was the total amount of domestic equity sales in Q1?**

A The amount of domestic equity sales in Q1 was ca. ¥100 bn. Regarding gains/losses on sales of equity securities, Q1 includes the portion of the sales planned for the remaining periods of this fiscal year that has been brought forward, and the amount of upswing is expected to gradually decrease toward the end of the fiscal year.

Q **In page 8, there was an explanation about future equity risk reduction. Please tell us the reason why you explained update for this matter at this time.**

A Since the presentation in May regarding the final balance of domestic equities, which includes the reduction of the balance in the next mid-term plan and onwards, we have received many questions and comments from investors, thusly we have explained the current state of consideration at this time.

Q **The balance of foreign bonds with currency hedges has already been reduced significantly in DL. If hedging costs decline in the future, will the balance be increased again?**

A Over the past several years, we have been reducing our balance of foreign bonds with currency hedges at a rapid pace due to the sharp rise in hedging costs. Even if hedging costs decline in the future, we currently don't expect to significantly increase the balance of hedged foreign bonds again in the past.

Q Regarding upside factors of DL's net capital gains/losses, did capital gains from investment trusts contribute to them?

A Although capital gains from investment trusts slightly exceeded the plan, the main upside factor was the advance in the sale of domestic equities.

【DFL】

Q Please explain why DFL's profit progress was higher than plan.

A As for DFL, core profit increased due to the increase in AUM. Although the number of new businesses is down compared to last year, the company is acquiring new business on a reasonable scale for this fiscal year, and there is downward pressure on profit due to the acquisition cost. However, the company has been able to control some of the first-year costs associated with the acquisition of new business through the reinsurance that began in the second half of FY2023, which contributed to the profits with steady progress to the plan. Although cancellations increase depending on the level of foreign exchange rates and interest rates, profits will not necessarily increase or decrease linearly depending on exchange rates, as capital is denominated in yen and assets and liabilities are mainly denominated in foreign currencies.

Q The number of US dollar-denominated insurance products sold by DFL will probably decrease due to lower US interest rates, will this affect EV?

A For DFL, when determining the crediting rates for new products, those rates are determined by considering investment yields and spreads on corporate bonds, in addition to the base interest rate. Therefore, while a decline in U.S. interest rates will have an impact to some extent, it does not necessarily impact on it directly. In addition, if U.S. interest rates decline and Japanese interest rates rise, the product mix may be affected by such factors as an increase in the ratio of yen-denominated products.

As a result, it is likely that the decline in U.S. interest rates will have an impact through changes in the VNB rather than directly on EV.

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, TAL: TAL Dai-ichi Life Australia,

【Disclaimer】