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

Date: June 2, 2025, 13:00 - 15:00
Respondent: Tetsuya Kikuta, President and Representative Director (Group CEO)
Taisuke Nishimura, Executive Officer (Group CFO)
Akifumi Kai, Executive Officer, Business Head, New Fields of Business

【Financial Capital and Performance】

Q: With regard to the ¥300bn strategic investment budget outlined in the Mid-term Management Plan, the remaining budget is now in the range of several tens of billions of yen. Are there any plans to increase the budget going forward?

A: We are not currently considering an increase to the strategic investment budget. That said, should further profit accumulation occur, there may be some headroom. Additionally, should compelling opportunities arise that require incremental funding, we may consider measures such as accelerating equity sales to secure the necessary capital.

Q: Recent investments, such as those in M&G, Challenger, Canyon, and Capula, have primarily involved minority stakes. Do you aim to acquire majority stakes in these investees in the future, or do you plan to continue holding minority stakes?

A: In the asset management business, if we determine that it is not appropriate for us to take a majority stake and control the company, we believe it is preferable to take a minority stake with obtaining cash generation and growth potential. In the insurance business, it is essentially preferable to take a majority stake because it enables us to accurately predict future profits from insurance liabilities. On the other hand, for cases where cash generation is sufficiently high, or where growth potential is high and cash contributions can be made at an early stage, given the current high prices and our strategic investment budget, there are few suitable cases for majority investment. Therefore, we believe that the best approach is to start with a minority stake and determine the appropriate equity ratio over a certain period of time. In general, in the insurance business, we consider listed companies without a controlling shareholder to be preferable for minority investments.

Q: Free cash flow for the fiscal year ending March 2026 is expected to decrease by approximately ¥50bn compared to the fiscal year ending March 2025. Please provide specific details on the main factors behind this decrease. In addition, how do you expect free cash flow to change after the fiscal year ending March 2027?

A: Free cash flow for the fiscal year ending March 2025 increased temporarily due to factors such as better-than-expected performance at DL, proceeds from the sale of OLI, and increased remittances from TAL. On the other hand, for the fiscal year ending March 2026, we have assumed a remittance rate of approximately 90% based on the full-year profit forecast, resulting in a decrease compared to the previous fiscal year. However, we aim to expand free cash flow through additional cash generation from the sale of equity in DL, the possibility of resuming dividends at DFL due to regulatory easing, stable remittances from PLC, and progress in capital release at TAL.

Q: Is the remittance ratio from TAL expected to remain at around 130% for the time being?

A: TAL remits based on local capital regulations instead of remittance ratios, and remits any surplus capital, so the current phase is characterized by relatively high dividend levels.

Q: When do you expect profits and cash contributions from Benefit One to begin in earnest? Also, please provide an update on the progress of synergies initially anticipated at the time of the acquisition.

A: Benefit One currently reports approximately ¥5bn in profits on a standalone basis and aims to grow to just under ¥20bn in adjusted profits by 2030. In addition to contract unit prices and cancellation rates being better than initially expected at the time of the Benefit One acquisition, the introduction of the service to corporations, including small and medium-sized enterprises, is progressing smoothly, and new touchpoints are being created through the DL channel. Although the number of implementations for DL customers is slightly below the initial target, profit contribution is expected to accelerate in the future due to an increase in orders and the completion of system investments.

Q: **Will Benefit One's profits grow significantly at some point in the future?**

A: There is no specific point in time, but we expect the number of customers to gradually grow at a rate of 7-8%, and profits to increase at a similar pace. There is a slight lag in profit contribution due to the time required to implement Benefit Station after a company decides to introduce welfare services, as well as the implementation of large-scale system development. On the other hand, profits are expected to grow more than top-line growth due to the effects of system investment.

Q: **Regarding the investment in M&G, what is the expected contribution to Group Adjusted Profit after applying the equity method? Additionally, given that M&G is recognized to possess certain capabilities in the Bulk Purchase Annuity (BPA) business, could you share your outlook on the business, including its potential in the Japanese market?**

A: We expect to receive a stable annual cash flow of approximately ¥16bn from M&G, and we are currently examining how this will be reflected in Group Adjusted Profit. In the BPA business, we believe asset management capabilities and brand strength are key competitive advantages. Leveraging the strong brand equity of the former "Prudential UK", we expect growth potential even within the domestic market. In fact, within just three years of re-entering the UK market, M&G has already secured approximately a 3% market share. That said, the BPA business is inherently subject to high future uncertainty, and our investment was not predicated on substantial growth in this segment. Rather, our investment decision was based on incorporating stable cash flows from M&G's closed book business into asset management operations, thereby contributing to the Group's overall stable growth.

Q: **How will the annual cash flow of approximately ¥16bn from M&G be recognized under the J-GAAP? Additionally, what will be the tax treatment change if the equity ratio exceeds 25% in the future?**

A: Under the J-GAAP, dividends from M&G are recognized as income in the income statement and are subject to taxation in Japan. At present, the expected equity ratio is approximately 15%, but if the equity ratio exceeds 25%, the tax treatment may change. Therefore, we will carefully assess the future equity ratio and accounting treatment, considering this possibility. Regarding the reflection in Group Adjusted

Profit, we plan to adjust based on a cash-based approach aligned with actual circumstances.

Q: **While maintaining a total payout ratio of 50%, the company has raised its dividend payout ratio to 45%, which is expected to result in a reduction in share buybacks. Please explain the pace of future reductions in share buybacks and the rationale behind this decision.**

A: Under the policy of prioritizing capital efficiency, we have actively executed share buybacks over the past few years. Now that ROE has exceeded our cost of capital, we are on the way to shifting our capital return strategy toward enhancing dividends. While we recognize that share repurchases contribute to improving ROE and EPS, we intend to approach them flexibly, taking into account capital efficiency and growth investment opportunities. Furthermore, assuming that positive equity spreads will continue to be stable, we plan to reduce share buybacks. We will continue to keep an eye on capital efficiency and other relevant indicators in determining the timing and scale of future buybacks.

Q: **Some companies have indicated that they plan to boost EPS growth by approximately 2%pt through share buybacks. Do you have any such plans?**

A: We do not have any such plans at this time.

Q: **This time, the target for adjusted ROE in FY2026 was raised from 10% to over 12%. Could you explain the underlying assumptions regarding profit growth and net asset levels? Additionally, there is still a gap between the target market capitalization of ¥6tn that you have been pursuing since you became CEO. How do you assess the current situation?**

A: The target of over 12% for adjusted ROE is based on achievable levels through profit growth, rather than any assumption of a substantial change in adjusted net assets. As for the gap relative to our ¥6tn market capitalization target, we recognize the need not only to raise profit levels but also to reform our business portfolio in a way that enhances our PER. Specifically, we aim to increase the proportion of businesses that offer high growth potential and capital efficiency, such as overseas operations, asset management, and non-insurance-related services, thereby enhancing our overall market valuation.

Q: **The target range for the Economic Solvency Ratio (ESR) has traditionally been 170-200%, but as of March 31, 2025, it continues to exceed the upper limit of the range at 210%. In light of this situation, is there a possibility that the range will be revised in the future, or should the range setting be considered provisional at this point?**

A: The current ESR ratio stands at 210%, which is above the upper limit of the range. This is due to a combination of factors, including the impact of the transition to new standards by overseas subsidiaries being smaller than anticipated and the effect of reducing market risk. Going forward, there is a possibility that the ESR may fluctuate due to factors such as rising interest rates. Therefore, it is necessary to maintain a certain buffer and operate with caution. While we are continuing to review the target range for the ESR, no decision has been made at this time. We will disclose any updates as appropriate.

【Group Risk Profile】

Q: **The Financial Services Agency has cited “credit concerns or reputational damage” as examples in its definition of stress scenarios for mass lapse risk. Is it possible for such risk to be mitigated depending on company size or credit rating? Furthermore, as interest rates rise, there is growing concern about dynamic lapse risk with saving-type products. What kind of analysis or stress testing have you conducted to address this?**

A: We conduct various analyses to assess the extent to which lapse risk may increase due to “credit concerns or reputational damage,” as well as the potential rise in dynamic lapse risk in a higher interest rate environment. At DL, we have restrained sales of lump sum payment saving-type products, while at DFL, we offer products with a Market Value Adjustment (MVA) feature to mitigate interest rate-related lapse risk. For entities like DFL and PLC that sell lump sum payment saving-type products, we conduct analyses on the degree to which surrender value may increase upon cancellation, and the relative competitiveness of our offerings in a potential switch scenario. At the group level, many of our saving-type products include MVA features, and we believe our overall exposure to dynamic lapse risk is limited.

Q: **It is understood that lump sum payment saving-type products without an MVA feature carry the highest level of potential lapse risk. Are there any other products with significant lapse risk? For example, in the case of a sharp rise in interest rates, could there be blocks within level premium payment saving-type products or protection-**

type products where policyholder surrender becomes economically advantageous?

A: In protection-type products, the assumed rate of return is used as a discount rate, and therefore the impact of rising interest rates on policyholder behavior is limited. Conversely, in lump sum payment saving-type products, policyholders may find it advantageous to switch in a rising rate environment. To address this, we embed MVA features in product design to reduce interest rate sensitivity and mitigate associated lapse risks.

【Asset Management】

Q: DL holds approximately ¥2tn in bonds under "Other Securities." Please provide details on the maturity of these bonds.

A: The majority of the bonds classified as "other securities" are short-term corporate bonds, with some structured finance products included. These have short durations and are less sensitive to interest rate increases, which also limits impairment risks. We actively manage and rebalance the portfolio in response to market conditions, aiming to minimize the impact of market price fluctuations on gains and losses.

Q: Regarding DL's domestic equity holdings, it was explained that "equities held in the company account are for pure investment purposes." What types of stocks are held?

A: Equity holdings under the company's account are primarily for policy-holding purposes, with the main holdings being Mizuho Financial Group and Resona Holdings. Other stocks are held in accounts corresponding to insurance liabilities for pure investment purposes. Going forward, we will continue to make investment decisions based on economic rationality in accordance with disclosure guidelines and will take appropriate measures, including strengthening our information governance frameworks.

Q: Regarding Policy-Reserve-Matching Yen Bonds (PRMBs), it is understood that in cases where market value declines due to rising interest rates, it is possible to avoid impairment by indicating the intention to hold to maturity. Is this a viable option? If not, please explain why.

A: We recognize that if the intention and ability to hold PRMBs to maturity can be confirmed, and recovery in market value is reasonably expected, impairment loss may be avoided under relevant accounting standards. We will confirm whether the conditions are met and, if necessary, compare and evaluate the advantages and disadvantages of holding them to maturity or other options before making a decision. We will ensure sound asset management while maintaining sufficient flexibility in investment operations.

Note: Some of the above content has been added or modified to make it easier to understand.
[Company name abbreviation] DL: Dai-ichi Life, DFL: Dai-ichi Frontier Life, PLC: Protective, OLI: OCEAN LIFE

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