(Unofficial Translation)
FY2024-Q3 Financial Results Conference Call for Institutional Investors and Analysts
Q&A Summary

Date: February 14, 2025, 16:55 - 17:40
Respondent: Taisuke Nishimura, Executive Officer (CFO)

[Q3 Results and Earnings Forecast]

Q **Following the first half of this fiscal year, a large amount of gains on sales of domestic equities was recognized in Q3 as well. Could you explain the background behind this?**

A Under the current mid-term management plan(“MTP”), which started this fiscal year, we have set a policy to sell ¥1.2 trillion worth of domestic equities at market value-basis over three years. We had previously explained that the sales would proceed at an even pace or potentially at a faster pace. By the end of Q3 this fiscal year, we have sold slightly over ¥400.0 billion, partly due to certain stocks being subject to TOB, which led to higher-than-expected sales volumes.

Q **Doesn’t it mean that you have accelerated the speed of selling domestic equities in light of the rebalancing of yen-denominated bonds?**

A The sale of domestic equities is being carried out as part of our risk reduction initiatives, with the basic approach being to use the proceeds through capital circulation. At the same time, apart from this, gains on sales have also been generated through asset reallocation within ALM operations, replacing risk assets. These gains have partially offset losses from the rebalancing of yen-denominated bonds, resulting in overall capital gains exceeding expectations.

Q **Based on the full-year earnings forecast, it appears that DL standalone profit in Q4 will be relatively low. Are there any plans to further expand the scale of reinsurance or execute additional rebalancing of yen-denominated bonds?**

A Operations such as rebalancing of yen-denominated bonds and reinsurance ceding will involve a certain amount of losses, but there is no expectation of additional large-scale transactions. The main factors for slow-down of profit increase are the recognition of extraordinary losses associated with the Second Career Special Support Flamework, as well as a decrease in gains on sales of domestic stocks in

Q4 due to that the sales volume was inclined to the period up to the Q3. Other performance factors are generally in line with expectations.

Q **I would like to know how you view the fundamental profit of DL for the next fiscal year compared to the current fiscal year. As factors influencing the increase or decrease for the next fiscal year, I assume there will be elements such as an increase in personnel expenses due to the reported 7% wage hike, a reduction in personnel expenses from the Second Career Special Support Flamework, a decrease in expenses related to the stock compensation plan, and an increase in positive spread due to the rebalancing of yen-denominated bonds.**

A We do not have a specific figure at this time, but I can provide additional details on the factors you mentioned. Regarding the Second Career Special Support Flamework, while an extraordinary loss will be recognized in the current fiscal year, we anticipate a reduction of approximately ¥15.0 billion in pre-tax expenses for the next fiscal year. However, part of this reduction will be offset by the wage hike. As for the positive spread, we expect a positive impact of ca. ¥19.0 billion due to the rebalancing and accumulation of yen-denominated bonds. Additionally, when taking into account expenses related to rebranding and the downward trend in gains from core insurance activities, we anticipate that DL's fundamental profit for the next fiscal year will remain at approximately the same level as the current fiscal year.

Q **While you recognized a rebalancing loss on ultra-long-term JGBs in the first half of the year, you secured a positive spread by offsetting it with gains on the sales of domestic equities. Do you plan to opportunistically make similar transactions in the next fiscal year?**

A Rebalancing of the yen-denominated bond portfolio is not done opportunistically, but is based on ALM management that adjusts duration of the asset side in line with insurance liabilities, and rebalancing during period of rising interest rates often result in losses. In the first half of the year, we sold 40-year JGBs, which had been held intensively, in response to rising interest rates. This loss was offset by capital gains from transactions other than sales associated with risk reduction plans, such as the replacement of risk assets. We will continue to rebalance the portfolio based on ALM management and systematically adjust the asset side to avoid over-hedging when interest rates rise.

Q **Does it mean the replacement of ultra-long-term JGBs in the first half**

of this fiscal year was irregular?

A The operation is a somewhat large-scale adjustment of the mismatch in the process of cash flow matching, and recognized as an exception.

Q **You said that you will be able to secure profit in FY2025 at the same level as FY2024. Is it because the performance of FY2024 is a little too strong compared with the expectation? Also, please explain if you have any outlook on adjusted ROE for FY2024 so far.**

A Adjusted profit for FY2024 is expected to be around ¥415 billion, but we expect adjusted ROE will be ending up slightly below 10%. The factors for profit uplift in the forecast of this fiscal year are an increasing positive spread and capital gains due to favorable market conditions. Since this favorable environment is expected to continue to some extent in FY2025, we will aim for profits above this fiscal year.

Q **It was mentioned that the financial targets for the final year of current MTP will be reviewed at the financial analyst meetings in May at the latest, but is there any possibility of an update at the end of March?**

A The basic schedule is to announce next fiscal year's profit targets, dividend payout ratio, etc. in May. The full-year earnings forecast for the current fiscal year exceeds the target for the final year of current MTP, and although we will consider a review of ESR standards, including those for overseas subsidiaries, there are currently no plans for major updates to the MTP as a whole, including business strategy targets, etc. We will make an announcement in appropriate manner once internal discussions have progressed.

[Shareholder Payouts and Strategic Investment]

Q **What do you mean by reviewing shareholder return policy when you said the earnings forecast and shareholder return policy might be reviewed by May.**

A First of all, the shareholder return policy for the next fiscal year will be announced at an appropriate time. What we can say now is that we will continue a current level of large-scale share buybacks until capital efficiency consistently exceeds the cost of capital. After achieving it, we will shift from share buybacks to cash dividends and strengthen strategic investments. Also, if there is excess capital then, we will consider share buybacks flexibly. Cash dividends are calculated based on the average of the Group adjusted profits over the last three years. Therefore, amount for FY2022, which was lowered by ca. ¥100 billion due to the payment of hospitalization benefits for COVID-19, will no longer be included to the calculation from the next fiscal year. Considering this and other factors, we plan to update our shareholder return policy if needed and explain it in May.

Q **Considering higher adjusted profit for this fiscal year and the period of the MTP, the amount of HD's Cash is also expected to increase to a certain extent. Is it expected that you increase the amount of strategic investments as well?**

A To achieve a market capitalization of ¥6 trillion and ¥10 trillion, we have a lot of pipelines for strategic investments that will lead to EPS growth and ROE improvement. As previously explained, the priority areas of strategic investments are overseas business. Among them, we are considering growth areas such as the retirement business and the asset management business are important. In Japan, although we do not anticipate large-scale deals, we are exploring a wide range of opportunities in the health care and new business areas. With regard to strategic investments, we would like to carry out them with financial discipline.

Q **Life insurance companies in Japan have become prominent acquisition players in the world. Have potential deals brought to you by investment banks increase?**

A As a stock company, target between us and mutual company do not necessarily overlap, and there is no particular recognition of this.

[Group ESR]

Q **You mentioned that you are considering making some changes to the measurement model for the mass lapse risk from the end of this fiscal year. What is the expected impact on the absolute level of ESR? Is there any change in the outlook that the ESR at the end of this fiscal year will decline to within the target range as a result of the introduction of the new standards for overseas subsidiaries?**

A We expect a decrease of ca. 20%pt in ESR due to the introduction of new standards for overseas subsidiaries at this point, but we will provide more details in May. Regarding the changes to the measurement model for the mass lapse risk, we currently expect an uplift of ca. 3%pt in ESR. Mass lapse risk assumes the strong stress of an 30% surrender of individual policies, and while economic value-based net asset will decrease, the risk margin（"MOCE"） will not decrease proportionally. In contrast, our internal model contemplates changes that would reduce MOCE proportionally, which would result in an expected increase in ESR of ca. 3%pt.

[Domestic new business]

Q **The value of new business ("VNB") of the three domestic companies appears to have grown at a slower pace in Q3 compared to Q1 and Q2. Despite the rise in domestic interest rates, VNB at DL of this period seems relatively low. Could you explain the background behind this?**

A VNB at DL in Q3 slowed down compared to this H1 of the fiscal year, mainly due to a slowdown in sales of "Step Jump" and an increase in policy conversions following the launch of new products in October. Going forward, we aim to improve VNB through initiatives such as the introduction of new products in business-owners insurance and the third sector insurance.

> Q **It was mentioned that the new products involve a high number of policy conversions. Does this contribute to an increase in EV on a net basis?**
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> A Although the VNB per policy is lower compared to sales of "Step Jump," it remains positive.

[Second Career Special Support Framework]

Q **Regarding the Second Career Special Support Framework, as you mentioned that 1,830 ppl applied, which was more than expected, is there any operational impact? If the increase in the number of applications is covered by mid-career recruiting, is there a possibility that the cost reduction effect will be diminished?**

A In order to ensure the smooth execution of operations, the timing of retirement will be adjusted as necessary for some applicants. In addition, some operations are expected to be outsourced without increasing fixed costs, and the associated operating expense will be managed appropriately.

Note: Some of the above content has been added or modified to make it easier to understand.
[Company name abbreviation] HD: Dai-ichi Life Holdings, DL: Dai-ichi Life,

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