(Unofficial Translation)
Response to New Economic Value-based Regulation
Q&A Summary

Date: February 28, 2024 17:00-18:00
Respondent: Taisuke Nishimura, Executive Officer (CFO)

Impact on ESR, EV, and shareholder payouts

Q **What is the impact of the introduction of MOCE relative to the current standard in ESR and EV, respectively?**

A The impact on EV is greater, with an expected decrease of ¥330 billion. Even under the current standard, ESR uses capital based on EV plus the required risk margin, so the impact of the introduction of MOCE is minor.

Q **Regarding the ¥330 billion impact of the introduction of MOCE, are there any specific products that are significantly impacted by it when viewed by product?**

A The impact of the introduction of MOCE is not significant only in specific insurance products. It makes impact in individual insurance products and individual annuities, equally.

Q **The difference between ¥7.8 trillion in ESR capital and ¥7.0 trillion in EV is ¥800 billion, and the remaining amount after subtracting ¥1.0 trillion in subordinated bonds is ¥200 billion. Is it correct to understand that this difference in amount is due to the software mentioned in the presentation?**

A As you recognize. The difference between ¥7.8 trillion and ¥7.0 trillion is ¥800 billion, and the subordinated bonds is ¥1.0 trillion, so EV is larger by around ¥200 billion if subordinated bonds are excluded from the ESR capital. Software has the largest impact, at over ¥90 billion. Others are the sum of various small factors.

Q **Regarding the level of the new ESR, at the Financial Analyst Conference Call held in November last year, it was explained that it was expected to be within the range of 170% to 200%. How does the level of 212% (as of the end of FY2022) shown this time compared to the expectation made at that time? Will the new ESR be expected to decline below 200% when overseas companies transition to the new standard, or as of the end of September 2023?**

A We do not expect the new ESR level to change significantly at the end of September 2023. The figure of 212% (as of the end of FY2022) was calculated using the new standard for the

three domestic companies of DL, DFL, and NFL. This was about 14%pt lower than when calculated under the current standard and was slightly worse than the expectation as of last November. It is anticipated that in the future it will decline further when the new standard is introduced to overseas companies or strategic investments are implemented. However, even if taking these factors into account there is no change in the forecast to fall within the range of 170% to 200%, from what we said as of November last year.

Q **The Group VNB increased by 9% compared to the current standard. I would like you to explain the factors behind this. Given the change in standard, I think it would be positive for DL's sales representatives to sell DFL products. Does it have any impacts on future sales strategies?**

A New VNB related to DL's protection products declines compared to the current standard, mainly due to the impact of introducing MOCE. However, although the value recognized as the time of acquiring new business decreased, the VNB for the decreased is recognized as the release of MOCE throughout the contract period, then when considering VNB as a source of future profits, there is no need to regard it as a decline. On the other hand, as we have explained, despite substantially exceeding the target for new business sales, DFL's VNB fell short of the year forecast under the current standard. With this change in standard, a portion of investment gains that has been recognized over time under the current standard will be recognized at the time the new business is acquired. Although DFL's VNB appears to have increased significantly due to strong sales, there is no change in the profit volume throughout the contract period. As a result of the change in standard, there is no discussion about refraining from sales of DL's protection products or focusing on sales of DFL products. There is no change in the policy that we will work to increase new business sales as the Group as a whole, including sales of each company's own products and of other group companies' products.

Q **Regarding the planned transition of overseas subsidiaries to the new standard, I recognize that PLC is a representative company of "some subsidiaries that have adopted a top-down method for EV calculation" mentioned in page 7. Is it correct to understand that this impact will appear mainly as a decrease in eligible capital? If the change in standard for PLC lowered the ESR for the entire Group by 10%pt, the decrease in eligible capital would be about ¥360 billion, which seems large considering the PLC's value of in-force business. Including this point, please explain the impact of the transition of overseas subsidiaries to the new standard on ESR capital and risk amount.**

A PLC is a representative subsidiary that uses a top-down approach. It is assumed that the PLC's change to a bottom-up approach will result in a decrease in eligible capital, due to the

difference of whether it is recognized as eligible capital at the time of measurement or as economic value at a future point in time, etc. The level of the decrease is still under scrutiny. It is expected that we need to take into account the impact of risk amount, MOCE, etc. due to the change from a top-down to a bottom-up approach. We will present it after careful examination in the future.

Q **As noted in page 2, the impact of the change in the ESR calculation standard is significant for DL. Will this have any impact on capital management policy? For example, the regulatory capital inclusion limit for subordinated debt will be expanded from the current solvency regulation by the J-ICS standard, but will there be room for considering new capital raising? And I have heard that stand-alone ESR will eventually be disclosed as a regulation, and that a higher ESR level will have an advantage in terms of sales. Will you consider raising capital through subordinated debt, taking into account such indirect effects?**

A As shown in page 2, the contribution of DL to the change in Group ESR is the largest, but the diversification effect is included in "Others," and it can be recognized as an aggregate of the diversification effect. There is no disclosure of new ESR figure for DL on a stand-alone basis, but since DL accounts for a relatively large percentage of the Group with respect to eligible capital and risk amount, the new ESR figure for DL is somewhat close to that of the Group. With regard to the question of whether the change in regulation will affect our funding capacity, we have set internal leverage limits, taking into account the impact on external ratings, and there is no impact at this time. On the other hand, it is possible that some parts of rating criteria will be reviewed in conjunction with changes in capital regulation, in which case there is room for consideration of leverage limits. In the future, as each life insurance company in Japan discloses its economic value-based solvency margin ratio, any company with a low level close to the crisis will attract attention and various accountabilities. On the other hand, we are not aware that the current solvency margin ratio has a direct impact on the sales side. In our opinion, it is desirable to maintain an appropriate level, not just a high number.

Q **What is the impact on cash remittance (dividends and intra-group financing) amidst fluctuations in ESR of domestic subsidiaries due to the introduction of the new standard?**

A DFL has been steadily increasing its AUM and has paid dividends to HD in the past. However, according to the current solvency standard, it has not been able to pay dividends in recent years due to the impact of MVA (Market Value Adjustment) and other contingency reserve,

etc. Since the accounting standard will not change, the impact will not be completely eliminated, but the change of the current solvency regulation to J-ICS regulation is expected to ease one of the restrictions on dividend payment to HD by DFL. While DFL is currently unable to pay dividends and we do not expect to be able to do so anytime soon after the regulation change, the direction is that DFL would raise the remittance in the future.

NFL is a newly established company, and its business structure makes it difficult to pay dividends. This regulatory change has lowered the risk that it needs a capital injection, but it will take some time to increase its remittance.

DL currently provides 100% return and intra-group financing to HD, and no specific changes are expected in this regard.

Q Please explain the change in the market sensitivities of ESR compared to the current standard.

A As you can see in page 4, there is more information about the sensitivities than that in materials in the past. For the sensitivity items that were already disclosed, the characteristics are roughly similar as disclosed in the past. For example, there is no change in terms of ESR decreasing due to the forecast of lower investment yield than assumed rate of return when interest rates fall. On the other hand, what we see as a point of interest is the asymmetric movement in the rise and fall of yen interest rates. The mass surrender risk has an effect if interest rates rise, although not only due to the effect of the regulatory change. For domestic business, margins increase when yen interest rates rise, but on the other hand, surrender risk also increases, then ESR does not improve than expected. When interest rates fall, margins decrease and ESR worsens.

Others / Future disclosure policy, etc.

Q EV disclosures with third-party assessments will end. Is it correct to understand that simplified disclosure based on ESR capital as disclosed by European insurance companies will be introduced?

A There are examples of European insurers that, as a best practice, explain various sensitivities and factors that increase or decrease the capital of ESR in contents similar to EV reports. EV disclosure in accordance with the EV Principles will converge, but on the other hand, in preparation for the introduction of the regulation in FY2025, we will establish a new governance structure for ESR, and make efforts to ensure that the information disclosed does not fall back as far as possible.

Q **Regarding the future disclosure schedule as stated in page 7, is it correct to understand that the ESR to be disclosed as of May 2024 will be based on the new standard only for domestic companies?**

A Yes, the ESR to be disclosed is on a group consolidated basis, but the change in standard is only for domestic companies.

Q **After the new regulation is applied, will there be two types of indicators disclosed, Pillar 1 of the J-ICS and the new ESR?**

A We recognize that the statutory Pillar 1 disclosure rules for J-ICS have not yet been determined. We are currently disclosing SMR in our disclosure materials, while ESR with the internal standard is disclosed as one of the KPIs along with the financial results, tied to capital policy and shareholder payouts policy, etc., then please think of it in the similar way. The main figures to be explained in the disclosure in May and future quarterly disclosures will be the new ESR of the internal model, based on which investments and risk management will be carried out.

Q **It is explained that there is no change in the direction of the capital policy, but the new ESR declines by implementing the new standard. Does this mean the excess capital reduces?**

A It is true that the economic value-based excess capital declines due to the change in standard, but I would like to explain again what we mean by no change in the direction of capital policy. We have not paid all of economic value-based excess portion in the balance sheet to shareholders. The level of shareholder payouts has been decided considering other constraints as well. It is assumed that the portion that appeared to be economic value-based excess portion under the current standard will be reduced to a certain degree by the replacement with the new standard, and then the surplus will be reduced, which will make our ESR level within an appropriate range.

While it is expected that ESR will come within an appropriate range for shareholder payouts, it will continue to be determined by strengthening economic value-based risk control and including other constraints such as HD's cash balance. Based on these considerations, at this point, we have confirmed that the introduction of the new standard will not affect the direction of future shareholder payouts.

Q **While it is expected that the level of ESR in the new standard that the authority intervenes is below 100%, your ESR range of 170 to 200% seems to be surplus to the requirement. Please let me know if it is possible to discuss the comparison between the**

level set by the authority and your ESR range, or if it is irrelevant.

A At this point, we do not think that the 170-200% range needs to be changed, as it has not been fully transitioned to include overseas companies' impacts. However, if the final result of ESR were to fall by 14%pt, we do not completely reject the idea of lowering the appropriate range of 170-200% itself by 14%pt as an option. On the other hand, in aiming to maintain external ratings at the A to AA level, we would like to maintain an appropriate level of capital while also keeping an eye on the levels of other companies.

From a regulatory perspective, measurement will also be made on an individual company basis. As with the current SMR, we would like to operate with a certain buffer, taking into account the capital levels of individual companies and how we will be regulated and overseen on a Group basis. On the other hand, while we have a certain buffer in case of fluctuations in the market environment, we intend to continue to minimize the fluctuations of economic value-based capital (ESR sensitivity) associated with market-related risks so that we do not have to hold extra capital as much as possible.

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Q Is it correct to understand that there are some differences in direction between the 100% ESR level set by the authority and your ESR range of 170-200%?

A Essentially, the direction is not different. For the authority, it is an important perspective to compare various companies on the same basis for regulatory purposes. On the other hand, for us as a Group, it is necessary to have a perspective of having capital that matches the characteristic of each group company, and based on this, we currently believe that a range of 170-200% is appropriate to set the range.

Q Considering the new ESR sensitivity, which entity would be more impacted by surrender risk, DL or DFL? I think the surrender option is high in terms of product underwriting. Is there any impact on future product development and sales activity?

A DL would be more impacted by surrender risk. The reason behind this is that the gap between the economic value-based liabilities and the policyholder surrender value paid is a factor of mass surrender risk, and in particular, when there is no MVA (market value adjustment) on product, the gap between the economic value-based liabilities and the policyholder surrender value is wide. At DL, in-force insurance blocks such as whole life insurance sold in the past account for a large percentage of insurance liabilities, and many contracts in those blocks do not have a surrender deduction. In most cases, the economic value of those insurance liabilities has been above the policyholder surrender value so far, but if interest rates continue to rise in the future, this relationship could be reversed.

Q **From the above point of view, is the incentive to cede the legacy blocks with high assumed rates of return higher? Reinsurers may also be aware of this from the same viewpoint, in such a case, can ceding operations be conducted to minimize the negative impact on ESR when interest rates rise?**

A We will continue to study whether solutions related with reinsurance will improve capital efficiency and improve the effectiveness of risk management in relation to mass surrender risk.

Q **Regarding mass surrender risk, are different stress coefficients used for individual contracts and corporate contracts?**

A Under the J-ICS standard, corporate insurance has a higher level of surrender intensity than individual insurance, and we have followed it.

Q **As described in Page 5, VNB of DFL increased by about 2.5 times due to a change in calculation standard. In that case, we guess that the new business margin is around 2%, but is it correct to recognize that DFL business has enough margins under the new standard?**

A As you pointed out, you could see it as a business with reasonable margins. We would like to explain in the next Medium-Term Management Plan how the increase in DFL's AUM will contribute to profit and cash.

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, NFL: Neo First Life, PLC: Protective

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