（Unofficial Translation）

Response to New Economic Value-based Regulation

Conference Call for Institutional Investors and Analysts

Script

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- Thank you for taking time out of your busy schedules to join us today. This is Nishimura, CFO.
- As we informed you at the November presentation, I am going to give you an overview of our response to the new economic value-based regulation that is scheduled to be introduced from the end of FY2025, in accordance with the material.
- I would like to mention that this explanation is difficult to understand without knowledge of the current EV, ESR as it is technical and includes differences between the current EV and the new EV, as well as differences between the standard required by law and our internal model. We apologize for the somewhat difficult content, and we would like to provide a careful explanation with implications for actual capital policy, not only at this time, but also at other times in the future.
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- Considerations for the introduction of the new economic value-based regulation (J-ICS) from the end of FY2025 are underway mainly by the supervisory authority. In anticipation of the J-ICS regulation, we are preparing to apply the new EV and new ESR indicators to the Group as a whole and each subsidiary, and are working to develop a measurement system while taking into account consistency within the Group. As of the end of FY2023, the measurement standard for EV, ESR, economic value indicators, will be changed for the Group and three domestic insurance companies (DL, DFL, NFL), EV will be measured as economic value-based capital and the measurement of EV in accordance with the EV Principles will be converged. This time, we are announcing the results as of the end of FY2022.
- First, the ESR declined by 14%pt from 226% under the current standard to 212%.
- Next, regarding EV, it has decreased by approximately ¥300 billion from ¥7.3 trillion under the current standard to ¥7 trillion. On the other hand, the value of new business (VNB) was ¥77.7 billion, exceeding the current standard. VNB under the current standard has been restated as we announced and amended misstatements of VNB in September last year.
- I will explain each indicator in the following pages.
- Please see the next page.

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- First, let me explain the new ESR.
- The new ESR will adopt an internal model based on the J-ICS measurement standard. In principle, the internal model to be adopted is based on the J-ICS, but some indicators, such as discount rates, are designed to reflect actual conditions and enable strict risk management by carefully considering the business characteristics and asset holdings of each subsidiary.

- The ESR under the new measurement standard was 212%, a 14%pt decrease compared to the current standard. The decrease in new ESR was mainly due to the increase in required capital (risk amount), which is explained in detail on the next page.
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- The new ESR break-down by major factor of change is shown.
- We have undergone a review of the new ESR measurement methods by a third-party organization. We use historical data as long as possible in risk amount calculation to reflect the volatility and correlations observed in the market.
- As a result, despite a decrease in the amount of insurance risk and an increase in the diversification effect, the new ESR decreased due largely to an increase in required capital (risk amount) resulting from changes in the method of reflecting the loss absorption effect of policyholder dividends and tax effects as well as an increase in market-related risk compared to the current standard as a result of model changes in equity and credit risks.
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- This is about the risk profile.
- As shown on the previous page, equity and credit risks from market-related risk have increased, which has led to an increase in total amount of market-related risk.
- Although market-related risk has increased because of the introduction of the new ESR standard, there has been no change in the direction of the Group's aim to achieve an insurance-risk centered profile over medium to long term period. In the next medium-term management plan, we will continue working to reduce market-related risk as in the current medium-term management plan. Especially, equity risk has been increasing due to the recent rise in stock price. Therefore, in the next medium-term management plan, we will especially focus and continue its efforts to reduce domestic equity risk.
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- Next, I will explain the new EV and the new VNB.
- To begin with, we have measured EV in accordance with the EV Principles. We will converge this, and regarding eligible capital, which is the numerator of ESR, we have changed the measurement concept to a measurement method that adjusts the portion attributable to shareholders for measuring corporate value. This redefines the new EV as a measure of the corporate value attributable to shareholders based on the J-ICS standard.
- In addition, we will continue to measure VNB as part of the factors behind changes in the new EV. VNB will be changed from "the present value of future cashflows on new business acquired in the current fiscal year" under the current standard, to the indicator that expresses the contribution of acquired new business to increasing corporate value more as a measurement concept. However, there is no change in the substantial meaning of the indicator.
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- EV was measured at ¥7 trillion under the new standard. It has declined mainly due to introducing MOCE, which recognizes the cost of capital based on the amount of insurance risk instead of the cost of capital related to regulatory capital as risk margin, at DL.
- As a result of measurement, VNB has increased mainly due to a decrease in the allowance for risk margins on credit spreads under the J-ICS at DFL, although DL's VNB has decreased because of introduction of MOCE and shortening of recognition period for future cashflows on certain products.
- Regarding the new EV, we will add certain adjustments to the eligible capital of the new ESR as explained earlier. Specifically, we will count the part of deferred tax assets, software, etc. that are allowed to be recognized as assets under accounting principles, which are deducted in ESR, while we will deduct some hybrid debt capital.
- Consequently, the new EV is expected to be approximate the net assets of the economic value-based balance sheet.
- Disclosure as the EV Principles will converge, but we plan to take care not to reduce the level of disclosure as much as possible in the disclosure based on the new standard in May.
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- This is an excerpt of the material released last November.
- Today, we have shown the figures for FY2022 under the new standard. In the financial results for FY2023, which will be disclosed in May, each figure will be disclosed based on the new standard.
- In addition, although we have presented the Group figures for the case where the new standard is applied to the three domestic companies, discussions are still ongoing for the full introduction of the J-ICS regulation at the end of FY2025. Therefore, there is no change in our policy to start measurement of overseas companies' figures from the end of FY2024 at the earliest, while taking these discussions into consideration.
- Despite the November assumptions of comparison between the current and new ESR standard, the actual decline was larger. However, as long as securing the level above 170%, this figure will not affect our basic capital policies, and we expect to continue to secure the range of 170% to 200% after the introduction of the new standard for oversea subsidiaries.
- During the next medium-term management plan period, we will strive to ensure stable ESR levels through the use of reinsurance on in-force policies and continued and enhanced efforts to reduce interest rate risk and domestic equity sales at DL, etc.
- Thank you for listening. This is the end of my presentation.

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, NFL: Neo First Life