Q2 FY2026 Financial Results Conference Call for Institutional Investors and Analysts
Presentation Script

Date: November 13, 2026, 4:55 PM－5:45PM
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[Title slide]

- Thank you all for taking the time to join us today.
- I will explain the key points of our second-quarter financial results, beginning on page 3 of the presentation.

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- Group adjusted profit was ¥307.7 billion, up 33% year on year, driven by the domestic business, particularly DL. Progress against our full-year forecast was 55%.
- At DL, in addition to an increase in gains on the sale of domestic equities, the positive spread has continued to improve through the rebalancing of the yen-denominated bond portfolio. We view this as a positive development, as it reflects not only upside from favorable market conditions but also a sustained improvement in our underlying earnings capacity.
- As a result of this accumulation of profit, annualized adjusted ROE was 12.9%, remaining above 12%.
- Turning to the top line, annualized new premiums increased by 8% year on year, or 4% excluding the impact of foreign exchange movements.
- New business results for the Group as a whole remained solid, as the domestic business maintained a level broadly in line with the same period of the previous fiscal year, while the overseas business recorded growth.
- Value of new business, meanwhile, declined by 15% year on year. This was mainly attributable to the impact of changes in assumptions resulting from the model revisions implemented at DL at the end of the previous fiscal year.
- Progress in the Group’s value of new business against the full-year forecast was 48%, with progress in the overseas business compensating for slower progress in the domestic business.
- Turning to economic value indicators, group EV increased, mainly due to higher domestic stock prices.
- ESR, meanwhile, declined from the end of the previous fiscal year due to factors including an increase in mass lapse risk associated with higher yen interest rates and the impact of M&A transactions at PLC. Nevertheless, ESR continued to remain at a sufficient level.
- In September, M&G became an equity-method affiliate. From the second half of the fiscal year, M&G is expected to contribute to profit through two segments: the overseas business and the asset management business. Going forward, we expect collaboration within the Group to steadily expand, and we hope you will look forward to these developments.

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- This page shows progress by business against the full-year forecast.
- First, at DL, the positive spread exceeded our initial expectations, supported by an increase in interest and dividend income. Gains on the sale of domestic equities also exceeded our expectations.
- At DFL, profit has steadily accumulated in line with the expansion of AUM. However, higher yen interest rates have resulted in an increase in provisions for contingency reserves related to yen-denominated insurance products. Partly due to this technical factor, adjusted profit is currently below the budget.
- In the overseas business, PLC recorded losses on hedge positions established to match floating-rate assets, including CLOs, with fixed liabilities.
- At TAL, although there are signs of improvement in claims payments, results remained below the budget as of Q2.
- At DLVN, an impairment loss on upfront fees related to the bancassurance channel was recognized during the quarter, resulting in performance below the budget.
- In the asset management business, Capula's performance recovered from a slow start in Q1, while AMOne and CP continued to deliver solid performance. As a result, progress was 44%. Although the progress rate was 44%, taking into account our initial forecast that profit would be weighted toward the second half of the fiscal year, we believe performance is on track to achieve the target.
- At Benefit One, the employee benefit and healthcare businesses continued to perform strongly. Combined with the effect of controlling business expenses, progress was broadly in line with the budget.
- As such, although performance varied among the respective businesses, the Group as a whole continued to progress ahead of our initial expectations. We view the recent performance positively.
- Please turn to the next page.

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- I will explain the factors behind the year-on-year change in group adjusted profit.
- In the domestic business, capital gains and losses improved significantly due to progress in the sale of domestic equities at DL. The increase in the positive spread resulting from the rebalancing of yen-denominated bonds also contributed to the year-on-year increase in profit, resulting in a substantial increase in profit.
- DFL recorded higher profit year on year, reflecting profit growth associated with the increase in AUM.
- In the overseas business, PLC recorded lower profit year on year, partly due to the absence of the one-time gain recorded in the previous fiscal year in connection with the sale of an agency subsidiary. DLVN also recorded lower profit year on year due to the impairment loss on upfront fees related to the bancassurance channel recognized in Q2.
- TAL, meanwhile, recorded higher profit year on year, reflecting a gradual improvement in claims payments and profit contributions from Challenger.

- In the non-insurance business, CP, Capula, and AMOne recorded higher profits, while Benefit One also recorded an increase in profit.
- At DLRB, asset market values recovered as spreads tightened, resulting in an increase in profit from the previous fiscal year.
- As a result, group adjusted profit increased by 33% year on year.
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- This page explains the impact of higher domestic interest rates.
- From an earnings perspective, the yield on the yen-denominated bond portfolio has continued to improve through the rebalancing of policy-reserve-matching bonds against the backdrop of higher domestic interest rates.
- The effect of the operations conducted through Q2 amounted to approximately ¥25.0 billion on an annualized basis.
- At DL, meanwhile, surrender rates for single-premium savings-type products have increased against the backdrop of higher yen interest rates.
- The increase in surrenders has occurred mainly in single-premium whole life insurance contracts with relatively low assumed interest rates. However, surrender rates for other general insurance products, including protection-type products, have remained low and stable.
- In addition, the actual amount of surrenders remains extremely small relative to the scale of DL's liabilities. I will provide further details on page 9, but we believe the impact of surrenders on earnings is limited.
- From an economic value perspective, eligible capital increased, as negative factors including the impact of PLC's acquisition of Portfolio were more than offset by positive factors such as higher domestic stock prices.
- Required capital also increased due to an increase in mass lapse risk associated with higher domestic interest rates. As a result, ESR was approximately 211% and continued to remain at a sufficient level.
- Please turn to the next page.

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- This page provides an update on the sale of domestic equities.
- Domestic stock prices have continued to trend upward during the current fiscal year, with TOPIX rising by more than 15% from the end of the previous fiscal year.
- Based on the economic assumptions as of the end of September, domestic equity sales for the current fiscal year are expected to be approximately ¥900.0 billion, ¥100.0 billion above our initial forecast of approximately ¥800.0 billion.
- Meanwhile, because the increase in market value resulting from higher stock prices exceeded the amount sold, the balance of domestic equities was approximately ¥3.5 trillion as of the end of September.
- Even taking into account the decline in stock prices at the end of last week, we have confirmed that domestic equity sales of ¥900.0 billion remain achievable.
- There has been no change to our policy of continuing to reduce domestic equity holdings toward a balance of ¥1.5 trillion by FY2030.
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- This page explains the rebalancing of DL's domestic bond portfolio.
- With respect to the rebalancing of yen-denominated fixed-income assets in light of higher domestic interest rates, we conducted operations in excess of our initial assumptions, rebalancing approximately ¥800.0 billion through Q2. This has accelerated the improvement in the positive spread. Although losses on the sale of bonds associated with portfolio rebalancing have also exceeded our initial assumptions, the portfolio has been structured so that investment yields will increase going forward.
- It is therefore important to consider not only the short-term losses on sales but also the improvement in earnings capacity over the longer term.
- Although the equity market has undergone a correction since the end of September, we continue to expect that the full-year volume of yen-denominated bond rebalancing can exceed our initial assumptions.
- While carefully assessing market conditions, we intend to continue rebalancing the portfolio in a manner that will improve the positive spread and core profit going forward.
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- I will explain the recent situation regarding surrenders associated with higher interest rates.
- We have added surrender amounts by assumed interest rate to the chart on the left. As the chart shows, the recent increase in surrender rates has occurred mainly among single-premium whole life insurance contracts with assumed interest rates of less than 1.5%, which are relatively low.

- In our quarterly disclosures to date, we have stated that surrender rates remained subdued. However, the surrender rate increased to 1.5% in Q2, equivalent to 6% on an annualized basis, which we consider to be a somewhat elevated level.
- On an amount basis, surrenders of single-premium savings-type products totaled approximately ¥50.0 billion. As shown on the right-hand side, policy reserves for single-premium savings-type products totaled ¥2.9 trillion. Policy reserves for contracts with assumed interest rates of less than 1.5% totaled ¥1.8 trillion.
- DL stopped selling single-premium savings-type products in FY2016. By distributing DFL products instead, DL has been able to limit the balance of such products.
- Accordingly, against total policy reserves of ¥21.1 trillion for individual insurance and individual annuities, the balance of single-premium savings-type products is limited to ¥2.9 trillion, or ¥1.8 trillion when considering only contracts with assumed interest rates of less than 1.5%.
- Regarding the P/L impact of the ¥50.0 billion in surrenders, surrender payments do not need to be funded entirely through bond sales, as they can also be paid from the cash buffer.
- From an investment perspective, we also hold shorter-duration bonds, including corporate bonds with relatively small unrealized losses, and such bonds can be sold if necessary. In addition, the Group holds approximately ¥500.0 billion in swaption positions. Unrealized gains arising from higher interest rates on these positions have also been recognized in P/L, placing us in a position to sufficiently absorb losses associated with surrenders.
- We also manage the dollar duration ratio with a certain buffer, allowing us to maintain an appropriate position even if short-term bonds are sold.
- In addition to these measures, we have established positions that take into account the possibility of further interest rate increases, including holding a substantial amount of interest rate hedges in fund form.
- We will determine the appropriate scale of these hedges, including whether to increase them, in a flexible manner while continuously updating our assessment of interest rate trends and surrender trends.
- We will continue to carefully monitor the increase in surrender rates. However, taking into account the current amount of surrenders, asset liquidity, and the status of our hedges, we believe the impact on our financial results is limited.
- We will continue to thoroughly manage both assets and liabilities, including under a scenario in which interest rates rise further.
- Please turn to the next page.

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- This page shows progress in adjusted profit by major subsidiary.
- For the Group as a whole, DL led profit growth, and progress against the full-year forecast was 55%. In the domestic business, DL progressed ahead of our initial assumptions due to upside in the positive spread and capital gains and losses. At DFL, core profit has accumulated in line with the expansion

of AUM, but the increase in provisions for contingency reserves associated with higher interest rates has constrained progress.

- In the overseas business, while TAL showed an improvement in its underlying earnings capacity, PLC recorded the hedge losses I mentioned earlier. Temporary losses, including the impairment loss at DLVN, also affected results.
- In the non-insurance business, the asset management business and Benefit One steadily accumulated profits.
- Although some businesses are performing below budget, the Group as a whole is progressing ahead of our expectations.
- At the same time, we have only completed the first half of the fiscal year. Equity sales and the rebalancing of yen-denominated bonds in the second half will be affected by future equity market conditions and interest rate movements. Taking these factors into account, together with the continuing uncertainty following the US midterm elections, we have not changed our full-year forecast for group adjusted profit in Q2.
- Please turn to the next page.

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- This page shows our new business results.
- Value of new business was approximately ¥90.0 billion on a preliminary basis, down 15% year on year.
- This was mainly attributable to the effect of the model revisions and changes in assumptions implemented at DL at the end of the previous fiscal year. Among the assumptions used by the three domestic companies, the inflation rate assumption was raised, which had a negative impact.
- In the overseas business, sales at PLC remained strong, offsetting the slower progress in the domestic business.
- As a result, the Group's value of new business progressed broadly in line with our expectations against the full-year forecast.
- Annualized new premiums in the domestic business were broadly in line with the same period of the previous fiscal year, while the overseas business recorded growth. PLC's retirement business performed strongly, primarily reflecting solid sales of fixed annuities. At TAL, renewals of group insurance contracts also made a positive contribution.
- As a result, the Group's annualized new premiums increased by 8% year on year, or 4% excluding the impact of foreign exchange movements.
- Although value of new business declined year on year, this was largely attributable to the model revisions and changes in assumptions. We therefore believe that the momentum in the Group's overall new business performance remains solid.
- We will continue working to steadily accumulate high-quality new business, considering not only sales volume but also product profitability and inflation trends.
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- This page explains group EV and ESR.
- On a preliminary basis, group EV increased from the end of the previous fiscal year to approximately ¥10.1 trillion as of the end of September.
- The positive impact of higher domestic stock prices was partially offset by the negative impact of PLC's M&A transaction, but the net impact was positive.
- ESR, meanwhile, was approximately 211%, down 9 percentage points from the end of the previous fiscal year. Eligible capital increased for the same reasons as group EV. Required capital, however, increased due to an increase in mass lapse risk associated with higher domestic interest rates. As the increase in required capital exceeded the increase in eligible capital, ESR declined from the end of the previous fiscal year.
- While higher interest rates have a negative impact on ESR through an increase in mass lapse risk, they also have positive effects on earnings and sales. We will continue to closely monitor surrender trends, fully capture the earnings benefits of higher interest rates across the Group, and appropriately manage surrender trends and the impact of M&A transactions on capital.

Note: Some of the above content has been added or modified to make it easier to understand.
[Company name abbreviation] HD: Daiichi Life Group, DL: Daiichi Life, DFL: Daiichi Frontier Life PLC: Protective, TAL: TAL, DLVN: Daiichi Life Vietnam, DLRB: Daiichi Life Reinsurance Bermuda, AMOne: Asset Management One, CP: Canyon Partners

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