Q2 FY2026 Financial Results Conference Call for Institutional Investors and Analysts
Q&A Summary

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Q: The policy reserves for policies with assumed interest rates of less than 1.5% shown on page 9 of the presentation account for 8% to 9% of the total, and you explained that the impact on accounting profit and ALM would be limited. What is the approximate duration of these policies? Is it also reasonable to assume that the impact on changes in EV assumptions and other items at the fiscal year-end will be limited? In addition, if you have any information, could you explain whether the surrendered funds are flowing to other life insurance companies or whether DFL's products with MVA features are serving as an alternative destination for these funds?

A: The single-premium products are whole life insurance products, and we understand that their duration was approximately 20 years at the time of sale. DL discontinued sales of single-premium whole life insurance products in 2016, and approximately ten years have already passed since then. In the case of whole life insurance, the duration does not simply shorten by one year with each passing year. However, looking at the block as a whole, the duration has shortened to a certain extent.

Regarding the impact of surrenders on EV, even for policies with low assumed interest rates, the calculation assumes that a positive spread can be secured if the policies remain in force for a certain period. Therefore, surrenders will result in the loss of such future profit. However, we do not believe that the impact will necessarily be significant.

We do not have an accurate and comprehensive understanding of where the surrendered funds are being redirected. From DFL's perspective, DL is its largest sales agent. Sales of DFL products through DL are expected to be approximately ¥400 billion annually and amounted to approximately ¥200 billion through Q2. It is therefore possible that a portion of the funds surrendered from DL policies is included in these ¥200 billion of sales. On the other hand, although this is an inference based on our observations, the particularly pronounced increase in the surrender rate during the quarter coincided with a period in which other insurers raised their assumed interest rates. We therefore cannot rule out the possibility that this also had an impact.

Q: As a general matter, what criteria and levels do you use to set the hurdle rate when considering M&A transactions? In addition, ESR recovered to approximately 210% as of the end of September 2026. I understand that the Group intends to maintain ESR at no less than 170%. Under normal circumstances, to what level would you consider it acceptable for ESR to decline as a result of an M&A transaction?

A: As a basic principle, we will manage our economic value-based capital policy at a level above an ESR of 170%. On that basis, we intend to maintain a certain buffer above 170% when using ESR-based capital for M&A and other purposes that would lower the ratio. Specifically, we expect to make decisions with a range of approximately 185% to slightly above 200% in mind.
Regarding the hurdle rate for M&A, under our framework, we first measure the cost of capital for the Group as a whole. We then set individual hurdle rates for existing entities and entities that may become M&A targets, taking into account country risk, business risk, and other relevant factors, and evaluate M&A opportunities on that basis. However, simply exceeding the hurdle rate is not sufficient. The Group has various targets and constraints, including, for example, an ROE target of 15% and targets relating to ESR. We will determine whether an M&A transaction is beneficial to the Group in light of these targets and constraints.

Q: Progress in adjusted profit at PLC and in Oceania appears somewhat slow. Although PLC's new business sales of annuity products appear strong, profit does not seem to be keeping pace. Is it possible to achieve 100% of the plan? Could you also provide a similar outlook for Oceania?

A: The Oceania business is centered on protection products, and its growth rate tends to be relatively moderate. At TAL, profit declined significantly in the previous fiscal year due particularly to an increase in claims payments. After establishing the necessary reserves in the previous fiscal year, the main scenario for the current fiscal year is for profit to recover in a manner resembling a V-shaped recovery.
TAL made a somewhat weak start in Q1, and claims payments remained elevated. However, over the course of the fiscal year, we expect TAL to catch up to the level of profit initially projected.
Oceania also includes New Zealand. At PNZ, we are currently proceeding with work related to the acquisition. Integration costs are being incurred as part of this process, and there have also been temporary losses, including items similar to valuation losses under IFRS. As a result, performance is below the plan for the current fiscal year. Although the New Zealand business is relatively small, we intend to generate synergies following the integration and translate them into profit contributions.
At PLC, strengthening the annuity business and asset management are key growth drivers. PLC has also expanded its asset protection business through acquisitions in recent years. In terms of the challenges, the loss ratio in the asset protection business has deteriorated as inflation in the United States has exceeded our assumptions. It may take some time to achieve an improvement, but we need to strengthen the business so that its performance approaches the level anticipated at the time of the acquisitions. Looking at the accumulation of core profit excluding temporary effects from derivatives and other items, we believe that profit is growing.

Q: How flexibly can premiums for asset protection products be increased?

A: Asset protection products are not long-duration products. However, some products have insurance periods of, for example, five years. Even if premiums are increased, the effect on the existing block of policies will emerge at a rate of one-fifth per year. There is therefore a certain time lag before the full effect is realized.

Q: I understand that the Group is already engaged in various forms of collaboration with Challenger, including jointly introducing services through superannuation. Given this friendly relationship, I believe that negotiations to acquire the entire company would be extremely difficult. At the same time, I assume that the matter cannot simply end with the Group ultimately withdrawing from this negotiation. Could you explain what you consider important in conducting the negotiation?

A: Our subsidiary, TAL, has currently submitted a non-binding proposal. Given the applicable local regulations, we ask for your understanding that we cannot comment beyond the information that has already been publicly disclosed.

Q: I would like to confirm the progress of gains and losses on sales against the plan. The material states that gains on sales of domestic equities exceeded expectations. However, the chart in the lower-right corner of page 17 states that results were ¥11.0 billion below the budget. How should we understand this?

A: Gains on sales of securities related to domestic equities are significantly above the initial budget. At the same time, losses on sales associated with the rebalancing of yen-denominated bonds are also progressing above the budget. On a net basis, these items were ¥11.0 billion below the budget in Q2. However, capital gains and losses as a whole are above the budget.

Q: You explained that the earnings forecast was not revised this time in light of market conditions. Looking at the situation on a natural run-rate basis, however, adjusted profit was approximately ¥30.0 billion above the full-year plan at the end of the first half. Assuming there are no significant changes, can we expect an upward revision in Q3? In addition, even if the environment deteriorates, is it reasonable to assume that results will not fall below the current plan because the volume of bond rebalancing can be adjusted?

A: We have only completed half of the fiscal year, so we would like to assess the situation for a little longer before making a decision. Regarding whether we will achieve the budget for the current fiscal year even if the environment deteriorates, we cannot state that we will achieve it under all circumstances. However, we believe that we have a reasonable range of measures available to us, and we intend to make every effort to achieve the budget.

Q: You previously explained that the impact of surrenders on financial results would be limited relative to the overall scale of the business. On page 9 of the presentation, however, the wording indicates that the impact on financial results is limited because hedge positions have already been established. What type of loss risk arising through what mechanism are these hedges intended to cover? Could you provide a detailed explanation of the events against which the hedge positions would offset the impact?

A: The approximately ¥50.0 billion in surrenders of single-premium products that are currently occurring will not have a significant impact on our results for the current fiscal year or our profit outlook for subsequent fiscal years, given their scale. On the other hand, if interest rates rise further and surrenders increase to a certain extent in the future, we can utilize hedge positions, including swaptions, that generate gains when interest rates rise. We hold a combination of different types of swaption positions. For some positions, all changes in fair value are recognized through P/L, while other positions are held in fund form and changes in fair value are not directly reflected in P/L. Although we refrain from disclosing the specific amount, we hold hedge positions designed to offset losses even if interest rates rise to a certain extent and losses on bond sales occur. Our explanation that the impact on financial results is limited because we hold hedge positions means that we would be able to respond to a certain extent even under a scenario in which interest rates rise further.

Q: Dynamic lapse behavior is difficult to predict, and I do not believe that actual surrender rates will necessarily behave exactly as projected by a model that assumes surrender rates will rise by a certain amount when market interest rates reach a specified level. Is there a risk that hedge errors could arise?

A: Our hedges are not intended to be precise cash flow hedges. Rather, they are positioned as macro hedges intended to offset a certain degree of the overall impact. They are not structured in such a way that we hedge based on a highly detailed model and would become over-hedged if the model assumptions proved inaccurate.

Q: The figures on page 8 of the presentation regarding the rebalancing of yen-denominated bonds appear unchanged from Q1. In contrast, the outlook for domestic equity sales was explicitly raised by ¥100.0 billion this time. At the recent investment management policy briefing, you also explained that the volume of yen-denominated bond rebalancing would exceed ¥1 trillion. Could you explain the expected scale of yen-denominated bond rebalancing and provide any updates from the Q1 outlook?

A: The presentation states that the expected volume of domestic bond rebalancing is “Expected to exceed the initial plan.” We used the same wording in Q1. In Q2, we did not make any specific changes to the assumed amount in this section. Although we updated the figure for domestic equity sales, the amount of domestic equity sales and the volume of yen-denominated bond rebalancing are not completely linked. We have not changed our assumptions for bonds.

Q: Regarding TAL, could you provide more detail on the likelihood of an improvement in performance during the second half? I understand that claim payments have been increasing. Could you provide specific examples of the measures implemented during Q2 and the measures that need to be taken during the second half?

A: In the previous fiscal year, payments increased for TPD, total and permanent disability insurance, for which the payment per claim is relatively large. We have responded to this impact by establishing a certain level of reserves.
In Q1, claims payments increased particularly for income protection coverage related to mental health conditions. Our outlook is that TAL will reach the planned level of profit for the full fiscal year by carefully examining these claims and implementing premium increases.

Q: With respect to the ¥700.0 billion profit target for 2030, is it reasonable to view the acquisition of Challenger, together with subsequent inorganic growth and the realization of synergies, as a transaction that would provide sufficient visibility toward achieving the target? Alternatively, would the Group need to pursue additional transactions to achieve the target? Could you comment on what level of expectations we should have?

A: Given the applicable local regulations relating to Challenger, we will refrain from commenting today beyond the information that has already been publicly disclosed.

Q: Going forward, is the increase in the surrender rate likely to be driven primarily by rising market interest rates, with surrender rates therefore fluctuate in line with market interest rate trends? Alternatively, is the impact of competitors raising their assumed interest rates more significant, meaning that surrender rates will need to be monitored carefully even if market interest rates decline somewhat, as they have recently?

A: The products in question were sold through our proprietary sales channel. Compared with products sold through general agency channels, we therefore believe that they are less sensitive to the impact of agents recommending other companies’ products to customers when competitors raise their assumed interest rates.
However, from a broader perspective, we believe that market interest rate movements and

competitors' assumed interest rates are correlated on an almost one-to-one basis. Depending on market developments, we believe it would be prudent to assume the possibility of a further increase in the surrender rate.

For this reason, we are providing a careful explanation of the scale of surrenders, our hedging approach, and our approach to bond sales. Various additional responses, including product-related measures, may also be possible. We will consider these measures going forward.

Q: You explained that the investment management policy for the second half will focus on the rebalancing of government bonds. To what extent can you tolerate a rise in government bond yields? Are there any criteria or limits under which you would revise the investment plan if interest rates rise further?

A: We respond flexibly according to the circumstances. We make decisions by considering not only our main interest rate scenario but also risk scenarios involving a more significant increase in interest rates. We have not established a clear threshold that would trigger a change in our policy.

Q: Regarding the breakdown of group adjusted profit on page 4 of the presentation, "Others" was negative ¥1.1 billion in Q2. This compares with negative ¥7.9 billion in the same period of the previous fiscal year and a negative amount of approximately ¥10 billion in Q1. What factors contributed to the significant reduction in the negative amount recorded under "Others"?

A: One of the factors that adversely affected profit in the same period of the previous fiscal year was DLRB. Because fair value accounting is applied to DLRB, the effects of changes in fair value are reflected in profit or loss separately from movements in core profit.

The relevant component performed strongly in the current fiscal year, while there was a negative impact from changes in fair value in the previous fiscal year. This contributed to the improvement in "Others."

Q: Regarding the graph on the left-hand side of page 9 of the presentation, could you explain the line showing the surrender rate that has not increased, which was not discussed in today's presentation? Based on the current yield curve, I believe that by around 2030, standard interest rates and assumed interest rates for regular-premium products will also have risen considerably, and more companies will be able to offer lower premiums. Should we assume that the surrender rate represented by the line that has not increased could also rise over a longer time horizon? Alternatively, because these products have completely

different characteristics from single-premium products, is it reasonable to assume that the surrender rate will not increase?

A: DL has already discontinued sales of single-premium savings-type products. As existing policies remain in force, the difference between market interest rates and assumed interest rates is widening, creating a situation in which a certain level of fund outflow can be anticipated. However, the scale of the policies affected is limited.

On the other hand, DL continues to sell regular-premium products and protection products. In addition, many of the policies sold in the past are participating products. There are also products, including term insurance and medical insurance, for which premiums do not change even if assumed interest rates rise, as well as products with low cash values. We therefore believe that the overall interest rate sensitivity of these products is considerably lower.

Although there is a possibility that surrenders could have an impact, we have a policy conversion system that allows us to respond more flexibly from a product perspective, including by converting old policies into new policies. Accordingly, we do not believe these products are of a nature that would result in a large-scale outflow of funds solely because of higher interest rates or give rise to losses on bond sales as a result of surrenders.

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

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