LIFENET INSURANCE COMPANY

IFRS 17 Study Meeting for Investors and Analysts Session 3

January 20, 2023

[Speaker]

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Disclaimer (1)

- The information in this document is based on our current interpretations and views of statutory accounting and International Financial Reporting Standards (IFRS).
- Other companies in the industry and other related parties may have different interpretations and views.
- For ease of understanding, some of the expressions used in this document are different from the actual accounting standards.

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Sakasai: I am Sakasai from the Corporate Planning Department. Thank you very much for joining us today for the IFRS 17 Insurance Contracts study session. I will now provide an explanation based on the materials.

The first page is the same as before, but please confirm the disclaimers.

Disclaimer (2)

- This document explains the figures relating to our opening BS as a reference for a better understanding of our financial statements for the next financial year and beyond. Please note that;

  ✓ **The formal adoption of IFRS has not been decided yet at Lifenet officially**

  ✓ **All figures in this document are unaudited *Subject to change**

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Here is another disclaimer. I would like to ask you to please review the notes here, in addition to the limitations on the previous page.

We are currently in the process of preparing for the voluntary adoption of IFRS in the next fiscal year. Among them, the major milestone is the preparation of the retrospective calculation of IFRS 17 for policies-in-force, for the opening BS as of April 1, 2022.

In this third study session, we will explain tentative figures regarding our opening BS as a reference for a better understanding of our financial statements for the next fiscal year and beyond.

However, we ask for your understanding that the formal adoption of IFRS has not yet been decided, that all figures are unaudited, and that they are therefore subject to change.

Overview

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I will follow the table of contents on page 3 as I explain.

I would like to explain the contents of this study session by reviewing the basics of IFRS income statement structure, insurance liabilities, and other contents up to the previous study sessions.

1. About the Study Meeting

■ **Purpose**

Explain the key points of IFRS prior to our voluntary adoption from FY2023

➡ **Facilitate a smooth transition to our new financial statements and financial analysis**

Note: This study meeting is not intended to explain specific performance forecasts at Lifenet

■ **Schedule**

Session	Theme	Date
1st	Basic information of IFRS 17 • Background and significance of the introduction of IFRS • Key points of profit and loss under IFRS 17 • Importance of CSM (Contractual Service Margin)	July 5, 2022
2nd	Financial analysis of IFRS 17 • Analysis of profit, financial indicators and changes in CSM	October 14, 2022
3rd	**Opening BS of IFRS 17** • **Retrospective calculation of insurance service results** • **Opening BS (insurance liability and the entire)**	**January 20, 2023**

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Please see page 4.

The purpose of this study session is to explain the key points of IFRS 17 prior to our voluntary adoption of IFRS in FY2023. We would appreciate your understanding that this study session is not intended to explain specific performance forecasts, etc.,of Lifenet.

This is the third time, and as mentioned earlier, we will explain the opening BS for our transition to IFRS, i.e., the provisional IFRS-based BS as of April 1, 2022, the beginning of the year prior to adoption, along with the results of the retrospective calculation of insurance service results.

These are not related to the forecast of business results for the next fiscal year or later but are only the calculation results of past figures in the process of retrospective calculation of IFRS 17 and are explained as reference figures to help you understand our financial statements more smoothly in the next fiscal year and later.

2. Today's Key Points

- We have performed retrospective calculations and prepared opening BS for FY2022 (unaudited). This session includes;
- Income Statement : Insurance service results for FY2020 and FY2021
  - Financial results, other results and income tax expenses are excluded from the retrospective calculation
  - In practice, income tax expenses will be reflected to profit
- Balance Sheet : Opening BS for FY2022
  - Due to the protection type nature of our products, insurance contract assets will be recorded (insurance liabilities are negative)

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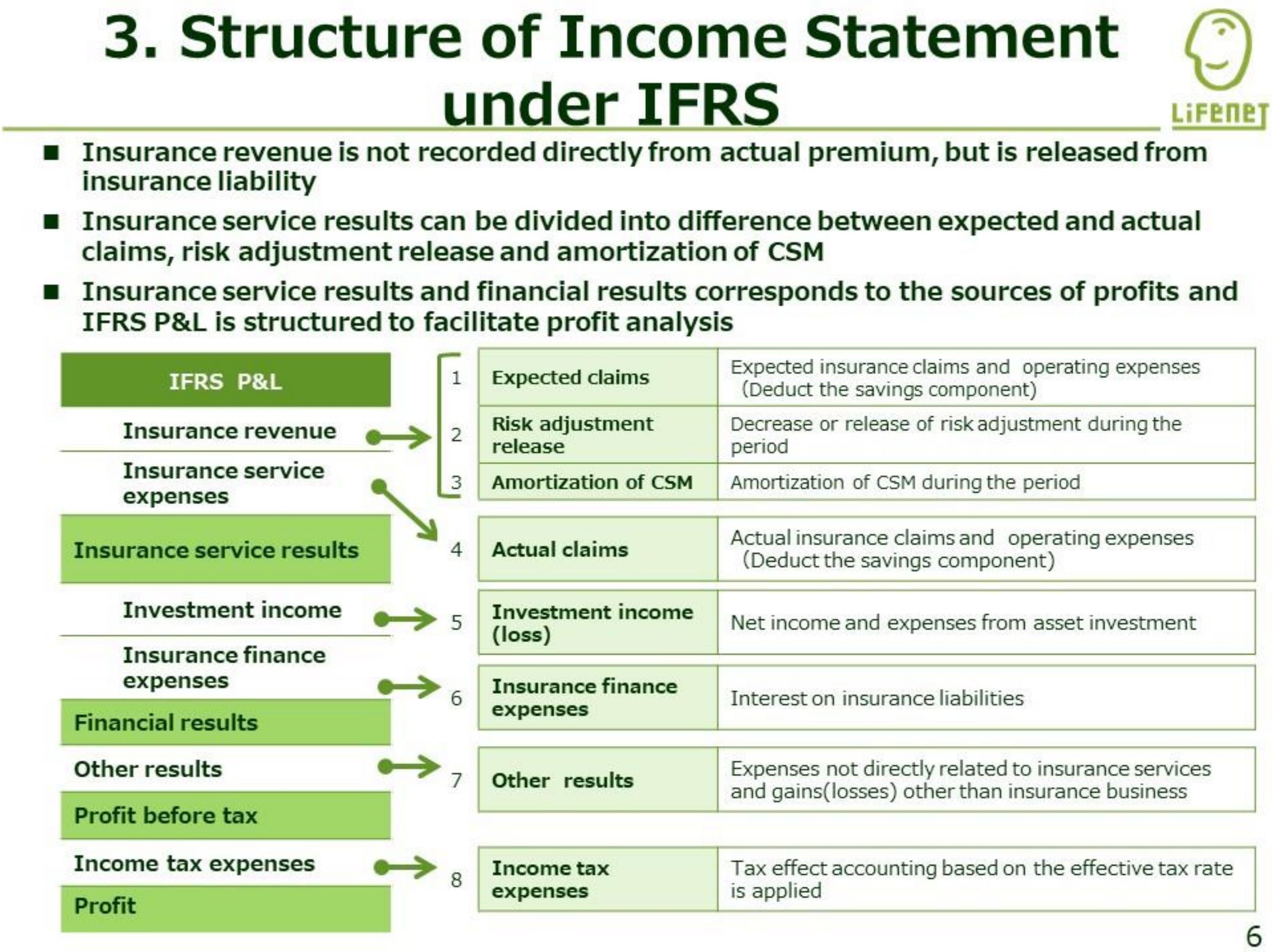
Page 5 is key points of this session.

In preparation for the voluntary adoption of IFRS, Lifenet has performed retrospective calculations prior to FY2021 and prepared an opening BS for FY2022.

However, it is currently in a tentative, unaudited state. Based on the results of the retrospective calculation, we will now explain insurance service results for FY2020 and FY2021 in the income statement.

Please note that profit before tax and profit after tax are not included in this explanation, because financial results, other results, and income tax expenses are not included in the retrospective calculation. In practice, we would particularly appreciate your attention to the fact that income tax expenses with tax effects will be reflected in after-tax net income from FY2022 onward.

We will also explain the opening BS as of the beginning of FY2022 as a balance sheet. Characteristically, due to the protection type nature of the coverage products we hold, we have a negative insurance liability that accounts for our insurance contract assets.



Page 6 is the structure of the IFRS income statement, or P&L. This slide is basically the same as the explanation in the previous sessions, but with additional details on other income/loss and income tax expenses.

As shown in the table on the left, IFRS profit before tax consists of insurance service results and financial results. In addition, P&L includes other income/loss and income tax expenses. The main items of revenue and expense shown here are explained on the right-hand side.

As per the top comment, insurance revenue is not recorded as revenue from actual premiums earned but is released from the three component parts of insurance liability. It is recorded through a journal entry with a decrease in liability. These are, respectively, expected insurance clams, etc., in item one; risk adjustment releases in item two; and CSM amortization in item three.

Insurance service expenses, on the other hand, are recorded as actual insurance claims and operating expenses incurred in item four.

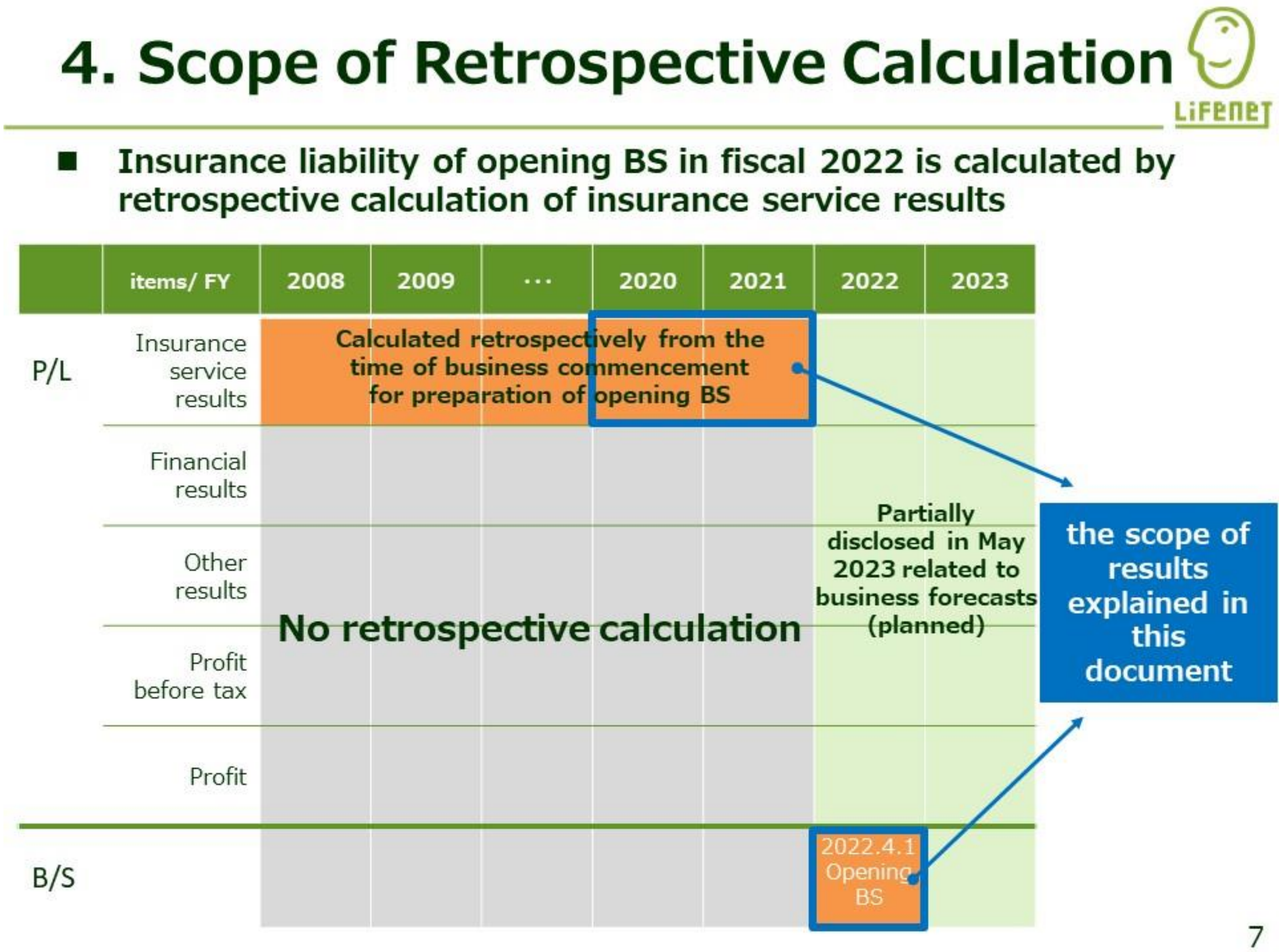
These subtractions result in insurance service results. Thus, insurance service results can be broken down into the difference between expected and actual insurance clams and other payments (item1-item4), risk adjustment releases (item 2), or item two, and CSM amortization, (item 3)

Investment income in financial results in item 5 is the income from asset investment, and insurance financial expenses in item 6 include interest on insurance liabilities. These subtractions result in financial results.

Thus, insurance service results and financial results correspond to the sources of profit, and the P&L in IFRS has a structure that facilitates profit analysis.

In addition, item 7, other results include expenses not directly related to insurance services and gains/losses other than insurance business. Item 8 is income tax expenses, and tax effect accounting based on the effective tax rate is applied.

Since tax law accounting for Japanese life insurance companies is based on statutory accounting under the Insurance Business Law, we currently have negative taxable income. However, if the IFRS profit before tax is still positive, there will be an income tax expense on tax effect accounting since it will be necessary to match the future income tax burden to it. Profit is the after-tax amount after this is deducted.



Page 7 explains the process and range of retrospective calculation to calculate the insurance liability in the opening BS.

The insurance liability for the opening BS at the beginning of FY2022 is calculated by retroactively calculating insurance service results.

Therefore, for the purpose of preparing the opening BS, it is necessary to retroactively calculate insurance service results from the time of start of the business through FY2021. On the other hand, financial results, other results, profit before tax, and profit (after tax) were not retroactively calculated since they are not necessary in the work of preparing the opening BS.

We would like to first remind you that the range of the calculation results presented in this document is insurance service results for FY2020 and FY2021, as well as the opening BS as of April 1, 2022, which are surrounded in blue lines.

The full calculation will be performed for P&L after FY2022. It will be disclosed in May 2023 in relation to the business forecasts for FY2023, which will mainly include profit (after tax).

5. Retrospective Calculation Insurance Service Results

■ **Results of insurance service results（Income Statement format)**

JPY bn

	Items	FY2020	FY2021
1	**Insurance revenue**	**15.2**	**18.0**
2	Expected claims	6.3	7.9
3	Risk adjustment release	1.5	1.6
4	Amortization of CSM	5.2	5.8
5	Recovery of IACF*	2.2	2.7
6	**Insurance service expenses**	**8.5**	**10.4**
7	Actual claims	6.3	7.7
8	Amortization of IACF*	2.2	2.7
9	**Reinsurance results**	**(0.1)**	**(0.3)**
10	**Insurance service results**	**6.6**	**7.2**

*Insurance Acquisition Cash Flows

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Page 8 shows insurance service results with their breakdown items for FY2020 and FY2021 in the income statement format as a result of the retroactive calculations.

If you look at the bottom line of the table, item 10, the amount of insurance service results is JPY6.6 billion for FY2020 and JPY7.2 billion for FY2021. The largest amount in insurance revenue is item 2, expected claims. It should be viewed for the difference between expected claims and actual claims, item 7, in insurance service expenses.

Effectively, item 4, amortization of CSM, is the main source of insurance service results, amounting to JPY5.2 billion in FY2020 and JPY5.8 billion in FY2021. Other insurance revenue includes the risk adjustment release in item 3, which is also a source of insurance service results.

In addition, the amounts related to the recovery and amortization of insurance acquisition cash flows (IACF) are recorded in insurance revenue and insurance service expenses in equal amounts, as shown in items 5 and 8. Reinsurance results in item 9 is added and in this way insurance service results are structured

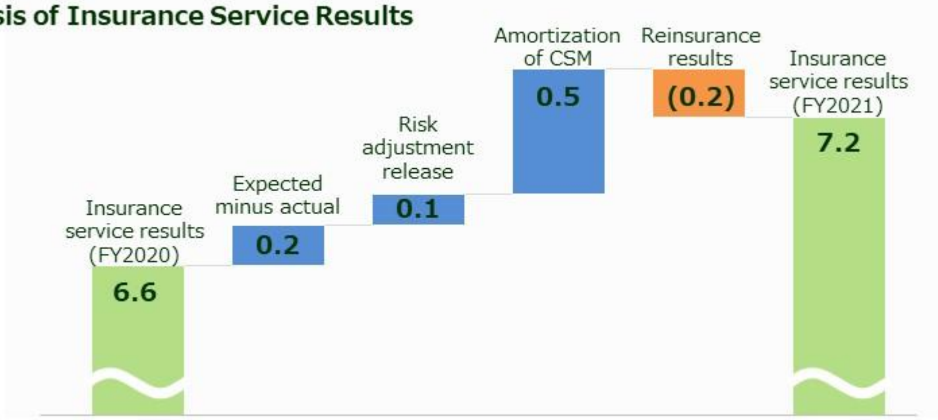
6. Analysis of Increase/Decrease in Insurance Service Results

■ **Amortization of CSM is the main source of insurance service results**

JPY bn

	Items	FY2020	FY2021	Increase/ Decrease
1	Expected claims – Actual claims	0.0	0.2	0.2
2	Risk adjustment release	1.5	1.6	0.1
3	Amortization of CSM	5.2	5.8	0.5
4	Reinsurance results	(0.1)	(0.3)	(0.2)
5	**Insurance service results**	**6.6**	**7.2**	**0.6**

Analysis of Insurance Service Results



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The table above shows a summary of insurance service results on the previous page, netting expected claims and actual claims.

The amount of change between the two fiscal years is shown on the right side, with an overall increase of JPY0.6 billion.

The graph below shows the changing factors of insurance service results for FY2020 and FY2021. The numbers in the graph are the numbers in the colored cells in the table above, just as the colors in the bar graph correspond to that of table cells, which are then graphed in a waterfall fashion.

You can see that amortization of CSM is the main source of insurance service results and that its increase is important for the profit growth.

7. Retrospective Calculation CSM Movements

- **As CSM grows, amortization of CSM (revenue) increases**
- **New business CSM and assumption changes,etc mainly contribute to the growth of CSM**

JPY bn

	Item	FY2020	FY2021
1	**CSM, beginning of the year**	**55.1**	**65.7**
2	New business CSM	8.9	7.7
3	Increase from interests	0.6	0.6
4	Assumption change, etc.	6.4	6.6
5	Amortization of CSM	(5.2)	(5.8)
6	**CSM, end of the year**	**65.7**	**74.9**

(Ref.) Changing factors of EV

※ Note that EV is an after-tax concept

JPY bn

Item	FY2020	FY2021
Value of new business	5.8	4.7
Assumption changes	3.9	4.7

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Page 10 is a table of CSM movements for FY2020 and FY2021 as a result of the retroactive calculations.

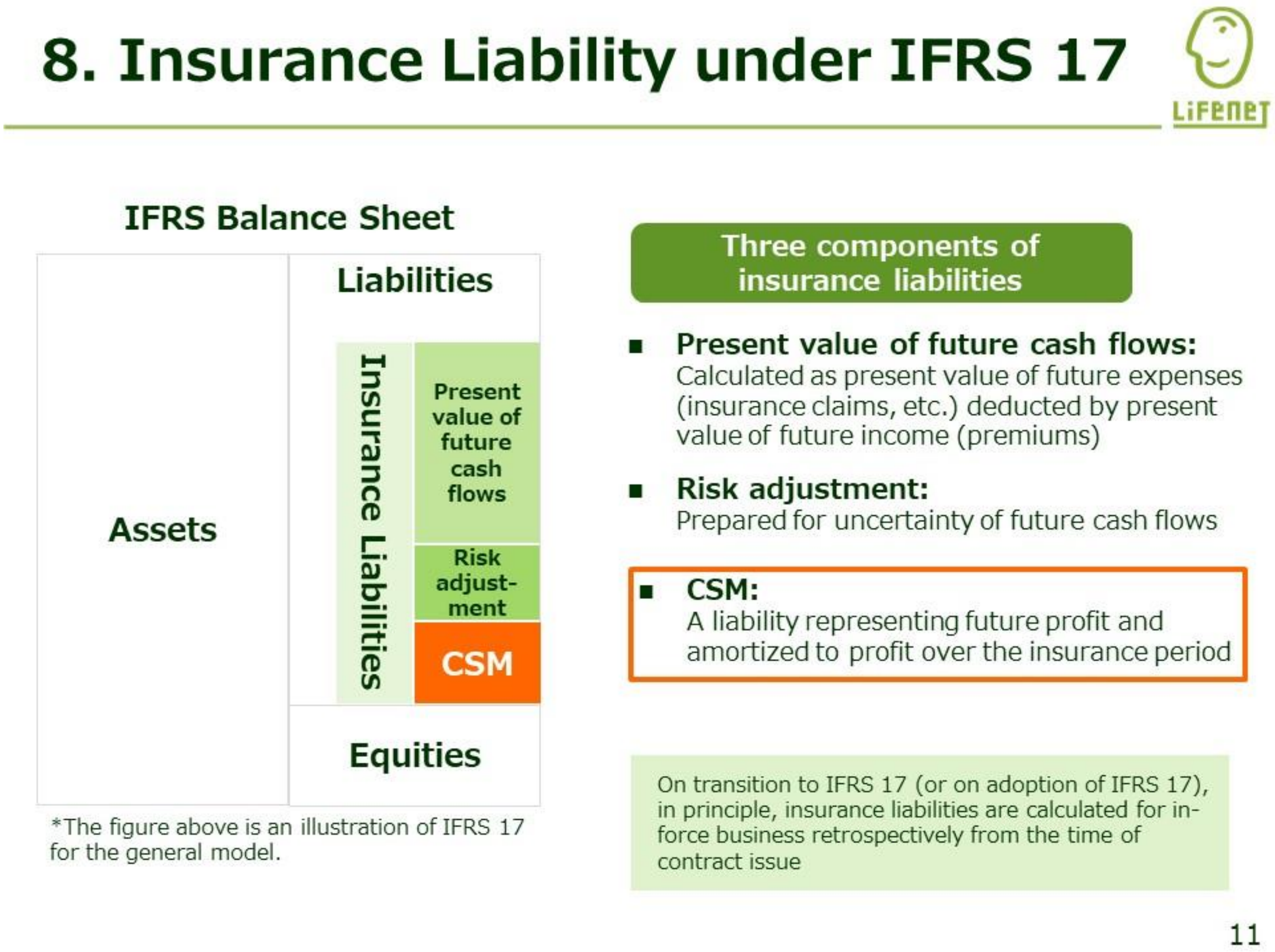
As explained in the previous session, CSM, beginning of the year plus the current period's new business CSM and increases due to interest, after adjustments for current period assumption changes, etc., are allocated to current period amortization and future periods. The current amortization is then subtracted from the CSM and recognized as revenue, and the future portion is included in the insurance liability as CSM, end of the year balance.

Item 2 is new business CSM, decreased from JPY8.9 billion in FY2020 to JPY7.7 billion in FY2021. This reflects the high efficiency of new business acquisition in FY2020, mainly due to the impact of the first wave of COVID-19 infections in the early part of the fiscal year.

The assumption changes, etc. in item 4, are JPY6.4 billion and JPY6.6 billion for FY2020 and FY2021, respectively. This is due to the fact that the assumptions for the incident rates and the unit expenses were revised toward improvement in the respective years.

Amortization of CSM in item 5 is equal to the amount included in insurance revenue on the page 8 and 9. Overall, as per the comment above, you can see that CSM amortization as revenue will increase as CSM grows, mainly due to new business CSM and assumption changes that contribute to the increase in CSM.

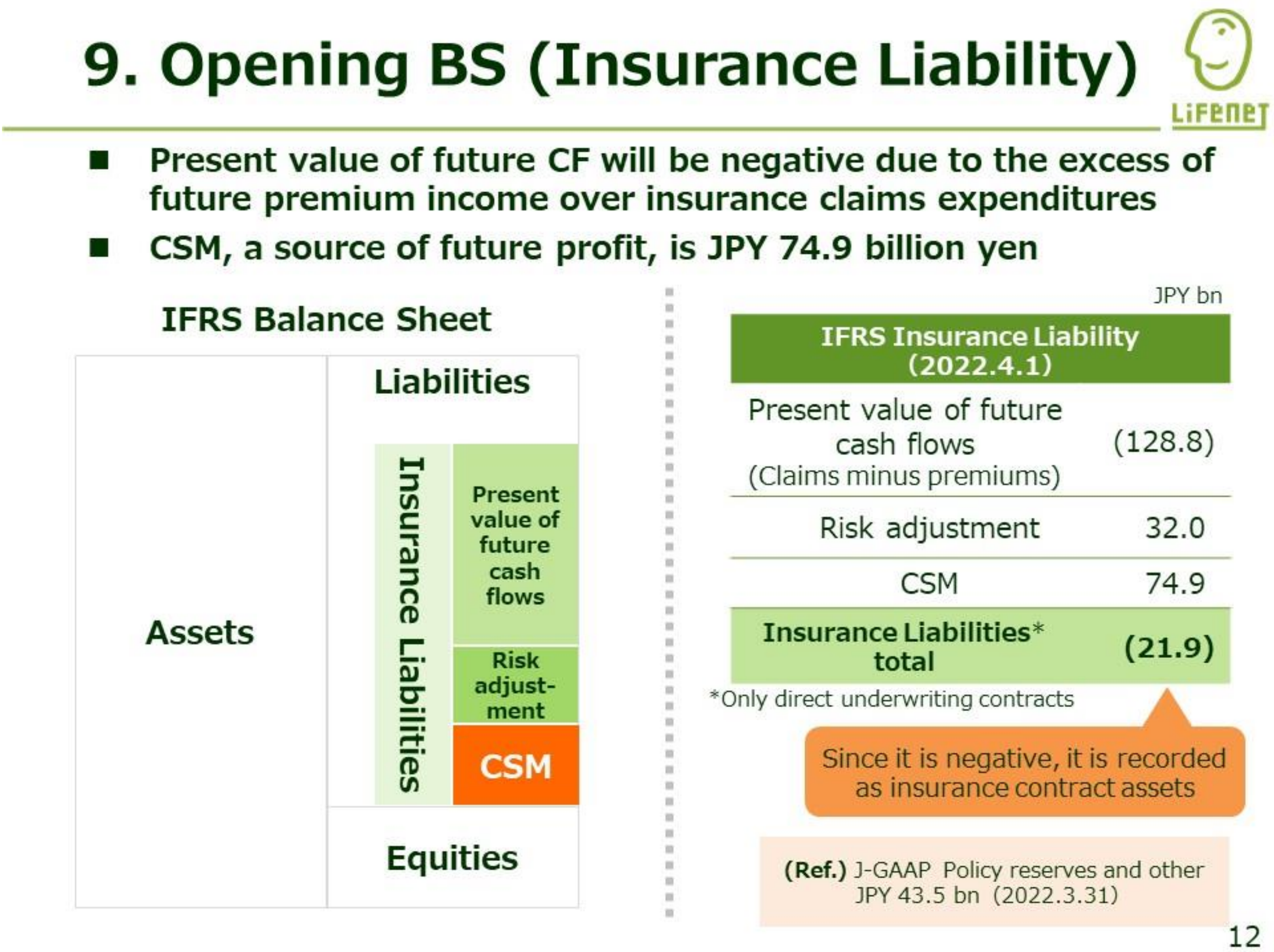
For reference, the table below shows the value of new business and the impact of assumption changes that contributed to the increase in EV. While it should be noted that EV is an after-tax concept, each of these factors corresponds to the new business CSM and assumption changes, etc., among the CSM increase/decrease factors.



Page 11 is a reiteration of a slide in the previous session, IFRS 17 insurance liabilities.

Insurance liabilities in IFRS BS are calculated in three component parts. The first is the present value of future cash flows calculated under best estimate assumptions, the second is a risk adjustment calculated as a provision for uncertainty in future cashflows, and the third is the CSM, or contractual service margin.

The following page shows our insurance liability in our opening BS as a result of the retroactive calculations shown in the lower right-hand corner of the slide.



The table on the left on page 12 is the same as on the previous page and represents the general IFRS BS.

In contrast, the table on the right side of the slide shows the specific amounts of insurance liabilities in our opening BS.

Present value of future cash flows will be minus JPY128.8 billion due to the excess of future premium and other income over insurance claims and other expenditures. This does not mean that the Lifenet's net cash flow is negative, but rather the opposite nuance, meaning that cash flow against in-force policies is negative as a liability.

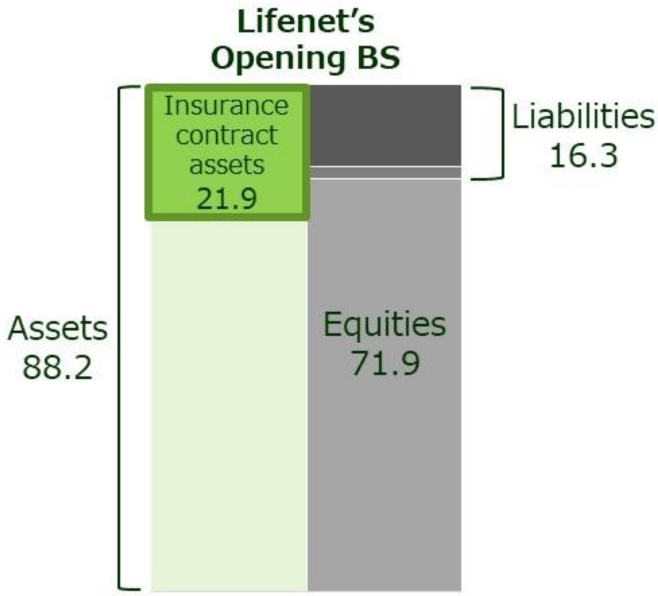
Then, risk adjustment is JPY32 billion, and CSM, which is a source of future profits, is JPY74.9 billion. The total insurance liabilities as a whole are minus JPY21.9 billion, and since it is negative, it will be recorded as insurance contract assets.

Listed below, for your reference, is the policy reserves and other in the J-GAAP, statutory accounting. The total of policy reserves and reserves for outstanding claims is a liability of JPY43.5 billion.

The difference between IFRS and statutory accounting, minus JPY21.9 billion versus JPY43.5 billion, is about JPY65 billion, including the fact that the signs(plus/minus) are opposite, which is the difference in concept and conservatism between the two types of accounting.

10. Opening BS（Entire）

- **Instead of the liability of policy reserves under J-GAAP, an insurance contract asset will be recorded under IFRS**
- **Deferred tax liability includes the amount corresponding to the taxable temporary difference in policy reserves**



JPY bn

IFRS Opening（2022.4.1）	
Insurance contract assets	21.9
Assets (other than above)	66.3
Assets total	**88.2**
Deferred tax liabilities	14.4
Liabilities (other than above)	2.0
Liabilities total	**16.3**
Equities total	**71.9**

(Ref.) J-GAAP Net assets
JPY 22.1 bn（2022.3.31）

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Page 13 shows what the overall picture of our opening BS will look like.

Instead of the liability of policy reserves under J-GAAP, an insurance contract assets of JPY21.9 billion will be recorded under IFRS. As shown on the previous page, this amount is the sum of minus JPY128.8 billion in present value of future cashflows, JPY32 billion in risk adjustment, and JPY74.9 billion in CSM; and although netted, the amount of JPY74.9 billion corresponding to future earnings in CSM is included as a liability.

A deferred tax liability of JPY14.4 billion will be recorded, including the amount corresponding to the tax-related temporary difference between policy reserves under J-GAAP and insurance contract assets under IFRS, which is approximately JPY65 billion.

These are the two major characteristics and the areas that make a big difference between the J-GAAP BS and the IFRS BS.

Another area where we receive many questions is the difference in the treatment of modified co-insurance. Under J-GAAP, Lifenet has reinsurance receivable of JPY3.9 billion at the end of FY2021, mainly for its unamortized ceding commissions. Under IFRS, however, unamortized ceding commissions are not included in the assets because present value of future cash flows is evaluated based on the economic value of both the direct underwriting and reinsurance portions.

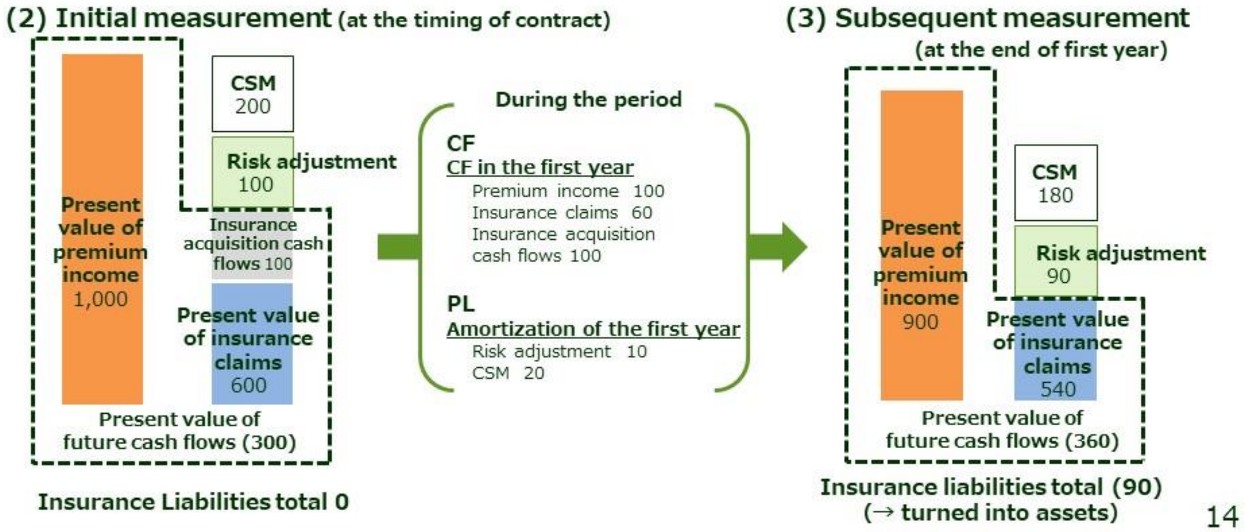
Other assets and liabilities are generally the similar amounts as under J-GAAP, but IFRS equities, which is assets minus liabilities, are JPY71.9 billion. This is about JPY50 billion larger than our net assets under JGAAP which were JPY22.1 billion at the end of FY2021. At the same time, it is the difference in retained earnings between the two.

11. Negative Insurance Liability

- **Due to the level-payment and protection type nature of our products, insurance liabilities tend to be negative**

(1) Expected future cashflows

	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10	Total
Premium income	100	100	100	100	100	100	100	100	100	100	**1,000**
Insurance claims	60	60	60	60	60	60	60	60	60	60	**600**
Insurance acquisition cash flows	100										**100**



Page 14 is a supplemental slide, and I will explain the negative insurance liability in IFRS 17 by means of an illustrative example. It is a bit detailed, so we hope you just listen to this for your reference.

Typically, insurance liabilities would tend to be positive even with level premium payment, since large expenditures are expected in the later stages of the insurance period, such as maturity benefits, accumulated cash surrender value, and increased death and hospitalization benefits due to higher insured age.

On the other hand, our products' characteristic is the level-payment and protection coverage, and their coverages are limited to death benefits, hospitalization benefits which do not include maturity benefits and cash surrender value. Thus, future expenses of insurance claims tend to be less than future premium income, resulting in negative insurance liabilities.

First, please have a look on (1). Let us assume that during the 10-year insurance period, premium income is 100 each year, expenditure of insurance claims is 60 each year, and the insurance acquisition cash flows is 100 only in the first year.

Then, in the initial measurement at the time of the contract in (2), the present value of premium income is 1,000, the present value of insurance claims expenditure is 600, and the insurance acquisition cash flows is 100, so the present value of future cashflows, the present value of future expenditures minus the present value of income, is minus 300. The discount rate here is assumed to be zero.

If the original risk adjustment is 100, the CSM is calculated so that the entire insurance liability at the time of the contract is zero, so the new business CSM is 200.

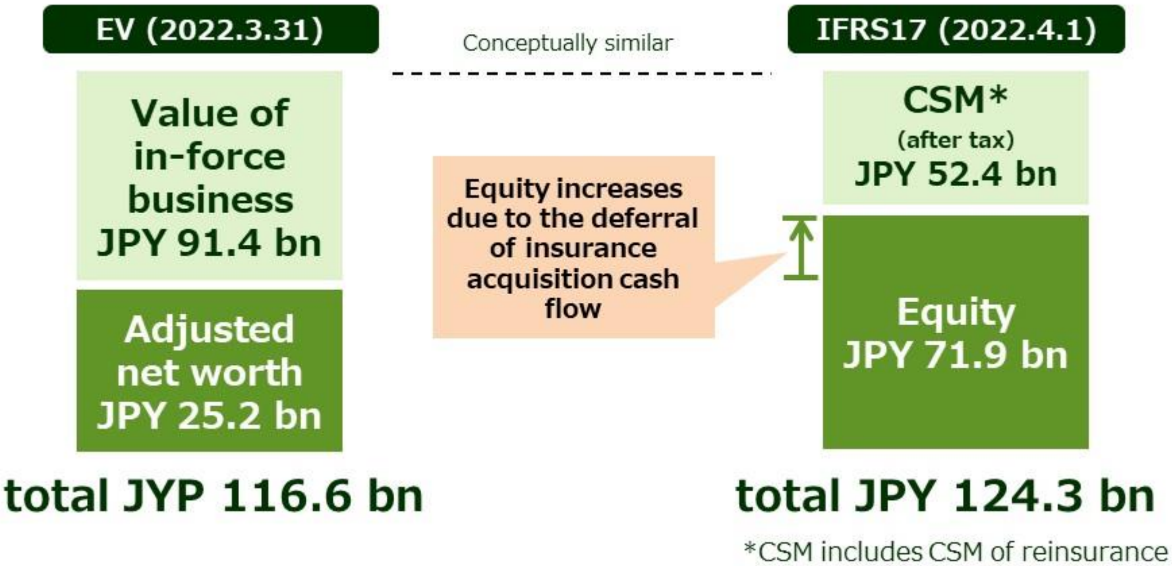
From here, if during the first year there are 100 premium income, 60 insurance claims, and 100 insurance acquisition cash flows and there are 10 risk-adjustment releases and 20 CSM amortization, then the insurance liability at the end of the first year would be in (3) on the right side.

After the second year, since the present value of premium income is 900 and the present value of insurance claims expenditure is 540, the present value of future cash flows is minus 360. The risk adjustment and CSM, after amortization, would be 90 and 180, respectively, for a total insurance liability of minus 90, which would be recorded as an insurance contract assets.

We believe this is a healthy situation, with a net inflow of future insurance cash flows and a secured CSM as a source of accounting revenue.

12. Comparison of EV and IFRS Equity

■ **The amount of IFRS equity plus CSM(after tax) is similar to EV in total**



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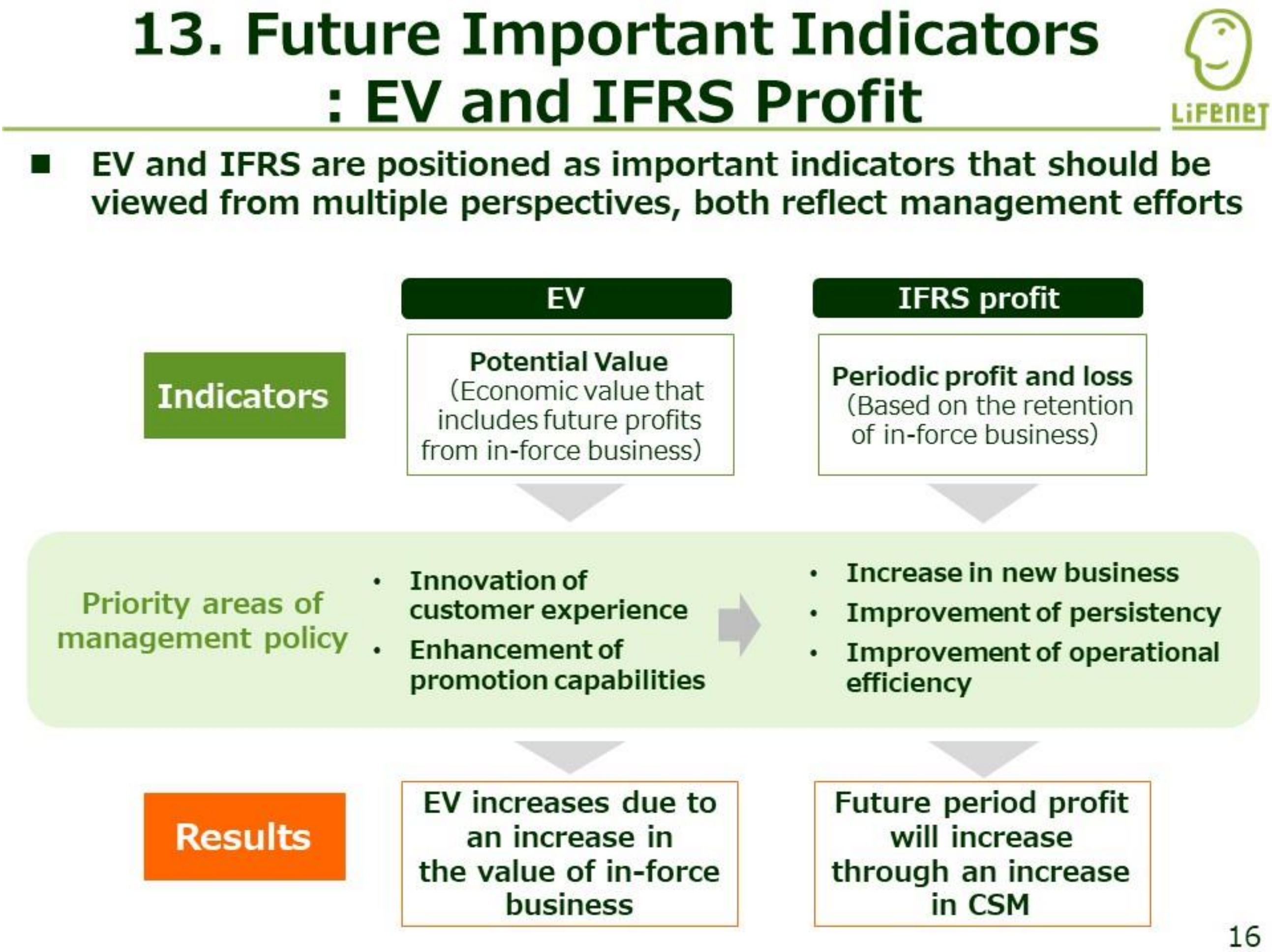
The figure on page 15, which was explained conceptually in the previous study session, is shown by applying specific figures from the opening BS.

Our EV at the end of FY2021 was JPY116.6 billion, consisting of JPY91.4 billion in value of in-force business and JPY25.2 billion in adjusted net worth. In contrast, for the IFRS opening BS for FY2022, the sum of CSM JPY52.4 billion after tax and equity JPY71.9 billion would be JPY124.3 billion.

It is similar to EV in total, although under IFRS equity has increased due to the deferral of insurance acquisition cash flows. In other words, it is also possible to estimate our value on an economic value basis to some extent in the IFRS BS.



Page 16 is another slide that has been restated from the previous study session, but I will explain it again.

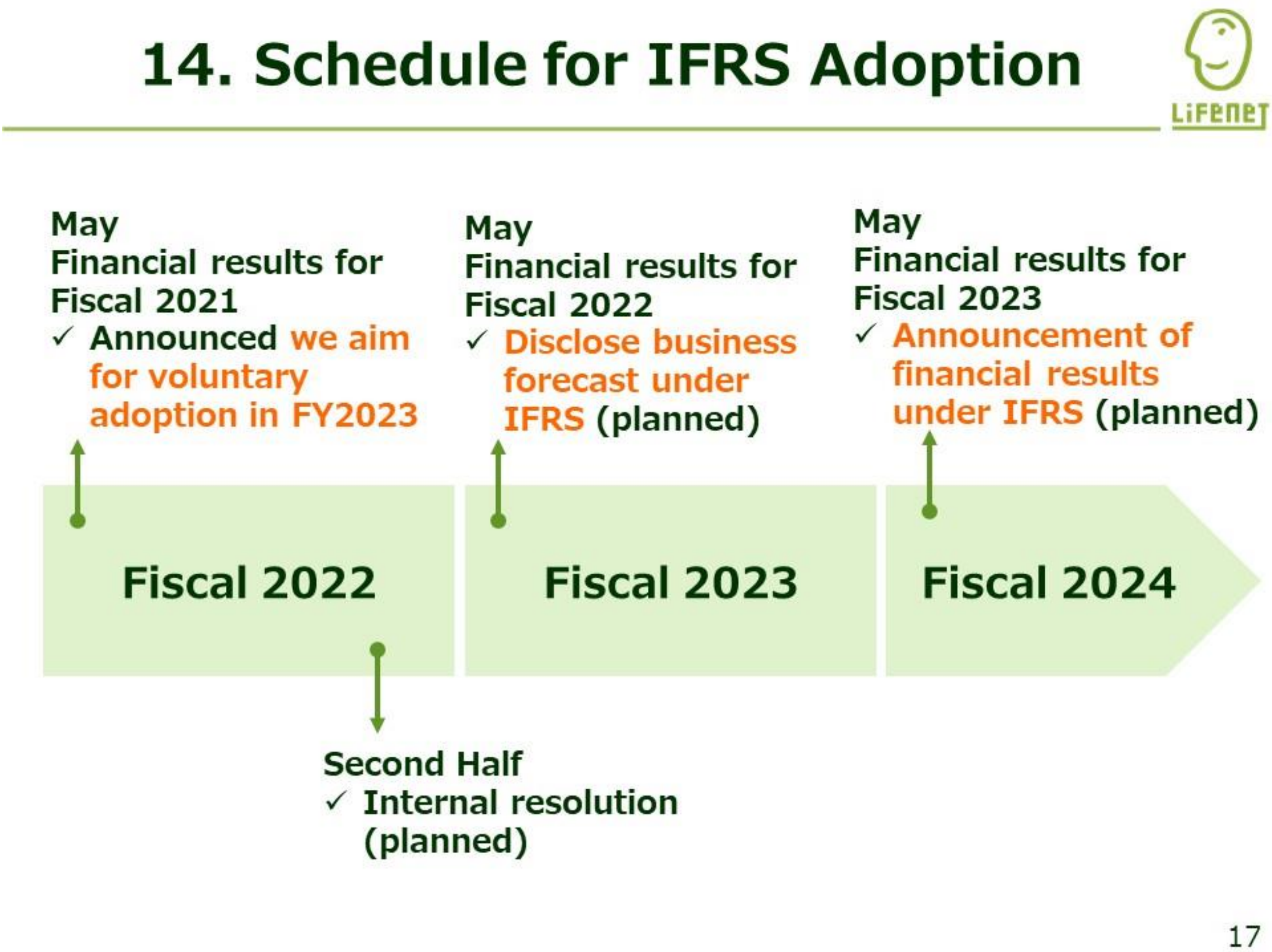
We currently consider EV to be our most important management indicator, and in addition to this, we will consider IFRS profit to be another important indicator in the future.

While EV is a measure of potential value as an economic value that includes future profits in statutory accounting from in-force contracts, IFRS profit will be a measure of appropriate periodic profit or loss based on the maintenance of in-force contracts.

However, we hope you recognize that the difference between the two is the difference in the timing of profit realization, and as you saw on the page 15, we are looking at roughly equivalent values for the stock.

We are currently setting a management policy by prioritizing innovation of customer experience and enhancement of promotion capabilities in order to increase new business, improve persistency rates, and improve operational efficiency. As a result of the execution of this management policy, EV will increase due to an increase in the value of in-force business, and future period profit will increase through an increase in CSM under IFRS.

As a first step, in FY2023, we would like to establish financial reporting under IFRS while receiving feedback from you.



This is the future schedule for the application of IFRS. These remain unchanged from our previous explanation.

In May of last year, we announced in our FY2021 financial results that we would aim for voluntary adoption of IFRS in FY2023, and we plan to adopt a formal internal resolution by the end of this fiscal year.

We then plan to disclose our business forecasts for FY2023 under IFRS in May 2023. At that time, we would like to disclose the expected amount of profit for FY2022 under IFRS. However, please understand that these are estimates and will be unaudited figures.

We then plan to present the financial figures under the voluntary application of IFRS at the announcement of the FY2023 financial results in May 2024.

This series of study sessions have been held three times this year. We will continue our efforts to help you better understand our financial statements under IFRS.

That’s all from me. Thank you for listening.