Securities Code: 7157

LIFENET INSURANCE COMPANY

IFRS 17 Insurance Contract Study Meeting

Session 1

LIFENET INSURANCE COMPANY

July 5, 2022

Disclaimer

- 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.

Overview

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 (planned)

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	around October 2022
3rd	Update information of IFRS 17 • IFRS 17 movement and QA session	around January 2023

2. Today's Key Messages

- The adoption of IFRS will better present our periodic performance and profitability

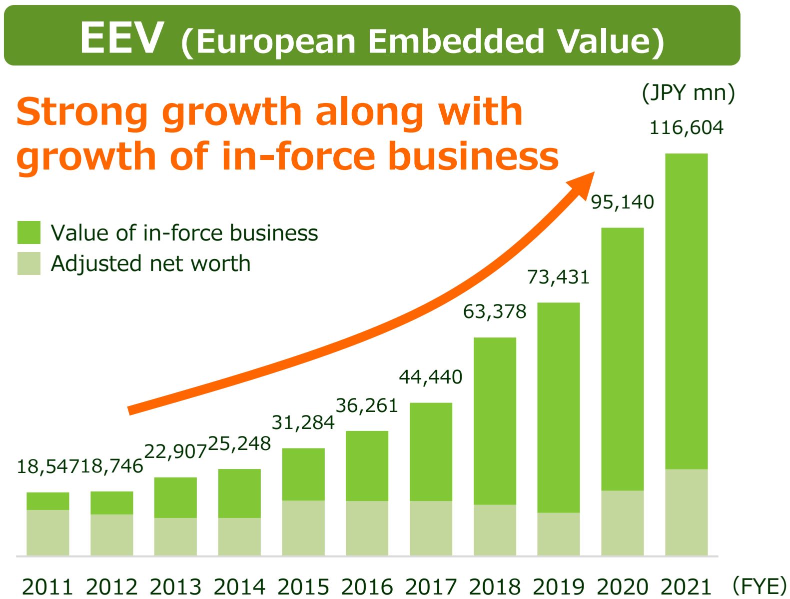
- Increase in CSM* will lead to future profit growth

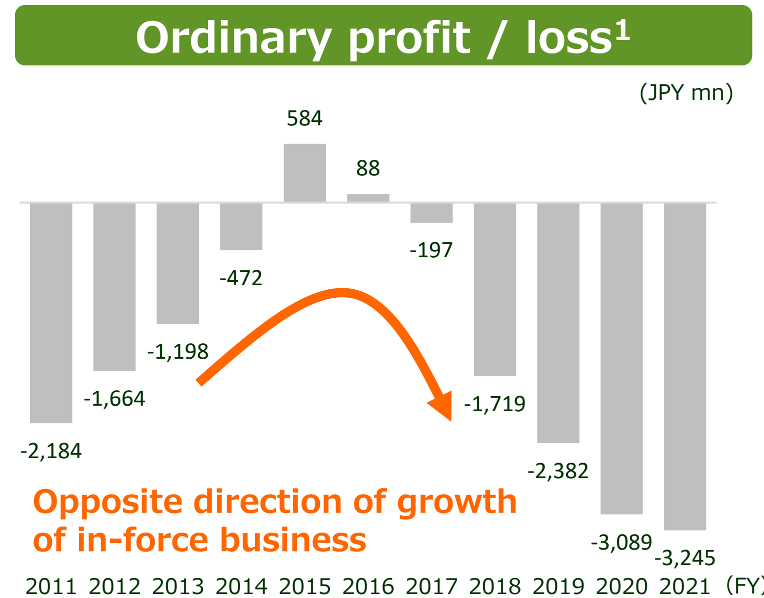
  ＊Contractual Service Margin

- Capital regulations and dividends will continue to conform to the J-GAAP even after IFRS adoption

3. Background of IFRS Adoption

- **Mismatch between revenues and expenses under J-GAAP makes it difficult to show the actual performance while EEV, which presents the potential value of in-force business, shows strong growth**





- **IFRS adoption will allow us to better present our periodic performance and provide comparable financial information internationally**

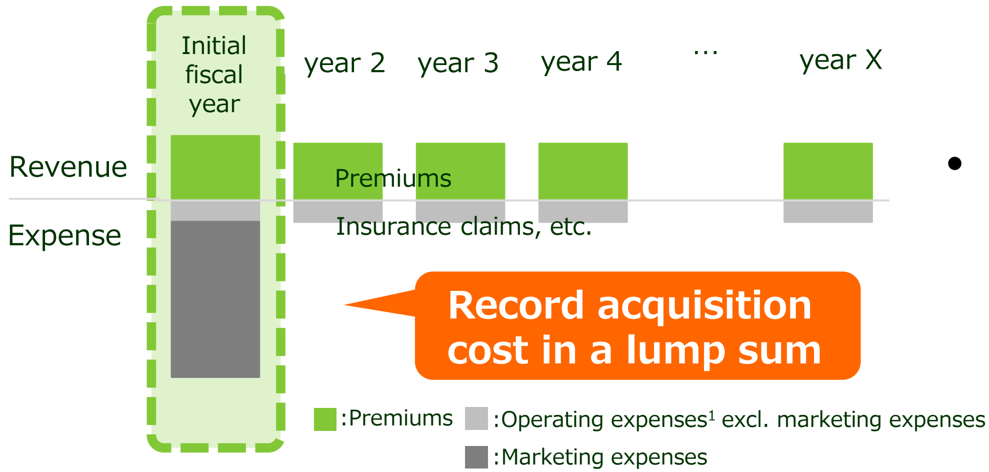
- **Capital regulations and dividends will continue to conform to the J-GAAP even after IFRS adoption**

1. The ordinary profit (loss) before amortization of deferred assets under Article 113 of the Insurance Business Act from fiscal 2011 to fiscal 2016

4. Characteristics of Profit and Loss under J-GAAP

(1) Acquisition Costs

- Cannot be deferred



(2) Policy Reserves

- **Calculated conservatively** for policyholder protection
  Reserve burden stage: Early-high, Later-low
- Actuarial assumptions (e.g. expected mortality rate and expected interest rate) at the time of contract issue are **fixed**

■ Drive down profits when an insurer grows

■ Not reflect the experience in the liability after the contract issue

1. Costs for policy management, payment of insurance claims and benefit claims, etc.

5. Structure of Income Statement under J-GAAP

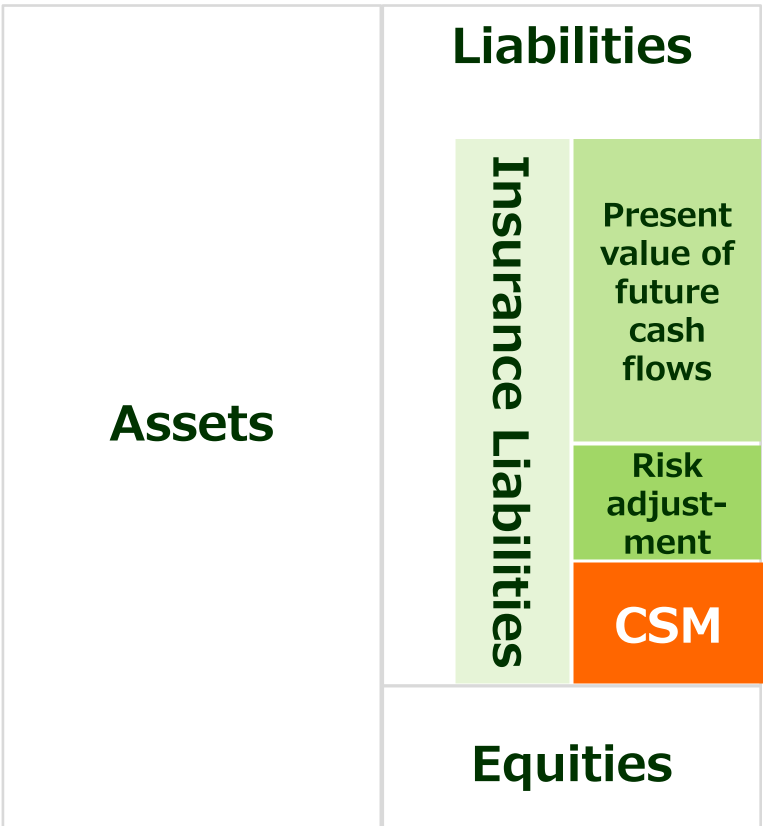
- **Full amount of premiums is recorded as revenue while provision for future payouts is recorded as expenses to policy reserve**
- **The stronger the recent new business results, the greater burden of provision for policy reserve and operating expenses**
- **Difficult to perform financial analysis based on P&L only because it's hard to identify the source of profit from J-GAAP P&L**

J-GAAP P&L
Ordinary income
Ordinary expenses
Ordinary profit
Extraordinary profit / loss
Profit before income taxes

	Major items	
1	**Premium income**	Premiums received in the period are recorded
2	**Investment income**	Interest and dividend income, gain on sales of securities, etc.
3	**Insurance claims and other**	Insurance claims and other payments made during the period
4	**Provision for policy reserves**	Change in policy reserve for the period is carried over and recognized as expenses
5	**Operating expenses**	Operating expenses (including acquisition costs) incurred during the period
6	**Investment expenses**	Interest expense, loss on sales of securities, loss on impairment of securities, etc.

6. Insurance Liability under IFRS 17

IFRS Balance Sheet



*The figure above is an illustration of IFRS 17 for the general model.

Three components of insurance liabilities

- **Present value of future cash flows:**
  Calculated as present value of future expenses (insurance claims, etc.) deducted by present value of future income (premiums)
- **Risk adjustment:**
  Prepared for uncertainty of future cash flows
- **CSM:**
  A liability representing future profit and amortized to profit over the insurance period

On transition to IFRS 17 (or on adoption of IFRS 17), in principle, insurance liabilities are calculated for in-force business retrospectively from the time of contract issue

7. Key Points of IFRS 17 Profit and Loss

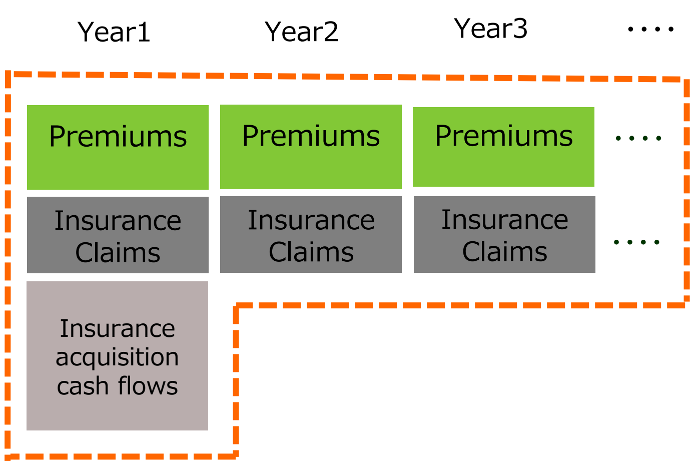
IFRS P&L
Insurance revenue
Insurance service expenses
Insurance service results･･･1)
Investment income
Insurance finance expenses
Financial results･･･2)
Other result
Profit before tax

- Presented separately as
  1) Insurance service results and
  2) Financial results
- Elements of 1) insurance service results
  - Difference between expected and actual claims
  - Risk adjustment
  - Amortization of CSM
- Increasing CSM is important for future profit growth

8. Revenue Recognition by CSM

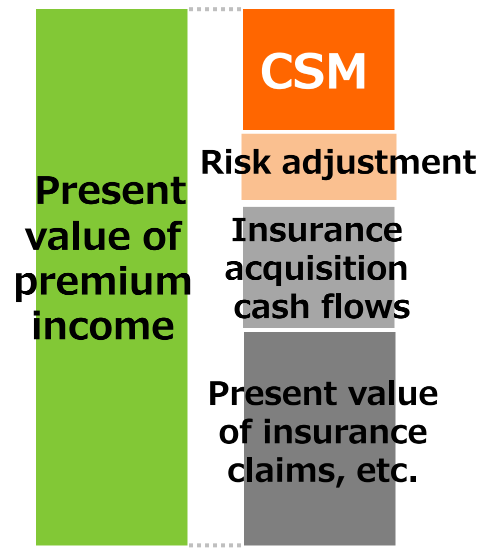
New business expected future cashflows

Calculated by the latest best estimate assumptions based on experience



CSM

Present Value



CSM is allocated as revenue over the policy period

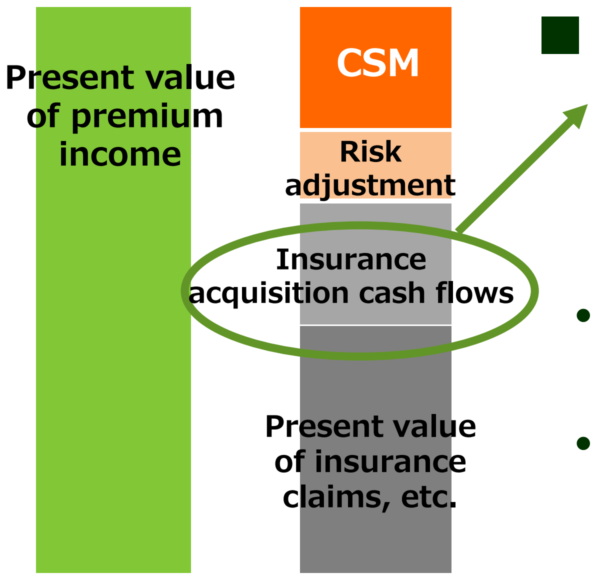
Amortized based on in-force indicators

*If CSM is negative, it is recognized as a loss immediately

Key matters for the increase of CSM (Future profit growth)

- **Acquiring profitable new business**
- **Updating assumptions of insurance claims and operating expenses based on its favorable experience**

9. Insurance Acquisition Cash Flows



- **Cost directly attributable to the increased acquisition of insurance contract groups**

  - **Cost which is increased due to an increase in new contracts**
  - **Cost that increases new contracts by increasing costs**

Example of IACF

*Individual and specific determination should be made

- ✓ Commissions for sales representatives and agents
- ✓ Expenses related to the acquisition, conclusion, and underwriting of new policies
- ✓ Advertising expenses to promote insurance products

10. Structure of Income Statement under IFRS

- Insurance revenue is not recorded directly from actual premium, but is released from insurance liability
- Insurance service results can be divided into difference between expected and actual claims, risk adjustment release and amortization of CSM
- Insurance service results and financial results corresponds to the sources of profits and IFRS P&L is structured to facilitate profit analysis

IFRS P&L
Insurance revenue
Insurance service expenses
Insurance service results
Investment income
Insurance finance expenses
Financial results
Other result
Profit before tax

	Major items	
1	Expected claims	Expected insurance claims and operating expenses (Deduct the savings component)
2	Risk Adjustment release	Decrease or release of risk adjustment during the period
3	Amortization of CSM	Amortization of CSM during the period
4	Actual claims	Actual insurance claims and operating expenses (Deduct the savings component)
5	Investment income (loss)	Net Income and expenses from asset investment
6	Insurance finance expenses	Interest on insurance liabilities

11. Purposeful Periodic Performance

- Depending on the accounting standard, there are different emphasizing points on how to present performance

	IFRS17	J-GAAP (Statutory accounting)	Embedded Value
Emphasizing Points	Recognition of revenue based on the retention of in-force business	Ensure financial soundness as the first priority	Potential value of future profits from new business

- Under IFRS, revenue is recorded based on the retention of in-force business （≒ fulfillment of the coverage responsibility), thus it is highly suitable as periodic performance
- Understanding CSM is important as it is an intermediary item to periodic performance

12. Schedule for IFRS Adoption

May
Financial results for Fiscal 2021
- ✓ Announced we aim for voluntary adoption in FY2023

May
Financial results for Fiscal 2022
- ✓ Disclose business forecast under IFRS (planned)

May
Financial results for Fiscal 2023
- ✓ Announcement of financial results under IFRS (planned)

Fiscal 2022	Fiscal 2023	Fiscal 2024

Second Half
- ✓ Internal resolution (planned)

*The second IFRS study session will be held in October 2022 (Japanese Only)

Appendix

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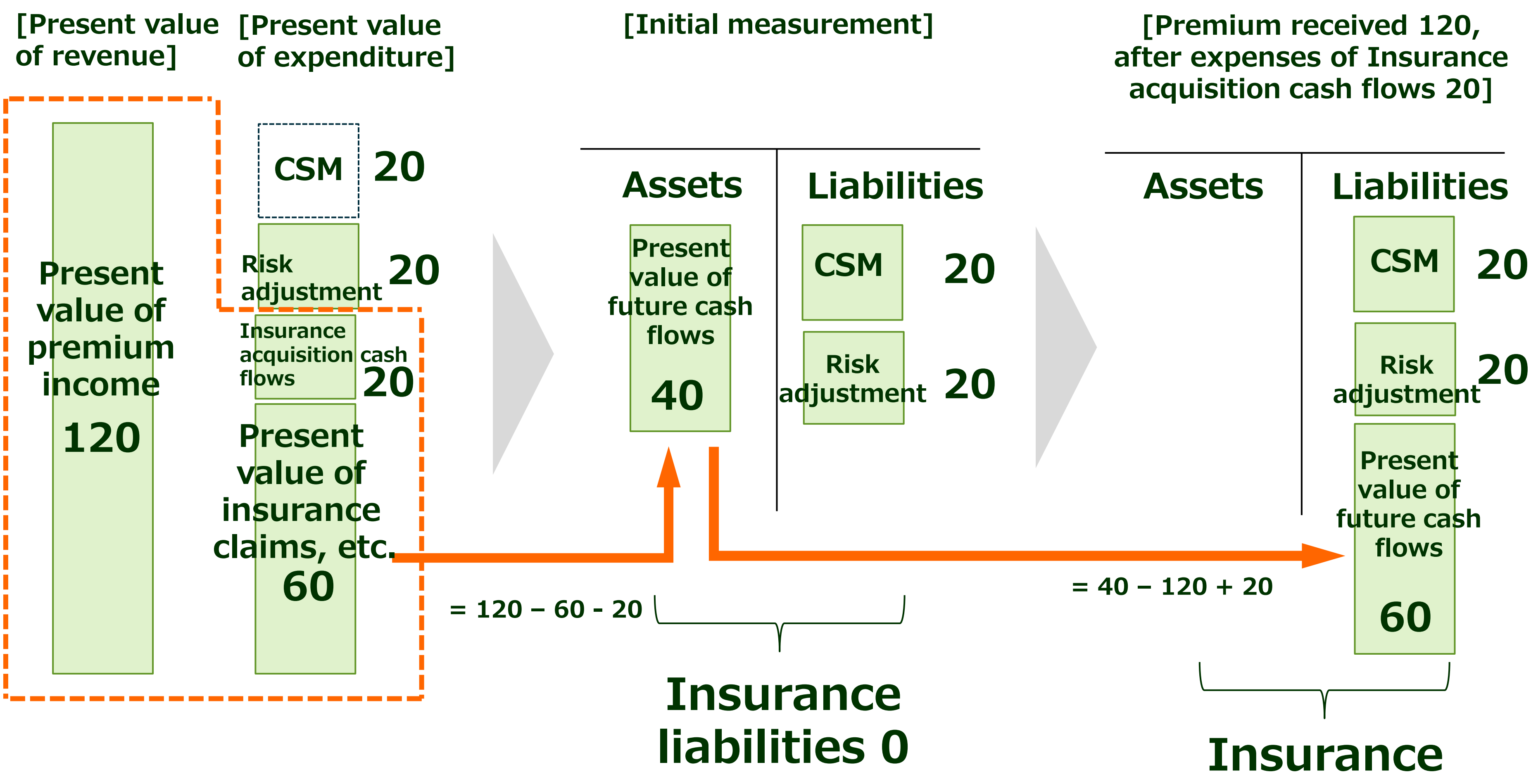
IFRS 17 Insurance Liabilities
(Initial recognition)

Initial recognition

Figures are examples

Ex. Sigle premium life insurance (premium 120)



*If CSM is negative, it is recognized as a loss immediately

IFRS 17 Insurance Liabilities
(Subsequent measurement)

Subsequent measurement

Figures are examples

	Basic	1) Reduced Assumption of mortality rates	2) Raised risk coefficient	3) Raised interest rates (discount rates)
[CSM]	20	30 (+10)	10 (-10)	20
[Risk adjustment]	20	20	30 (+10)	15 (-5)
[Present value of future cash flows]	60	50 (-10)	60	50 (-10)
[Total amount of insurance liabilities]	100	100	100	85
	fulfilment cash flows＋CSM	Decrease in future CF is adjusted by CSM	Increase in risk adjustment is adjusted by CSM	Changes is recognized as profit/loss or OCI (other comprehensive income)

fulfilment cash flows (Economic value)

*If CSM is negative, it is recognized as a loss immediately

Comparison of IFRS 17（Insurance Liabilities) with J-GAAP (Policy Reserves)

items	IFRS 17 (Insurance Liabilities)	J-GAAP (Policy Reserves)
Concept	• Measurement of the PV of future cash flows and revenue recognition based on the provision of insurance services	• Evaluation from the perspectives of the soundness of the insurance company and policyholder protection to prepare for future payments
Calculation method	• Calculating with current assumptions, and the impact of assumption updates (except for discount rates) adjusted in the CSM and allocated to future periods	• Formula based calculation with formula and assumptions (lock-in)
Margin	• Recorded risk adjustment for uncertainty in future cash flows • Recorded margins in premiums which exceed the best estimate assumptions and risk adjustments in the CSM.	• Include appropriate margins in the actuarial assumptions • Record contingency reserves for losses beyond normal expectations
Acquisition costs	• Deferred in insurance liabilities and allocated to future periods	• Recorded as an expense at the time of acquisition

Comparison of IFRS 17 with Embedded Value

Item	IFRS 17	Embedded Value
Purpose	• Measurement of insurance liabilities and revenue allocation	• Evaluation of potential value
Characteristic	• Profit expected in the policy period is recorded in the CSM and allocated to future periods	• Profit expected in the policy period is recorded as the value of new business
Assumption change (except for discount rates)	• The impact of the assumption change is not immediately recognized in P/L, but is allocated to future periods through an adjustment to the CSM.	• The impact of the assumption change is reflected as changes in the value of in-force business
Change in discount rates	• Reflected in the valuation of insurance liabilities, and recorded the impact in P/L or OCI	• Reflected in the discounting of future profits, with the impact reflected as an increase or decrease in the PV of future profits.
Difference between assumptions and actual results	• Realized in P/L in the current period	• Reflected as change in adjusted net worth for the current period
Risk release	• Decrease in risk adjustment over time is recognized as revenue	• Decrease in non-hedgeable risk over time is an increase in adjusted net worth as a release of the PV of future profits