LIFENET INSURANCE COMPANY

IFRS 17 Study Meeting for Investors and Analysts Session 2

October 14, 2022

[Speaker]

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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.

1

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.

Please confirm the disclaimer on page one.

Overview

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This is page two. I will explain the table of contents.

This time, I will first review the main parts of the previous study session by reposting them up to Item 5, and then explain today's part in Item 6 and onward.

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**	**October 14, 2022**
3rd	Update information of IFRS 17 • IFRS 17 movement and QA session	around January 2023

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Please see page three.

The purpose of this study session is to explain the key points of IFRS 17 prior to the Company's voluntary adoption of IFRS in FY2023. This study session is not intended to explain our specific business forecasts and so on.

This will be the second session and will focus on the financial analysis of IFRS 17, including analysis of increases and decreases in profit and CSM, financial indicators, and so on.

The third session will be around January next year and will include developments in IFRS 17 at that time, as well as a Q&A session on areas of particular interest. We would be very grateful if you could send us your requests regarding the schedule and themes in the future.

2. Key Messages for Session 1

- **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**

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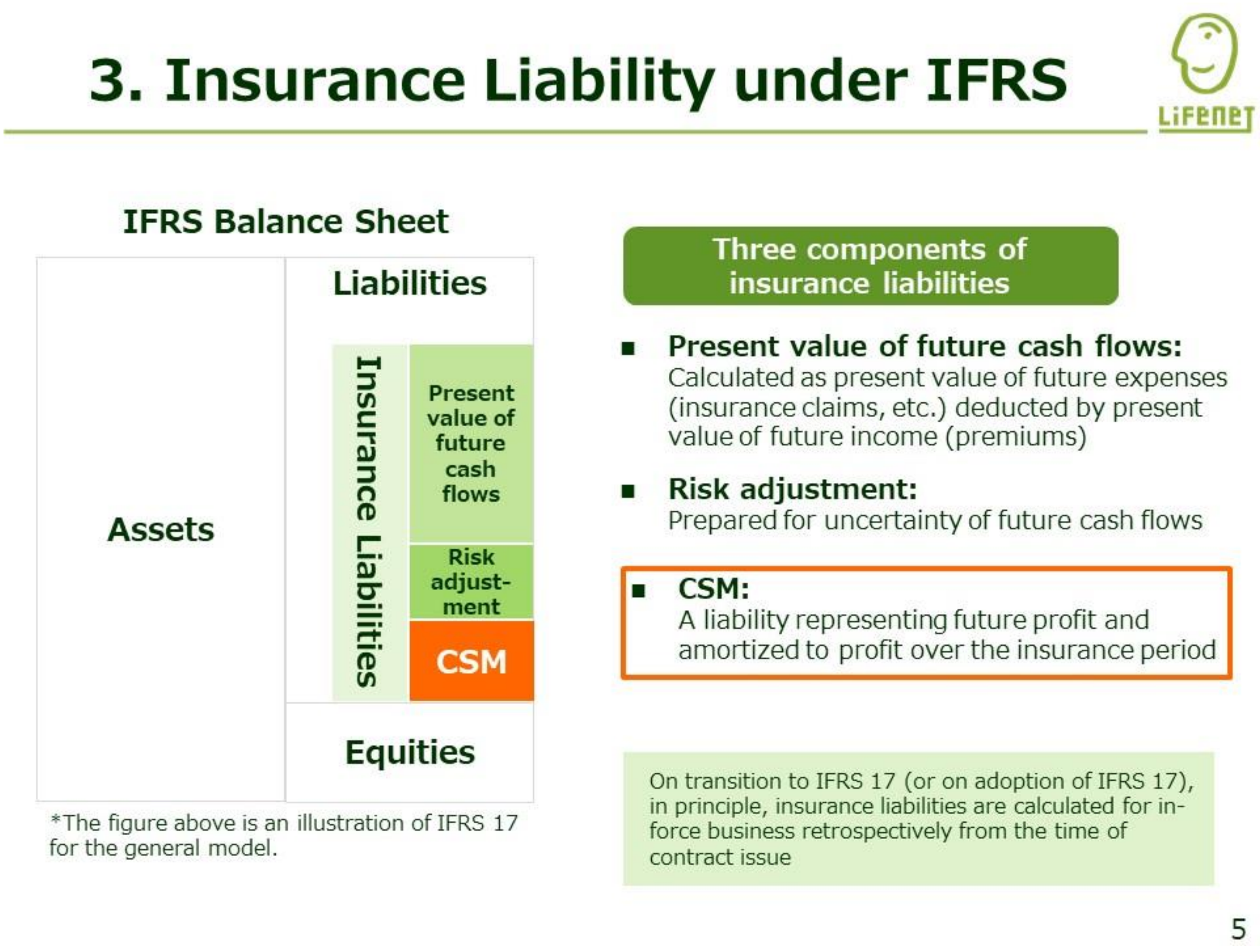
Please see page four. These are the key messages from the last study session.

First is that the introduction of IFRS will more appropriately reflect the reality of the Company's periodic performance.

Second, the Contractual Service Margin (CSM), which is the expected future profit of an insurance contract, is an important concept in IFRS 17 financial statements, and an increase in this CSM will lead to future profit growth.

Third, even after the adoption of IFRS 17, capital regulations and dividends of surplus will continue to conform to statutory accounting.



Please see page five.

The figure on the left is an image of a balance sheet, or B/S, based on IFRS 17; on the left side of the B/S, the debit is the asset. The accounting standard for financial assets is now IFRS 9, and although there are some differences from the current Japanese standard, it is generally not expected to be significantly different than the liability side. On the right side of the B/S, the credit side is liabilities and equity, of which a major part of liabilities is insurance liabilities, which corresponds to policy reserves in statutory accounting.

As commented on the right, the insurance liability is divided into three component parts. The first one is the present value of future cash flows. This one is calculated as the present value of future insurance claims and operating expenses less the present value of future premium income. As with EV, the calculation uses the best estimate assumptions based on the company's experience.

The second one is risk adjustment. The first one, PV of future cash flows, is a calculation based on best estimates and therefore inevitably involves uncertainty. To prepare for that uncertainty, a risk adjustment is calculated. The concept is similar to the cost of non-hedgeable risk in EV, although the calculation method is different.

The third one is CSM, or contractual service margin. This is a new concept not found in statutory accounting. CSM is a liability representing future profits, which is recorded as a liability and then amortized to profit over the life of the policy. In bookkeeping terms, a decrease in liabilities and an increase in revenues are journalized to realize a profit.

In addition, please see the comment at the bottom right of the slide. At the time of transition to IFRS 17 in 2023, or if IFRS is adopted for the first time in 2023 or later, the insurance liability will in principle be calculated for in-force business as if IFRS 17 had been applied from the time of their issues retrospectively.

In our case, all contracts will be recalculated under IFRS from the time of business commencement in 2008. I would also like to mention here that this is how the starting B/S for IFRS 17 will be prepared.

4. 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

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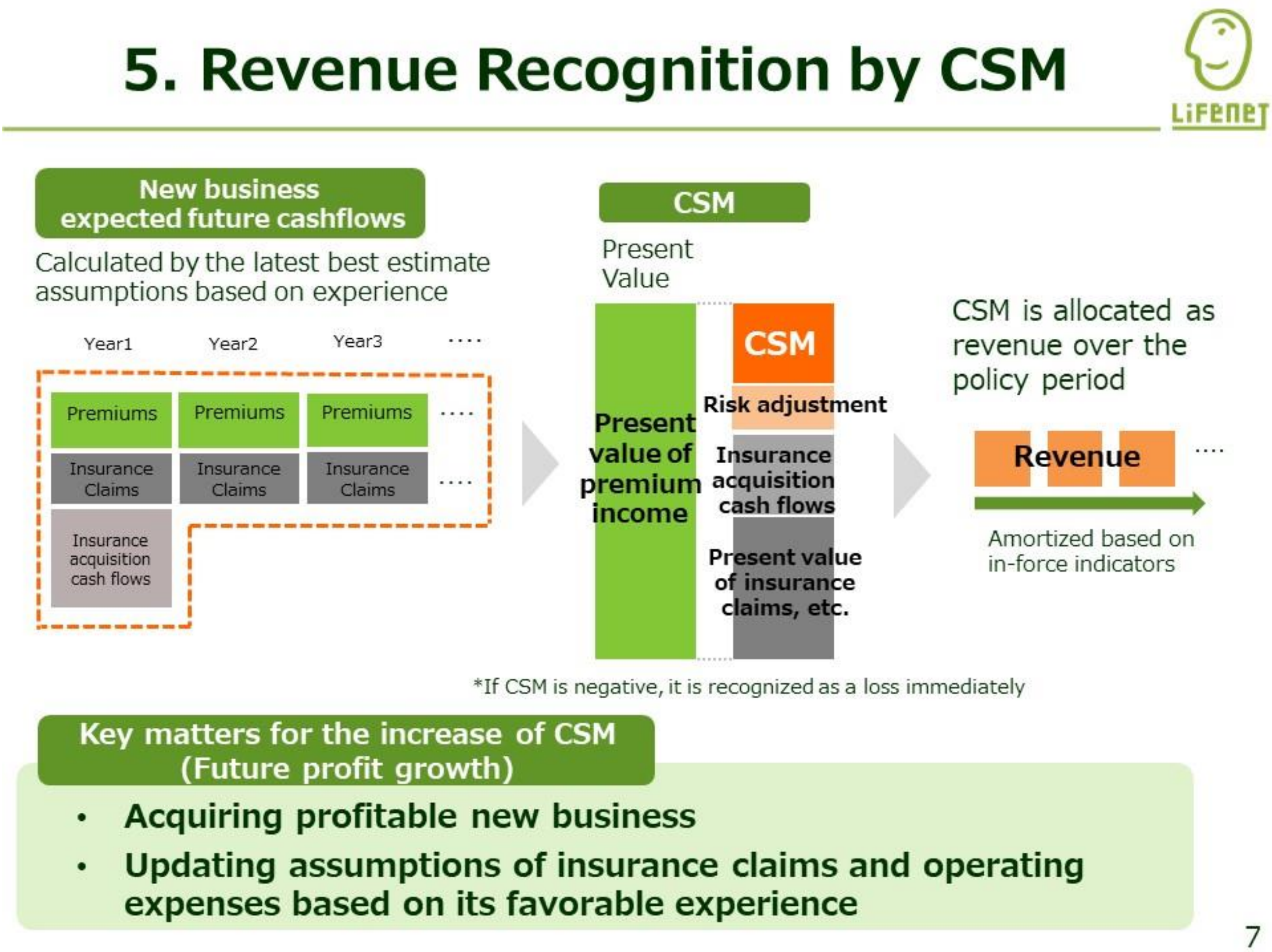
Next, please see page six.

This is the structure of the IFRS income statement, or P&L. The green table on the left shows that net income before taxes consists of insurance service results and financial results. The main items of insurance revenue and insurance service expenses, which make up insurance service results, and investment income and insurance finance expenses, which make up financial results, are explained in the orange table on the right.

As per the top comment, insurance revenue is not recorded from actual premiums earned, as in the statutory accounting standard, but is released from the three component parts of insurance liability and is recorded through a journal entry with a decrease in liability. These are, respectively, expected claims in item one, risk adjustment releases in item two, and CSM amortization in item three. Here, with respect to expected claims, some of you may feel strange a little with the fact that the item named as insurance claims is income. It may be understandable if you think the portion of the amount of insurance claims expected in the current period is reversed from liability and released as income. With respect to these expected insurance claims, the portion of the savings component, such as the amount corresponding to surrender value, is excluded from revenue. Therefore, it does not result in the recording of a large amount of revenue that includes the savings portion, such as the premium income of statutory accounting in a company that sells primarily savings products.

Insurance service expenses, on the other hand, are recorded as actual insurance claims and operating expenses incurred in item four. As with the expected insurance claims in item one, the savings component is excluded from this item as well. These subtractions result in insurance service results. Thus, insurance service results can be broken down into the difference between expected and actual insurance claims, or item one minus item four, risk adjustment releases, or item two, and CSM amortization, or item three. In item five, financial results, investment income is reported as income from asset investment, but the net amount is shown here when any expenses, such as losses on the sale of securities, are present. On the other hand, item six, insurance finance expenses, will 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 IFRS P&L is structured to facilitate profit analysis for its users.



This page explains revenue recognition by CSM. Again, CSM is a liability representing future profits. Please look at the left figure. The starting point for the CSM calculation is the point of a new business. First, we calculate the expected future cash flows for a given group of new policies by product, by issue cohort, etc., using the latest best estimate assumptions based on experience. This includes premiums as revenue and insurance claims, operating expenses, and insurance acquisition cash flow as expenditure.

Next, we derive the present value of each item from the expected future cash flows, as shown in the middle figure. CSM, shown in the orange box, is calculated as the present value of premium income less the present value of insurance claims, less the insurance acquisition cashflows, and less the risk adjustment for uncertainty in future cash flows. From this calculation, we can say that the CSM at the time of the new business is the present value of the future profits of the new business, a concept very similar to the value of new business in EV. Note that, as indicated by the asterisk, if the CSM is negative, it means that the contract is a loss for the total insurance period, and the negative amount is recognized as a loss immediately.

As shown in the figure on the right, CSM at the time of this new policy is then allocated as revenue over the subsequent policy period. In other words, by amortizing, an accounting profit is realized. This amortization is based on the balance of some in-force indicators like sum of insured, so the concept is that the insurance company recognizes revenue as it provides the service of insurance coverage. This concept of recognizing revenue as services are provided by the entity is consistent with IFRS 15, the general revenue recognition standard in IFRS.

Thus, CSM is a very important concept, and its increase will lead to future profit growth. As noted at the bottom of the slide, it will be important for the Company to increase its future profits, or CSM, by acquiring a large number of profitable new business, managing insurance claims and operating expenses well, and updating assumptions based on its favorable experience. This is a review of the information given at the first study session.

6. Today's Key Messages

- 3 major factors in the analysis of profit under IFRS:
  (1) Growth in in-force business
  (2) Changes in actual results
  (3) Impact of assumption changes

- Obtaining profitable new business is important for the profit growth

- IFRS profit and EV should be viewed from multiple perspectives

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Now let us move on to page eight and what I would like to tell you about this time. This is about the analysis and indicators of IFRS.

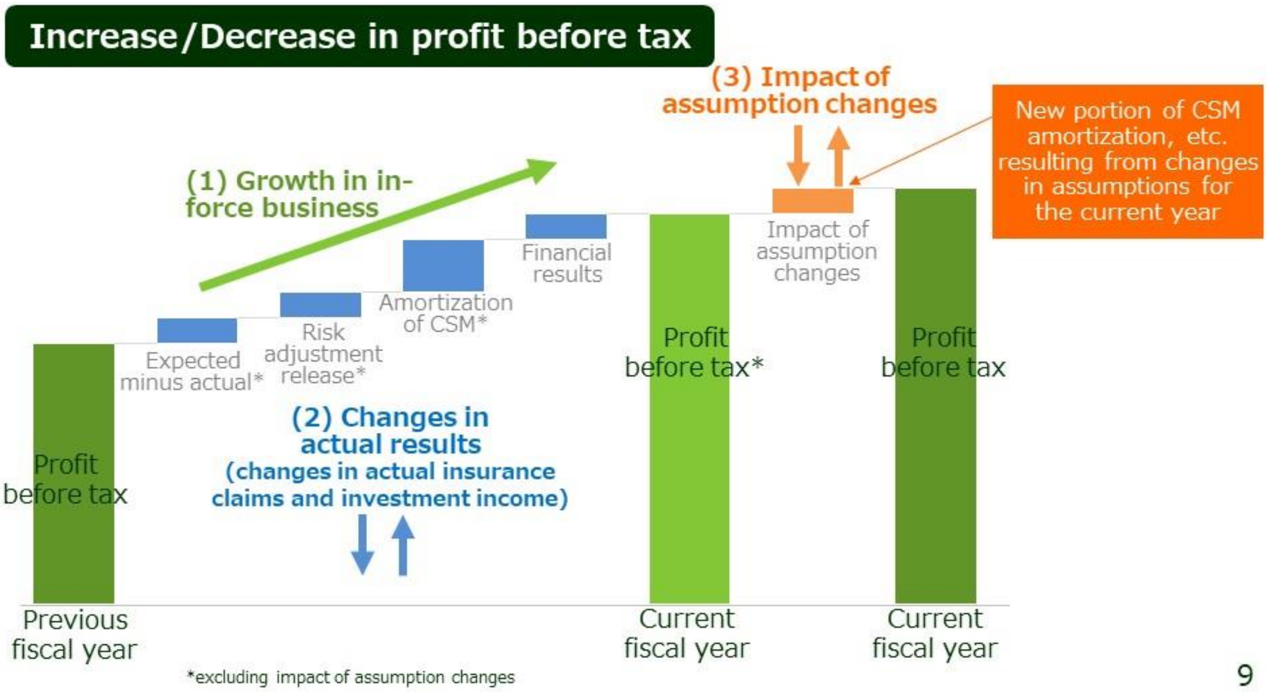
The first point is that in IFRS P&L, the change in profit from the previous year is mainly due to three major factors: growth in in-force business, changes in actual results, and the impact of assumption changes.

Second, for profit growth, it is important to obtain profitable new business.

Third, we believe that IFRS profit and EV are important indicators that should be viewed from multiple perspectives.

7. Analysis of Increase/Decrease in IFRS Profit

- **The change in profit from the previous year can be broken down into 3 major categories: (1) growth in in-force business, (2) changes in actual results, and (3) the impact of assumption changes.**



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Please see page nine. This graph shows the three major factors that contribute to the increase or decrease in profits.

First, let us discuss (1), growth of in-force business. Since IFRS revenues are derived from the retention of in-force businesss, profits increase with the growth of in-force business. However, it should be noted that if a company's product or pricing changes significantly, for example, if there is an increase in the number of contracts evaluated as losses when new contracts are acquired, the profit will decrease accordingly.

Next, profits fluctuate depending on (2), changes in actual insurance claims or operating expenses, or changes in investment income. For example, a situation such as an increase in claim benefits due to COVID-19 would inevitably put pressure on profits for the year.

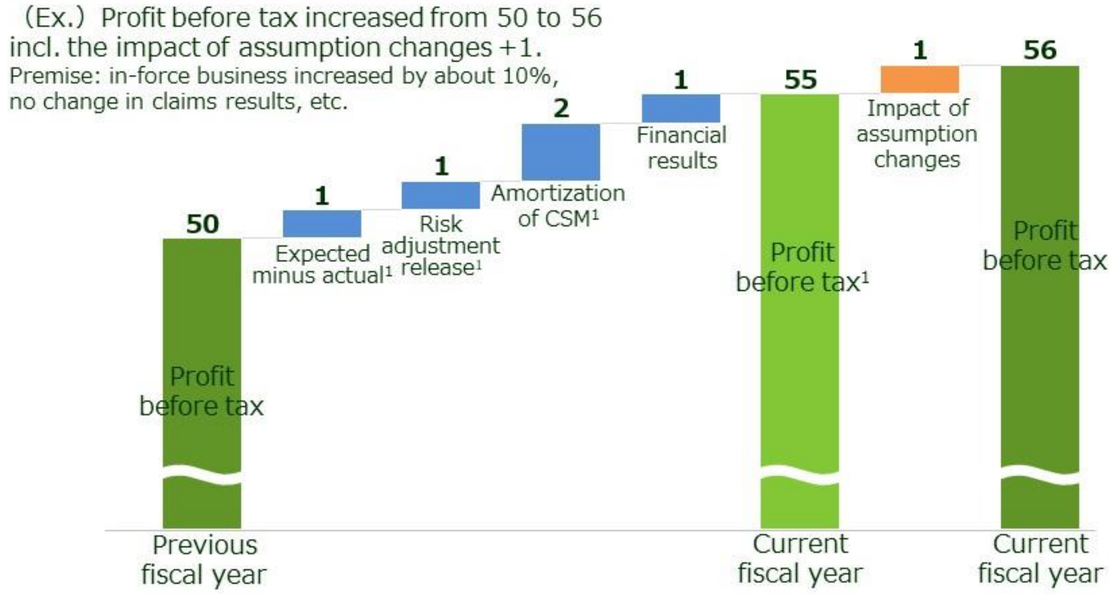
Finally, there is the impact of (3), assumption changes. As I explained, the impact of the assumption changes will not be immediately charged to profit and loss, but will be adjusted in the CSM, and the impact will be reflected in earnings for the remainder of the policy period after the assumption changes. The impact on earnings from the CSM amortization and others made in the current year is a factor that did not exist in the previous year, so when comparing the previous year's and current year's P&L, that portion will be a factor that increases or decreases earnings.

As shown in the figure, we believe that by taking out the impact of changes in assumptions (3), it will be possible to separate the portion that increases or decreases due to the Company's core business performance from the portion that increases or decreases due to temporary factors such as changes in assumptions.

8. Analysis of Increase/Decrease in IFRS Profit (Example)

■ **Profits excluding the impact of assumption changes will increase in line with the growth of in-force business, and any change in actual claims or investment income will also be reflected in profits.**

Increase/Decrease in profit before tax



1. excluding impact of assumption changes

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Please see page 10. This is the figure on page nine with a simple numerical example.

In this example, profit before tax increased from 50 in the previous year to 56 in the current year, of which the impact of the assumption changes is positive 1. We assume that in-force business increases by about 10% and that there are no fluctuations in claims results, etc., from the previous year.

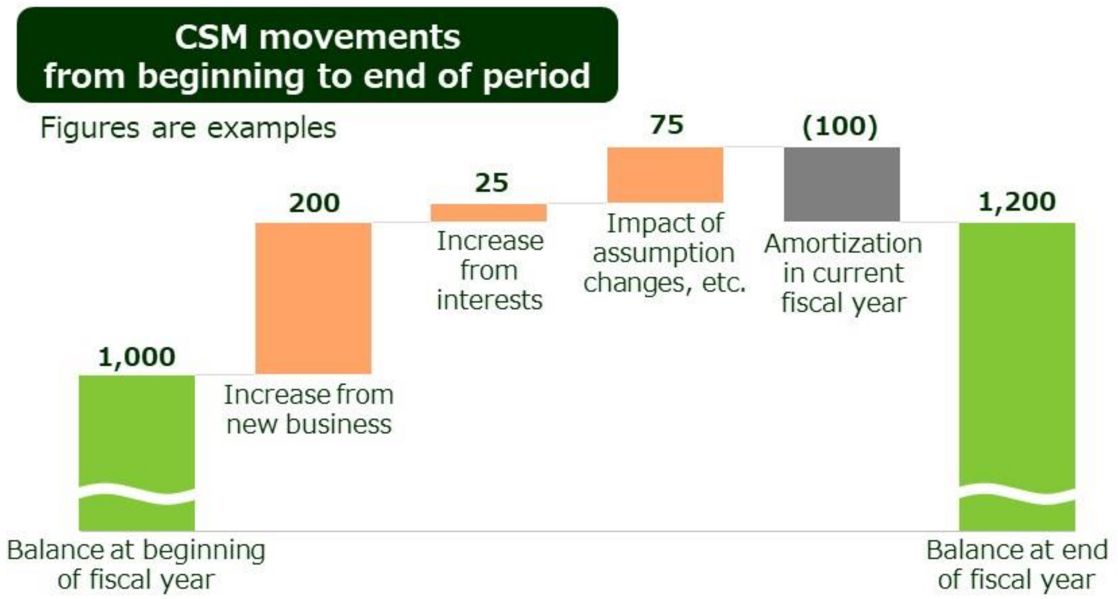
As in-force business grows, the difference between expected and actual claims, risk adjustment releases, CSM amortization, and financial gains and losses increase by about 10% each. These contributed to a 10% increase in profit excluding the effect of assumption changes from 50 to 55. To this, if there is a change in actual insurance claims or investment income from the previous year, this would be reflected in the increase or decrease in profit.

The impact of the assumption changes would be added to this. For example, if the CSM increases due to assumption changes reflecting favorable mortality experience, the amortization will be reflected in the increase in profit for one year in comparison with the previous year. The chart example shows that the impact is plus 1, and that the overall profit has increased to 56.

In reality, the explanation is not as simple as this, as it involves a variety of business activities, but we hope you can understand it as a general framework for understanding the factors that increase or decrease profits.

9. CSM Movements

- **CSM increases due to 2 major factors: (1) increase from new business and (2) assumption changes along with improved experience**
- **In CSM after the assumption changes, the current amortization is allocated as revenue and the future portion is allocated as balance at end of fiscal year**



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Please see page 11. This is about CSM movements but before we get to it, I would like to add a few words. IFRS 17 also establishes various disclosures in the notes to the financial statements.

For example, the information is about what factors caused the insurance liability to increase or decrease from the end of the previous year to the end of the current year, significant company judgments applied in calculating the insurance liability, and the various risks arising from the insurance contract. The information is provided as notes to the financial statements and is intended to provide useful information to investors and others in conjunction with the financial statements.

Since the CSM is an important element within this, disclosure of notes of CSM movements from the beginning of the period to the end of the period is required, and from that information we can create a chart like the one shown on this page. Please note that the figures are only simplified examples.

As explained in the top bullet point, CSM increases primarily due to two factors: (1) increases from new business and (2) increases from changes in assumptions associated with improved experiences, such as improved mortality, persistency, and unit expenses.

After reflecting the increase due to interest to this, the amount of CSM is allocated between the current amortization and the future portion. The current amortization is then recorded in revenue and the future portion is included in the insurance liability as the ending balance.

10. Allocation of Future CSM

■ **The timing of revenue realization from the CSM held at the end of the current period can be projected (Notes disclosure information)**

✓ Allocation pattern by typical continuation rate

Item		Amount	Expected time of recognition to PL					
			X+1	X+2	X+3	X+4	X+5	X+6 -
CSM held (actual)	End of FY X	1,000	87	80	74	68	62	629

■ **By adding the expected CSM of future new business and its allocation pattern, the future allocation of CSM for the entire company can be projected**

✓ Profit will be realized through future allocation of CSM held at the end of the current fiscal year and new business form the following fiscal year onward

CSM from new business (expected)	FY X+1	200	17	16	15	14	12	126
	FY X+2	200		17	16	15	14	138
	FY X+3	200			17	16	15	152
	FY X+4	200				17	16	167
	FY X+5	200					17	183
CSM allocation from in-force and new business (expected)		2,000	105	114	122	130	137	1,393

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Please see page 12.

The information illustrated in the green table above is also disclosed in the notes. This discloses in monetary amount at what point in the future the CSM at the end of the current period will be recognized as revenue. From this information, it is possible to infer the timing of revenue realization from the CSM held at the end of the current period.

The example provides a simplified illustration for a CSM balance of 1,000 at the end of fiscal year X, assuming a typical continuation rate-based allocation pattern. After interest is added to this amount, the amount will be earned as future CSM amortization from the in-force business at the end of fiscal year X.

Based on this note information, by adding the expected CSMs of future new business and their allocation patterns shown the table in the lower half, you can project the allocation of future CSMs for the entire company. In the bottom row of the table, the profit will be realized by the future allocation of CSM which is the combination of the CSM held at the end of fiscal year X and the CSM of new policies in fiscal year X+1 and beyond.

In the example in the table, the CSM from new business in the future is set at 200 each period. By further increasing it through management efforts, the degree of growth in overall profits will be greater than the results on the table.

11. Profitability of New Business

- Non-onerous new business generates initial CSM and CSM balances increase
- Initial loss from onerous new business would be recorded as a P&L expenses

(Ex.) Calculation of new business CSM and initial loss (the notes disclose information)

	Items	Non-onerous new business	Onerous new business	Total
1	Present value of premium	1,000	100	1,100
2	Present value of claims	600	90	690
3	Insurance acquisition cashflows	100	15	115
4	Initial risk adjustment	100	15	115
5	Initial CSM	200	-	200
6	Initial loss	-	(20)	(20)

Profitability of new business is important

*"Onerous" means the status where the loss would be generated

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Please see page 13. This section explains the importance of profitability of new business.

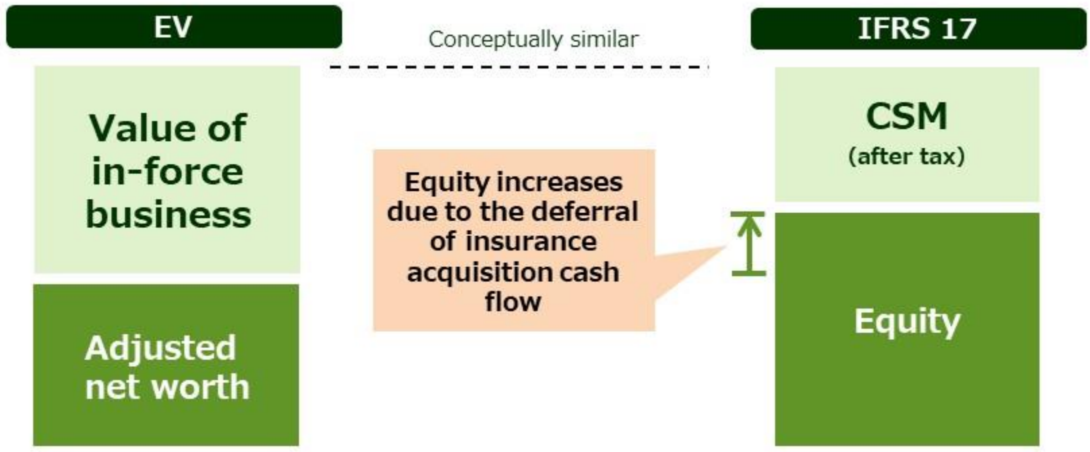
Calculation of CSM and initial losses on new policies for the current period is also a notes disclosure item. As mentioned by the asterisk below, "onerous" here means the status where the loss would be generated. The notes disclose information separately for non-onerous new business, in other words, new business that are profitable, and onerous new business. Each item shows the present value of premiums, present value of claims and other benefits, insurance acquisition cash flow, and initial risk adjustment at the time of the new business, respectively.

These deductions will result in an increase in the CSM balance as the initial CSM is generated from new business that are not onerous, as noted in the comment above. In the example, it is the 200 portion in the orange circle.

On the other hand, the initial loss from onerous new business will be recorded as a P&L expense. In the example, it is minus 20 in the other orange circle.

From the perspective of steadily increasing CSM, profitability of new business is very important.

12. Comparison of EV and IFRS Equity



- **As the policy term elapses,**
  - **In EV, value of in-force is realized and transferred to adjusted net worth**
  - **In IFRS, CSM is recognized as revenue and transferred to equity**

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Please see page 14. Here is a comparison of EV and IFRS equity.

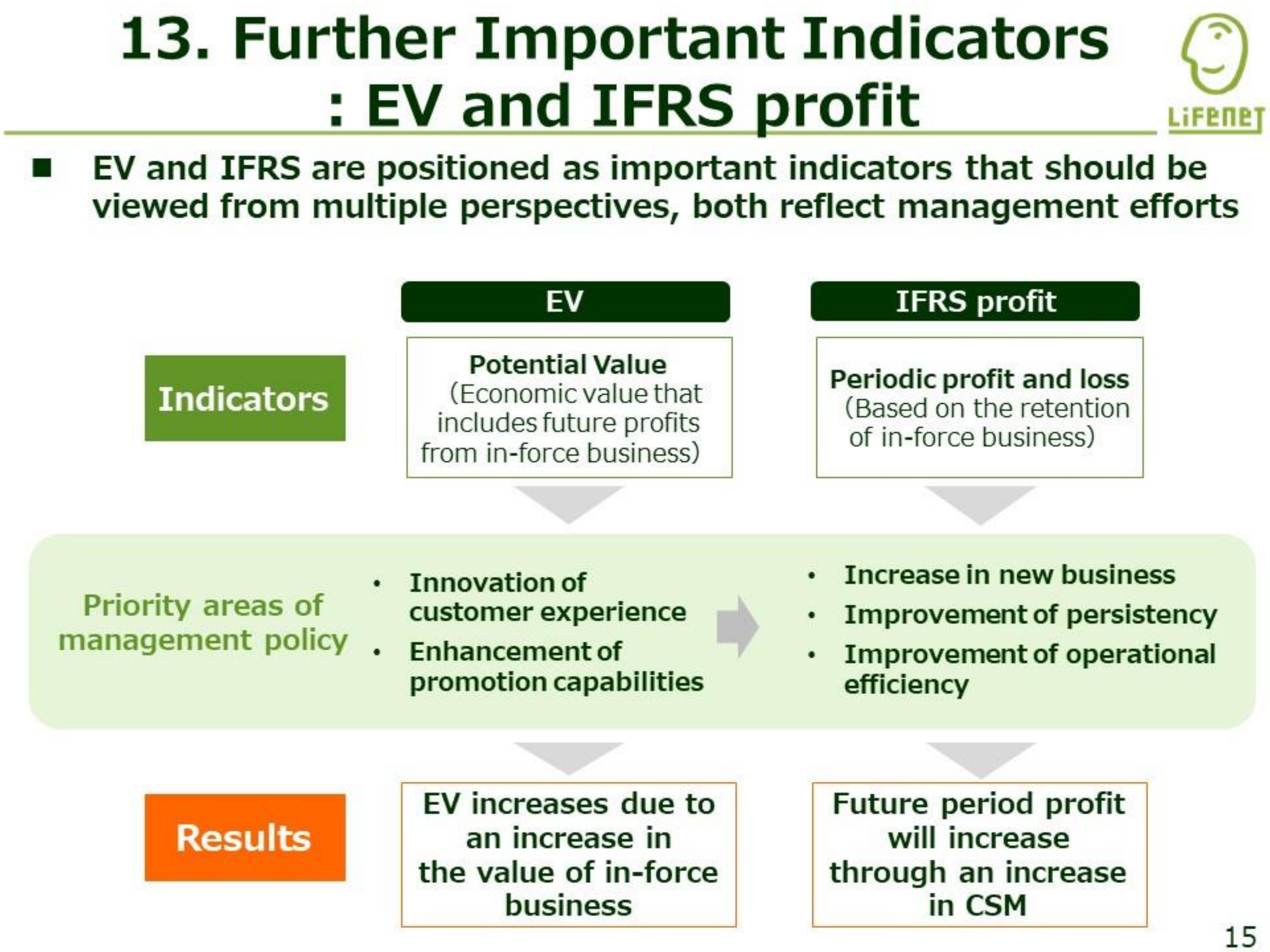
On the left side of the figure, under EV, adjusted net worth is based on statutory accounting net worth, which includes paid-in capital from shareholders and already recognized profit on a statutory accounting basis. In addition, the value of in-force business includes potential statutory accounting profit that would be recognized in the future.

On the right side of the figure, under IFRS 17, the equity includes paid-in capital from shareholders plus already recognized IFRS-based profit, while CSM includes future IFRS-based profit that have not yet been recognized.

Comparing the two, the adjusted net worth of EV plus the value of in-force business, which is EV itself, has a conceptually close to the sum of capital and CSM in IFRS 17, although CSM must be considered after tax. However, as stated in the middle square, under IFRS CSM is getting smaller due to the deferral of insurance acquisition cash flow, which is related to the increase in equity, thus the breakdown will differ between EV and IFRS.

Since the two may differ in their methods of valuing assets and so on, they do not exactly the same, but we hope you can understand the two have similar concept.

Then, as commented below, as the policy term elapses, the value of in-force business is realized and transferred to adjusted net worth in EV, and the CSM is recognized as revenue and transferred to equity in IFRS.



Please see page 15.

We currently establish 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.

The perspectives of both indicators are slightly different. While EV is a measure of potential value as an economic value that includes future profits from in-force business for statutory accounting purposes, IFRS profit will be a measure of appropriate periodic profit or loss based on the maintenance of in-force business.

The Company is currently executing its management policy by focusing on the priority areas of (1) innovation of customer experience and (2) enhancement of promotion capabilities in order to increase new business, improve persistency, and improve operational efficiency.

As a result of the execution of the 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.

Although there are differences in the timing of realization between the two, they have characteristics that are reflected in the same direction as a result of management efforts.

We believe that IFRS profit and EV are important indicators that should be viewed from multiple perspectives. As a first step, we would like to make the next fiscal year, FY2023, the year in which we will establish financial reporting under IFRS with your feedback.

14. Major KPIs for Growth and Profitability

■ Major KPIs for EV and IFRS profit (examples)

	KPIs	What it means
Growth	Increased amount of in-force business (Numbers· Annualized premiums)	• Increase in in-force business that generates profit
	Increased amount of CSM	• Growth of "future IFRS profit"
	Increased amount of EV	• Growth of economic value
Profitability	New business margin (Value of new business/Present value of insurance premium)	• Profitability of products
	ROE (IFRS profit/IFRS equity)	• Capital efficiency in financial accounting
	ROEV (Increased amount of EV/EV balance)	• Capital efficiency in economic value

For each of the above KPIs, it is also effective to manage business on an "adjusted basis," which excludes temporary factors such as the impact of assumption changes, etc.

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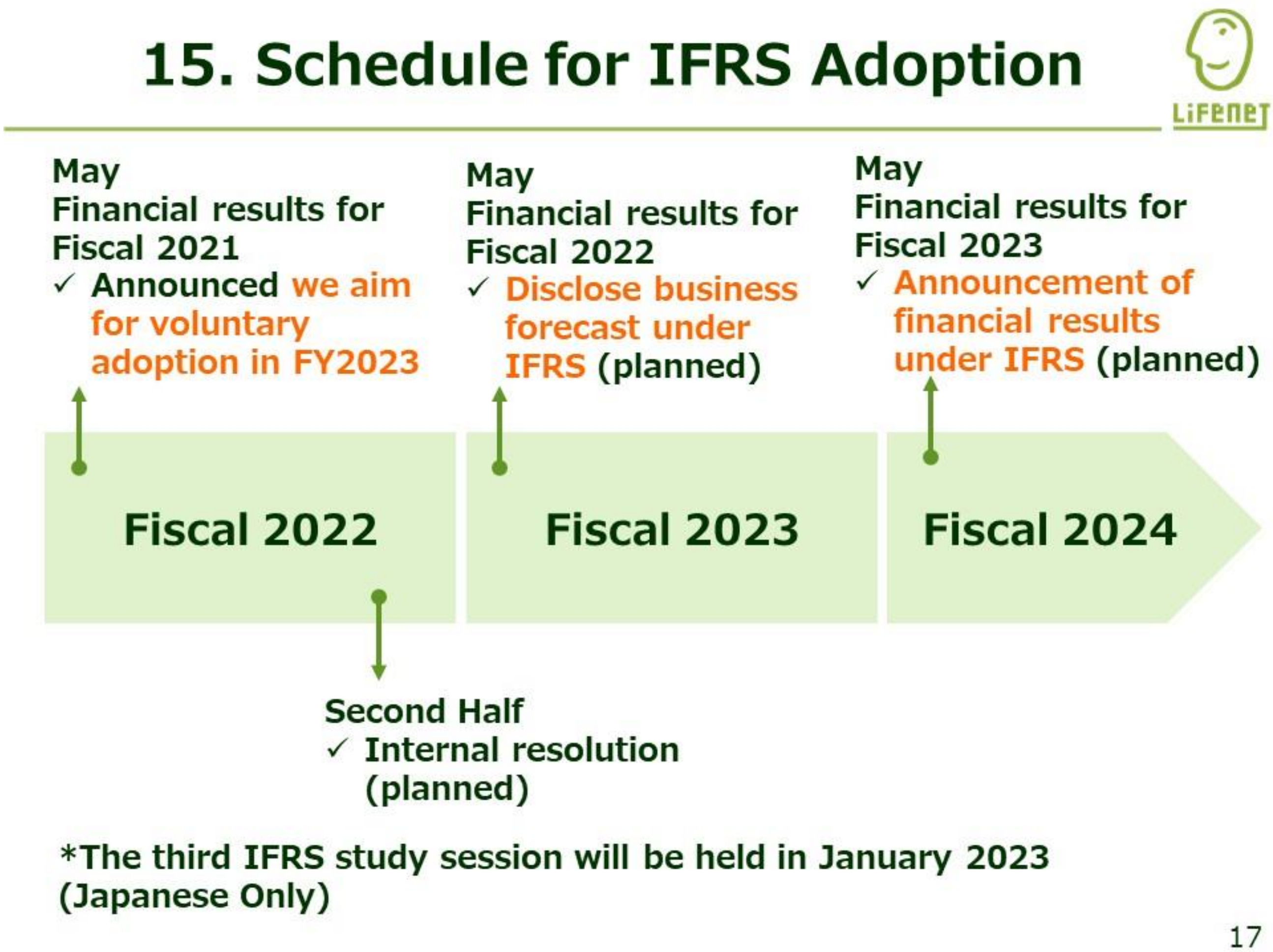
Please turn to page 16. While positioning EV and IFRS profit as key indicators, examples of major KPIs leading to these increases are given separately for growth and profitability.

First, for growth, net increase in in-force business, which represents the volume of insurance services offered by a company, remains important and can be enhanced through an increase in new business and a improvement of lapse and surrender. The increase in CSM is a direct KPI for IFRS profit growth and the increase in EV is a direct KPI for EV growth, both of which increase due to the acquisition of good quality new business and assumption changes based on the Company's favorable experience.

Next, for profitability, the new business margin, which represents the profitability of a company's product offerings, is important and also keys are the assumption changes based on the Company's favorable experience and the efficiency improvements that the Company enjoys as its business volume increases. When profitability is viewed in terms of capital efficiency, KPIs such as ROE, capital efficiency in financial accounting and IFRS, and ROEV, capital efficiency in economic value terms, are important. These can be increased by maintaining profitable in-force business and acquiring new business, as well as through appropriate capital management.

As noted in the sentence below the table, we believe that excluding temporary factors, such as the impact of assumption changes, is also an effective way to manage business for evaluation of a company's management efforts in each performance period.



Finally, page 17 is the future schedule for the application of IFRS 17, which we also presented the last time.

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

We then plan to disclose our forecast for FY2023 under IFRS in May 2023. We would like to disclose at the same time 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.

We would also like to hold a third study session around January 2023. We would like to cover topics related to IFRS 17 and themes of interest to you, and we hope you will join us again.

This concludes my explanation. Thank you for your attention.