LIFENET INSURANCE COMPANY

Question and Answer Summary at 1Q Financial Results Briefing for the Fiscal Year Ending March 2025

August 14, 2024

[Answerers]

Ryosuke Mori	President and Representative Director
Takeshi Kawasaki	Senior Executive Officer
Kota Matsubara	Head of Accounting and Actuarial Department

Question & Answer

Question: Please explain the background of the decrease in claim payments for group credit life insurance ("GCL") in 1Q of FY2024.

Kawasaki: At the time of the FY2023 financial results announcement, we had informed that results from GCL for the 1Q of FY2024 could be negative due to the impact of claim payments since GCL's premium rate was scheduled to be revised in July 2024. The claim payments in 1Q of FY2024 turned out to be lower than expected. We recognize that this is because of a short-term fluctuation, as there are no particularly notable factors in the payment trend.

Question: Annualized premium of policies-in-force for GCL increased significantly in July 2024 due to the revision of premium rate on page 11 of the presentation material. Will the revision of premium rate affect future GCL business?

Mori: The revision of premium rate with au Jibun Bank has been revised including the most recent payment results and will continue to be revised on an annual basis. If we start GCL business with new banks in the future, the premium rate will be based on the performance of each bank's mortgage loans and GCL's results. Therefore, we do not believe that there will be any direct impact from the revision of premium rate this time.

Question: What do you think is necessary to improve new business performance in individual life insurance? Insurance acquisition cash flows ("IACF") efficiency in 1Q of FY2024 was the same level as in 1Q of FY2023. Do you think that the business environment still remains challenging?

Kawasaki: We recognize that reacceleration of our new business performance in individual life insurance is a challenge. We believe it bottomed out in 2Q of FY2023 though IACF efficiency in 1Q of FY2024 has not improved. New business performance is expected to continue to recover moderately with fluctuations. We aim to grow our new business performance by continuing to invest in the priority areas of our mid-term business plan announced in May 2024, while keeping an eye on what needs to be controlled based on the business environment.

Mori: There is no change in our perception that we are currently in a moderate recovery trend after 2Q of FY2023. We will continuously invest in marketing activities for individual life insurance business in order to grow toward 2H of FY2024 and will actively invest in them when we recognize a business environment that provides a favorable return on investment.

Question: Regarding your asset management policy, please explain the reasons your portfolio is changing, such as shortening bond durations and increasing the balance of non-currency hedged foreign bonds.

Kawasaki: There has been no change in our solid policy to date, and we are taking actions to mitigate the impact on bonds and equities based on market changes in interest rates and currency exchange rates. In response to interest rate fluctuations, we have been shortening bond durations, which has limited the impact of the recent rise in interest rates. Shown on page 32 of the presentation material, although we hold some of our bonds without currency hedges, we also respond to currency fluctuations by hedging the majority of our holdings. Consequently, there is some negative impact on the appreciation of the yen, but nothing major. In order to control the impact of interest rate changes on P/L, we have reclassified our bonds holdings to be recognized in other comprehensive income (OCI). In addition, since we hold very little equity, the impact of a decline in stock price would be extremely limited.

On the other hand, as shown on page 14 of the presentation material, regarding the future interest income opportunities, we believe that interest income can be expected to increase over the mid-term because we can provide stable investments with higher yields in a phase of rising interest rates.

Question: In considering Lifenet's capital efficiency and ROE, which figures are appropriate to use in the calculation? Should we focus on the growth rate of Comprehensive Equity ("CE")?

Mori: ROE is basically calculated by dividing net income by equity. In our case, the statutory accounting, J-GAAP does not allow us to take corporate action on E (equity), such as stock buy-back because we have accumulated losses under the J-GAAP, although equity increases in proportion to the increase in net income under IFRS. Therefore, we do not regard ROE as an appropriate indicator of our performance.

CE is an important indicator that represents our corporate value, and we would like our shareholders and investors to focus on it. We have set CE and growth rate of CE per share as goals in mid-term business plan.

Question: Is there any possibility to revise the premium rate for individual life insurance in the future?

Kawasaki: Nothing concrete has been decided at this time. The burden of operating expenses tends to increase due to inflation. On the other hand, we believe that we can expect a certain level of improvement in operating expenses efficiency going forward as we continue to grow through the steady accumulation of in-force business. Revision of premium rate could be an option, however, we should consider it carefully as insurance premiums are one of the sources of competitiveness. We would like to focus more on the expansion of business scale through our own efforts.

Mori: We do not rule out the possibility of raising premium depending on profitability. But, we do not need to revise it at this moment because there is no concern about profitability of individual life insurance. We will improve the efficiency of operating expenses by expanding our business scale by further growth of our in-force business, and we aim to reduce the premium burden on our policyholders in the future.

Question: Is the company's ratio of tradable shares sufficient for transitioning to the TSE Prime Market in FY2025?

Kawasaki: Yes, we believe that our current ratio of tradable shares meets the requirements for transitioning to the TSE Prime Market in FY2025. However, we will continue monitoring any changes in shareholder composition that could affect this ratio.

Question: To what extent do you expect the quarterly fluctuations in GCL's incurred claims and maintenance costs in the future?

Kawasaki: While GCL claims payment was lower than expected in the 1Q of FY2024, fluctuations in claim payments will decrease as our business scales. However, we still assume some level of fluctuation. Thus, we are not disclosing specific details at this time.

Question: Regarding the graph of interest income on page 14 of the presentation material, please explain the reasons for the increase in the last three quarters.

Kawasaki: The increase is primarily due to a rise in the balance of foreign bonds held. Specifically, from December 2023 onwards, interest and dividend income has been recorded as "interest income" under IFRS. This change is a result of how foreign bonds held in investment trusts are now held directly, rather than through the trusts.

Mori: The increase in interest income is attributed to a change in the way of holding foreign bonds, where interest and dividend income is now recorded as interest income. It's important to emphasize that this increase is not due to holding high-risk assets.

Question: Insurance finance expenses are fixed at the interest rate at the time of new business acquisition, so liabilities increase in a rising interest rate environment. How should we recognize the impact of interest rate fluctuations in foreign bonds and yen bonds?

Matsubara: Insurance finance expenses are fixed at the interest rate at the time of new business acquisition, so in general, insurance contract liabilities will increase when interest rates rise. However, in our case, insurance contracts are not recorded as insurance contract "liabilities" but recorded as insurance contract "assets," thus interest is recorded when interest rates rise.

Kawasaki: Regarding the outlook for interest rates going forward, we recognize the possibility of a gradual rise in domestic interest rates, and we will continue to monitor trends closely as we aim for stable income. Having considered the possibility of decrease in US interest rates, we assume a decrease in hedging costs. We are hedging as part of our diversified asset management strategy, and we will also consider adjusting our hedging positions while monitoring trends in foreign exchange rates. Overall, we expect to continuously record stable interest income.

Mori: Our appetite for investment risk has not changed fundamentally, and investment risk is not a risk that we actively seek to take on. Therefore, we do not plan to significantly increase profits from our asset management activity in the future. In this stage, we basically plan to hold the bonds until maturity. However, because the duration of the bonds is short, in the future, we will be able to invest in bonds with higher yields after the redemption of existing bonds. We do not expect a drastic increase in asset management income in the short term, but given the current duration, most of our assets will be replaced over a period of about five years.

Question: Regarding the GCL business, the premium rate was increased for this revision. If claims payment remains low in the future, could the premium rate potentially be lowered at the next revision?

Kawasaki: Even if claims payment remains low for the full year, pricing is not determined solely based on the most recent year's data. It also takes into account past performance. The final decision for the level of insurance premium is made in consultation with our partner bank while also considering the competitiveness of the mortgage loans.

Mori: There is a possibility that the premium rate could be lowered, but only if claims payment in the previous year remains low. While the top line might continue to fluctuate, we believe that the GCL contract value, a component of Comprehensive Equity, will stabilize without significant fluctuations.

Question: I would like to know the progress of the initiatives with Sumitomo Mitsui Card. The recovery of new business performance for individual life insurance is slow, but to what extent is the collaboration with Sumitomo Mitsui Card contributing to new business performance?

Mori: The alliance with Sumitomo Mitsui Card is an important part of our growth strategy, and we are working together on this. In fiscal 2023, there was a decline in demand for individual life insurance, regardless of the sales channel (direct business and partner business). Although there are differences in the speed of recovery, both are on a recovery trend, and we are continuing to work towards re-accelerate in new business performance for individual life insurance.

Question: Money Forward and Sumitomo Mitsui Card have concluded business alliance agreement. What impact do you think this will have on Lifenet's partner business?

Mori: The initiatives of our collaborative partners are positive for us. we expect that they will make it easier to implement the growth strategy we originally envisioned.

Question in the text form and Answer

Question: As shown on page 7 of the presentation material, it is written that the previous management indicator European Embedded Value ("EEV"), and the new management indicator CE, are conceptually similar. But why are there differences between the figures for both in the results for the fiscal year ended March 31, 2024? Why have you set CE as new management indicator instead of EEV?

Matsubara: EEV is calculated in accordance with the EEV Principles, while CE is calculated in accordance with IFRS. The difference between the two lies in the scope of business expenses considered when predicting future performance: EEV has a broader scope of operating expenses. Additionally, the scope of risks being measured differs between the two metrics. EEV has undergone third-party review in line with the EEV Principles, while CE is based on an audited IFRS figure. Consequently, we consider that both figures are reliable.

Kawasaki: We have adopted IFRS since FY2023, and we are using IFRS indicators other than corporate value indicators to communicate with investors. So, we have also changed our corporate value indicators to those linked with IFRS, aiming for more consistent communication. In addition, in alignment with global trends where insurance companies are changing their disclosure from EV to IFRS, we believe this change enhances comparability and keeps us in line with the industry trends.

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