

Securities Code: 7157

TSE Growth



LIFENET

LIFENET INSURANCE COMPANY

IFRS 17
Insurance Contract
Study Meeting
Session 3

LIFENET INSURANCE COMPANY

January 20, 2023

Disclosure of the Material



- Lifenet held the IFRS 17 Insurance Contract study meeting (Session 3) for investors and analysts on January 20, 2023 (Japanese version only).
- Japanese version of this material was disclosed on the TDnet and our website prior to the study meeting following the Fair Disclosure Rule.
- This is a translation of the original Japanese document, prepared and provided solely for readers' convenience. In case of any discrepancy or dispute, the Japanese document prevails.

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.

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**

Overview



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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 <ul style="list-style-type: none">• 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 <ul style="list-style-type: none">• Analysis of profit, financial indicators and changes in CSM	October 14, 2022
3rd	Opening BS of IFRS 17 <ul style="list-style-type: none">• Retrospective calculation of insurance service results• Opening BS (insurance liability and the entire)	January 20, 2023

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)**

3. 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	→	1 Expected claims Expected insurance claims and operating expenses (Deduct the savings component)
Insurance service expenses	→	2 Risk adjustment release Decrease or release of risk adjustment during the period
	→	3 Amortization of CSM Amortization of CSM during the period
Insurance service results	→	4 Actual claims Actual insurance claims and operating expenses (Deduct the savings component)
Investment income	→	5 Investment income (loss) Net income and expenses from asset investment
Insurance finance expenses	→	6 Insurance finance expenses Interest on insurance liabilities
Financial results	→	7 Other results Expenses not directly related to insurance services and gains(losses) other than insurance business
Other results	→	
Profit before tax		
Income tax expenses	→	8 Income tax expenses Tax effect accounting based on the effective tax rate is applied
Profit		

4. Scope of Retrospective Calculation



- Insurance liability of opening BS in fiscal 2022 is calculated by retrospective calculation of insurance service results

	items/ FY	2008	2009	...	2020	2021	2022	2023	
P/L	Insurance service results	Calculated retrospectively from the time of business commencement for preparation of opening BS							
	Financial results								
	Other results								
	Profit before tax	No retrospective calculation							Partially disclosed in May 2023 related to business forecasts (planned)
	Profit								
B/S							2022.4.1 Opening BS		

the scope of results explained in this document

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

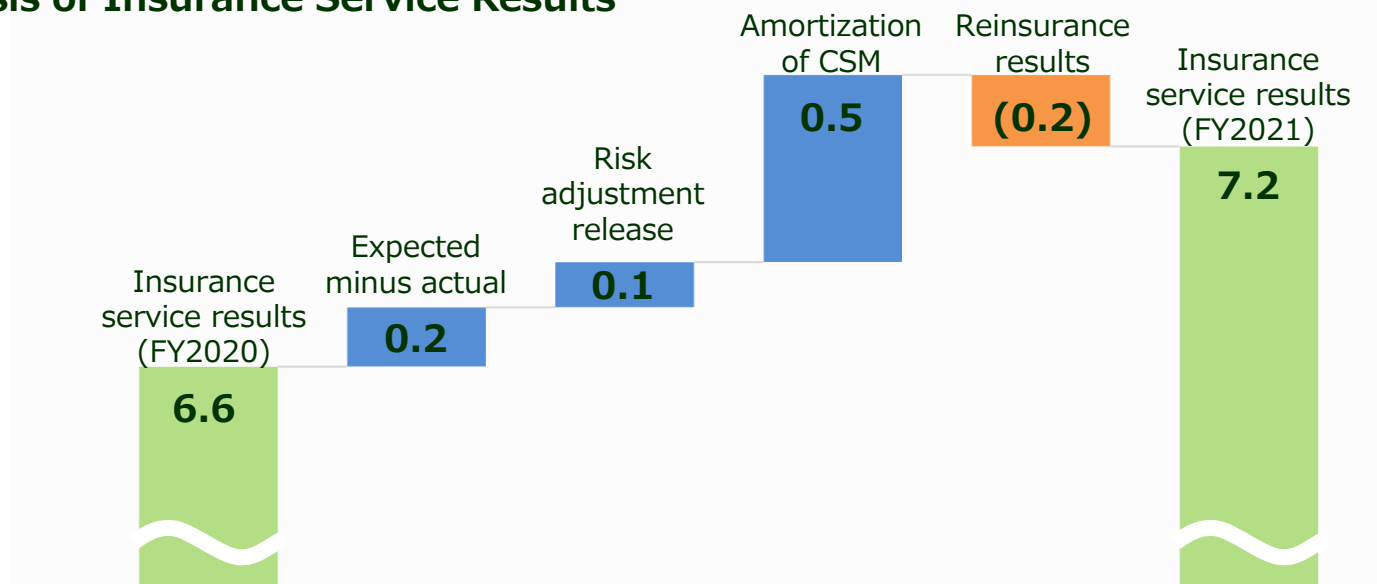
6. Analysis of Increase/Decrease in Insurance Service Results

- 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



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

8. Insurance Liability under IFRS 17

IFRS Balance Sheet

Assets	Liabilities
	Insurance Liabilities
	Equities

Insurance Liabilities	Present value of future cash flows
	Risk adjustment
	CSM

*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

9. Opening BS (Insurance Liability)

- Present value of future CF will be negative due to the excess of future premium income over insurance claims expenditures
- CSM, a source of future profit, is JPY 74.9 billion yen

IFRS Balance Sheet

Assets	Liabilities			
	Insurance Liabilities	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="text-align: center;">Present value of future cash flows</td> </tr> <tr> <td style="text-align: center;">Risk adjustment</td> </tr> <tr> <td style="text-align: center;">CSM</td> </tr> </table>	Present value of future cash flows	Risk adjustment
Present value of future cash flows				
Risk adjustment				
CSM				
	Equities			

JPY bn

IFRS Insurance Liability (2022.4.1)	
Present value of future cash flows (Claims minus premiums)	(128.8)
Risk adjustment	32.0
CSM	74.9
Insurance Liabilities* total	(21.9)

*Only direct underwriting contracts

Since it is negative, it is recorded as insurance contract assets

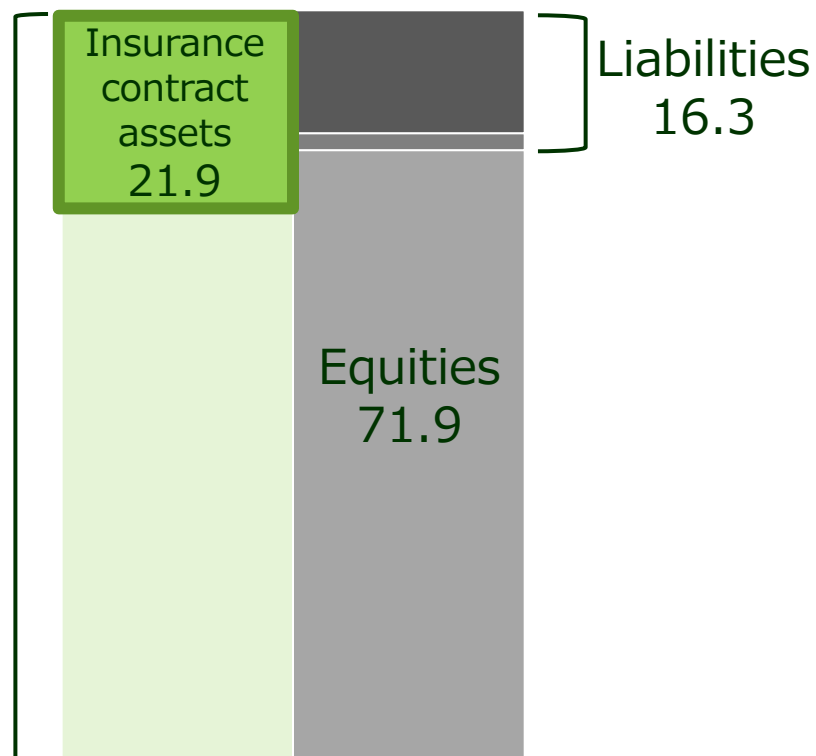
(Ref.) J-GAAP Policy reserves and other JPY 43.5 bn (2022.3.31)

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

Lifenet's
Opening BS

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)

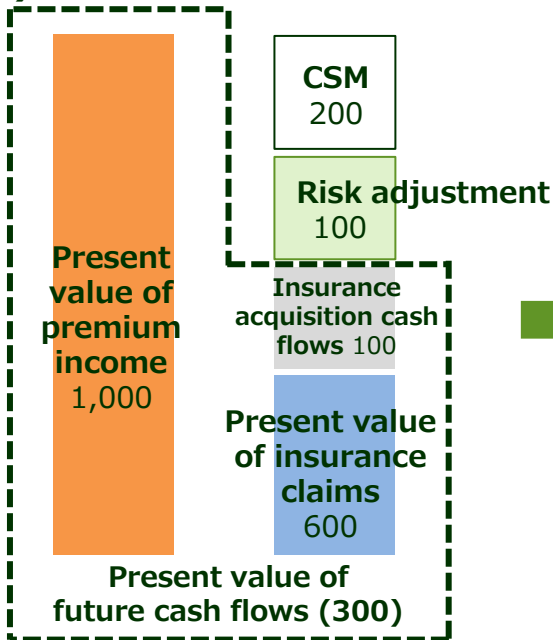
11. Negative Insurance Liability

- 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

(2) Initial measurement (at the timing of contract)



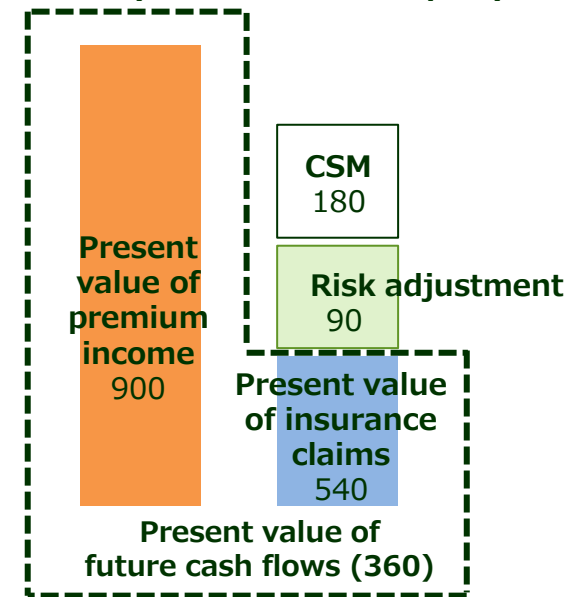
Insurance Liabilities total 0

During the period

CF
CF in the first year
 Premium income 100
 Insurance claims 60
 Insurance acquisition cash flows 100

PL
Amortization of the first year
 Risk adjustment 10
 CSM 20

(3) Subsequent measurement (at the end of first year)



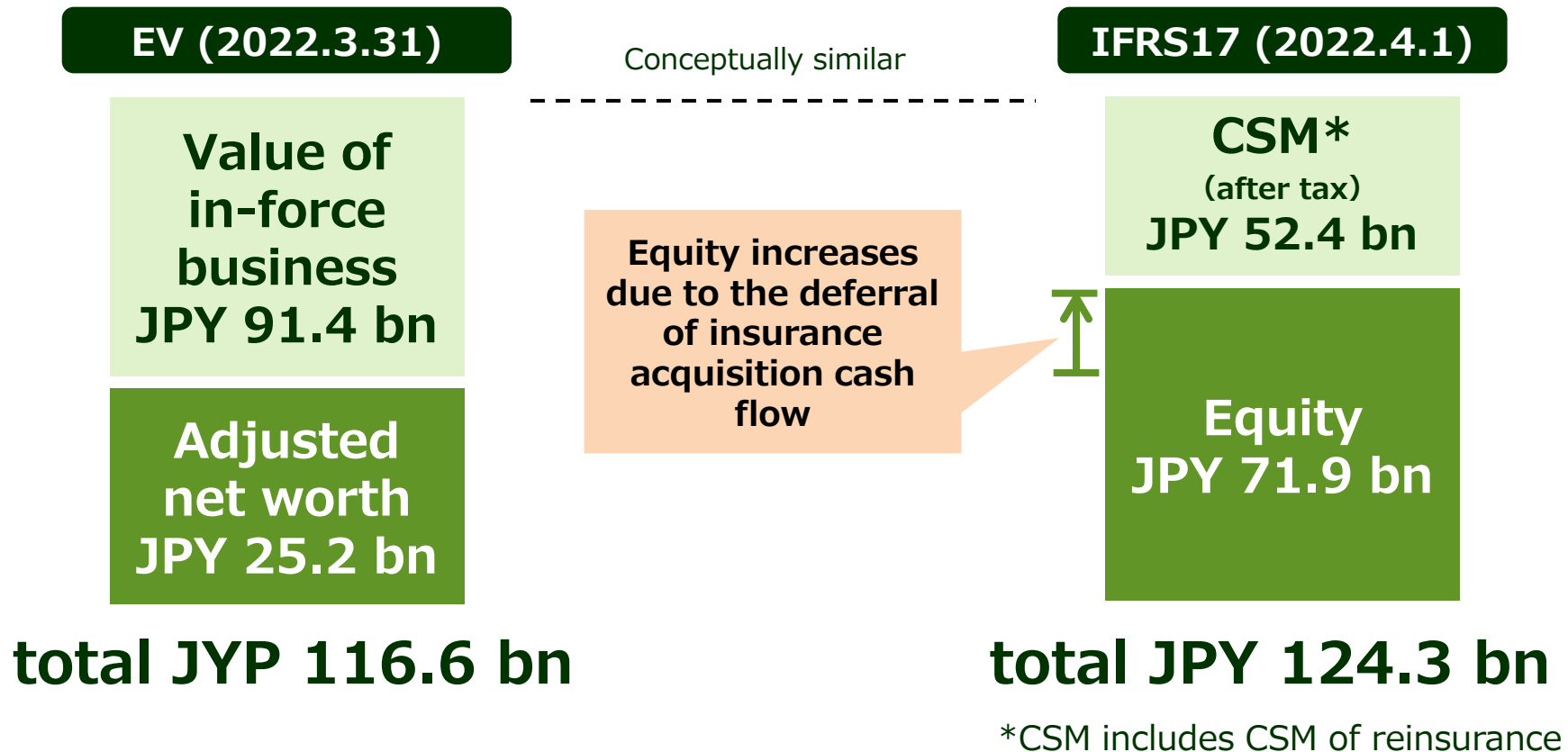
Insurance liabilities total (90)
 (→ turned into assets)

12. Comparison of EV and IFRS Equity



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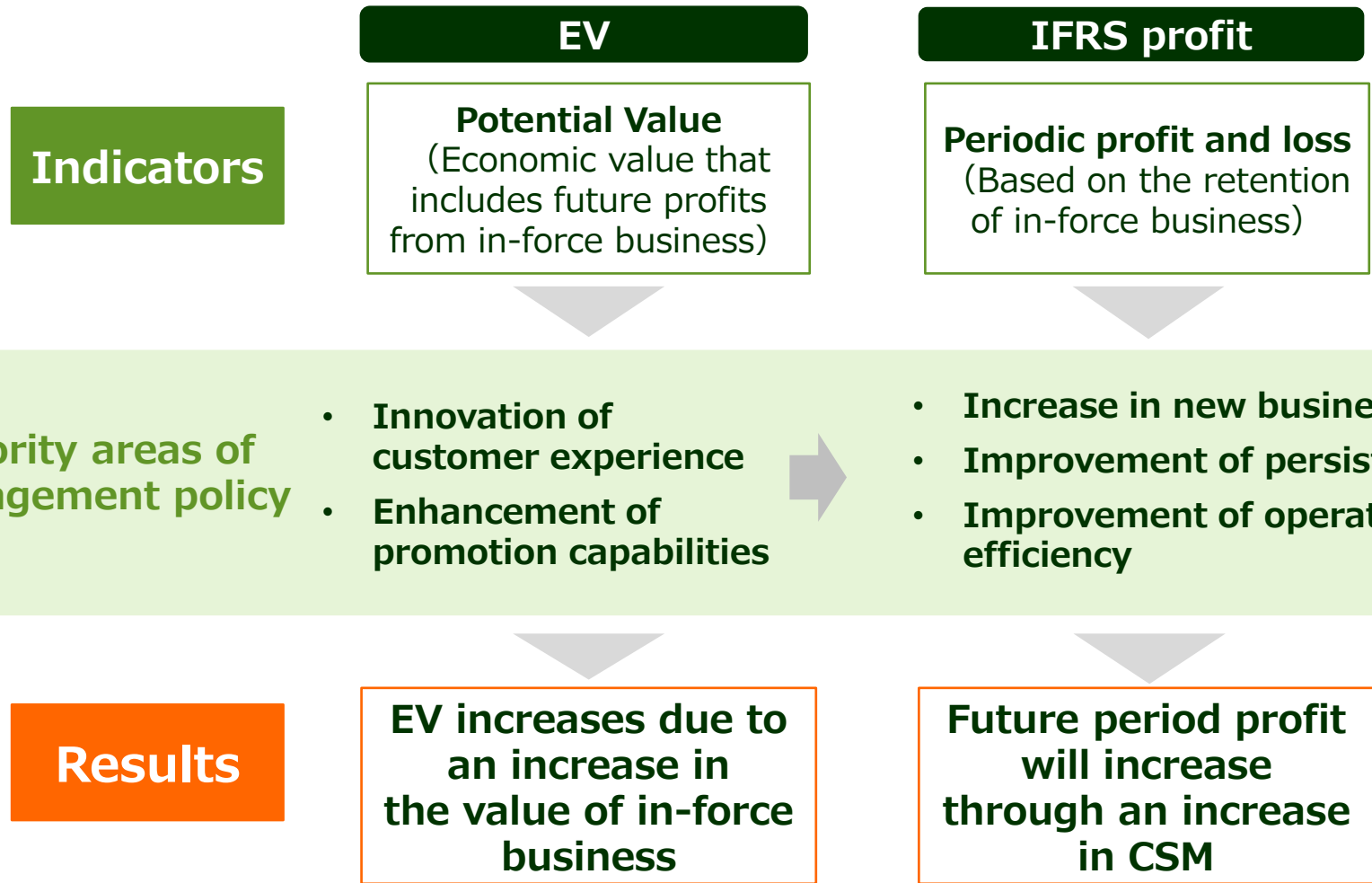
- The amount of IFRS equity plus CSM(after tax) is similar to EV in total



13. Future Important Indicators : EV and IFRS Profit



- EV and IFRS are positioned as important indicators that should be viewed from multiple perspectives, both reflect management efforts



14. 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)

Appendix



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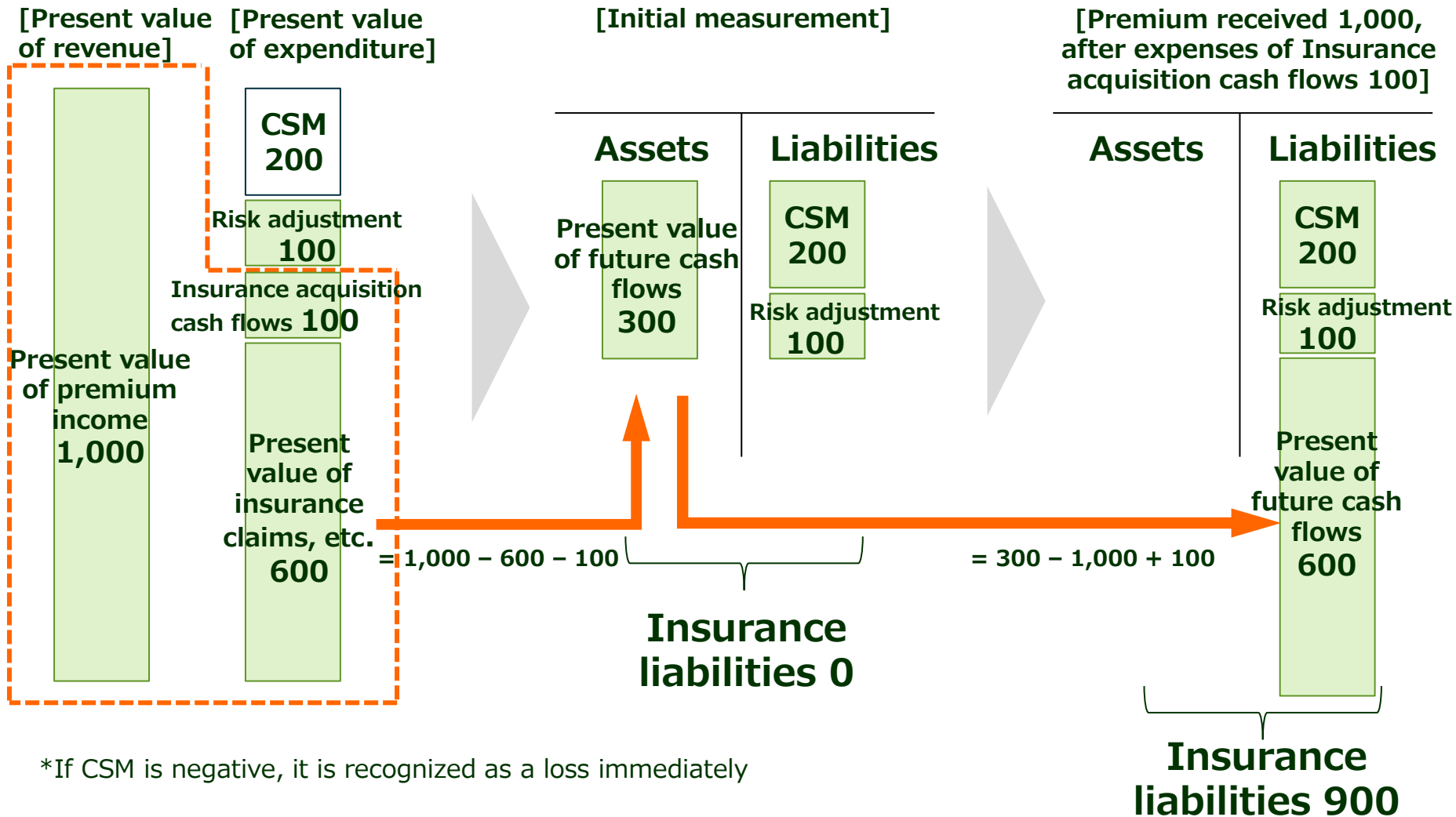
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IFRS 17 Insurance Liabilities

(Initial recognition)

Ex. Sigle premium life insurance (premium 1,000)

Figures are examples



IFRS 17 Insurance Liabilities

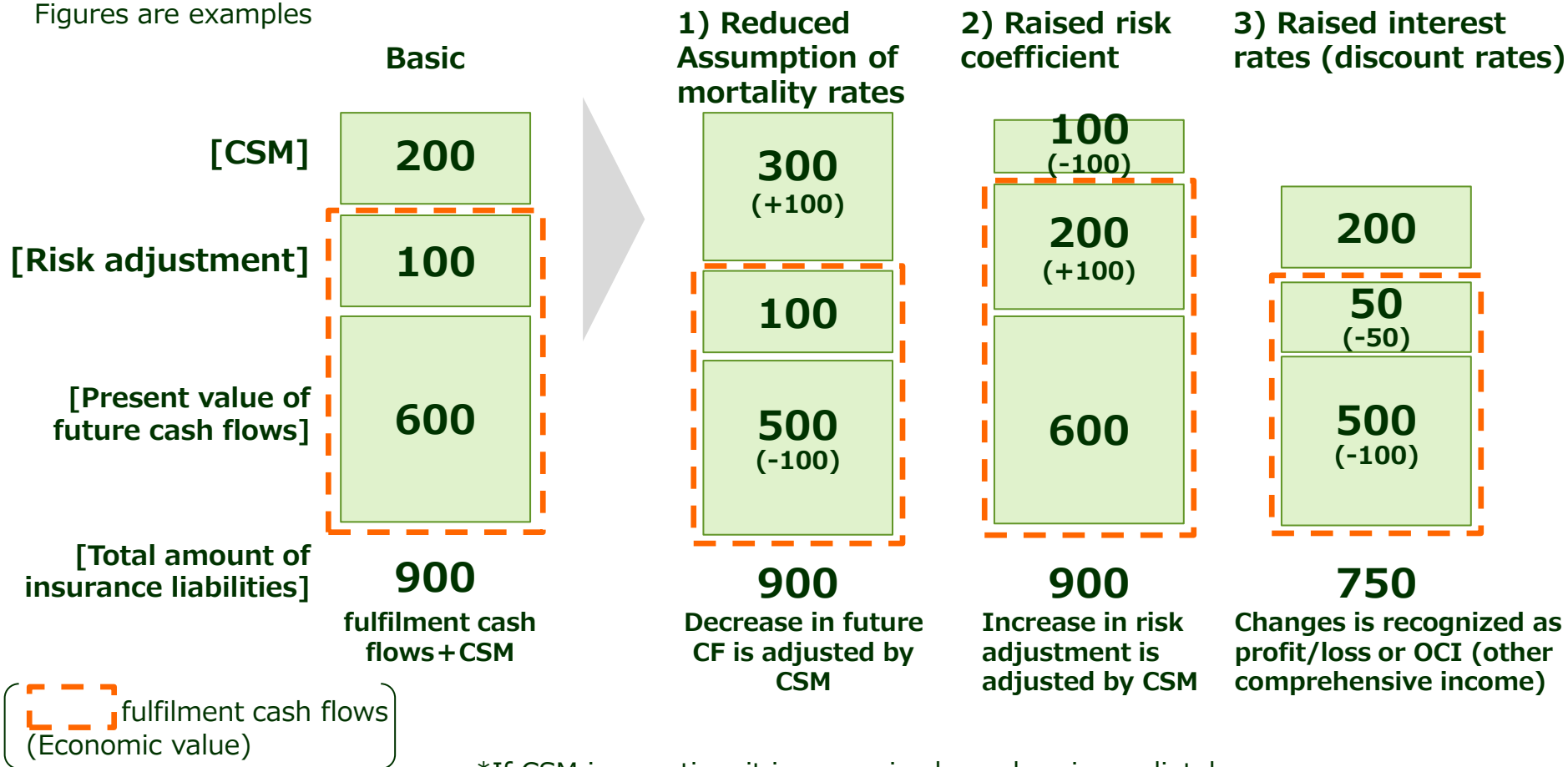
(Subsequent measurement)

- Changes of assumptions and risk coefficient are adjusted by CSM
- Changes of discount rates are NOT adjusted by CSM



Future insurance service results will be leveled

Figures are examples

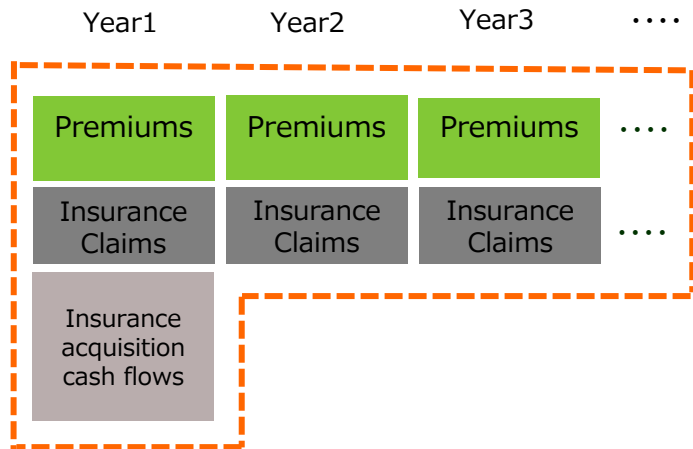


*If CSM is negative, it is recognized as a loss immediately

Revenue Recognition by CSM

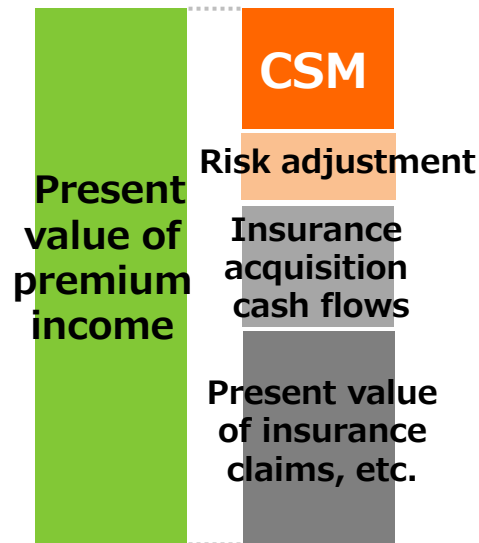
New business expected future cashflows

Calculated by the latest best estimate assumptions based on experience



CSM

Present Value



CSM is allocated as revenue over the policy period

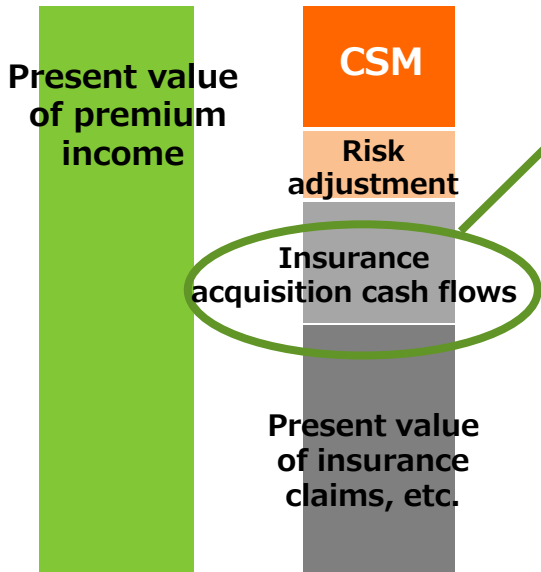


*If CSM is negative, it is recognized as a loss immediately

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

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

Opening BS (Insurance Liabilities) comparison with J-GAAP



【IFRS Insurance Liabilities】

JPY bn

IFRS Insurance Liabilities (2022.4.1)	
Present value of future cash flows (Claims minus premiums)	(128.8)
Risk adjustment	32.0
CSM	74.9
Insurance liabilities*: total	(21.9)

Since it is negative, it is recorded as insurance contract assets

*Only direct underwriting contracts

【J-GAAP Policy reserves and other】

JPY bn

J-GAAP Policy reserves and other (2022.3.31)	
Policy reserves	42.6
Reserves for outstanding claims	1.0
Policy reserves and other: total	435

Opening BS comparison with J-GAAP



	JPY bn
IFRS Opening BS (2022.4.1)	
Insurance contract assets	21.9
Reinsurance contract assets	0.9
Assets (other than above)	65.4
Assets total	88.2
Deferred tax liabilities	14.4
Liabilities (other than above)	2.0
Liabilities total	16.3
Equities total	71.9

	JPY bn
J-GAAP BS (2022.3.31)	
Reinsurance accounts receivable	3.9
Assets (other than above)	63.9
Assets total	67.8
Policy reserves and other	43.5
Deferred tax liabilities	0.3
Liabilities (other than above)	1.9
Liabilities total	45.7
Net assets total	22.1