

EV and ESR as of March 31, 2020

May 25, 2020



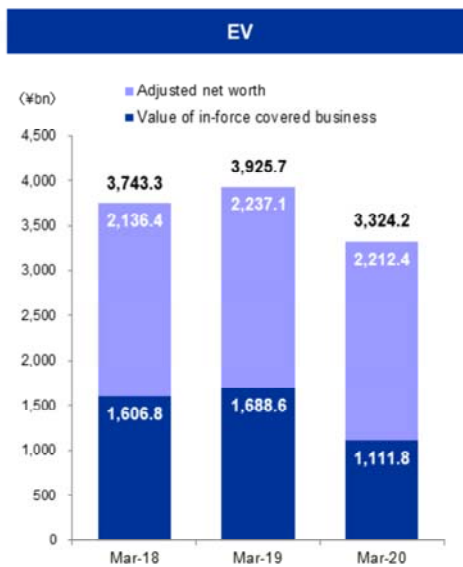
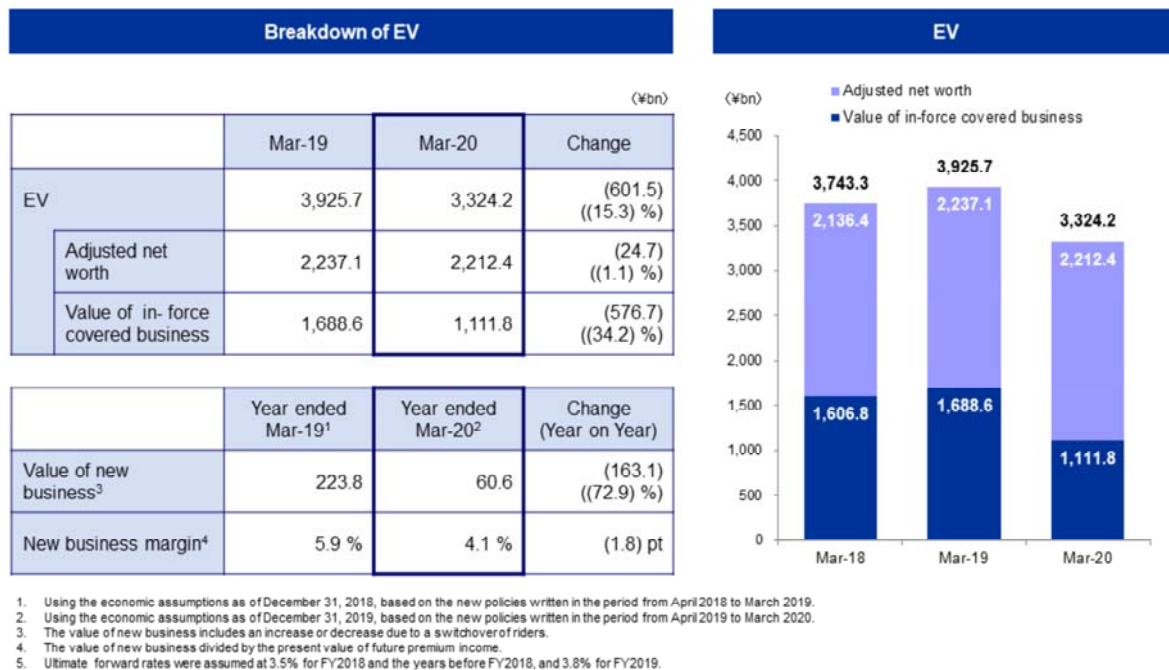
I am Teruyuki Nishizawa from Japan Post Insurance.

Thank you all for participating in this “EV (embedded value) – ESR (economic solvency ratio) Briefing Session” by Japan Post Insurance.

First of all, We would like to explain about EV and ESR as of March 31, 2020 based on the materials in front of you. Then we will have a Q&A session.

Please look at page 1.

Embedded Value



I would like to explain about the current status of EV.

EV as of March 31, 2020 was ¥3,324.2 billion, a decrease of ¥601.5 billion year on year.

Adjusted net worth decreased ¥24.7 billion year on year, to ¥2,212.4 billion due to share repurchases and shareholder dividend payments, despite an increase due to current year earnings.

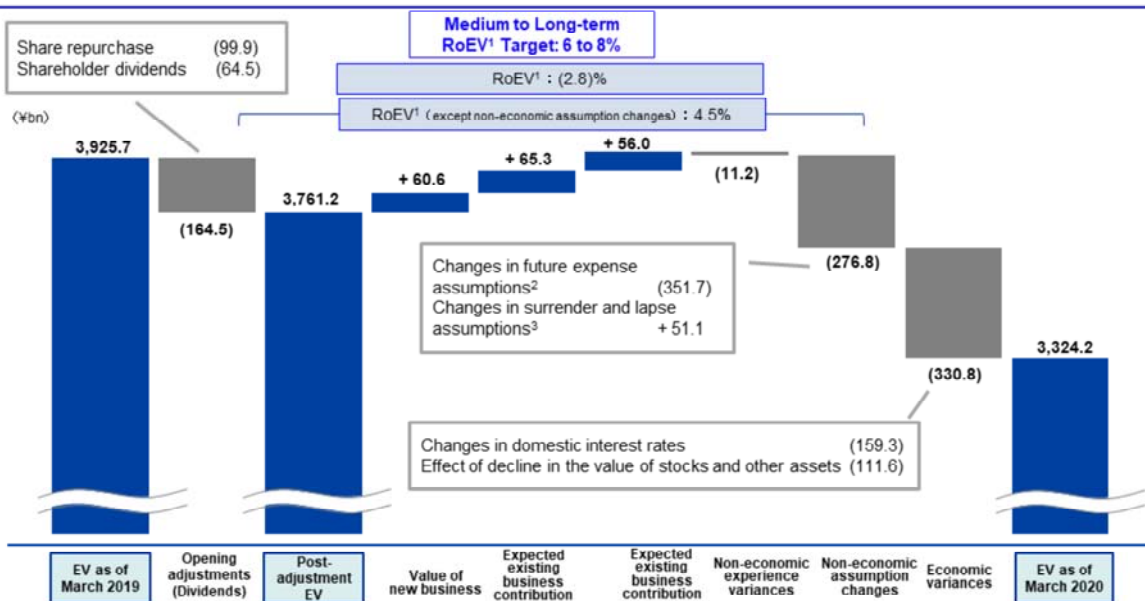
Value of in-force covered business decreased ¥576.7 billion year on year, to ¥1,111.8 billion due to economic experience variances and changes made to non-economic assumptions.

Value of new business decreased ¥163.1 billion year on year, to ¥60.6 billion, due to a reduction in acquired new business as a result of refraining from proactive sales proposal from mid-July 2019 and business suspension from January 2020 onwards, as well as a decrease in interest rates, while new business margin was 4.1%. Value of new business for the fiscal year ended March 31, 2020 was calculated based on the economic assumptions as of December 31, 2019 in which interest rate was assumed at a level closer to the average of actual interest rate during the period from April to March in the following year.

EV as of March 31, 2020 was determined referring to the third-party opinions. For further detail of our EV determining process, please refer to “Disclosure of European Embedded Value as of March 31, 2020” announced today.

Please look at page 2.

Movement Analysis of EV



1. Calculated by excluding economic variance factors.
2. The expense assumptions were set based on the most recent experience and an allowance was made for future increases in expenses to reflect the decreasing trend in the volume of in-force policies (including Postal Life insurance policies). In the calculation of the EV as of March 31, 2019, the future trend of in-force volume was estimated based on historical experience. However, in the calculation of the EV as of March 31, 2020, the future trend of in-force volume was estimated under consideration of the issues related to solicitation quality at the valuation date. This reduced the estimate of the volume of future in-force policies, in turn increasing the expense assumptions.
3. EV as of March 31, 2019 was calculated based on the surrender and lapse rate that included the effects of rewritings. On the other hand, EV as of March 31, 2020 was calculated based on the surrender and lapse rate that excluded the same effects as the following actions are planned to be taken under the Business Improvement Plan: 1) implementing policy rewriting measures, 2) introducing a conditional cancellation system and policy conversion system; and 3) assessing net increase only for the volume of new business obtained by using the aforementioned systems. This resulted in a decrease in the underlying surrender and lapse rate.

Movement Analysis of EV is as follows:

Adjustments resulting in a ¥164.5 billion decrease in EV in the previous fiscal year were attributable to payments of dividends of surplus for the fiscal year ended March 31, 2019, and interim dividends for the fiscal year ended March 31, 2020, as well as share repurchase in April 2019;

Meanwhile, changes to non-economic assumptions were attributable to a ¥276.8 billion decrease in EV;

Of the above, changes to the expense assumptions were attributable to a ¥351.7 billion decrease. The expense assumptions were set based on the most recent experience and an allowance was made for future increases in expenses to reflect the decreasing trend in the volume of in-force policies (including Postal Life Insurance policies). In the calculation of the EV as of March 31, 2019, the future trend of in-force volume was estimated based on historical experience. However, in the calculation of the EV as of March 31, 2020, the future trend of in-force volume was estimated under consideration of the issues related to solicitation quality at the valuation date. This reduced the estimate of the volume of future in-force policies, in turn increasing the expense assumptions.

On the other hand, changes to surrender and lapse assumptions were attributable to a ¥51.1 billion increase in EV. EV as of March 31, 2019 was calculated based on the surrender and lapse rate that included the effects of rewritings. On the other hand, EV as of March 31, 2020 was calculated based on the surrender and lapse rate that excluded the same effects as the following actions are planned to be taken under the Business Improvement Plan: 1) implementing policy rewriting measures; 2) introducing a conditional cancellation system and policy conversion system; and 3) assessing net increase only for the volume of new business obtained by using the aforementioned systems. This resulted in a decrease in the underlying surrender and lapse rate.

Changes to the economic assumptions were attributable to a ¥330.8 billion decrease in EV, including a decrease of ¥159.3 billion due to the impact of the changes in domestic interest rate and a decrease of ¥111.6 billion resulting from the decline in the value of stocks and other assets.

Meanwhile, ultimate forward rate was changed in the fiscal year ended March 31, 2020 from 3.5% to 3.8% in view of the latest development surrounding the ICS, which was attributable to ¥4.1 billion increase in EV.

Please look at page 3.

Sensitivity Analysis of EV

Sensitivity to Economic Assumptions

Assumptions	EV	Change (%)
50bp increase in risk-free rate	3,677.7	+ 353.4 (+ 10.6 %)
50bp decrease in risk-free rate	2,930.8	(393.4) ((11.8) %)
50bp decrease in risk-free rate (parallel shift without zero floor)	2,769.6	(554.5) ((16.7) %)
10% decrease in equity and real estate value	3,205.0	(119.2) ((3.6) %)

(¥bn)

Sensitivity to Non-economic Assumptions

Assumptions	EV	Change (%)
Future volume of policies in force is 105% of the level assumed in the calculation of EV as of March 31, 2020 ¹	3,410.5	+ 862 (+ 2.6 %)
Future volume of policies in force is 95% of the level assumed in the calculation of EV as of March 31, 2020 ¹	3,226.5	(977) ((2.9) %)
10% decrease in maintenance expenses	3,587.1	+ 262.9 (+ 7.9 %)

(¥bn)

1. Provisional calculations that have not been verified by a third party.

Here is a sensitivity analysis of EV.

A 50bp increase in risk-free rate would push up EV by ¥353.4 billion.

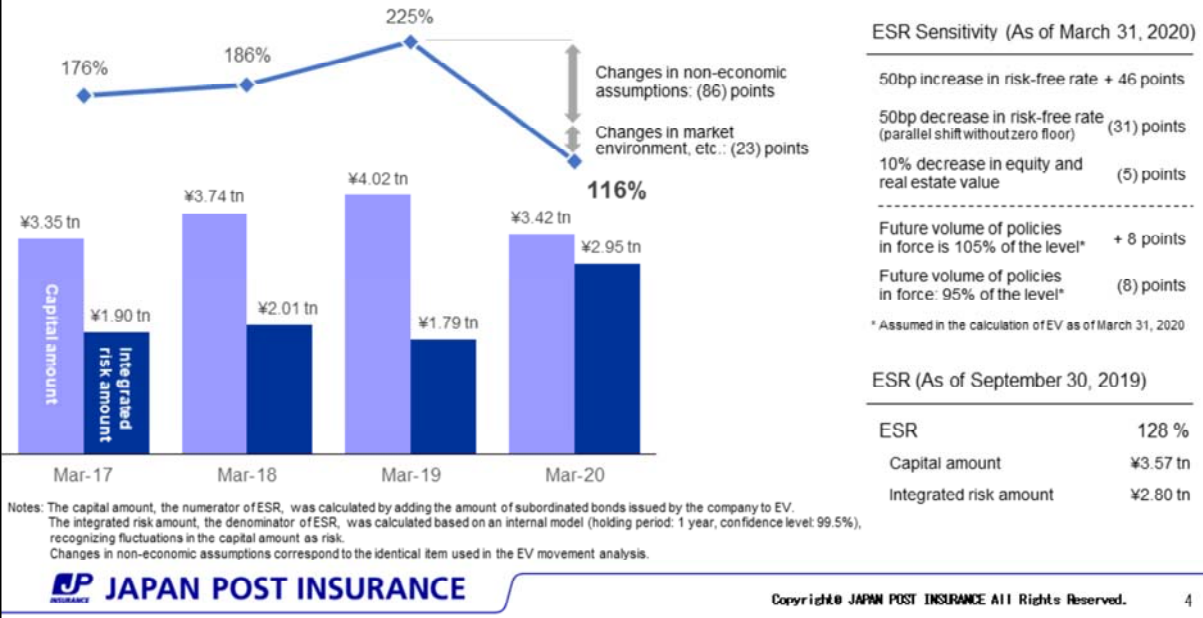
Also, standard of maintenance expenses was established based on the future in-force business covered volume in Japan Post Insurance as a whole, and we decided to newly disclose the impact on EV of the changes in in-force covered business volume as another type of sensitivity.

If in-force covered business volume increases in future to the level equivalent to 1.05 times the level assumed in the calculation of EV as of March 31, 2020 EV will increase by ¥86.2 billion.

Please look at page 4.

ESR (Economic Solvency Ratio)

- ESR as of March 31, 2020 decreased to 116%, as a result of a reduction in the capital amount caused by changes in non-economic assumptions and changes in market environment, etc., as well as an increase in the integrated risk amount.
- ESR is positioned as an indicator to be referred to and responded to on a medium- to long-term basis, as it fluctuates greatly depending on the assumptions made at the time.



I am Shinkou Takahashi from Japan Post Insurance.

I would like to explain about the current status of ESR.

ESR as of March 31, 2020 sizably decreased to 116%, compared with 225% in the previous fiscal year, due to a decrease in capital amount as numerator while increase in integrated risk amount as denominator.

Capital amount as numerator is defined by the Company as “EV” added to “the amount of subordinated bond issued by Japan Post Insurance,” movement of which is largely reflecting the movement of EV, as explained in the preceding slides.

Integrated risk amount as denominator is defined by the Company as movement of capital amount measured by using our internal model, based on a confidence level of 99.5% and one year holding period.

Sizable increase in the integrated risk amount is largely attributable to the decrease of future income caused by changes in expense assumptions as described in the slide explaining EV.

On the economic valued-based balance sheet, future policyholder dividends would be included in liabilities, which will decrease, in the event of materialization of risks, resulting effectively in the absorption of loss of EV, which is equivalent to net assets.

This is referred to by the Company as “loss absorption effect” and is reflected on the calculation of integrated risk amount.

We changed the expense assumptions for determining EV this time, giving rise to an increase in future expense ratio related to in-force covered business, whereby future income is reduced, largely decreasing the future policyholder dividends with loss absorption effect as well.

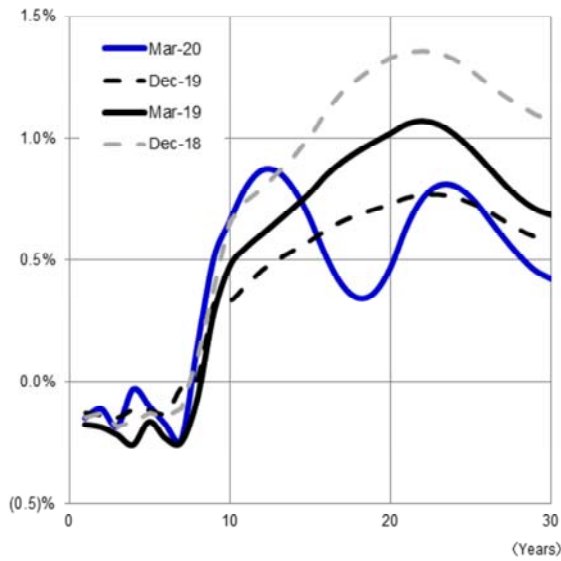
On this occasion, movement of ESR, its sensitivity and its value as of September 30, 2019 are disclosed as well.

We define ESR as an indicator to be referred to and acted upon over the medium to long-term, and its trend shall remain the focus of our attention.

This concludes our explanation.

(Reference) Fluctuations of Interest Rates (EV Assumptions)¹

Forward Rate (Dec-18 to Mar-20)



Forward Rate

(%)	Dec-18 [Ⓓ]	Mar-19 [Ⓓ]	Dec-19 [Ⓓ]	Mar-20 [Ⓓ]
10 years	0.657	0.471	0.329	0.657
20 years	1.327	1.017	0.726	0.466
30 years	1.074	0.683	0.578	0.422

The economic assumptions used for the calculation of EV and the value of new business are as follows:

- Value of new business for FY19/3... ①
- EV as of March 31, 2019... ②
- Value of new business for FY20/3... ③
- EV as of March 31, 2020... ④

1. Interest rates used herein (assumptions for EV) are forward rates calculated based on the market yields on JGBs announced by the Ministry of Finance, Japan.

(Reference) EVs as of the Ends of Jun., Sep., and Dec. 2019

■ Below are EVs as of June 30, 2019, September 30, 2019, and December 31, 2019 (calculated based on the same non-economic assumptions as those as of March 31, 2020):

(¥bn)

	Jun-19 ¹	Sep-19 ¹	Dec-19 ¹
EV	3,420.1	3,478.9	3,585.3
Adjusted net worth	2,135.4	2,186.5	2,193.3
Value of in-force covered business	1,284.6	1,292.4	1,391.9

	3 months ended Jun-19 ^{1,2}	6 months ended Sep-19 ^{1,3}	9 months ended Dec-19 ^{1,4}
Value of new business ⁵	64.6	66.7	63.8
New business margin ⁶	6.6 %	4.9 %	4.4 %

1. Provisional calculations that have not been verified by a third party. The assumed ultimate forward rate is 3.8%.
2. The economic assumptions as of March 31, 2019 are used, based on the new policies written in the period from April to June 2019.
3. The economic assumptions as of June 30, 2019 are used, based on the new policies written in the period from April to September 2019.
4. The economic assumptions as of December 31, 2019 are used, based on the new policies written in the period from April to December 2019.
5. The value of new business includes an increase or decrease due to a switchover of riders.
6. The value of new business divided by the present value of future premium income.