

August 8, 2019
Ryosuke Mori, President
LIFENET INSURANCE COMPANY
(Securities Code: 7157, TSE Mothers)

Financial Results for 1Q of Fiscal 2019 Ending March 31, 2020 **Annualized premium of new business of 822 million yen, up 43.7% year on year**

TOKYO, August 8, 2019 - LIFENET INSURANCE COMPANY (TSE Mothers 7157, President Ryosuke Mori, URL: <https://ir.lifenet-seimei.co.jp/en/>) discloses financial results for the first quarter of fiscal 2019 ending March 31, 2020.

1. Overview of the financial results for 1Q of fiscal 2019

(1) Business results

Condition of policies-in-force

Annualized premium^{*1} of new business in 1Q ended June 30, 2019 was 822 million yen (143.7% of 1Q of fiscal 2018). The number of new business was 19,117 (143.9% of 1Q of fiscal 2018). Annualized premium^{*1} of policies-in-force as of the end of 1Q of fiscal 2019 stands at 13,652 million yen (104.3% of March 31, 2019). The number of policies-in-force resulted in a total of 321,829 (104.2% of March 31, 2019). Surrender and lapse ratio^{*2} for 1Q of fiscal 2019 was 7.6% (6.3% for 1Q of fiscal 2018).

*1: Annualized premium is the amount of money equivalent to what is to be paid to have the insurance coverage for one year. All payments for Lifenet products are in monthly installments, we calculate annualized premium as multiplying the monthly premium by 12 months.

*2: The surrender and lapse ratio is the annual equivalent of the monthly number of policies surrendered and/or lapsed divided by the monthly average number of policies-in-force.

Results of operations

Insurance premiums and other for 1Q of fiscal 2019 increased to 3,774 million yen (130.9% of 1Q of fiscal 2018) due to an increase in the number of policies-in-force, and modified co-insurance^{*3}. Investment income grew to 70 million yen (115.5% of 1Q of fiscal 2018). Other ordinary income was 50 million yen. As a result, ordinary income for 1Q of fiscal 2019 amounted to 3,895 million yen (131.9% of 1Q of fiscal 2018).

Insurance claims and other was 772 million yen (128.6% of 1Q of fiscal 2018). The ratio of insurance payment amounts to insurance premiums increased to 18.7% for 1Q of fiscal 2019, compared with 17.7% for 1Q of fiscal 2018. Provision for policy reserves and other came to 1,015 million yen (112.9% of 1Q of fiscal 2018). The ratio of provision for policy reserves to insurance premiums was 31.0% for 1Q of fiscal 2019, compared with 32.2% for 1Q of fiscal 2018. Operating expenses amounted to 2,199 million yen (159.3% of 1Q of fiscal 2018). The components of operating expenses were 1,502 million yen in marketing expenses (203.3% of 1Q of fiscal 2018) mainly due to proactive investment in advertising, 211 million yen in customer service expenses (112.0% of 1Q of fiscal 2018), and 486 million yen in system and other expenses (107.2% of 1Q of fiscal 2018). Other ordinary expenses was 228 million yen (139.5% of 1Q of fiscal 2018). Consequently, ordinary expenses for 1Q of fiscal 2019 totaled 4,216 million yen (138.5% of 1Q of fiscal 2018).

As a result, ordinary profit totaled 321 million yen loss for 1Q of fiscal 2019, compared with 90 million yen loss for 1Q of fiscal 2018. Net income was 325 million yen loss, compared with 95 million yen loss for 1Q of fiscal 2018. From fiscal 2019 onward, we are reinsuring a portion of new business in modified co-insurance which has resulted in raising ordinary income by 387 million yen, ordinary profit by 370 million yen, and net income by 370 million yen in 1Q of fiscal 2019.

In addition, fundamental profit, which is an indicator for the profitability of life insurance companies, amounted to 428 million yen loss, compared with 77 million yen loss for 1Q of fiscal 2018. The components of fundamental profit were 757 million yen in mortality margin, 1,180 million yen loss in expense margin and 5 million yen loss in interest margin.

*3: These reinsurance transactions are agreements that transfer a certain part of the risk and the profit (loss) structure including operating expenses of the reinsured business to the reinsurance company for a designated period of time. In the first policy year of acquisition, we receive ceding commission corresponding to a part of acquisition expenses of the reinsured policies. After establishing reinsurance receivable for the amount of ceding commission, it is amortized by the prescribed amount based on the profit of reinsured policies of each accounting period.

(2) Financial condition

Assets, liabilities and net assets

Total assets as of June 30, 2019 amounted to 39,002 million yen (38,247 million yen as of March 31, 2019). The major account balance was 31,351 million yen in securities mainly consisting of government bonds and corporate bonds with high credit ratings.

Liabilities amounted to 27,464 million yen as of June 30, 2019 (26,474 million yen as of March 31, 2019), owing to an increase in policy reserves. The major account balances were 25,802 million yen in policy reserves and 431 million yen in reserves for outstanding claims.

Net assets amounted to 11,538 million yen as of June 30, 2019 (11,773 million yen as of March 31, 2019), due to the recording of net loss for 1Q of fiscal 2019.

The solvency margin ratio as of June 30, 2019 was 2,216.0% (2,085.2% as of March 31, 2019), which indicated that an adequate level of payment capacity was maintained.

Cash flows

For 1Q of fiscal 2019, net cash provided by operating activities amounted to 258 million yen (682 million yen provided for 1Q of fiscal 2018) despite the increase in operating expenses. Net cash used by investing activities amounted to 559 million yen (1,125 million yen used for 1Q of fiscal 2018) mainly due to acquisition of securities. Net cash used by financing activities amounted to 3 million yen (4 million yen used for 1Q of fiscal 2018).

Based on these activities described above, cash and cash equivalents as of June 30, 2019 totaled 1,886 million yen (2,192 million yen as of March 31, 2019).

(3) Business forecasts

The business forecasts for fiscal 2019 is as shown in the table below.

We are participating in reinsurance transactions from fiscal 2019 by modified co-insurance on part of new business as a means of capital enhancement. By utilizing reinsurance appropriately, we will ease the temporary burden imposed on statutory capital by expenses associated with new business and maintain fiscal soundness.

We expect the impact of reinsurance on fiscal 2019 results forecasts to increase ordinary income by around 2,000 million yen, ordinary profit by around 1,400 million yen and net income by around 1,400 million yen, given that new business will be acquired as expected. We also expect amortization over a designated period to decrease ordinary profit by around 350 million yen each year from fiscal 2020. Accordingly, Lifenet is forecasting ordinary income of 16,200 million yen, ordinary loss of 2,000 million yen and net loss of 2,000 million yen for fiscal 2019.

Such reinsurance agreements can also be continued for new business in the next fiscal year and thereafter, depending on the status of capital.

	(In millions of yen)		
	Ordinary income	Ordinary profit (loss)	Net income (loss)
Business forecasts for fiscal 2019	16,200	(2,000)	(2,000)
(Reference) Business results for fiscal 2018	12,560	(1,719)	(1,735)

As the table below indicates, we project annualized premium of new business of 3,000 million yen.

(Reference) Annualized premium
(In millions of yen)

Business forecasts for fiscal 2019	3,000
Business results for fiscal 2018	2,773

About LIFENET URL: <https://ir.lifenet-seimei.co.jp/en/>

Remembering the original purpose of life insurance - mutual support - LIFENET INSURANCE COMPANY was founded with the goal of offering simple, convenient and competitively priced products and services based on the highest levels of business integrity. We sell these products and services directly to customers over the Internet. We aim to be the leading company driving the growth of the online life insurance market.

<p>Contact: Investor Relations, Corporate Planning Department Tel: +81-3-5216-7900 e-mail: ir@lifenet-seimei.co.jp</p>

Disclaimer: This is a summarized translation of the original Japanese document, prepared and provided solely for readers' convenience. In case of any discrepancy or dispute, the Japanese document prevails.

2. Non-consolidated Financial Statements

(1) Balance Sheets

	(In millions of yen)	
	March 31, 2019	June 30, 2019
<u>ASSETS</u>		
Cash and deposits	1,192	1,086
Monetary claims bought	999	799
Money held in trust	3,114	3,305
Securities	30,989	31,351
Government bonds	8,071	8,102
Municipal bonds	1,394	1,403
Corporate bonds	16,763	17,023
Stocks	363	345
Foreign securities	45	43
Other securities	4,352	4,433
Tangible fixed assets	99	86
Intangible fixed assets	629	678
Agency accounts receivable	7	8
Reinsurance accounts receivable	69	477
Other assets	1,146	1,207
Accounts receivable	955	1,002
Other	191	204
Total assets	38,247	39,002
<u>LIABILITIES</u>		
Policy reserves and other	25,256	26,233
Reserves for outstanding claims	469	431
Policy reserves	24,786	25,802
Agency accounts payable	72	65
Reinsurance accounts payable	160	182
Other liabilities	707	668
Reserves under the special laws	42	45
Reserve for price fluctuations	42	45
Deferred tax liabilities	233	268
Total liabilities	26,474	27,464
<u>NET ASSETS</u>		
Capital stock	12,136	12,136
Capital surplus	12,136	12,136
Retained earnings	(13,101)	(13,426)
Shareholders' equity	11,172	10,846
Valuation difference on available-for-sale securities	600	691
Valuation and translation adjustments	600	691
Total net assets	11,773	11,538
Total liabilities and net assets	38,247	39,002

(2) Statements of Operations

	(In millions of yen)	
	Three months ended June 30	
	2018	2019
Ordinary income.....	2,954	3,895
Insurance premiums and other	2,882	3,774
Premiums income	2,792	3,279
Reinsurance income.....	89	494
Investment income.....	61	70
Interest, dividends and other income.....	53	60
Gains on money held in trust.....	7	9
Other ordinary income	10	50
Reversal of reserves for outstanding claims.....	3	38
Other	6	11
Ordinary expenses	3,045	4,216
Insurance claims and other	600	772
Insurance claims	334	386
Benefits	159	227
Other refunds	0	0
Reinsurance commissions.....	107	159
Provision for policy reserves and other	899	1,015
Provision for policy reserves	899	1,015
Investment expenses.....	0	0
Interest expenses	0	0
Foreign exchange losses.....	—	0
Operating expenses	1,380	2,199
Other ordinary expenses	163	228
Ordinary profit (loss)	(90)	(321)
Extraordinary losses	2	3
Provision of reserves under the special laws.....	2	3
Provision of reserve for price fluctuations	2	3
Income (loss) before income taxes	(93)	(324)
Income taxes-current	1	0
Income taxes.....	1	0
Net income (loss)	(95)	(325)

(3) Statements of Cash Flows

	(In millions of yen)	
	Three months ended June 30	
	2018	2019
Cash flows from operating activities		
Income (loss) before income taxes	(93)	(324)
Depreciation and amortization	66	63
Increase (decrease) in reserves for outstanding claims	(3)	(38)
Increase (decrease) in policy reserves	899	1,015
Increase (decrease) in reserve for price fluctuations	2	3
Interest, dividends and other income	(53)	(60)
Interest expenses	0	0
Decrease (increase) in agency accounts receivable	(0)	(1)
Decrease (increase) in reinsurance accounts receivable	(44)	(408)
Decrease (increase) in other assets <excluding assets for investing and financing activities> ..	(31)	(45)
Increase (decrease) in agency accounts payable	(12)	(7)
Increase (decrease) in reinsurance accounts payable	8	21
Increase (decrease) in other liabilities <excluding liabilities for investing and financing activities>	(79)	(31)
Other, net	(7)	(8)
Subtotal	<u>651</u>	<u>177</u>
Interest and dividends income received	56	84
Interest expenses paid	(0)	(0)
Income taxes paid	(25)	(3)
Net cash provided by (used in) operating activities	<u>682</u>	<u>258</u>
Cash flows from investing activities		
Purchase of money held in trust	—	(250)
Purchase of securities	(1,642)	(600)
Proceeds from sales and redemption of securities	600	395
Total of net cash provided by (used in) investment transactions	<u>(1,041)</u>	<u>(454)</u>
Total of net cash provided by (used in) operating activities and investment transactions	<u>(358)</u>	<u>(196)</u>
Purchase of tangible fixed assets	(18)	(22)
Purchase of intangible fixed assets	(65)	(82)
Net cash provided by (used in) investing activities	<u>(1,125)</u>	<u>(559)</u>
Cash flows from financing activities		
Repayments of lease obligations	(4)	(3)
Net cash provided by (used in) financing activities	<u>(4)</u>	<u>(3)</u>
Net increase (decrease) in cash and cash equivalents	<u>(448)</u>	<u>(305)</u>
Cash and cash equivalents, beginning of the year	2,926	2,192
Cash and cash equivalents, end of the period	<u>2,477</u>	<u>1,886</u>

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