

November 12, 2019
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LIFENET INSURANCE COMPANY
(Securities Code: 7157, TSE Mothers)

Financial Results for 2Q of Fiscal 2019 Ending March 31, 2020 **Annualized premium of new business of 1,616 million yen, up 33.7% year on year**

TOKYO, November 12, 2019 - LIFENET INSURANCE COMPANY (TSE Mothers 7157, President Ryosuke Mori, URL: <https://ir.lifenet-seimei.co.jp/en/>) discloses financial results for the second quarter of fiscal 2019 ending March 31, 2020.

1. Overview of the financial results for 2Q of fiscal 2019

(1) Business results

Condition of policies-in-force

Annualized premium*¹ of new business in 2Q ended September 30, 2019 was 794 million yen (124.6% of 2Q of fiscal 2018). The number of new business was 18,795 (127.3% of 2Q of fiscal 2018). Annualized premium*¹ of new business for the six months ended September 30, 2019 was 1,616 million yen (133.7% of the six months ended September 30, 2018). The number of new business for the six months ended September 30, 2019 was 37,912 (135.2% of the six months ended September 30, 2018).

Annualized premium*¹ of policies-in-force as of the end of 2Q of fiscal 2019 stands at 14,200 million yen (108.5% of March 31, 2019). The number of policies-in-force resulted in a total of 334,528 (108.3% of March 31, 2019). Surrender and lapse ratio*² for the six months ended September 30, 2019 was 7.3% (6.2% for the six months ended September 30, 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 the six months ended September 30, 2019 increased to 7,754 million yen (132.6% of the six months ended September 30, 2018) due to an increase in in-force business and modified co-insurance. Investment income grew to 174 million yen (134.1% of the six months ended September 30, 2018). Other ordinary income was 24 million yen. As a result, ordinary income for the six months ended September 30, 2019 amounted to 7,953 million yen (130.4% of the six months ended September 30, 2018).

Insurance claims and other was 1,688 million yen (134.9% of the six months ended September 30, 2018). The ratio of insurance payment amounts to insurance premiums was 19.2% for the six months ended September 30, 2019, compared with 18.1% for the six months ended September 30, 2018. Provision for policy reserves and other came to 2,337 million yen (124.0% of the six months ended September 30, 2018). The ratio of provision for policy reserves to insurance premiums increased to 33.9% for the six months ended September 30, 2019, compared with 33.2% for the six months ended September 30, 2018. Operating expenses amounted to 4,604 million yen (153.6% of the six months ended September 30, 2018) mainly due to an increase in our marketing spend including advertising. The components of operating expenses were 3,186 million yen in marketing expenses (185.1% of the six months ended September 30, 2018), 424 million yen in customer service expenses (115.6% of the six months ended September 30, 2018), and 993 million yen in system and other expenses (109.3% of the six months ended September 30, 2018). Other ordinary expenses was 491 million yen (144.7%

of the six months ended September 30, 2018). Consequently, ordinary expenses for the six months ended September 30, 2019 totaled 9,167 million yen (141.6% of the six months ended September 30, 2018).

As a result, ordinary profit totaled 1,214 million yen loss for the six months ended September 30, 2019, compared with 376 million yen loss for the six months ended September 30, 2018. Net income was 1,223 million yen loss, compared with 384 million yen loss for the six months ended September 30, 2018.

In addition, fundamental profit, which is an indicator for the profitability of life insurance companies, amounted to 1,232 million yen loss, compared with 319 million yen loss for the six months ended September 30, 2018, mainly due to an increase in operating expenses. The components of fundamental profit were 1,328 million yen in mortality margin, 2,580 million yen loss in expense margin and 20 million yen in interest margin.

We are participating in reinsurance transactions from fiscal 2019 by modified co-insurance on part of new business to achieve strong growth continuously. By utilizing reinsurance appropriately, we will ease the temporary burden imposed on statutory capital by expenses associated with new business and maintain fiscal soundness. The reinsurance transactions are agreements that transfer the risk and the profit (loss) structure of the reinsured business to the reinsurance company for a certain period of time. We receive ceding commission in accordance with the new business costs associated with the reinsured business in the initial fiscal year. This leads to an increase in ordinary income. On the other hand, after the ceding commission is recorded reinsurance accounts receivable as asset, it is amortized by the profit generated from the reinsured business over following fiscal years. This leads to a decrease in ordinary profit and net profit.

Once the balance of reinsurance accounts receivable is amortized to zero, the reinsurance agreement terminates, and subsequent profit on the reinsured business belongs to Lifenet. Accordingly, from fiscal 2019 onward, we are reinsuring a portion of new business in modified co-insurance which has resulted in raising ordinary income by 852 million yen, ordinary profit by 743 million yen, and net income by 743 million yen for the six months ended September 30, 2019.

(2) Financial condition

Assets, liabilities and net assets

Total assets as of September 30, 2019 amounted to 39,707 million yen (38,247 million yen as of March 31, 2019). The major account balance was 31,618 million yen in securities mainly consisting of government bonds and corporate bonds with high credit ratings.

Liabilities amounted to 28,939 million yen as of September 30, 2019 (26,474 million yen as of March 31, 2019), owing to an increase in policy reserves. The major account balances were 27,058 million yen in policy reserves and 535 million yen in reserves for outstanding claims.

Net assets amounted to 10,768 million yen as of September 30, 2019 (11,773 million yen as of March 31, 2019) due to the recording of net loss for the six months ended September 30, 2019. It includes the effect of raising retained earnings by 743 million yen due to the utilization of modified co-insurance.

The solvency margin ratio as of September 30, 2019 was 2,132.3% (2,085.2% as of March 31, 2019), which indicated that an adequate level of payment capacity was maintained.

Cash flows

For the six months ended September 30, 2019, net cash provided by operating activities amounted to 586 million yen (1,475 million yen provided for the six months ended September 30, 2018) despite the increase in operating expenses. Net cash used by investing activities amounted to 897 million yen (2,370 million yen used for the six months ended September 30, 2018) mainly due to acquisition of securities. Net cash used by financing activities amounted to 7 million yen (9 million yen used for the six months ended September 30, 2018).

Based on these activities described above, cash and cash equivalents as of September 30, 2019 totaled 1,874 million yen (2,192 million yen as of March 31, 2019).

(3) Business forecasts

The business forecasts for fiscal 2019 which was announced on May 13, 2019 was revised as shown below.

	(In millions of yen)		
	Ordinary income	Ordinary profit (loss)	Net income (loss)
Previous forecasts (May 13, 2019)	16,200	(2,000)	(2,000)
Revised forecasts (November 12, 2019)	16,500	(2,500)	(2,500)
(Reference) Business results for fiscal 2018	12,560	(1,719)	(1,735)

The business forecasts for fiscal 2019 includes the impact of reinsurance transactions from fiscal 2019 by modified co-insurance. We expect the impact 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.

Subsequently, the revised forecast for annualized premium of new business will be 3,300 million yen from the forecasted 3,000 million yen at the beginning of this fiscal year as Lifenet aims to succeed the record of new business in two consecutive years.

(Reference)

	(In millions of yen)
	Annualized premium
Previous forecasts (May 13, 2019)	3,000
Revised forecasts (November 12, 2019)	3,300
(Reference) Business results for fiscal 2018	2,773

Reasons for revision

Lifenet's efforts to further increase our business performance through the pursuit of the two priority areas stated in the management policy – the innovation of customer experience and enhancement of promotion capabilities – continues in fiscal 2019. Lifenet has made regular improvements to the websites, especially the smartphone site, and continues to actively invest in marketing and promotional activities with the purpose of increasing traffic to our website. As a result, Lifenet's business performance has been stronger than initially forecasted at the beginning of the fiscal year, and determines that the steady investment in marketing costs will contribute to the further growth of the company and increase in brand recognition, thus leading to the revision of the business forecast for fiscal 2019 ending March 31, 2020.

(4) Basic Rationale for Selection of Accounting Standards

Lifenet is evaluating International Financial Reporting Standards (IFRS), assuming that we will adopt IFRS in the future. Regarding the new accounting standards for insurance contracts (IFRS 17) which the International Accounting Standards Board (IASB) published, taking into account the potential effect on the method of creating financial statements, we are continuously examining their progress.

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.

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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	Sep. 30, 2019
<u>ASSETS</u>		
Cash and deposits	1,192	1,074
Monetary claims bought	999	799
Money held in trust	3,114	3,336
Securities	30,989	31,618
Government bonds	8,071	8,104
Municipal bonds	1,394	1,405
Corporate bonds	16,763	17,632
Stocks	363	359
Foreign securities	45	26
Other securities	4,352	4,088
Tangible fixed assets	99	86
Intangible fixed assets	629	706
Agency accounts receivable	7	8
Reinsurance accounts receivable	69	842
Other assets	1,146	1,232
Accounts receivable	955	1,025
Other	191	207
Total assets	38,247	39,707

	(In millions of yen)	
	March 31, 2019	Sep. 30, 2019
<u>LIABILITIES</u>		
Policy reserves and other	25,256	27,593
Reserves for outstanding claims	469	535
Policy reserves	24,786	27,058
Agency accounts payable	72	48
Reinsurance accounts payable	160	191
Other liabilities	707	752
Income taxes payable	1	1
Accrued expenses	594	656
Lease liabilities	16	9
Asset retirement obligations	33	33
Other	60	51
Reserves under the special laws	42	49
Reserve for price fluctuations	42	49
Deferred tax liabilities	233	302
Total liabilities	26,474	28,939
<u>NET ASSETS</u>		
Capital stock	12,136	12,157
Capital surplus	12,136	12,157
Legal capital surplus	12,136	12,157
Retained earnings	(13,101)	(14,324)
Other retained earnings	(13,101)	(14,324)
Retained earnings brought forward	(13,101)	(14,324)
Shareholders' equity	11,172	9,990
Valuation difference on available-for-sale securities	600	777
Valuation and translation adjustments	600	777
Total net assets	11,773	10,768
Total liabilities and net assets	38,247	39,707

(2) Statements of Operations

	(In millions of yen)	
	Six months ended Sep. 30	
	2018	2019
Ordinary income.....	6,097	7,953
Insurance premiums and other	5,847	7,754
Premiums income	5,682	6,697
Reinsurance income.....	164	1,056
Investment income.....	129	174
Interest, dividends and other income.....	113	152
Gains on money held in trust.....	16	16
Gain on sales of securities.....	—	5
Other ordinary income	120	24
Reversal of reserves for outstanding claims.....	105	—
Other	14	24
Ordinary expenses	6,473	9,167
Insurance claims and other	1,251	1,688
Insurance claims	710	832
Benefits	318	455
Other refunds	0	0
Reinsurance commissions	222	400
Provision for policy reserves and other	1,885	2,337
Provision for reserves for outstanding claims	—	65
Provision for policy reserves	1,885	2,271
Investment expenses	0	46
Interest expenses	0	0
Loss on valuation of securities.....	—	46
Foreign exchange losses.....	—	0
Operating expenses	2,997	4,604
Other ordinary expenses	339	491
Ordinary profit (loss)	(376)	(1,214)
Extraordinary losses	6	6
Provision of reserves under the special laws.....	6	6
Provision of reserve for price fluctuations	6	6
Income (loss) before income taxes	(382)	(1,221)
Income taxes-current	2	1
Income taxes.....	2	1
Net income (loss)	(384)	(1,223)

(3) Statements of Changes in Net Assets

	(In millions of yen)	
	Six months ended Sep. 30	
	2018	2019
Shareholders' equity:		
Capital stock		
Balance at the beginning of the year.....	12,136	12,136
Changes of items during the period		
Issuance of new shares.....	—	20
Total changes of items during the period	—	20
Balance at the end of the period	12,136	12,157
Capital surplus		
Legal capital surplus		
Balance at the beginning of the year.....	12,136	12,136
Changes of items during the period		
Issuance of new shares.....	—	20
Total changes of items during the period	—	20
Balance at the end of the period	12,136	12,157
Total capital surplus		
Balance at the beginning of the year.....	12,136	12,136
Changes of items during the period		
Issuance of new shares.....	—	20
Total changes of items during the period	—	20
Balance at the end of the period	12,136	12,157
Retained earnings		
Other retained earnings		
Retained earnings brought forward		
Balance at the beginning of the year	(11,365)	(13,101)
Changes of items during the period		
Net income (loss).....	(384)	(1,223)
Total changes of items during the period.....	(384)	(1,223)
Balance at the end of the period.....	(11,750)	(14,324)
Total retained earnings		
Balance at the beginning of the year.....	(11,365)	(13,101)
Changes of items during the period		
Net income (loss).....	(384)	(1,223)
Total changes of items during the period	(384)	(1,223)
Balance at the end of the period	(11,750)	(14,324)
Total shareholders' equity		
Balance at the beginning of the year.....	12,907	11,172
Changes of items during the period		
Issuance of new shares.....	—	41
Net income (loss).....	(384)	(1,223)
Total changes of items during the period	(384)	(1,181)
Balance at the end of the period	12,523	9,990

	(In millions of yen)	
	Six months ended Sep. 30	
	2018	2019
Valuation and translation adjustments:		
Valuation difference on available-for-sale securities		
Balance at the beginning of the year.....	480	600
Changes of items during the period		
Net changes of items other than shareholders' equity	114	176
Total changes of items during the period	114	176
Balance at the end of the period	594	777
Total valuation and translation adjustments		
Balance at the beginning of the year.....	480	600
Changes of items during the period		
Net changes of items other than shareholders' equity	114	176
Total changes of items during the period	114	176
Balance at the end of the period	594	777
Net assets:		
Balance at the beginning of the year	13,387	11,773
Changes of items during the period		
Issuance of new shares	—	41
Net income (loss)	(384)	(1,223)
Net changes of items other than shareholders' equity ...	114	176
Total changes of items during the period.....	(269)	(1,004)
Balance at the end of the period.....	13,118	10,768

(4) Statements of Cash Flows

	(In millions of yen)	
	Six months ended Sep. 30	
	2018	2019
Cash flows from operating activities		
Income (loss) before income taxes	(382)	(1,221)
Depreciation and amortization	126	143
Increase (decrease) in reserves for outstanding claims	(105)	65
Increase (decrease) in policy reserves.....	1,885	2,271
Increase (decrease) in reserve for price fluctuations	6	6
Interest, dividends and other income	(113)	(152)
Loss (gain) related to securities.....	—	41
Interest expenses	0	0
Decrease (increase) in agency accounts receivable	(0)	(1)
Decrease (increase) in reinsurance accounts receivable.....	(29)	(773)
Decrease (increase) in other assets <excluding assets for investing and financing activities > ..	(53)	(60)
Increase (decrease) in agency accounts payable.....	(9)	(24)
Increase (decrease) in reinsurance accounts payable	16	30
Increase (decrease) in other liabilities <excluding liabilities for investing and financing activities > ..	45	65
Other, net.....	(16)	(4)
Subtotal	1,369	386
Interest and dividends income received	132	192
Interest expenses paid	(0)	(0)
Income taxes (paid) refund.....	(25)	7
Net cash provided by (used in) operating activities	1,475	586
Cash flows from investing activities		
Purchase of money held in trust	(300)	(250)
Purchase of securities.....	(2,641)	(1,831)
Proceeds from sales and redemption of securities	715	1,407
Total of net cash provided by (used in) investment transactions ...	(2,226)	(674)
Total of net cash provided by (used in) operating activities and investment transactions ...	(751)	(87)
Purchase of tangible fixed assets	(18)	(34)
Purchase of intangible fixed assets	(124)	(188)
Net cash provided by (used in) investing activities	(2,370)	(897)
Cash flows from financing activities		
Repayments of lease obligations	(9)	(7)
Net cash provided by (used in) financing activities	(9)	(7)
Net increase (decrease) in cash and cash equivalents	(903)	(317)
Cash and cash equivalents, beginning of the year	2,926	2,192
Cash and cash equivalents, end of the period	2,022	1,874

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