

November 13, 2014
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(Securities Code: 7157, TSE Mothers)

European Embedded Value as of September 30, 2014

EEV as of September 30, 2014: 22,449 million yen

TOKYO, November 13, 2014 - LIFENET INSURANCE COMPANY (TSE Mothers 7157, President & COO Daisuke Iwase, URL: <http://ir.lifenet-seimei.co.jp/en/>) hereby announces its Embedded Value (“EV”) as of September 30, 2014.

EV is an indicator used to measure the corporate value and earnings performance of life insurance companies. EV is the total of adjusted net worth, based on balance sheet values, and the value of in-force business, based on projected cash flows from policies-in-force. In general, life insurance policies provide a steady level of premium income over a long period of time, while advertising expenses, policy appraisal costs, etc. are expensed intensively in a short period around the time of policy sales. This timing difference in recognizing revenues and expenses and the long time it takes before profits are recognized after a policy is sold are the characteristics of life insurance accounting. As these characteristics make it difficult to evaluate a life insurance business based on single-year financial results, disclosing EV is seen as a useful way of giving investors a more accurate picture of operating conditions. Lifenet has adopted the European Embedded Value (“EEV”) principles, which are widely used by leading life insurance companies, especially in Europe, Canada and Japan.

Lifenet’s EEV as of September 30, 2014 and the summary of the results are as follows:

Summary of EEV results as of September 30, 2014

- Lifenet’s EEV as of September 30, 2014 was 22,449 million yen, a decrease of 457 million yen from the end of the previous fiscal year.
- Adjusted net worth was 10,716 million yen, a decrease of 358 million yen from the end of the previous fiscal year mainly due to recording net loss.
- Value of in-force business was 11,732 million yen, a decrease of 99 million yen from the end of the previous fiscal year mainly due to lowering interest rate despite of increase in in-force business.
- Value of new business was 200 million yen loss, a decrease of 327 million yen from the corresponding period of the previous fiscal year mainly due to a decrease the number of new business despite of active advertisement with new products launch.
- Value of new business (Ultimate Unit Cost base) was 177 million yen loss, a decrease of 449 million yen from the corresponding period of the previous fiscal year mainly due to a decrease the number of new business despite of active advertisement with new products launch.
- Value of new business (Ultimate Unit Cost base) per policy decreased to 11 thousand yen loss (10 thousand yen in the corresponding period of the previous fiscal year).

EEV as of September 30, 2014

(In millions of yen)

	Mar. 31, 2014	Sep. 30, 2014	Increase (Decrease)
EEV	22,907	22,449	(457)
Adjusted net worth ^{*1}	11,075	10,716	(358)
Value of in-force business ^{*2}	11,831	11,732	(99)

Value of new business

(In millions of yen)

First-half year ended Sep. 30	2013	2014	Increase (Decrease)
Value of new business ^{*3}	126	(200)	(327)

Value of new business (Ultimate Unit Cost base)^{*4}

The table below shows the value of new business calculated applying ultimate maintenance expense assumptions in the tenth year after the business commence to all years:

(In millions of yen)

First-half year ended Sep. 30	2013	2014	Increase (Decrease)
Value of new business (Ultimate Unit Cost base) ^{*4}	271	(177)	(449)

- *1 Adjusted net worth is defined as the excess of the market value of a life insurance company's assets over the market value of its policy reserves and other liabilities, and is considered to be the value attributable to the company's shareholders. In other words, it is calculated as the sum of the total net assets, appropriate adjustments for unrealized gains/losses and other items.
- *2 Value of in-force business is the present value at the valuation date of future after-tax profits distributable to shareholders from in-force business as of the valuation date, calculated under a set of assumptions.
- *3 Value of new business represents the impact on the EV of new business written during the fiscal year, calculated applying the same assumptions as those used for the EEV. New business used for value calculation is defined as that arising from the sale of new life insurance policies during the fiscal year and excludes future new business.
- *4 The expense assumptions used to calculate the EEV and the value of new business are set based on the premise that unit costs decrease as the number of policies-in-force increases, and reach their ultimate equilibrium levels, at which income and expenses are equal, in the tenth year after the business commence (fiscal 2017). For reference, "Value of new business (Ultimate Unit Cost base)" shows the value of new business calculated applying the ultimate unit costs to all years.

About Lifenet URL: <http://ir.lifenet-seimei.co.jp/en/>

Returning to 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. By using the Internet, we are able to offer highly cost-competitive products and accept applications from customers at any given time.

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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.



November 13, 2014

LIFENET INSURANCE COMPANY

Disclosure of European Embedded Value

as of September 30, 2014

LIFENET INSURANCE COMPANY (“Lifenet” or “the company”) is disclosing its European Embedded Value (“EEV”) results as of September 30, 2014.

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1. Outline of EEV

(1) What is EV?

The income and expenses of life insurance contracts are typically not matched in timing of occurrence, with substantial acquisition and other costs in the first year and with a delay between acquisition of the contract and the emergence of profit. This makes it difficult to evaluate a life insurance operation on the basis of a single year's income and outgo. Embedded Value ("EV"), calculated as the sum of net asset value and the present value of future after-tax shareholder profits from the in-force business at the valuation date, has been adopted among life insurers in Europe, Canada, Japan and elsewhere as an approach to the valuation of a life insurer and to the evaluation of its performance.

(2) What is EEV?

European Embedded Value ("EEV") has been widely adopted in recent years among the leading European insurers.

The EEV Principles and Guidance were published in May 2004 by the CFO Forum, a group consisting of CFOs from leading European insurance companies. The aim of the EEV Principles and Guidance is to improve the consistency and transparency of the financial reporting of embedded values. Additional EEV Guidance was published by the CFO Forum in 2005 which covered sensitivities and aspects of disclosure.

More recently the European Insurance CFO Forum Market Consistent Embedded Value Principles^{©1} ("MCEV Principles") were published in June 2008 by the CFO Forum with more clearly defined allowances for risk. A revision to these MCEV Principles was published in October 2009.

(3) EEV Approach

The allowance for risk in the shareholder cash flows is a key feature of the EEV Principles. Lifenet's EEV has been calculated following the EEV Principles and Guidance, using a bottom-up market-consistent approach, in which the discount rate is set individually for each product or cash flow according to the risk characteristics of the product or cash flow.

EEV is calculated such that future cash flows arising from assets and liabilities are valued consistently with cash flows arising from similar traded market instruments, with allowance included for non-traded or non-diversifiable risk.

These approaches have been increasingly adopted among leading European insurers; moreover, the MCEV Principles define a bottom-up market consistent approach.

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2. EEV results of Lifenet

The EEV results are presented below. For more details on the methodology employed, please refer to “4. EEV Methodology”.

The embedded value on an EEV basis as of September 30, 2014 is 22,449 million yen, a decrease of 457 million yen from March 31, 2014. The adjusted net worth is 10,716 million yen, the value of in-force business is 11,732 million yen and the value of new business issued in the first half of the fiscal year ended September 30, 2014 is negative 200 million yen.

(Millions of yen)

	March 31, 2014	September 30, 2014	Increase (Decrease)
EEV	22,907	22,449	(457)
Adjusted net worth	11,075	10,716	(358)
Value of in-force business	11,831	11,732	(99)

(Millions of yen)

	September 30, 2013	September 30, 2014	Increase (Decrease)	FY 2013
Value of new business	126	(200)	(327)	620

Value of new business (Ultimate Unit Cost base)

For reference the table below shows what the value of new business would be if calculated applying the ultimate maintenance expense assumption for fiscal year (“FY”) 2017 in all years. (See sections 2(3) and 5(2) for further information.)

(Millions of yen)

	September 30, 2013	September 30, 2014	Increase (Decrease)	FY 2013
Value of new business (Ultimate Unit Cost base)	271	(177)	(449)	838

Please note that the EEV at March 31, 2014 and at September 30, 2014 and the value of new business acquired during fiscal year 2013 and during the first half of fiscal year 2014 shown above reflect the impact of a risk premium reinsurance arrangement concluded in May 2014 with an effective commencement date of 31 March 2014, which covers the majority of term life policies.

(1) Adjusted net worth

Adjusted net worth represents the market value of assets in excess of reserves and other liabilities.

Adjusted net worth is the sum of the net assets on the balance sheet and appropriate adjustments for unrealized gains/losses and other items. The adjusted net worth has been derived as follows.

(Millions of yen)

	March 31, 2014	September 30, 2014	Increase (Decrease)
Adjusted net worth	11,075	10,716	(358)
(a) Shareholders' equity on the balance sheet	13,935	12,987	(947)
(b) Unrealized gains/losses on securities	(6)	112	119
(c) Internal reserves as quasi-equity liabilities (<i>Note1</i>)	1,173	1,163	(10)
(d) Deferred assets defined in article 113 of Insurance Business Act	(4,240)	(3,710)	530
(e) Tax effect (<i>Note2</i>)	213	163	(49)

Note1: Price fluctuation reserve and contingency reserve

Note2: Tax effect on (b) and DTL (deferred tax liability) in relation to (d)

(2) Value of in-force business

Value of in-force business represents the present value as at the valuation date (September 30, 2014) of future after-tax profits distributable to shareholders from the in-force business as of the valuation date, calculated under a set of assumptions (see Section 5), and consists of the following components.

	(Millions of yen)		
	March 31, 2014	September 30, 2014	Increase (Decrease)
Value of in-force business	11,831	11,732	(99)
Certainty equivalent present value of future profit	21,598	22,128	530
Time value of financial options and guarantees	—	—	—
Frictional cost of capital	(157)	(145)	12
Allowance for non-market risk	(9,609)	(10,250)	(641)

- The certainty equivalent present value of future profit is the present value of future profit calculated deterministically by assuming the investment yield is equal to the risk-free rate and using the risk-free rate as the discount rate.

The table below shows the present value of in-force business premiums included in the calculation of the certainty equivalent present value of future profit.

	(Millions of yen)		
	March 31, 2014	September 30, 2014	Increase (Decrease)
Present value of in-force business premiums	121,120	129,256	8,136

- The time value of financial options and guarantees could be calculated stochastically using a set of market-consistent risk-neutral economic scenarios for the cash flows with options or guarantees. However, the time value of options and guarantees is set as nil as the products of Lifenet are non-participating death and medical coverage protection products with no surrender value.
- The frictional cost of capital represents the costs associated with maintaining the level of capital which the company considers as required in continuing the life insurance business. For details, see section 4.(10) and 4.(11).
- The allowance for non-market risk is an estimate of the impact of non-market risks which are not adequately allowed for directly in the certainty equivalent present value of future profit. For details, see section 4.(12).

(3) Value of new business

Value of new business is the value at the valuation date of the new business written during the first half of fiscal year 2014, calculated applying the same assumptions used to calculate the embedded value as of that date.

New business means the life insurance policies commencing within this accounting period (the first half of fiscal year 2014) and does not include values anticipated from future new business. The figure for adjusted net worth represents the loss arising between the point of sale and September 30, 2014 on business sold in the period. The table below shows the results. The change in the value of new business compared to the same period of the previous year is primarily due to a decrease in new business volumes despite a similar level of advertising costs spent to attract new business.

(Millions of yen)

	September 30, 2013	September 30, 2014	Increase (Decrease)	FY 2013
Value of new business	126	(200)	(327)	620
Adjusted Net Worth	(1,110)	(1,145)	(35)	(1,962)
Present value of future profit	1,236	944	(291)	2,582
Certainty equivalent present value of future profit	2,331	1,704	(626)	4,330
Time value of financial options and guarantees	—	—	—	—
Frictional cost of capital	(16)	(12)	3	(28)
Allowance for non-market risk	(1,078)	(747)	331	(1,720)

The table below shows the new business margin, calculated as the ratio of the value of new business to the present value of new business premiums.

(Millions of yen)

	September 30, 2013	September 30, 2014	Increase (Decrease)	FY 2013
(a) Present value of new business premiums	13,492	9,831	(3,661)	23,980
(b) Value of new business	126	(200)	(327)	620
Value of new business / Present value of new business premiums ((b)/(a))	0.9%	(2.0)%	(2.9) points	2.6%

The table below shows the value of new business on a per-policy basis.

(Thousands of yen)

	September 30, 2013	September 30, 2014	Increase (Decrease)	FY 2013
Value of new business per policy	4	(13)	(18)	13

Value of new business (Ultimate Unit Cost base)

The expense assumptions used to calculate the EEV as well as the value of new business shown above have been set assuming a continuous increase in the number of policies in-force over the first 10 years of operation (i.e., until fiscal year 2017), so that the maintenance expense per policy decreases over this period.

For reference the tables below show what the value of new business, as well as the new business margin, would be if calculated assuming the ultimate maintenance expense assumptions (from fiscal year 2017) applies in all years. The change in the value of new business compared to the same period of the previous year is primarily due to a decrease in new business volumes despite a similar level of advertising costs spent to attract new business.

(Millions of yen)

	September 30, 2013	September 30, 2014	Increase (Decrease)	FY 2013
Value of new business (Ultimate Unit Cost base)	271	(177)	(449)	838
Adjusted net worth	(1,074)	(1,137)	(62)	(1,856)
Present value of future profit	1,346	960	(386)	2,694
Certainty equivalent present value of future profit	2,441	1,720	(721)	4,442
Time value of financial options and guarantees	—	—	—	—
Frictional cost of capital	(16)	(12)	3	(28)
Allowance for non-market risk	(1,078)	(747)	331	(1,720)

The table below shows the new business margin (ultimate unit cost base).

	September 30, 2013	September 30, 2014	Increase (Decrease)	llions of yen) FY 2013
(a) Present value of new business premiums	13,492	9,831	(3,661)	23,980
(b) Value of new business	271	(177)	(449)	838
Value of new business / Present value of new business premiums ((b)/(a))	2.0%	(1.8)%	(3.8) points	3.5%

The table below shows the value of new business on a per-policy basis (ultimate unit cost base).

	September 30, 2013	September 30, 2014	Increase (Decrease)	(Thousands of yen) FY 2013
Value of new business per policy	10	(11)	(21)	18

3. Movement Analysis

The table below shows the analysis of the increase (decrease) in the EEV during the first half of fiscal year 2014.

Required capital and free surplus, the components of the adjusted net worth, are sensitive to the increase or decrease of the volume of in-force business. Required capital increases with the volume of in-force business. On the other hand, free surplus decreases due to the costs of issuing new business (mainly the initial expenses). The slight decrease in the value of in-force business is primarily due to an increase in the unit cost assumption.

(Millions of yen)

	EEV			
		Adjusted net worth (Required capital)	Adjusted net worth (Free surplus)	Value of in-force business
EEV as of March 31, 2014	22,907	1,353	9,721	11,831
New business value	(200)	126	(1,272)	944
Expected existing business contribution (Risk free rate)	326	—	5	320
Expected existing business contribution (In excess of risk free rate)	3	—	2	1
Expected transfer from Value of in-force business to Adjusted net worth	—	(30)	379	(348)
Operating experience variances	300	(4)	307	(3)
Assumption changes	(575)	—	—	(575)
Operating EEV earnings	(145)	92	(578)	340
Economic variances and assumption changes	(311)	(13)	141	(439)
Change in EEV	(457)	78	(436)	(99)
Adjustment to the value at September 30,2014	—	—	—	—
EEV as of September 30, 2014	22,449	1,432	9,284	11,732

➤ **New business value**

This is the change in EEV due to the value of new business issued during the first half of fiscal year 2014. For details of the approach, see section 2.(3).

➤ **Expected existing business contribution (Risk free rate)**

In calculating the value of in-force business, future expected profits are discounted back using risk-free rates. Thus, the discounted value is assumed to earn the risk-free rate over time.

Moreover, this item includes the expected return on the free surplus assets using the risk-free rates, and the release for the first half of fiscal year 2014 of time value of financial options and guarantees, cost of holding required capital and allowance for non market risk.

➤ **Expected existing business contribution (In excess of risk free rate)**

Rates of future expected returns are assumed to be the risk-free rates when calculating EEV. However, Lifenet expects higher rates of returns on these assets than the risk-free rates. In calculating the expected existing business contribution in excess of the risk-free rate, Lifenet used an expected rate of return of 0.25% which consists of the risk free rate of the 1 year swap yield plus a risk premium of 0.06%, based on the asset position at the beginning of the period.

➤ **Expected transfer from value of in-force business to adjusted net worth**

This item represents the after-tax surplus expected to emerge during the period from the business that was in force at the beginning of the period.

In this period, the difference between the reserve and the full-zillmerized reserve widened. This resulted in a decrease in the required capital, and an increase in the free surplus. See section 4.(10) for details of required capital.

The effect is a movement of value from the value of in-force business to the adjusted net worth. This does not affect the total embedded value.

➤ **Operating experience variances**

This is the impact on the embedded value of differences between the actual experience and the operating assumptions during the period. The main differences are that actual experience of mortality and morbidity was lower than the assumptions in the calculations of the value of in-force business and that actual corporate tax was lower than expected due to losses resulting from the new business sales costs. See section 5.(2) for details of the operating assumptions.

➤ **Assumption changes**

This is the impact of changes in the operating assumptions. This item has been calculated as of the beginning of the period. The change in value is primarily driven by an increase in the unit cost assumption. See Section 5.(2) for details of the operating assumptions.

➤ **Economic variances and assumption changes**

This is the impact of differences between the actual investment returns in the period and the expected investment returns, including the impact on the value of future profits from the change to the end of period future economic assumptions. See Section 5. (1) for details of economic

assumptions.

➤ **Adjustment to the value at September 30, 2014**

This amount consists of shareholder dividends or increases to capital.

4. EEV Methodology

(1) Basis of preparation

The methodology and assumptions adopted by the company to calculate the EEV as of September 30, 2014 are in accordance with the EEV Principles and Guidance issued by the European CFO Forum in May 2004.

(2) Covered business

The covered business represents all of the life insurance business of the company.

(3) Embedded value (EV)

The embedded value comprises the sum of the adjusted net worth and present value of future after-tax profits from in-force business, which provides an estimate of the value of the shareholders' interest in the covered business. The adjusted net worth is the net assets attributable to shareholders, and is represented by the sum of required capital and free surplus as discussed further below. The value of in-force business is the present value of the projected stream of future after-tax distributable profits available to shareholders from the existing business at the valuation date, allowing for risk on a product-by-product basis, and with adjustment for the cost of holding required capital. The future profit includes renewal of in-force business but excludes any value that may be generated from future new business. Assumptions used in the calculation are made on a best estimate basis.

(4) Allowance for risk

According to the EEV Principles all risks related to the covered business must be reflected. This is accomplished, for example, by allowances for the cost of financial options and guarantees, for the cost of holding policy reserves and any additional required capital, and by adoption of a risk discount rate. The company has used a market-consistent approach based on the principles of finance theory to allow for risk, as follows.

- Assets and liabilities other than policy reserves are valued at market value.
- Investment return assumptions and risk discount rates are set consistently with the risk profile of each cash flow.
- The time value of financial options and guarantees associated with the life insurance business is valued explicitly and consistently with market prices of equivalent traded options. (The products of Lifenet are non-participating death and medical coverage protection products with no surrender value and so in practice no time value of financial options and guarantees needs to be allowed for.)

A market-consistent value assigns a value to cash flows in line with the prices of similar cash flows traded on the open market.

Further details of the methodology are described in the sub-sections below.

(5) Adjusted net worth

Adjusted net worth represents the net assets attributed to shareholders and represents the market value of assets in excess of policyholder liabilities, represented by statutory reserves (excluding contingency reserve), and other liabilities (excluding reserve for price fluctuations).

In other words, adjusted net worth is calculated by adjusting the total net assets on the balance sheet for the retained earnings in certain liabilities and unrealized gains/losses in assets/liabilities not accounted for under the mark-to-market methodology. Deferred assets defined in article 113 of IBA and related DTL are also adjusted.

We established Kyobo Lifeplanet Life Insurance Company (“Lifeplanet”) in Korea jointly with Kyobo Life Insurance Co., Ltd. in September 2013 and our holding share is 25.5%. In order to calculate adjusted net worth, we assume that the value of Lifeplanet is the same as its book value of 764 million yen, considering its limited impact to overall EV.

(6) Value of in-force business

The value of in-force business is calculated as follows:

	Certainty equivalent present value of future profit
less	Time value of financial options and guarantees
less	Frictional cost of capital
less	Allowance for non-market risk

A description of each item in the above formula is provided below.

A risk premium reinsurance arrangement was concluded in May 2014 and the impact of this reinsurance arrangement is taken into account for the calculations of present value of the future profit and non-market risk.

(7) Value of new business

The value of new business is the value of new policies issued during the first half of fiscal year 2014. Future renewals of those new business policies are included in the value of new business, while the values that may be generated from future new business are not.

The value of new business has been calculated as of September 30, 2014, and consists, like the EEV,

of the adjusted net worth and the present value of future profit. The adjusted net worth represents the impact of all cash flows arising from the point of sale to September 30, 2014. The present value of future profit in respect of new business is calculated in the same manner as the value of in-force business shown in (6), and using the same assumptions.

The impact of the risk premium reinsurance arrangement is also taken into account for the calculations of present value of the future profit and non-market risk, in the same manner as the value of in-force business.

(8) Certainty equivalent present value of future profit

The certainty equivalent value is the present value of future after-tax profits, calculated on a deterministic basis, assuming all assets earn the risk-free rate and all cash flows are discounted at the risk-free rate. The certainty equivalent approach ensures that future investment risk premiums are not capitalized in the embedded value.

(9) Time value of financial options and guarantees

There are no options and guarantees, and therefore the time value of financial options and guarantees is zero.

(10) Required capital

Required capital is a part of adjusted net worth required to back the covered business and therefore cannot be immediately paid out to shareholders. The EEV Principles and Guidance define the minimum level for required capital to be equal to the statutory minimum capital requirement, and also allow companies to reflect other levels of required capital, such as their own required risk assessment, as long as the minimum requirement is satisfied.

Reflecting the operation of Lifenet as a going concern, a level of required capital corresponding to a 500% Japanese statutory solvency margin ratio was assumed. This satisfies the EEV Principles and Guidance (note the statutory minimum in Japan is a 200% solvency margin ratio). Japanese solvency regulations allow for the excess of the reserve over the full-Zillmer reserve to be counted as part of the solvency margin. The calculation of the amount of required capital reflects this benefit.

The adjusted net worth can be broken down into required capital and free surplus as follows.

(Millions of yen)

	March 31, 2014	September 30, 2014	Increase (Decrease)
Adjusted net worth	11,075	10,716	(358)
Required capital	1,353	1,432	78
Free surplus	9,721	9,284	(436)

(11) Frictional cost of capital

This item is the cost of having to retain the level of required capital, and within the EEV bottom-up approach, it is referred to as “frictional cost”.

Within this item, tax on investment returns on required capital has been allowed for. Investment expenses incurred in respect of the assets backing the required capital (another frictional cost) are reflected in the unit cost assumptions.

(12) Non-market risk

EEV Principles define the EV to be calculated taking all the risks of the covered business into account. There are some non-market risks where the existing best estimate experience assumptions do not allow for the impact on embedded value of the full range of potential outcomes. These risks should be allowed for in the EEV through the allowance for non-market risk.

Lifenet estimated these costs for operational risks, counterparty risks, lapse risks, mortality and morbidity risks, using a simple model, and has made allowance for these risks in the EEV calculation.

5. Principal EEV Assumptions

(1) Economic assumptions

In the certainty equivalent calculation, the discount rates and investment yields are the risk-free rates at the valuation date (September 30, 2014). These risk-free rates have been determined based on swap rates. The table below shows, for selected terms, the swap rates used.

	1 year	2 year	3 year	4 year	5 year
Swap rates as of September 30, 2014	0.17%	0.17%	0.19%	0.22%	0.27%
Swap rates as of March 31, 2014	0.18%	0.19%	0.21%	0.26%	0.33%

	10 year	15 year	20 year	30 year	40 year
Swap rates as of September 30, 2014	0.66%	1.08%	1.41%	1.68%	1.79%
Swap rates as of March 31, 2014	0.83%	1.29%	1.60%	1.84%	1.96%

(2) Other assumptions

All cash flows (premium, commission, non-commission expense, death benefit, tax, etc.) were projected by applying best estimate assumptions. Expense assumptions have been set based on the latest year's experience and business plan, and other non-financial assumptions have been set based on past experience and industry experience.

Expenses

Expense assumptions have been set as best estimate assumptions, based on the latest year's experience and the latest business plan.

Some expenses were eliminated as one-off expenses which are not expected to occur regularly in the future. The amount of one-off expenses incurred during the first half of fiscal year 2014 and eliminated in the derivation of the assumptions was 86 million yen (pre-tax), which mainly relate to costs for system development.

The short period since Lifenet started operations causes a high per-policy expense in actual experience to date. The maintenance expense assumption has been set assuming a continuous

increase in the number of policies in-force over the first 10 years (until March 31, 2018) of operation, so that the maintenance expense per policy decreases over this period, and the ultimate expense assumption has been allowed for from fiscal year 2017 onwards. In setting unit costs, Lifenet allows for consumption taxes (including local consumption tax), of 8% (from October 1, 2014 to September 30, 2015) and 10% (from October 1, 2015 onwards). The inflation rate is set to 0%.

For the purpose of calculating the value of new business, the actual acquisition expenses incurred in the reporting period have been allowed for together with the same maintenance expense assumptions used to calculate the EV.

For reference, the value of new business based on the ultimate unit cost (“Ultimate Unit Cost Base”), has been calculated with the ultimate maintenance expense assumption for fiscal year 2017 applied from the issue date.

Claim Payment, Lapse

As experience to date in claim payments and lapses is limited, the assumptions for claim payments and lapses have been set as the best estimate assumption based on its own experience as much as possible, with consideration for what the company considers to be a reasonable level based on industry experience.

Premium

The policy contract for term life and term medical allows the premium rate to be recalculated on renewal. In projecting renewal premiums, current premium rates have been used, taking the renewal age of the policyholder into account.

Policy reserve

The premium reserve which is a part of policy reserve is calculated in line with the 5 year zillmerized reserving method in accordance with Insurance Business Regulation 69.4.4. Lifenet adopted this method for the calculation of the future projected profits, except that after the renewal of the policy contract for the term life and term medical care, the future projected profits are calculated in line with the standard valuation reserving method, regulated by the IBR issued by FSA.

Corporate tax

In the future corporate tax calculation, the expected corporate tax offsets associated with losses carried forward as of September 30, 2014 were calculated and included in the value of in-force business. The effective corporate tax rates assumption (including local tax) has been set based on 30.78%.

6. Sensitivities

The impacts of changes in assumptions (sensitivities) on the EEV results are summarized below. For each sensitivity, only one specific assumption is changed and other assumptions remain unchanged. It should be noted that the effect of the change of more than one assumption at a time is likely to be different from the sum of sensitivities carried out separately. As Japanese policy reserves are calculated in accordance with the IBR, the sensitivities carried out do not affect the reserves at the valuation date.

	(Millions of yen)	
	Change in EEV as of September 30, 2014	Change in Value of New Business
EEV and New Business Value as of September 30, 2014	22,449	(200)
<i>Sensitivity 1a</i> : 1.0% increase in risk-free rate	700	123
<i>Sensitivity 1b</i> : 1.0% decrease in risk-free rate	(1,916)	(250)
<i>Sensitivity 1c</i> : 0.5% increase in risk-free rate	419	70
<i>Sensitivity 1d</i> : 0.5% decrease in risk-free rate	(731)	(101)
<i>Sensitivity 2</i> : 10% decrease in equity and real estate value	(67)	—
<i>Sensitivity 3</i> : 10% decrease in operating expenses	1,590	110
<i>Sensitivity 4</i> : 10% decrease in lapse rate	(889)	(76)
<i>Sensitivity 5</i> : 5% decrease in claim incidence rates for life business	2,846	194
<i>Sensitivity 6</i> : 5% decrease in mortality for annuity business	—	—
<i>Sensitivity 7</i> : Change the required capital to 200% of solvency margin ratio	112	9

- ◆ *Sensitivity 1a*: 1.0% increase in risk-free rate (for all future years)
- ◆ *Sensitivity 1b*: 1.0% decrease in risk-free rate (for all future years)
- ◆ *Sensitivity 1c*: 0.5% increase in risk-free rate (for all future years)
- ◆ *Sensitivity 1d*: 0.5% decrease in risk-free rate (for all future years)

Fixed interest assets (bonds, etc.) are revalued according to the change in the interest rate. The value of in-force business and the adjusted net worth are re-calculated according to the change of investment yield and discount rate. However if the risk-free rate becomes negative after the deduction of 1.0% or 0.5%, 0% is applied instead.

EEV Guidance only requires disclosure of the sensitivity of a 1% increase/decrease in risk free rate, but a sensitivity of 0.5% is shown as well considering the low level of interest rates in the Japanese market.

◆ ***Sensitivity 2: 10% decrease in equity and real estate value***

Market values of equities and real estate at the valuation date are reduced by 10%.

◆ ***Sensitivity 3: 10% decrease in operating expenses***

A factor of 0.9 is applied to expenses connected with the maintenance and continuation of contracts, leaving other expenses unchanged.

◆ ***Sensitivity 4: 10% decrease in lapse rate***

Base lapse rates are multiplied by 0.9.

◆ ***Sensitivity 5: 5% decrease in claim incidence rates for life business***

Base claim incidence rates (mortality and morbidity) are multiplied by 95%. The possibility of premium rate cuts and any other management actions associated with such changes in the claim level are not reflected.

◆ ***Sensitivity 6: 5% decrease in mortality for annuity business***

Not applicable as Lifenet has no annuity business.

◆ ***Sensitivity 7: Change the required capital to 200% of solvency margin ratio***

7. Notes on the Use of the Information

The calculation of EV results involves certain assumptions regarding future projections that are subject to risks and uncertainties. It should be noted that actual future results might differ materially from the assumptions used in the EV calculations, and users of this information are advised to be cautious.

8. Third Party Opinion

Lifenet engaged Towers Watson to review its EEV results and obtained the following opinion.

Towers Watson has reviewed the methodology and assumptions used to determine the embedded value results as of September 30, 2014 for Lifenet. The review covered the embedded value as of September 30, 2014, the value of new business issued in the first half of fiscal year 2014, the analysis of movement in the embedded value during the first half of fiscal year 2014 and the sensitivities of the embedded value and new business value to changes in assumptions.

Towers Watson has concluded that the methodology and assumptions used comply with the EEV Principles and Guidance. In particular:

- The methodology makes allowance for the aggregate risks in the covered business through Lifenet's market-consistent methodology as described in section 4 of this document;
- The operating assumptions have been set with appropriate regard to past, current and expected future experience, whilst noting that Lifenet only started business in May 2008 and therefore the experience data is limited; and
- The economic assumptions used are internally consistent and consistent with observable market data.

Towers Watson has also reviewed the results of the calculations, without however undertaking detailed checks of all the models, processes and calculations involved. On the basis of this review, Towers Watson is satisfied that the disclosed results have been prepared, in all material respects, in accordance with the methodology and assumptions set out in this disclosure document.

In arriving at these conclusions, Towers Watson has relied on data and information provided by Lifenet. This opinion is made solely to Lifenet in accordance with the terms of Towers Watson's engagement letter. To the fullest extent permitted by applicable law, Towers Watson does not accept or assume any responsibility, duty of care or liability to anyone other than Lifenet for or in connection with its review work, the opinions it has formed, or for any statement set forth in this opinion.