

February 12, 2020
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LIFENET INSURANCE COMPANY
(Securities Code: 7157, TSE Mothers)

Financial Results for 3Q of Fiscal 2019 Ending March 31, 2020 **Annualized premium of new business of 2,435 million yen, up 24.8% year on year**

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

1. Overview of the financial results for 3Q of fiscal 2019

(1) Business results

Condition of policies-in-force

Annualized premium^{*1} of new business in 3Q ended December 31, 2019 was 818 million yen (110.4% of 3Q of fiscal 2018). The number of new business was 19,685 (113.7% of 3Q of fiscal 2018). Annualized premium^{*1} of new business for the nine months ended December 31, 2019 was 2,435 million yen (124.8% of the nine months ended December 31, 2018). The number of new business for the nine months ended December 31, 2019 was 57,597 (127.0% of the nine months ended December 31, 2018).

Annualized premium^{*1} of policies-in-force as of the end of 3Q of fiscal 2019 stands at 14,783 million yen (113.0% of March 31, 2019). The number of policies-in-force resulted in a total of 348,429 (112.8% of March 31, 2019) and exceeded 350,000 in January 2020.

Surrender and lapse ratio^{*2} for the nine months ended December 31, 2019 was 7.0% (6.3% for the nine months ended December 31, 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 nine months ended December 31, 2019 increased to 11,945 million yen (133.5% of the nine months ended December 31, 2018) due to an increase in in-force business and modified co-insurance. Investment income was 258 million yen (88.3% of the nine months ended December 31, 2018). Other ordinary income was 39 million yen. As a result, ordinary income for the nine months ended December 31, 2019 amounted to 12,242 million yen (130.8% of the nine months ended December 31, 2018).

Insurance claims and other was 2,743 million yen (140.6% of the nine months ended December 31, 2018). The ratio of insurance payment amounts to insurance premiums was 19.7% for the nine months ended December 31, 2019, compared with 18.4% for the nine months ended December 31, 2018. Provision for policy reserves and other came to 3,604 million yen (121.7% of the nine months ended December 31, 2018). The ratio of provision for policy reserves to insurance premiums increased to 35.0% for the nine months ended December 31, 2019, compared with 34.0% for the nine months ended December 31, 2018. Operating expenses amounted to 6,772 million yen (139.6% of the nine months ended December 31, 2018) mainly due to an increase in our marketing spend including advertising. The components of operating expenses were 4,563 million yen in marketing expenses (160.1% of the nine months ended December 31, 2018), 667 million yen in customer service expenses (115.4% of the nine months ended December 31, 2018), and 1,542 million yen in system and

other expenses (108.5% of the nine months ended December 31, 2018). Other ordinary expenses was 773 million yen (143.3% of the nine months ended December 31, 2018). Consequently, ordinary expenses for the nine months ended December 31, 2019 totaled 13,941 million yen (135.3% of the nine months ended December 31, 2018).

As a result, ordinary profit totaled 1,699 million yen loss for the nine months ended December 31, 2019, compared with 944 million yen loss for the nine months ended December 31, 2018. Net income was 1,711 million yen loss, compared with 957 million yen loss for the nine months ended December 31, 2018.

In addition, fundamental profit, which is an indicator for the profitability of life insurance companies, amounted to 1,675 million yen loss, compared with 936 million yen loss for the nine months ended December 31, 2018, mainly due to an increase in operating expenses. The components of fundamental profit were 2,077 million yen in mortality margin, 3,771 million yen loss in expense margin and 17 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 continuous growth. 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 1,367 million yen, ordinary profit by 1,096 million yen, and net income by 1,096 million yen for the nine months ended December 31, 2019.

(2) Financial condition

Assets, liabilities and net assets

Total assets as of December 31, 2019 amounted to 40,607 million yen (38,247 million yen as of March 31, 2019). The major account balance was 31,771 million yen in securities mainly consisting of government bonds and corporate bonds with high credit ratings. Reinsurance accounts receivable was 1,204 million yen including 1,100 million yen of the balance of unamortized ceding commission for modified co-insurance.

Liabilities amounted to 30,235 million yen as of December 31, 2019 (26,474 million yen as of March 31, 2019), owing to an increase in policy reserves. The major account balances were 28,376 million yen in policy reserves and 484 million yen in reserves for outstanding claims.

Net assets amounted to 10,371 million yen as of December 31, 2019 (11,773 million yen as of March 31, 2019) due to the recording of net loss for the nine months ended December 31, 2019. It includes the effect of raising retained earnings by 1,096 million yen due to the utilization of modified co-insurance.

The solvency margin ratio as of December 31, 2019 was 2,163.6% (2,085.2% as of March 31, 2019), which indicated that an adequate level of payment capacity was maintained.

Cash flows

For the nine months ended December 31, 2019, net cash provided by operating activities amounted to 1,018 million yen (1,923 million yen provided for the nine months ended December 31, 2018) despite the increase in operating expenses. Net cash used by investing activities amounted to 1,475 million yen (2,675 million yen used for the nine months ended December 31, 2018) mainly due to acquisition of securities. Net cash provided by financing activities amounted to 76 million yen (13 million yen used for the nine months ended December 31, 2018).

Based on these activities described above, cash and cash equivalents as of December 31, 2019 totaled 1,812 million yen (2,192 million yen as of March 31, 2019).

(3) Business forecasts

The business forecasts for fiscal 2019 which was announced on November 12, 2019 remain unchanged as shown below.

| | (In millions of yen) | | |
|---|----------------------|------------------------|-------------------|
| | Ordinary income | Ordinary profit (loss) | Net income (loss) |
| Business forecast for fiscal 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, expecting annualized premium of new business will be 3,300 million yen.

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 | Dec. 31, 2019 |
| ASSETS | | |
| Cash and deposits | 1,192 | 1,312 |
| Monetary claims bought | 999 | 499 |
| Money held in trust | 3,114 | 3,698 |
| Securities | 30,989 | 31,771 |
| Government bonds | 8,071 | 8,083 |
| Municipal bonds | 1,394 | 1,398 |
| Corporate bonds | 16,763 | 18,037 |
| Stocks | 363 | 372 |
| Foreign securities | 45 | 29 |
| Other securities | 4,352 | 3,849 |
| Tangible fixed assets | 99 | 98 |
| Intangible fixed assets | 629 | 716 |
| Agency accounts receivable | 7 | 9 |
| Reinsurance accounts receivable | 69 | 1,204 |
| Other assets | 1,146 | 1,297 |
| Accounts receivable | 955 | 1,083 |
| Other | 191 | 213 |
| Total assets | <u>38,247</u> | <u>40,607</u> |
| LIABILITIES | | |
| Policy reserves and other | 25,256 | 28,861 |
| Reserves for outstanding claims | 469 | 484 |
| Policy reserves | 24,786 | 28,376 |
| Agency accounts payable | 72 | 55 |
| Reinsurance accounts payable | 160 | 206 |
| Other liabilities | 707 | 754 |
| Reserves under the special laws | 42 | 52 |
| Reserve for price fluctuations | 42 | 52 |
| Deferred tax liabilities | 233 | 305 |
| Total liabilities | <u>26,474</u> | <u>30,235</u> |
| NET ASSETS | | |
| Capital stock | 12,136 | 12,200 |
| Capital surplus | 12,136 | 12,200 |
| Retained earnings | (13,101) | (14,813) |
| Shareholders' equity | <u>11,172</u> | <u>9,587</u> |
| Valuation difference on available-for-sale securities | 600 | 784 |
| Valuation and translation adjustments | 600 | 784 |
| Total net assets | <u>11,773</u> | <u>10,371</u> |
| Total liabilities and net assets | <u>38,247</u> | <u>40,607</u> |

(2) Statements of Operations

| | (In millions of yen) | |
|---|---------------------------|---------|
| | Nine months ended Dec. 31 | |
| | 2018 | 2019 |
| Ordinary income..... | 9,359 | 12,242 |
| Insurance premiums and other | 8,949 | 11,945 |
| Premiums income | 8,706 | 10,269 |
| Reinsurance income..... | 243 | 1,675 |
| Investment income..... | 292 | 258 |
| Interest, dividends and other income..... | 167 | 218 |
| Gains on money held in trust..... | 26 | 22 |
| Gain on sales of securities..... | 98 | 16 |
| Other ordinary income | 117 | 39 |
| Reversal of reserves for outstanding claims..... | 93 | — |
| Other | 23 | 39 |
| Ordinary expenses | 10,303 | 13,941 |
| Insurance claims and other | 1,950 | 2,743 |
| Insurance claims | 1,105 | 1,316 |
| Benefits | 498 | 704 |
| Other refunds | 0 | 0 |
| Reinsurance commissions | 347 | 721 |
| Provision for policy reserves and other | 2,962 | 3,604 |
| Provision for reserves for outstanding claims | — | 14 |
| Provision for policy reserves | 2,962 | 3,590 |
| Investment expenses | 0 | 46 |
| Interest expenses | 0 | 0 |
| Loss on valuation of securities | — | 46 |
| Foreign exchange losses..... | — | 0 |
| Operating expenses | 4,850 | 6,772 |
| Other ordinary expenses | 540 | 773 |
| Ordinary profit (loss) | (944) | (1,699) |
| Extraordinary losses | 9 | 9 |
| Provision of reserves under the special laws | 9 | 9 |
| Provision of reserve for price fluctuations | 9 | 9 |
| Income (loss) before income taxes | (954) | (1,708) |
| Income taxes-current | 3 | 2 |
| Income taxes..... | 3 | 2 |
| Net income (loss) | (957) | (1,711) |

(3) Statements of Cash Flows

| | (In millions of yen) | |
|---|---------------------------|----------------|
| | Nine months ended Dec. 31 | |
| | 2018 | 2019 |
| Cash flows from operating activities | | |
| Income (loss) before income taxes | (954) | (1,708) |
| Depreciation and amortization | 187 | 227 |
| Increase (decrease) in reserves for outstanding claims | (93) | 14 |
| Increase (decrease) in policy reserves..... | 2,962 | 3,590 |
| Increase (decrease) in reserve for price fluctuations | 9 | 9 |
| Interest, dividends and other income | (167) | (218) |
| Loss (gain) related to securities..... | (98) | 29 |
| Interest expenses | 0 | 0 |
| Decrease (increase) in agency accounts receivable | (2) | (2) |
| Decrease (increase) in reinsurance accounts receivable..... | (33) | (1,134) |
| Decrease (increase) in other assets <excluding assets for investing and financing activities> .. | (104) | (118) |
| Increase (decrease) in agency accounts payable..... | 14 | (17) |
| Increase (decrease) in reinsurance accounts payable | 29 | 45 |
| Increase (decrease) in other liabilities <excluding liabilities for investing and financing activities> | 63 | 46 |
| Other, net..... | (26) | (0) |
| Subtotal | <u>1,787</u> | <u>762</u> |
| Interest and dividends income received | 179 | 251 |
| Interest expenses paid | (0) | (0) |
| Income taxes (paid) refund..... | (43) | 4 |
| Net cash provided by (used in) operating activities | <u>1,923</u> | <u>1,018</u> |
| Cash flows from investing activities | | |
| Purchase of money held in trust | (400) | (450) |
| Purchase of securities..... | (3,788) | (3,130) |
| Proceeds from sales and redemption of securities | 1,727 | 2,412 |
| Total of net cash provided by (used in) investment transactions | <u>(2,460)</u> | <u>(1,167)</u> |
| Total of net cash provided by (used in) operating activities and investment transactions | <u>(537)</u> | <u>(148)</u> |
| Purchase of tangible fixed assets | (25) | (34) |
| Purchase of intangible fixed assets | (189) | (273) |
| Net cash provided by (used in) investing activities | <u>(2,675)</u> | <u>(1,475)</u> |
| Cash flows from financing activities | | |
| Proceeds from issuance of stock resulting from exercise of subscription rights to shares | — | 85 |
| Repayments of lease obligations | (13) | (8) |
| Net cash provided by (used in) financing activities | <u>(13)</u> | <u>76</u> |
| Net increase (decrease) in cash and cash equivalents | <u>(765)</u> | <u>(380)</u> |
| Cash and cash equivalents, beginning of the year | <u>2,926</u> | <u>2,192</u> |
| Cash and cash equivalents, end of the period | <u>2,160</u> | <u>1,812</u> |

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