

August 11, 2021
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LIFENET INSURANCE COMPANY
(Securities Code: 7157, TSE Mothers)

Financial Results for 1Q of Fiscal 2021 Ending March 31, 2022 **Annualized premium of in-force business of 19,473 million yen, up 4.1% of March 31, 2021**

TOKYO, August 11, 2021 - 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 2021 ending March 31, 2022.

1. Overview of the financial results for 1Q of fiscal 2021

(1) Business results

Condition of policies-in-force

Annualized premium^{*1} of new business in 1Q ended June 30, 2021 was 1,123 million yen (96.2% of 1Q of fiscal 2020). The number of new business was 27,553 (97.9% of 1Q of fiscal 2020). For fiscal 2020, due to the impact from the spread of the novel coronavirus disease (COVID-19), it led to a great increase in the new business in the short term. Annualized premium of policies-in-force as of the end of 1Q of fiscal 2021 stands at 19,473 million yen (104.1% of March 31, 2021). The number of policies-in-force resulted in a total of 458,539 (104.2% of March 31, 2021). Surrender and lapse ratio^{*2} for 1Q of fiscal 2021 was 7.6% (5.5% for 1Q of fiscal 2020). Lifenet has extended grace period for insurance premium payment as one of the special measures in the COVID-19 pandemic. Surrender and lapse ratio for 1Q of fiscal 2021 includes the impact of extended policies that were recorded as lapsed policies in a lump sum.

*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 2021 increased to 5,848 million yen (126.2% of 1Q of fiscal 2020) due to an increase in premium income by growth of in-force business, and effect from modified co-insurance. Investment income was 74 million yen (101.9% of 1Q of fiscal 2020). Other ordinary income was 19 million yen. As a result, ordinary income for 1Q of fiscal 2021 amounted to 5,942 million yen (125.7% of 1Q of fiscal 2020).

Insurance claims and other was 1,907 million yen (154.3% of 1Q of fiscal 2020) mainly due to an increase in reinsurance commissions from modified co-insurance. The ratio of insurance payment amounts to insurance premiums increased to 19.9% for 1Q of fiscal 2021, compared with 18.1% for 1Q of fiscal 2020. Provision for policy reserves and other came to 1,592 million yen (106.3% of 1Q of fiscal 2020). The ratio of provision for policy reserves to insurance premiums was 32.6% for 1Q of fiscal 2021, compared with 38.0% for 1Q of fiscal 2020. Operating expenses amounted to 2,963 million yen (126.6% of 1Q of fiscal 2020). The components of operating expenses were 2,033 million yen in marketing expenses (135.0% of 1Q of fiscal 2020) mainly due to investment in advertising, 306 million yen in customer service expenses (126.7% of 1Q of fiscal 2020), and 622 million yen in system and other expenses (105.1% of 1Q of fiscal 2020). Other ordinary expenses was 400 million yen (133.5% of 1Q of fiscal 2020). Consequently, ordinary expenses for 1Q of fiscal 2021 totaled 6,862 million yen (127.7% of 1Q of fiscal 2020).

As a result, ordinary profit totaled 920 million yen loss for 1Q of fiscal 2021, compared with 647 million yen loss for 1Q of fiscal 2020. Net income was 926 million yen loss, compared with 652 million yen loss for 1Q of fiscal 2020.

In addition, fundamental profit, which is an indicator for the profitability of life insurance companies, amounted to 856 million yen loss, compared with 562 million yen loss for 1Q of fiscal 2020. The components of fundamental profit were 901 million yen in mortality margin, 1,744 million yen loss in expense margin and 14 million yen loss 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, the modified co-insurance resulted in raising ordinary income by 956 million yen (558 million yen of 1Q of fiscal 2020), ordinary profit by 206 million yen (212 million yen of 1Q of fiscal 2020), and net income by 206 million yen (212 million yen of 1Q of fiscal 2020).

(2) Financial condition

Assets, liabilities and net assets

Total assets as of June 30, 2021 amounted to 55,333 million yen (54,501 million yen as of March 31, 2021). The major account balance was 41,458 million yen in securities mainly consisting of government bonds and corporate bonds with high credit ratings. Reinsurance accounts receivable was 2,762 million yen including 2,563 million yen of the balance of unamortized ceding commission for modified co-insurance.

Liabilities amounted to 40,282 million yen as of June 30, 2021 (38,694 million yen as of March 31, 2021), owing to an increase in policy reserves. The major account balances were 37,330 million yen in policy reserves and 901 million yen in reserves for outstanding claims.

Net assets amounted to 15,050 million yen as of June 30, 2021 (15,806 million yen as of March 31, 2021), due to the recording of net loss for 1Q of fiscal 2021. It includes the effect of raising retained earnings due to the utilization of modified co-insurance. 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 net assets accordingly.

The solvency margin ratio as of June 30, 2021 was 2,599.9% (2,647.1% as of March 31, 2021), which indicated that an adequate level of payment capacity was maintained.

Cash flows

For 1Q of fiscal 2021, net cash provided by operating activities amounted to 496 million yen (675 million yen provided for 1Q of fiscal 2020) mainly because of an increase in insurance premium. Net cash used by investing activities amounted to 1,409 million yen (785 million yen used for 1Q of fiscal 2020) mainly due to acquisition of securities. Net cash provided by financing activities amounted to 12 million yen (1 million yen used for 1Q of fiscal 2020).

Based on these activities described above, cash and cash equivalents as of June 30, 2021 totaled 2,158 million yen (3,059 million yen as of March 31, 2021).

(3) Business forecasts

The business forecasts for fiscal 2021 which was announced on May 13, 2021 remains unchanged as shown below.

	(In millions of yen)		
	Ordinary income	Ordinary profit (loss)	Net income (loss)
Business forecasts for fiscal 2021	25,500	(3,800)	(3,800)
(Reference) Business results for fiscal 2020	20,789	(3,089)	(3,114)
Change	22.7%	-	-

We are participating in reinsurance transactions from fiscal 2019 by modified co-insurance and continue to utilize the reinsurance in fiscal 2021. We expect the impact of these reinsurance transactions on fiscal 2021 results forecasts to increase ordinary income by around 4,400 million yen, ordinary profit and net income by around 700 million yen, given that new business will be acquired as expected. This impact includes the effects of amortization of reinsurance accounts receivable generated from reinsured business in past years. It is expected that annualized premium of policies-in-force will be 21,800 million yen and annualized premium of new business will be 4,400 million yen.

(Reference) Annualized premium

	(In millions of yen)	
	Annualized premium of policies-in-force	Annualized premium of new business
Business forecasts for fiscal 2021	21,800	4,400
Business results for fiscal 2020	18,713	4,197

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, 2021	June 30, 2021
ASSETS		
Cash and deposits	2,059	2,158
Monetary claims bought	999	—
Money held in trust	5,895	5,890
Securities	40,007	41,458
Government bonds	9,004	9,006
Municipal bonds	1,482	1,484
Corporate bonds	21,301	22,144
Stocks	397	391
Foreign securities	0	100
Other securities	7,821	8,331
Tangible fixed assets	95	91
Intangible fixed assets	1,252	1,262
Agency accounts receivable	9	10
Reinsurance accounts receivable	2,569	2,762
Other assets	1,612	1,699
Accounts receivable	1,362	1,428
Other	250	270
Total assets	54,501	55,333
LIABILITIES		
Policy reserves and other	36,639	38,231
Reserves for outstanding claims	837	901
Policy reserves	35,801	37,330
Agency accounts payable	69	66
Reinsurance accounts payable	301	318
Other liabilities	1,234	1,150
Reserves under the special laws	76	81
Reserve for price fluctuations	76	81
Deferred tax liabilities	373	434
Total liabilities	38,694	40,282
NET ASSETS		
Capital stock	16,731	16,738
Capital surplus	16,731	16,738
Retained earnings	(18,616)	(19,543)
Treasury shares	(0)	(0)
Shareholders' equity	14,846	13,933
Valuation difference on available-for-sale securities	960	1,117
Valuation and translation adjustments	960	1,117
Total net assets	15,806	15,050
Total liabilities and net assets	54,501	55,333

(2) Statements of Operations

	(In millions of yen)	
	Three months ended June 30	
	2020	2021
Ordinary income	4,726	5,942
Insurance premiums and other	4,633	5,848
Premiums income	3,940	4,693
Reinsurance income	693	1,155
Investment income	73	74
Interest, dividends and other income	58	68
Gains on money held in trust	12	6
Gain on sales of securities	2	—
Other ordinary income	19	19
Reversal of reserves for outstanding claims	3	—
Other	16	19
Ordinary expenses	5,374	6,862
Insurance claims and other	1,236	1,907
Insurance claims	447	605
Benefits	267	328
Other refunds	0	0
Reinsurance commissions	521	973
Provision for policy reserves and other	1,497	1,592
Provision for reserves for outstanding claims	—	63
Provision for policy reserves	1,497	1,528
Investment expenses	0	0
Interest expenses	0	0
Foreign exchange losses	—	0
Operating expenses	2,341	2,963
Other ordinary expenses	299	400
Ordinary profit (loss)	(647)	(920)
Extraordinary losses	3	5
Provision of reserves under the special laws	3	5
Provision of reserve for price fluctuations	3	5
Income (loss) before income taxes	(651)	(925)
Income taxes-current	0	0
Income taxes	0	0
Net income (loss)	(652)	(926)

(3) Statements of Cash Flows

	(In millions of yen)	
	Three months ended June 30	
	2020	2021
Cash flows from operating activities		
Income (loss) before income taxes	(651)	(925)
Depreciation and amortization	76	114
Increase (decrease) in reserves for outstanding claims ..	(3)	63
Increase (decrease) in policy reserves	1,497	1,528
Increase (decrease) in reserve for price fluctuations	3	5
Interest, dividends and other income	(58)	(68)
Loss (gain) related to securities	(2)	—
Interest expenses	0	0
Decrease (increase) in agency accounts receivable.....	2	(1)
Decrease (increase) in reinsurance accounts receivable.....	(221)	(192)
Decrease (increase) in other assets <excluding assets for investing and financing activities>	(68)	(90)
Increase (decrease) in agency accounts payable	18	(3)
Increase (decrease) in reinsurance accounts payable	14	16
Increase (decrease) in other liabilities <excluding liabilities for investing and financing activities>	(9)	(129)
Other, net.....	2	4
Subtotal	600	321
Interest and dividends income received.....	80	180
Interest expenses paid.....	(0)	(0)
Income taxes paid.....	(4)	(5)
Net cash provided by (used in) operating activities....	675	496
Cash flows from investing activities		
Purchase of securities	(1,299)	(1,339)
Proceeds from sales and redemption of securities.....	602	100
Total of net cash provided by (used in) investment transactions	(697)	(1,238)
Total of net cash provided by (used in) operating activities and investment transactions	(21)	(742)
Purchase of tangible fixed assets.....	(10)	(2)
Purchase of intangible fixed assets	(78)	(167)
Net cash provided by (used in) investing activities	(785)	(1,409)
Cash flows from financing activities		
Proceeds from issuance of stock resulting from exercise of subscription rights to shares	—	14
Purchase of treasury shares	(0)	—
Repayments of lease obligations	(1)	(1)
Net cash provided by (used in) financing activities....	(1)	12
Net increase (decrease) in cash and cash equivalents	(110)	(900)
Cash and cash equivalents, beginning of the year.....	1,677	3,059
Cash and cash equivalents, end of the period.....	1,566	2,158

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