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

Financial Results for 3Q of Fiscal 2020 Ending March 31, 2021
Annualized premium of in-force business of 17,922 million yen,
up 15.5% from March 31, 2020

TOKYO, February 9, 2021 - 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 2020 ending March 31, 2021.

1. Overview of the financial results for 3Q of fiscal 2020

(1) Business results

Condition of policies-in-force

Annualized premium*¹ of new business in 3Q ended December 31, 2020 was 934 million yen (114.1% of 3Q of fiscal 2019). The number of new business was 22,164 (112.6% of 3Q of fiscal 2019). Annualized premium of new business for the nine months ended December 31, 2020 was 3,093 million yen (127.0% of the nine months ended December 31, 2019). The number of new business for the nine months ended December 31, 2020 was 73,669 (127.9% of the nine months ended December 31, 2019). Regarding the impact from the spread of the novel coronavirus disease for the nine months ended December 31, 2020, it led to a great increase in the new business in the short term under the state of emergency in April because of expanding consumers' needs for life insurance.

Annualized premium of policies-in-force as of the end of 3Q of fiscal 2020 stands at 17,922 million yen (115.5% of March 31, 2020). The number of policies-in-force resulted in a total of 421,073 (115.3% of March 31, 2020). Surrender and lapse ratio*² for the nine months ended December 31, 2020 was 5.6% (7.0% for the nine months ended December 31, 2019).

*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, 2020 increased to 14,694 million yen (123.0% of the nine months ended December 31, 2019) due to an increase in the number of policies-in-force and an increase in reinsurance income from modified co-insurance. Investment income was 303 million yen (117.5% of the nine months ended December 31, 2019). Other ordinary income was 146 million yen. As a result, ordinary income for the nine months ended December 31, 2020 amounted to 15,144 million yen (123.7% of the nine months ended December 31, 2019).

Insurance claims and other was 4,205 million yen (153.3% of the nine months ended December 31, 2019) mainly due to an increase in reinsurance commissions from modified co-insurance. The ratio of insurance payment amounts to insurance premiums decreased to 18.6% for the nine months ended December 31, 2020, compared with 19.7% for the nine months ended December 31, 2019. Provision for policy reserves and other came to 4,597 million yen (127.5% of the nine months ended December 31, 2019). The ratio of provision for policy reserves to insurance premiums was 37.1% for the nine months ended December 31, 2020, compared with 35.0% for the nine months ended December 31, 2019. Operating expenses amounted to 6,999 million yen (103.3% of the nine months ended December 31, 2019) mainly due to the investment in our marketing spend including advertising. The components of

operating expenses were 4,615 million yen in marketing expenses (101.1% of the nine months ended December 31, 2019), 758 million yen in customer service expenses (113.6% of the nine months ended December 31, 2019), and 1,625 million yen in system and other expenses (105.4% of the nine months ended December 31, 2019). Other ordinary expenses was 1,056 million yen (136.5% of the nine months ended December 31, 2019) mainly due to share issuance costs through overseas public offering in July and an increase in the consumption tax rate in October 2019. Consequently, ordinary expenses for the nine months ended December 31, 2020 totaled 16,858 million yen (120.9% of the nine months ended December 31, 2019).

As a result, ordinary profit totaled 1,714 million yen loss for the nine months ended December 31, 2020, compared with 1,699 million yen loss for the nine months ended December 31, 2019. Net income was 1,731 million yen loss, compared with 1,711 million yen loss for the nine months ended December 31, 2019.

In addition, fundamental profit, which is an indicator for the profitability of life insurance companies, amounted to 1,568 million yen loss, compared with 1,675 million yen loss for the nine months ended December 31, 2019. The components of fundamental profit were 2,713 million yen in mortality margin, 4,260 million yen loss in expense margin and 21 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, for the nine months ended December 31, 2020, the modified co-insurance resulted in raising ordinary income by 1,892 million yen (1,367 million yen of the nine months ended December 31, 2019), ordinary profit by 555 million yen (1,096 million yen of the nine months ended December 31, 2019), and net income by 555 million yen (1,096 million yen of the nine months ended December 31, 2019).

(2) Financial condition

Assets, liabilities and net assets

Total assets as of December 31, 2020 amounted to 53,751 million yen (41,144 million yen as of March 31, 2020). The major account balance was 38,865 million yen in securities mainly consisting of government bonds and corporate bonds with high credit ratings. Reinsurance accounts receivable was 2,234 million yen including 2,100 million yen of the balance of unamortized ceding commission for modified co-insurance.

Liabilities amounted to 36,614 million yen as of December 31, 2020 (31,744 million yen as of March 31, 2020), owing to an increase in policy reserves. The major account balances were 34,288 million yen in policy reserves and 544 million yen in reserves for outstanding claims.

Net assets amounted to 17,136 million yen as of December 31, 2020 (9,400 million yen as of March 31, 2020) mainly due to raising new capital through overseas public offering despite the recording of net loss for the nine months ended December 31, 2020. 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 December 31, 2020 was 2,811.8% (2,117.1% as of March 31, 2020), which indicated that an adequate level of payment capacity was maintained.

Cash flows

For the nine months ended December 31, 2020, net cash provided by operating activities amounted to 2,417 million yen (1,018 million yen provided for the nine months ended December 31, 2019) mainly because of an increase in insurance premium. Net cash used by investing activities amounted to 8,447 million yen (1,475 million yen used for the nine months ended December 31, 2019) mainly due to acquisition of securities. Net cash provided by financing activities amounted to 8,868 million yen (76 million yen provided for the nine months ended December 31, 2019) mainly due to issuance of new shares through overseas public offering in July.

Based on these activities described above, cash and cash equivalents as of December 31, 2020 totaled 4,516 million yen (1,677 million yen as of March 31, 2020).

(3) Business forecasts

The business forecasts for fiscal 2020 which was announced on August 11, 2020 remain unchanged as shown below. We will proactively invest in marketing for the fourth quarter of fiscal 2020.

	(In millions of yen)		
	Ordinary income	Ordinary profit (loss)	Net income (loss)
Business forecasts for fiscal 2020	20,000	(3,200)	(3,200)
(Reference) Business results for fiscal 2019	16,850	(2,382)	(2,400)
Change	18.7%	-	-

The business forecasts for fiscal 2020 includes the impact of reinsurance transactions from fiscal 2019 by modified co-insurance. We expect the impact on fiscal 2020 results forecasts to increase ordinary income by around 2,700 million yen, ordinary profit by around 650 million yen and net income by around 650 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 the past fiscal year.

The expecting annualized premium of new business for fiscal 2020 will be 4,000 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, 2020	Dec. 31, 2020
ASSETS		
Cash and deposits	1,377	2,516
Monetary claims bought	299	1,999
Money held in trust	3,539	5,422
Securities	32,058	38,865
Government bonds	8,065	9,024
Municipal bonds	1,391	1,488
Corporate bonds	18,119	21,219
Stocks	313	355
Foreign securities	0	0
Other securities	4,167	6,778
Tangible fixed assets	96	105
Intangible fixed assets	742	1,042
Agency accounts receivable	9	7
Reinsurance accounts receivable	1,663	2,234
Other assets	1,356	1,555
Accounts receivable	1,132	1,311
Other	224	244
Total assets	<u>41,144</u>	<u>53,751</u>
LIABILITIES		
Policy reserves and other	30,328	34,832
Reserves for outstanding claims	638	544
Policy reserves	29,690	34,288
Agency accounts payable	55	72
Reinsurance accounts payable	225	286
Other liabilities	882	995
Reserves under the special laws	56	70
Reserve for price fluctuations	56	70
Deferred tax liabilities	195	357
Total liabilities	<u>31,744</u>	<u>36,614</u>
NET ASSETS		
Capital stock	12,200	16,725
Capital surplus	12,200	16,725
Retained earnings	(15,502)	(17,233)
Treasury shares	—	(0)
Shareholders' equity	<u>8,898</u>	<u>16,217</u>
Valuation difference on available-for-sale securities	502	919
Valuation and translation adjustments	502	919
Total net assets	<u>9,400</u>	<u>17,136</u>
Total liabilities and net assets	<u>41,144</u>	<u>53,751</u>

(2) Statements of Operations

	(In millions of yen)	
	Nine months ended Dec. 31	
	2019	2020
Ordinary income	12,242	15,144
Insurance premiums and other	11,945	14,694
Premiums income	10,269	12,406
Reinsurance income	1,675	2,287
Investment income	258	303
Interest, dividends and other income	218	205
Gains on money held in trust	22	94
Gain on sales of securities	16	2
Other ordinary income	39	146
Reversal of reserves for outstanding claims	—	94
Other	39	52
Ordinary expenses	13,941	16,858
Insurance claims and other	2,743	4,205
Insurance claims	1,316	1,479
Benefits	704	826
Other refunds	0	0
Reinsurance commissions	721	1,899
Provision for policy reserves and other	3,604	4,597
Provision for reserves for outstanding claims	14	—
Provision for policy reserves	3,590	4,597
Investment expenses	46	0
Interest expenses	0	0
Loss on valuation of securities	46	—
Foreign exchange losses	0	0
Operating expenses	6,772	6,999
Other ordinary expenses	773	1,056
Ordinary profit (loss)	(1,699)	(1,714)
Extraordinary losses	9	14
Provision of reserves under the special laws	9	14
Provision of reserve for price fluctuations	9	14
Income (loss) before income taxes	(1,708)	(1,728)
Income taxes-current	2	2
Income taxes	2	2
Net income (loss)	(1,711)	(1,731)

(3) Statements of Cash Flows

	(In millions of yen)	
	Nine months ended Dec. 31	
	2019	2020
Cash flows from operating activities		
Income (loss) before income taxes	(1,708)	(1,728)
Depreciation and amortization	227	231
Increase (decrease) in reserves for outstanding claims ..	14	(94)
Increase (decrease) in policy reserves	3,590	4,597
Increase (decrease) in reserve for price fluctuations	9	14
Interest, dividends and other income	(218)	(205)
Loss (gain) related to securities	29	(2)
Interest expenses	0	0
Share issuance costs	—	137
Decrease (increase) in agency accounts receivable	(2)	1
Decrease (increase) in reinsurance accounts receivable ..	(1,134)	(571)
Decrease (increase) in other assets <excluding assets for investing and financing activities>	(118)	(175)
Increase (decrease) in agency accounts payable	(17)	17
Increase (decrease) in reinsurance accounts payable	45	60
Increase (decrease) in other liabilities <excluding liabilities for investing and financing activities>	46	(35)
Other, net	(0)	(63)
Subtotal	762	2,183
Interest and dividends income received	251	230
Interest expenses paid	(0)	(0)
Income taxes (paid) refund	4	3
Net cash provided by (used in) operating activities	1,018	2,417
Cash flows from investing activities		
Purchase of money held in trust	(450)	(1,500)
Purchase of securities	(3,130)	(7,868)
Proceeds from sales and redemption of securities	2,412	1,310
Total of net cash provided by (used in) investment transactions	(1,167)	(8,057)
Total of net cash provided by (used in) operating activities and investment transactions	(148)	(5,640)
Purchase of tangible fixed assets	(34)	(23)
Purchase of intangible fixed assets	(273)	(365)
Net cash provided by (used in) investing activities	(1,475)	(8,447)
Cash flows from financing activities		
Proceeds from issuance of common stock	—	8,868
Proceeds from issuance of stock resulting from exercise of subscription rights to shares	85	4
Purchase of treasury shares	—	(0)
Repayments of lease obligations	(8)	(3)
Net cash provided by (used in) financing activities	76	8,868
Net increase (decrease) in cash and cash equivalents	(380)	2,839
Cash and cash equivalents, beginning of the year	2,192	1,677
Cash and cash equivalents, end of the period	1,812	4,516

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