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

## **Financial Results for 1Q of Fiscal 2020 Ending March 31, 2021** **Annualized premium of in-force business of 16,461 million yen, up 6.1% of March 31, 2020**

TOKYO, August 11, 2020 - 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 2020 ending March 31, 2021.

### **1. Overview of the financial results for 1Q of fiscal 2020**

#### **(1) Business results**

##### **Condition of policies-in-force**

New business performance in 1Q ended June 30, 2020 achieved a record high on a quarterly basis mainly because of expanding customers' needs for life insurance raised by the spread of the novel coronavirus disease (COVID-19). Annualized premium\*<sup>1</sup> of new business in 1Q of fiscal 2020 was 1,166 million yen (141.9% of 1Q of fiscal 2019). The number of new business was 28,136 (147.2% of 1Q of fiscal 2019). Annualized premium\*<sup>1</sup> of policies-in-force as of the end of 1Q of fiscal 2020 stands at 16,461 million yen (106.1% of March 31, 2020). The number of policies-in-force resulted in a total of 387,775 (106.2% of March 31, 2020). Surrender and lapse ratio\*<sup>2</sup> for 1Q of fiscal 2020 was 5.5% (7.6% for 1Q of fiscal 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 1Q of fiscal 2020 increased to 4,633 million yen (122.8% of 1Q of fiscal 2019) due to an increase in the number of policies-in-force, and effect from modified co-insurance. Investment income was 73 million yen (103.5% of 1Q of fiscal 2019). Other ordinary income was 19 million yen. As a result, ordinary income for 1Q of fiscal 2020 amounted to 4,726 million yen (121.3% of 1Q of fiscal 2019).

Insurance claims and other was 1,236 million yen (160.0% of 1Q of fiscal 2019) mainly due to an increase in in-force business. The ratio of insurance payment amounts to insurance premiums decreased to 18.1% for 1Q of fiscal 2020, compared with 18.7% for 1Q of fiscal 2019. Provision for policy reserves and other came to 1,497 million yen (147.4% of 1Q of fiscal 2019). The ratio of provision for policy reserves to insurance premiums was 38.0% for 1Q of fiscal 2020, compared with 31.0% for 1Q of fiscal 2019. Operating expenses amounted to 2,341 million yen (106.4% of 1Q of fiscal 2019). The components of operating expenses were 1,506 million yen in marketing expenses (100.2% of 1Q of fiscal 2019) mainly due to proactive investment in advertising, 242 million yen in customer service expenses (114.8% of 1Q of fiscal 2019), and 592 million yen in system and other expenses (121.9% of 1Q of fiscal 2019). Other ordinary expenses was 299 million yen (131.1% of 1Q of fiscal 2019). Consequently, ordinary expenses for 1Q of fiscal 2020 totaled 5,374 million yen (127.5% of 1Q of fiscal 2019).

As a result, ordinary profit totaled 647 million yen loss for 1Q of fiscal 2020, compared with 321 million yen loss for 1Q of fiscal 2019. Net income was 652 million yen loss, compared with 325 million yen loss for 1Q of fiscal 2019.

In addition, fundamental profit, which is an indicator for the profitability of life insurance companies, amounted to 562 million yen loss, compared with 428 million yen loss for 1Q of fiscal 2019. The components of fundamental profit were 877 million yen in mortality margin, 1,424 million yen loss in expense margin and 15 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 558 million yen (387 million yen of 1Q of fiscal 2019), ordinary profit by 212 million yen (370 million yen of 1Q of fiscal 2019), and net income by 212 million yen (370 million yen of 1Q of fiscal 2019).

## **(2) Financial condition**

### **Assets, liabilities and net assets**

Total assets as of June 30, 2020 amounted to 42,298 million yen (41,144 million yen as of March 31, 2020). The major account balance was 32,846 million yen in securities mainly consisting of government bonds and corporate bonds with high credit ratings. Reinsurance accounts receivable was 1,884 million yen including 1,749 million yen of the balance of unamortized ceding commission for modified co-insurance.

Liabilities amounted to 33,346 million yen as of June 30, 2020 (31,744 million yen as of March 31, 2020), owing to an increase in policy reserves. The major account balances were 31,187 million yen in policy reserves and 634 million yen in reserves for outstanding claims.

Net assets amounted to 8,951 million yen as of June 30, 2020 (9,400 million yen as of March 31, 2020), due to the recording of net loss for 1Q of fiscal 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 June 30, 2020 was 2,093.9% (2,117.1% as of March 31, 2020), which indicated that an adequate level of payment capacity was maintained.

### **Cash flows**

For 1Q of fiscal 2020, net cash provided by operating activities amounted to 675 million yen (258 million yen provided for 1Q of fiscal 2019) mainly because of an increase in insurance premium. Net cash used by investing activities amounted to 785 million yen (559 million yen used for 1Q of fiscal 2019) mainly due to acquisition of securities. Net cash used by financing activities amounted to 1 million yen (3 million yen used for 1Q of fiscal 2019).

Based on these activities described above, cash and cash equivalents as of June 30, 2020 totaled 1,566 million yen (1,677 million yen as of March 31, 2020).

### (3) Business forecasts

The business forecasts for fiscal 2020 ending March 31, 2021 was undetermined because it was difficult to estimate reasonable, appropriate forecasts due to the impact of COVID-19. We disclose the business forecasts for fiscal 2020 as shown in the table below based on information available at this time.

	(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%	-	-

Lifenet aims for further business growth by undertaking initiatives for the “innovation of customer experience” and “enhancement of promotion capabilities” as disclosed as priority areas in the Management Policy. We will proactively invest in marketing to aim for new business growth, and also invest in core system for the future in order to respond flexibly to changes in the business environment.

We are participating in reinsurance transactions from fiscal 2019 by modified co-insurance and continue to utilize the reinsurance in fiscal 2020. We expect the impact of these reinsurance transactions 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 fiscal 2019.

Accordingly, Lifenet is forecasting ordinary income of 20,000 million yen, ordinary profit of 3,200 million yen loss and net profit of 3,200 million yen loss for fiscal 2020, including the impact of modified co-insurance. As the table below indicates, we project annualized premium<sup>\*1</sup> of new business of 4,000 million yen.

#### (Reference) Annualized premium

	(In millions of yen)
Business forecasts for fiscal 2020	4,000
Business results for fiscal 2019	3,425

Actual results of ordinary profit (loss) and net income (loss) may greatly diverge from forecasts if the amount of insurance claims and benefits fluctuates beyond our expectation. Future prospects remain uncertain due to COVID-19. Any items requiring disclosure will be announced promptly.

<sup>\*1</sup>: 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.

**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	June 30, 2020
<b>ASSETS</b>		
Cash and deposits .....	1,377	1,566
Monetary claims bought .....	299	—
Money held in trust .....	3,539	3,710
Securities .....	32,058	32,846
Government bonds .....	8,065	8,034
Municipal bonds .....	1,391	1,386
Corporate bonds .....	18,119	18,684
Stocks .....	313	388
Foreign securities .....	0	0
Other securities .....	4,167	4,352
Tangible fixed assets .....	96	88
Intangible fixed assets .....	742	764
Agency accounts receivable .....	9	7
Reinsurance accounts receivable .....	1,663	1,884
Other assets .....	1,356	1,428
Accounts receivable .....	1,132	1,206
Other .....	224	221
Total assets .....	<u>41,144</u>	<u>42,298</u>
<b>LIABILITIES</b>		
Policy reserves and other .....	30,328	31,822
Reserves for outstanding claims .....	638	634
Policy reserves .....	29,690	31,187
Agency accounts payable .....	55	73
Reinsurance accounts payable .....	225	240
Other liabilities .....	882	876
Reserves under the special laws .....	56	59
Reserve for price fluctuations .....	56	59
Deferred tax liabilities .....	195	274
Total liabilities .....	<u>31,744</u>	<u>33,346</u>
<b>NET ASSETS</b>		
Capital stock .....	12,200	12,200
Capital surplus .....	12,200	12,200
Retained earnings .....	(15,502)	(16,154)
Treasury shares .....	—	(0)
Shareholders' equity .....	<u>8,898</u>	<u>8,245</u>
Valuation difference on available-for-sale securities .....	502	705
Valuation and translation adjustments .....	502	705
Total net assets .....	<u>9,400</u>	<u>8,951</u>
Total liabilities and net assets .....	<u>41,144</u>	<u>42,298</u>

## (2) Statements of Operations

	(In millions of yen)	
	Three months ended June 30	
	2019	2020
Ordinary income .....	3,895	4,726
Insurance premiums and other .....	3,774	4,633
Premiums income .....	3,279	3,940
Reinsurance income .....	494	693
Investment income .....	70	73
Interest, dividends and other income .....	60	58
Gains on money held in trust .....	9	12
Gain on sales of securities .....	—	2
Other ordinary income .....	50	19
Reversal of reserves for outstanding claims .....	38	3
Other .....	11	16
Ordinary expenses .....	4,216	5,374
Insurance claims and other .....	772	1,236
Insurance claims .....	386	447
Benefits .....	227	267
Other refunds .....	0	0
Reinsurance commissions .....	159	521
Provision for policy reserves and other .....	1,015	1,497
Provision for policy reserves .....	1,015	1,497
Investment expenses .....	0	0
Interest expenses .....	0	0
Foreign exchange losses .....	0	—
Operating expenses .....	2,199	2,341
Other ordinary expenses .....	228	299
Ordinary profit (loss) .....	(321)	(647)
Extraordinary losses .....	3	3
Provision of reserves under the special laws .....	3	3
Provision of reserve for price fluctuations .....	3	3
Income (loss) before income taxes .....	(324)	(651)
Income taxes-current .....	0	0
Income taxes .....	0	0
Net income (loss) .....	(325)	(652)

## (3) Statements of Cash Flows

	(In millions of yen)	
	Three months ended June 30	
	2019	2020
Cash flows from operating activities		
Income (loss) before income taxes .....	(324)	(651)
Depreciation and amortization .....	63	76
Increase (decrease) in reserves for outstanding claims ..	(38)	(3)
Increase (decrease) in policy reserves .....	1,015	1,497
Increase (decrease) in reserve for price fluctuations .....	3	3
Interest, dividends and other income .....	(60)	(58)
Loss (gain) related to securities .....	—	(2)
Interest expenses .....	0	0
Decrease (increase) in agency accounts receivable.....	(1)	2
Decrease (increase) in reinsurance accounts receivable.....	(408)	(221)
Decrease (increase) in other assets <excluding assets for investing and financing activities>	(45)	(68)
Increase (decrease) in agency accounts payable .....	(7)	18
Increase (decrease) in reinsurance accounts payable ....	21	14
Increase (decrease) in other liabilities <excluding liabilities for investing and financing activities>	(31)	(9)
Other, net.....	(8)	2
Subtotal .....	177	600
Interest and dividends income received.....	84	80
Interest expenses paid.....	(0)	(0)
Income taxes (paid) refund .....	(3)	(4)
Net cash provided by (used in) operating activities....	258	675
Cash flows from investing activities		
Purchase of money held in trust.....	(250)	—
Purchase of securities .....	(600)	(1,299)
Proceeds from sales and redemption of securities.....	395	602
Total of net cash provided by (used in) investment transactions	(454)	(697)
Total of net cash provided by (used in) operating activities and investment transactions	(196)	(21)
Purchase of tangible fixed assets.....	(22)	(10)
Purchase of intangible fixed assets .....	(82)	(78)
Net cash provided by (used in) investing activities ....	(559)	(785)
Cash flows from financing activities		
Purchase of treasury shares .....	—	(0)
Repayments of lease obligations .....	(3)	(1)
Net cash provided by (used in) financing activities....	(3)	(1)
Net increase (decrease) in cash and cash equivalents .....	(305)	(110)
Cash and cash equivalents, beginning of the year.....	2,192	1,677
Cash and cash equivalents, end of the period.....	1,886	1,566

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