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

Financial Results for 3Q of Fiscal 2022 Ending March 31, 2023
Annualized premium of in-force business of 23,528 million yen,
up 9.4% from March 31, 2022

TOKYO, February 9, 2023 - LIFENET INSURANCE COMPANY (TSE Growth 7157, President Ryosuke Mori, URL: <https://ir.lifenet-seimei.co.jp/en/>) discloses financial results for the third quarter of fiscal 2022 ending March 31, 2023.

1. Overview of the financial results for 3Q of fiscal 2022

(1) Business results

Condition of policies-in-force

Annualized premium*¹ of new business in 3Q ended December 31, 2022 was 923 million yen (98.9% of 3Q of fiscal 2021). The number of new business was 22,612 (100.5% of 3Q of fiscal 2021). Annualized premium of new business for the nine months ended December 31, 2022 was 3,030 million yen (97.5% of the nine months ended December 31, 2021). The number of new business for the nine months ended December 31, 2022 was 76,404 (100.2% of the nine months ended December 31, 2021).

Annualized premium of policies-in-force as of the end of 3Q of fiscal 2022 stands at 23,528 million yen (109.4% of March 31, 2022). The number of policies-in-force resulted in a total of 556,942 (109.8% of March 31, 2022). Surrender and lapse ratio*² for the nine months ended December 31, 2022 was 6.4% (6.6% for the nine months ended December 31, 2021).

*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, 2022 increased to 21,599 million yen (115.4% of the nine months ended December 31, 2021) due to an increase in premium income by growth of in-force business, and effect from modified co-insurance. Investment income was 588 million yen (113.1% of the nine months ended December 31, 2021) mainly due to an increase in interest, dividends and other income and gains on money held in trust. Other ordinary income was 61 million yen. As a result, ordinary income for the nine months ended December 31, 2022 amounted to 22,249 million yen (115.3% of the nine months ended December 31, 2021).

Insurance claims and other was 9,137 million yen (148.0% of the nine months ended December 31, 2021) mainly due to an increase in insurance benefits related to COVID-19 and reinsurance commission from modified co-insurance. The ratio of insurance payment amounts to insurance premiums was 27.5% for the nine months ended December 31, 2022, compared with 19.9% for the nine months ended December 31, 2021. In addition, payment of insurance claims and benefits related to COVID-19 was 1,326 million yen for the nine months ended December 31, 2022. Provision for policy reserves and other came to 5,612 million yen (110.7% of the nine months ended December 31, 2021). The ratio of provision for policy reserves to insurance premiums was 32.2% for the nine months ended December 31, 2022, compared with 33.6% for the nine months ended December 31, 2021. Investment expenses was 93 million yen

mainly due to the recording of loss on sale of securities. Operating expenses amounted to 9,924 million yen (113.8% of the nine months ended December 31, 2021) mainly due to the investment in our marketing spend including advertising. The components of operating expenses were 6,424 million yen in marketing expenses (109.6% of the nine months ended December 31, 2021), 1,107 million yen in customer service expenses (116.1% of the nine months ended December 31, 2021), and 2,392 million yen in system and other expenses (125.4% of the nine months ended December 31, 2021). Other ordinary expenses was 1,213 million yen (95.3% of the nine months ended December 31, 2021). Consequently, ordinary expenses for the nine months ended December 31, 2022 totaled 25,980 million yen (122.3% of the nine months ended December 31, 2021).

As a result, ordinary profit totaled 3,731 million yen loss for the nine months ended December 31, 2022, compared with 1,948 million yen loss for the nine months ended December 31, 2021. Net income was 3,755 million yen loss, compared with 2,009 million yen loss for the nine months ended December 31, 2021.

In addition, fundamental profit, which is an indicator for the profitability of life insurance companies, amounted to 3,744 million yen loss, compared with 1,964 million yen loss for the nine months ended December 31, 2021. The components of fundamental profit were 1,662 million yen in mortality margin, 5,430 million yen loss in expense margin and 24 million yen in interest margin.

We are participating in reinsurance transactions from fiscal 2019 by modified co-insurance on part of our 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, 2022, the modified co-insurance resulted in raising ordinary income by 4,213 million yen (3,577 million yen of the nine months ended December 31, 2021), ordinary profit by 549 million yen (1,037 million yen of the nine months ended December 31, 2021), and net income by 549 million yen (1,037 million yen of the nine months ended December 31, 2021).

(2) Financial condition

Assets, liabilities and net assets

Total assets as of December 31, 2022 amounted to 67,897 million yen (67,820 million yen as of March 31, 2022). The major account balance was 47,583 million yen in securities mainly consisting of government bonds and corporate bonds with high credit ratings. Reinsurance accounts receivable was 4,522 million yen including 4,229 million yen of the balance of unamortized ceding commission for modified co-insurance.

Liabilities amounted to 51,031 million yen as of December 31, 2022 (45,749 million yen as of March 31, 2022), owing to an increase in policy reserves. The major account balances were 47,908 million yen in policy reserves and 1,246 million yen in reserves for outstanding claims.

Net assets amounted to 16,866 million yen as of December 31, 2022 (22,071 million yen as of March 31, 2022) mainly due to the recording of net loss for the nine months ended December

31, 2022 and a decrease in valuation difference on available-for-sale securities. 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, 2022 was 3,140.6% (3,182.8% as of March 31, 2022), which indicated that an adequate level of payment capacity was maintained.

Cash flows

For the nine months ended December 31, 2022, net cash provided by operating activities amounted to 1,230 million yen (2,181 million yen provided for the nine months ended December 31, 2021) though operating expenses increased. Net cash used by investing activities amounted to 1,897 million yen (6,537 million yen used for the nine months ended December 31, 2021) mainly due to acquisition of securities. Net cash used by financing activities amounted to 2 million yen (9,669 million yen provided for the nine months ended December 31, 2021).

Based on these activities described above, cash and cash equivalents as of December 31, 2022 totaled 7,092 million yen (7,761 million yen as of March 31, 2022).

(3) Business forecasts

The business forecasts for fiscal 2022 ending March 31, 2023 which was announced on November 10, 2022 remains unchanged as shown below.

(In millions of yen)

	Ordinary income	Ordinary profit (loss)	Net income (loss)
Business forecasts for fiscal 2022	30,000	(5,000)	(5,000)
(Reference) Business results for fiscal 2021	26,167	(3,245)	(3,319)

The business forecasts for fiscal 2022 includes the impact of reinsurance transactions by modified co-insurance. We expect the impact of these reinsurance transactions on fiscal 2022 forecasts to increase ordinary income by around 5,900 million yen, ordinary profit and net income by around 800 million yen. This impact includes the effects of amortization of reinsurance accounts receivable generated from reinsured business in past years.

As the table below indicates, we project annualized premium of policies-in-force of 24,300 million yen and annualized premium of new business of 4,200 million yen.

(Reference) Annualized premium

(In millions of yen)

	Annualized premium of policies-in-force	Annualized premium of new business
Business forecasts for fiscal 2022	24,300	4,200
(Reference) Business results for fiscal 2021	21,511	4,089

2. Non-consolidated Financial Statements

(1) Balance Sheets

	(In millions of yen)	
	March 31, 2022	Dec. 31, 2022
ASSETS		
Cash and deposits	3,761	4,092
Monetary claims bought	3,999	2,999
Money held in trust	5,460	5,221
Securities	47,425	47,583
Government bonds	8,946	8,619
Municipal bonds	1,469	1,431
Corporate bonds	24,042	24,331
Stocks	492	577
Foreign securities	98	597
Other securities	12,375	12,025
Tangible fixed assets	97	81
Intangible fixed assets	1,293	1,291
Agency accounts receivable	7	8
Reinsurance accounts receivable	3,881	4,522
Other assets	1,892	2,096
Accounts receivable	1,585	1,758
Other	306	338
Total assets	<u>67,820</u>	<u>67,897</u>
LIABILITIES		
Policy reserves and other	43,542	49,155
Reserves for outstanding claims	984	1,246
Policy reserves	42,558	47,908
Agency accounts payable	48	71
Reinsurance accounts payable	404	476
Other liabilities	1,379	1,206
Reserves under the special laws	102	121
Reserve for price fluctuations	102	121
Deferred tax liabilities	271	—
Total liabilities	<u>45,749</u>	<u>51,031</u>
NET ASSETS		
Capital stock	21,655	21,676
Capital surplus	21,655	21,676
Retained earnings	(21,936)	(25,691)
Treasury shares	(0)	(0)
Shareholders' equity	<u>21,373</u>	<u>17,661</u>
Valuation difference on available-for-sale securities	697	(795)
Valuation and translation adjustments	697	(795)
Total net assets	<u>22,071</u>	<u>16,866</u>
Total liabilities and net assets	<u>67,820</u>	<u>67,897</u>

(2) Statements of Operations

	(In millions of yen)	
	Nine months ended Dec. 31	
	2021	2022
Ordinary income	19,300	22,249
Insurance premiums and other	18,720	21,599
Premiums income	14,633	16,627
Reinsurance income	4,087	4,972
Investment income	519	588
Interest, dividends and other income	287	354
Gains on money held in trust	53	114
Gain on sales of securities	178	119
Other ordinary income	59	61
Other	59	61
Ordinary expenses	21,248	25,980
Insurance claims and other	6,174	9,137
Insurance claims	1,810	2,048
Benefits	1,103	2,523
Other refunds	1	0
Reinsurance commissions	3,259	4,563
Provision for policy reserves and other	5,071	5,612
Provision for reserves for outstanding claims	157	261
Provision for policy reserves	4,913	5,350
Investment expenses	4	93
Interest expenses	0	2
Loss on sales of securities	—	91
Foreign exchange losses	0	—
Other investment expenses	4	0
Operating expenses	8,724	9,924
Other ordinary expenses	1,273	1,213
Ordinary profit (loss)	(1,948)	(3,731)
Extraordinary losses	58	21
Loss on disposal of non-current assets	39	2
Provision of reserves under the special laws	18	18
Provision of reserve for price fluctuations	18	18
Income (loss) before income taxes	(2,006)	(3,752)
Income taxes-current	2	2
Income taxes	2	2
Net income (loss)	(2,009)	(3,755)

(3) Statements of Cash Flows

	(In millions of yen)	
	Nine months ended Dec. 31	
	2021	2022
Cash flows from operating activities		
Income (loss) before income taxes	(2,006)	(3,752)
Depreciation and amortization	298	293
Increase (decrease) in reserves for outstanding claims ..	157	261
Increase (decrease) in policy reserves	4,913	5,350
Increase (decrease) in reserve for price fluctuations	18	18
Interest, dividends and other income	(287)	(354)
Loss (gain) related to securities	(178)	(28)
Interest expenses	1	2
Loss (gain) property plant and equipment	2	0
Share issuance costs	130	—
Decrease (increase) in agency accounts receivable	1	(0)
Decrease (increase) in reinsurance accounts receivable ..	(992)	(641)
Decrease (increase) in other assets <excluding assets for investing and financing activities>	(166)	(199)
Increase (decrease) in agency accounts payable	(21)	23
Increase (decrease) in reinsurance accounts payable	78	71
Increase (decrease) in other liabilities <excluding liabilities for investing and financing activities> ..	(174)	(171)
Other, net	15	(78)
Subtotal	<u>1,789</u>	<u>795</u>
Interest and dividends income received	405	445
Interest expenses paid	(0)	(2)
Income taxes (paid) refund	(12)	(7)
Net cash provided by (used in) operating activities	<u>2,181</u>	<u>1,230</u>
Cash flows from investing activities		
Purchase of money held in trust	—	(0)
Proceeds from decrease in money held in trust	500	240
Purchase of securities	(8,059)	(7,096)
Proceeds from sales and redemption of securities	1,461	5,235
Total of net cash provided by (used in) investment transactions ..	<u>(6,098)</u>	<u>(1,621)</u>
Total of net cash provided by (used in) operating activities and investment transactions ..	<u>(3,916)</u>	<u>(390)</u>
Purchase of tangible fixed assets	(33)	(1)
Purchase of intangible fixed assets	(405)	(274)
Net cash provided by (used in) investing activities	<u>(6,537)</u>	<u>(1,897)</u>
Cash flows from financing activities		
Proceeds from issuance of common stock	9,641	—
Proceeds from issuance of stock resulting from exercise of subscription rights to shares ..	31	—
Purchase of treasury shares	(0)	(0)
Repayments of lease obligations	(3)	(2)
Net cash provided by (used in) financing activities	<u>9,669</u>	<u>(2)</u>
Net increase (decrease) in cash and cash equivalents	<u>5,313</u>	<u>(669)</u>
Cash and cash equivalents, beginning of the year	<u>3,059</u>	<u>7,761</u>
Cash and cash equivalents, end of the period	<u>8,373</u>	<u>7,092</u>

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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