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(Securities Code: 7157, TSE Growth)

Financial Results for 1Q of Fiscal 2022 Ending March 31, 2023
Annualized premium of in-force business of 22,142 million yen, up 2.9% of March 31, 2022

TOKYO, August 10, 2022 - LIFENET INSURANCE COMPANY (TSE Growth 7157, President Ryosuke Mori, URL: <https://ir.lifenet-seimei.co.jp/en/>) discloses financial results for the first quarter of fiscal 2022 ending March 31, 2023.

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

(1) Business results

Condition of policies-in-force

Annualized premium^{*1} of new business in 1Q ended June 30, 2022 was 969 million yen (86.3% of 1Q of fiscal 2021). The number of new business was 23,928 (86.8% of 1Q of fiscal 2021). Annualized premium of policies-in-force as of the end of 1Q of fiscal 2022 stands at 22,142 million yen (102.9% of March 31, 2022). The number of policies-in-force resulted in a total of 522,604 (103.0% of March 31, 2022). Surrender and lapse ratio^{*2} for 1Q of fiscal 2022 was 6.4% (7.6% for 1Q of fiscal 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 1Q of fiscal 2022 increased to 6,957 million yen (119.0% of 1Q of fiscal 2021) due to an increase in premium income by growth of in-force business, and effect from modified co-insurance. Investment income was 221 million yen (296.8% of 1Q of fiscal 2021) mainly due to an increase in gains on money held in trust. Other ordinary income was 22 million yen. As a result, ordinary income for 1Q of fiscal 2022 amounted to 7,201 million yen (121.2% of 1Q of fiscal 2021).

Insurance claims and other was 2,821 million yen (148.0% of 1Q of fiscal 2021) mainly due to an increase in insurance benefits related to COVID-19, and reinsurance commissions from modified co-insurance. The ratio of insurance payment amounts to insurance premiums was 26.3% for 1Q of fiscal 2022, compared with 19.9% for 1Q of fiscal 2021. In addition, payment of insurance claims and benefits related to COVID-19 was 278 million yen. Investment expenses was 91 million yen mainly due to the recording of loss on sale of securities. Provision for policy reserves and other came to 1,736 million yen (109.1% of 1Q of fiscal 2021). The ratio of provision for policy reserves to insurance premiums was 31.4% for 1Q of fiscal 2022, compared with 32.6% for 1Q of fiscal 2021. Operating expenses amounted to 3,220 million yen (108.7% of 1Q of fiscal 2021) mainly due to the investment in our marketing spend including advertising. The components of operating expenses were 2,079 million yen in marketing expenses (102.3% of 1Q of fiscal 2021), 347 million yen in customer service expenses (113.2% of 1Q of fiscal 2021), and 793 million yen in system and other expenses (127.5% of 1Q of fiscal 2021). Other ordinary expenses was 393 million yen (98.2% of 1Q of fiscal 2021). Consequently, ordinary expenses for 1Q of fiscal 2022 totaled 8,264 million yen (120.4% of 1Q of fiscal 2021).

As a result, ordinary profit totaled 1,062 million yen loss for 1Q of fiscal 2022, compared with

920 million yen loss for 1Q of fiscal 2021. Net income was 1,071 million yen loss, compared with 926 million yen loss for 1Q of fiscal 2021.

In addition, fundamental profit, which is an indicator for the profitability of life insurance companies, amounted to 1,063 million yen loss, compared with 856 million yen loss for 1Q of fiscal 2021. The components of fundamental profit were 661 million yen in mortality margin, 1,707 million yen loss in expense margin and 17 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 1,324 million yen (956 million yen of 1Q of fiscal 2021), ordinary profit by 199 million yen (206 million yen of 1Q of fiscal 2021), and net income by 199 million yen (206 million yen of 1Q of fiscal 2021).

(2) Financial condition

Assets, liabilities and net assets

Total assets as of June 30, 2022 amounted to 67,935 million yen (67,820 million yen as of March 31, 2022). The major account balance was 46,667 million yen in securities mainly consisting of government bonds and corporate bonds with high credit ratings. Reinsurance accounts receivable was 4,130 million yen including 3,864 million yen of the balance of unamortized ceding commission for modified co-insurance.

Liabilities amounted to 47,386 million yen as of June 30, 2022 (45,749 million yen as of March 31, 2022), owing to an increase in policy reserves. The major account balances were 44,244 million yen in policy reserves and 1,034 million yen in reserves for outstanding claims.

Net assets amounted to 20,549 million yen as of June 30, 2022 (22,071 million yen as of March 31, 2022), due to the recording of net loss for 1Q of fiscal 2022. 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, 2022 was 3,297.1% (3,182.8% as of March 31, 2022), which indicated that an adequate level of payment capacity was maintained.

Cash flows

For 1Q of fiscal 2022, net cash provided by operating activities amounted to 180 million yen (496 million yen provided for 1Q of fiscal 2021) mainly because of an increase in insurance premium. Net cash provided by investing activities amounted to 330 million yen (1,409 million yen used for 1Q of fiscal 2021) mainly due to sales of securities. Net cash used by financing activities amounted to 1 million yen (12 million yen provided for 1Q of fiscal 2021).

Based on these activities described above, cash and cash equivalents as of June 30, 2022

totaled 8,271 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 May 12, 2022 remains unchanged as shown below.

(In millions of yen)

	Ordinary income	Ordinary profit (loss)	Net income (loss)
Business forecasts for fiscal 2022	30,300	(3,400)	(3,400)
(Reference) Business results for fiscal 2021	26,167	(3,245)	(3,319)
Change	15.8%	-	-

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 6,300 million yen, ordinary profit and net income by around 1,000 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.

As the table below indicates, we project annualized premium of policies-in-force of 24,400 million yen and annualized premium of new business of 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 2022	24,400	4,400
(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	June 30, 2022
ASSETS		
Cash and deposits	3,761	4,271
Monetary claims bought	3,999	3,999
Money held in trust	5,460	5,449
Securities	47,425	46,667
Government bonds	8,946	8,897
Municipal bonds	1,469	1,457
Corporate bonds	24,042	24,783
Stocks	492	489
Foreign securities	98	398
Other securities	12,375	10,641
Tangible fixed assets	97	91
Intangible fixed assets	1,293	1,230
Agency accounts receivable	7	8
Reinsurance accounts receivable	3,881	4,130
Other assets	1,892	2,085
Accounts receivable	1,585	1,757
Other	306	327
Total assets	<u>67,820</u>	<u>67,935</u>
LIABILITIES		
Policy reserves and other	43,542	45,279
Reserves for outstanding claims	984	1,034
Policy reserves	42,558	44,244
Agency accounts payable	48	60
Reinsurance accounts payable	404	422
Other liabilities	1,379	1,419
Reserves under the special laws	102	108
Reserve for price fluctuations	102	108
Deferred tax liabilities	271	96
Total liabilities	<u>45,749</u>	<u>47,386</u>
NET ASSETS		
Capital stock	21,655	21,655
Capital surplus	21,655	21,655
Retained earnings	(21,936)	(23,007)
Treasury shares	(0)	(0)
Shareholders' equity	<u>21,373</u>	<u>20,302</u>
Valuation difference on available-for-sale securities	697	247
Valuation and translation adjustments	697	247
Total net assets	<u>22,071</u>	<u>20,549</u>
Total liabilities and net assets	<u>67,820</u>	<u>67,935</u>

(2) Statements of Operations

	(In millions of yen)	
	Three months ended June 30	
	2021	2022
Ordinary income	5,942	7,201
Insurance premiums and other	5,848	6,957
Premiums income	4,693	5,367
Reinsurance income	1,155	1,590
Investment income	74	221
Interest, dividends and other income	68	119
Gains on money held in trust	6	62
Gain on sales of securities	—	39
Other ordinary income	19	22
Other	19	22
Ordinary expenses	6,862	8,264
Insurance claims and other	1,907	2,821
Insurance claims	605	748
Benefits	328	662
Other refunds	0	0
Reinsurance commissions	973	1,410
Provision for policy reserves and other	1,592	1,736
Provision for reserves for outstanding claims	63	50
Provision for policy reserves	1,528	1,686
Investment expenses	0	91
Interest expenses	0	0
Loss on sale of securities	—	91
Foreign exchange losses	0	—
Operating expenses	2,963	3,220
Other ordinary expenses	400	393
Ordinary profit (loss)	(920)	(1,062)
Extraordinary losses	5	7
Loss on disposal of non-current assets	—	1
Provision of reserves under the special laws	5	6
Provision of reserve for price fluctuations	5	6
Income (loss) before income taxes	(925)	(1,070)
Income taxes-current	0	0
Income taxes	0	0
Net income (loss)	(926)	(1,071)

(3) Statements of Cash Flows

	(In millions of yen)	
	Three months ended June 30	
	2021	2022
Cash flows from operating activities		
Income (loss) before income taxes	(925)	(1,070)
Depreciation and amortization	114	99
Increase (decrease) in reserves for outstanding claims ..	63	50
Increase (decrease) in policy reserves	1,528	1,686
Increase (decrease) in reserve for price fluctuations	5	6
Interest, dividends and other income	(68)	(119)
Loss (gain) related to securities	—	51
Interest expenses	0	0
Decrease (increase) in agency accounts receivable.....	(1)	(1)
Decrease (increase) in reinsurance accounts receivable ..	(192)	(249)
Decrease (increase) in other assets <excluding assets for investing and financing activities> ...	(90)	(204)
Increase (decrease) in agency accounts payable	(3)	11
Increase (decrease) in reinsurance accounts payable	16	17
Increase (decrease) in other liabilities <excluding liabilities for investing and financing activities> ..	(129)	(237)
Other, net.....	4	(49)
Subtotal	321	(8)
Interest and dividends income received.....	180	209
Interest expenses paid.....	(0)	(0)
Income taxes paid.....	(5)	(19)
Net cash provided by (used in) operating activities....	496	180
Cash flows from investing activities		
Purchase of money held in trust.....	—	(0)
Purchase of securities	(1,339)	(2,699)
Proceeds from sales and redemption of securities.....	100	3,081
Total of net cash provided by (used in) investment transactions .	(1,238)	381
Total of net cash provided by (used in) operating activities and investment transactions .	(742)	562
Purchase of tangible fixed assets.....	(2)	—
Purchase of intangible fixed assets	(167)	(50)
Net cash provided by (used in) investing activities	(1,409)	330
Cash flows from financing activities		
Proceeds from issuance of stock resulting from exercise of subscription rights to shares ..	14	—
Repayments of lease obligations	(1)	(1)
Net cash provided by (used in) financing activities....	12	(1)
Net increase (decrease) in cash and cash equivalents	(900)	510
Cash and cash equivalents, beginning of the year	3,059	7,761
Cash and cash equivalents, end of the period.....	2,158	8,271

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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