

Q1 2021 Earnings Call

Company Participants

- Takayuki Yuasa, Executive Vice President, Group Chief Financial Officer, Representative Director

Presentation

Takayuki Yuasa {BIO 17941516 <GO>}

I am Yuasa, group CFO. Once again, thank you all very much for participating in our conference call today despite your busy schedule. And as Mr. Ishiguro just mentioned, conventionally, group CFO has not participated in earnings calls. But since we announced our full year projections, I decided to join this conference call today. Let me now present to you actual results as well as projections.

Please turn to Page 3 of the presentation material. First, top line results. During the first quarter, on the current -- on the currency-neutral basis, net premiums written increased by 8.3% year-on-year and life insurance premiums declined by 3.8% year-on-year, both of which were affected by COVID-19. And excluding the impact of the coronavirus, we realized steady growth in both domestic and international business.

Next, please turn to Page 4. This is the statutory consolidated net income in the first quarter, mainly due to the impact of COVID-19 by JPY 29.3 billion, net income declined by JPY 13.4 billion over the year to JPY 99.2 billion. Excluding the impact of COVID-19, despite the following net investment profit, which were expected from the beginning of the year in the international business, thanks to a decrease in large and medium-sized losses in TMNF as well as top line growth, net income increased by JPY 15.9 billion from a year ago.

Next, please go to Page 5. Here's adjusted net income, which is calculated by subtracting the impact of cat loss reserve and goodwill, amongst others, from the statutory net income that I just touched upon. Adjusted net income decreased by JPY 6.6 billion to JPY 141 billion. This is also impacted by COVID-19. And excluding the impact, adjusted net income increased by JPY 22.2 billion from a year ago, demonstrating a steady enhancement of our earnings capabilities.

I will now discuss FY '20 full year projections. Please proceed to Page 18. Our full year projections were not available since it was difficult to make a reasonable calculation as of May. But we decided to disclose our projections today because: one, while situations are still quite mixed in different countries in the world, economic activities are now gradually resuming; and second, in the international insurance business that is mainly impacted by COVID-19, first 6 months have passed and we now have visibility into full year performance. Back in May, we projected our underlying adjusted net income of JPY 410

billion on the pre COVID-19 basis. And this time, we are projecting the net income of JPY 310 billion, subtracting JPY 100 billion as the impact of COVID-19.

Please go to Page 19 for impacts of COVID-19. In May, we explained the impact on underwriting profit for the full year fiscal 2020 to be JPY 30 billion to JPY 40 billion. This was based on a scenario where the situation in and around May will continue until the end of June, after which economic activities will recover towards the end of the year. This time, we estimate the full year impact to be negative JPY 52 billion, mainly coming from event cancellation and business interruption that explicitly cover communicable diseases, minus JPY 35 billion, which is in line with our original forecast to be JPY 30 billion to JPY 40 billion. In addition to this, a total of JPY 17 billion in additional impact is factored in to our new forecast by including: one, impact of COVID-19 on premiums written in April to June period; and two, impact of non-damage BI that are emerging from litigations overseas regarding coverage, among others.

This type of BI, we believe, is not necessarily what we should be paying for. And therefore, we will assert what we should be asserting. However, having said that, we decided to factor it in as conservative estimate. While most up-to-date situation in the field has been taken into account as our best estimate, the possibility of second and third waves of COVID-19 and the extent of economic recovery is quite unpredictable. However, even under such circumstances, the company's losses will not be doubled as explained in May. BI and workers' compensation in the United States, we think, is currently moving in a well-balanced favorable direction, although there are -- there remains some areas of lack of clarity in politics and litigation. We will continue to keep a close eye on the development.

Next is investment. Full year impact is estimated at JPY 48 billion. In May, we showed first quarter results overseas to be minus JPY 32 billion. During Q&A, by way of comparing default losses from credit risk investment during the global financial crisis, we explained the possibility of an additional loss of JPY 30 billion to JPY 40 billion. Our new estimate reflects best estimates of investment units in and outside of Japan based on most of today's situation. This breaks down into minus JPY 15 billion impact in income, such as decline in interest rate and dividend income and minus JPY 33 billion impact in capital, such as default losses of credit risk assets, such as municipal bonds, losses on sales or valuation of stocks.

We often receive questions of CLO or CRE loans. But we have almost no impairment losses as of end of June. If however we see double dip or triple dip, we could be affected in the short term. We will continue to keep close watch. As explained, the company will be impacted by COVID-19 to a certain extent, especially overseas. However, it will be short-lived and will be an earnings event. Under such a situation, the company is working on a corporate strategy in a -- with COVID-19 and after COVID-19 world.

For example, how are we to capture opportunities of a hardening market by leveraging our risk selection capabilities or how to deal with M&A pipeline. Deliberation is ongoing in order to ensure ourselves to achieve our goal of adjusted net income of JPY 500 billion and more than 12% in adjusted ROE. By increasing our stability and profitability over the

medium and long term, we intend to respond to the expectations of our shareholders. Your continued support and understanding is greatly appreciated. That is all from me.

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