

## Conference Call Q&A (November 19, 2020) – 1H FY2020 Results

### Overview

Q: What changes have been made from the beginning of the fiscal year to the provisionally estimated scenario for the impact of COVID-19? How have the possibility of a future resurgence in COVID-19 infections been factored in?

A: At the beginning of the fiscal year, we had assumed that within 2020, the COVID-19 pandemic would end, and economic activity would return to normal. It is still uncertain when the COVID-19 pandemic will come to an end. In this environment, we have revised the amount of the impact in consideration of the outlook for negative real GDP growth and market assumptions as of the end of September 2020.

Q: How much does COVID-19 impact on the full-year forecast of adjusted profit? Also, the impact of COVID-19 (J-GAAP basis) in the domestic P&C insurance business was +23.0 billion yen in 1H FY2020, while it is projected to be +12.0 billion yen for the full year. What kind of factors will be negative impacts in 2H FY2020?

A: The impact of COVID-19 on the full-year forecast of adjusted profit is expected to be +28.0 billion yen in the domestic P&C insurance business, -19.0 billion yen in the overseas insurance business, -1.5 billion yen in the domestic life insurance business, and -1.5 billion yen in the nursing care & healthcare business, bringing the total to +6.0 billion yen. The main reason for the negative impact of COVID-19 (J-GAAP basis) in the domestic P&C insurance business in 2H FY2020 is the additional provisions to catastrophic loss reserve.

Q: What will be the main factors behind the changes in business forecast for FY2021 relative to FY2020? Will the absence of one-time factors such as the impacts of natural disasters and COVID-19 at SI be positive impact, while earnings will decrease in domestic automobile insurance due to a pull-back from FY2020?

A: Although it is difficult to forecast the future impact of COVID-19 at this time, there is a possibility that the impact of the reduced accident rate under the state of emergency declaration in Japan may be absent in FY2021. Meanwhile, we view the impact of natural disasters and so forth at SI as one-time factors. Accordingly, we believe that this situation will serve as a factor behind increased earnings in our business forecast for FY2021.

### Capital Policy and Shareholder Return

Q: What kinds of internal discussions were held to consider share buybacks in 1H FY2020?

A: We have so far conducted share buybacks as a means of providing shareholder returns from annual profits, which represent a flow variable over an interval of time. It has not conducted share buybacks for the purpose of adjusting capital, which represents a quantity of stock at a point in time. We held discussions on share buybacks in 1H FY2020 from many different angles. Given that there are uncertain factors such as the impact of future natural disasters and COVID-19, we decided not to conduct share buybacks in 1H FY2020. When we disclose our business result for FY2020, we plan to provide shareholder returns based on it.

Q: Palantir's share price is rising. What impact will this have on ESR? As ESR approaches the ceiling of its target range, is there any chance that shareholder returns to adjust capital levels may be provided in the future?

A: Based on Palantir's share price as of the end of September 2020, the impact of Palantir's share price on ESR would be around +3 points. We are considering our shareholder return policy within the framework of the next mid-term management plan. Accordingly, we will be disclosing our shareholder return policy at events

such as IR meetings and the announcement of the next mid-term management plan in May 2021.

#### Domestic P&C Insurance Business

Q: Net loss incurred in domestic automobile insurance decreased in 1H FY2020. What is the outlook for 2H FY2020?

A: In 1H FY2020, the accident rate decreased because of a decline in traffic under the state of emergency declaration from April to May. Thereafter, the accident rate has continued to decline, albeit at a gradual pace. In 2H FY2020, the accident rate is forecast to continue to decrease to a certain extent.

Q: The projected amount of the sale of strategic-holding stocks was reduced from 100.0 billion yen to 72.0 billion yen for the full year. What was the background to this revision? What is the policy on sales of strategic-holding stocks for the next fiscal year onward?

A: In 1H FY2020, we sold 22.5 billion yen of strategic-holding stocks. We have been carrying out sales cautiously and thoughtfully, while considering the COVID-19 situation. Based on current conditions, we reduced the projected amount of these sales in our full-year business forecasts. We are currently discussing our policy on sales of strategic-holding stocks within the framework of the next mid-term management plan.

#### Overseas Insurance Business

Q: What factors were behind the downward revision to the FY2020 full-year business forecast for SI's underwriting profit? Is there any risk that the downward revision will continue to have an impact in the next fiscal year and beyond? Also, what factors were behind the substantial upward revision to the top-line forecast relative to the initial forecast?

A: The main reasons for the downward revision to SI's FY2020 full-year business forecast for underwriting profit were that the impacts of COVID-19 and natural disasters were factored into the forecast. Regarding the impact of COVID-19, although almost no actual payments have been made at this time, we have factored a conservative estimate of this impact into our full-year business forecasts as an IBNR loss reserve. As for the impact of natural disasters, considering factors such as the occurrence of hurricanes in 2Q FY2020, we have increased the assumption of the natural disasters. For the next fiscal year onward, we believe that there will be no problems with base profitability, given that SI is pursuing diversification across product lines and regions based on strict underwriting standards, in addition to the natural disaster impacts being one-time factors. Turning to SI's topline, we raised the top-line outlook from a year-on-year increase of 13% at the beginning of the fiscal year to an increase of 27%. This upward revision reflects the fact that rate increases for FY2020, which had been projected at 8% year on year at the beginning of the fiscal year, reached more than 20% year on year in our actual results for 1H FY2020.

Q: Will the rate increases at SI continue in FY2021?

A: While there is a possibility that the market hardening cycle will continue in FY2021 onward, it is difficult to predict at this time what the rate increases will be like in the future.