MANAGEMENT'S DISCUSSION AND ANALYSIS

FY2018 (from April 1, 2018, to March 31, 2019)

OVERALL EARNINGS IN FY2018

The Credit Saison Group has applied the International Financial Reporting Standards (IFRS) to its consolidated accounts from fiscal 2018. For the purpose of comparison, financial data for the previous fiscal year are also presented under IFRS.

The Group has also applied IFRS 9 (Financial Instruments) from the beginning of FY2018 (April 1, 2018).

In the fiscal year under review, the domestic economy remained on a gradual recovery track as employment and income conditions continued to improve, while various measures implemented by the government also yielded some benefit. At the same time, there are conditions that bear watching; namely, the effect trade issues have on the global economy, the outlook for the Chinese economy, uncertainty surrounding developments and policies in overseas economies, and the impact of volatility in financial capital markets.

Against this backdrop, we entered the final year of our medium-term business plan in which we set out our medium-term management vision of becoming a "Neo Finance Company in Asia" under our "leading-edge service company" management philosophy. Mainly by using leading-edge technologies and combining our existing strengths with new strengths, we have continued to embrace the challenge of transforming into an innovative corporate entity that continually leverages technological innovation such as FinTech to address changes in customer values and the breakdown of existing business models.

NET REVENUE

Table 1 shows a breakdown of net revenue. Net revenue in FY2018 came to ¥304.855 billion (+4.0% YoY), mainly reflecting increases in card shopping transaction volume and card shopping revolving credit balance in the payment business segment and a higher credit guarantee balance and loan balance for Saison Asset Formation Loans in the finance business segment.

Table 1: Main items in consolidated income statement

	(Millions of yen)		
	2018	2017	% change
Income from the payment business	226,250	221,049	2.4
Income from the lease business	12,579	12,860	△2.2
Income from the finance business	39,231	35,536	10.4
Income from the real estate-related business	17,177	14,292	20.2
Income from the entertainment business	8,761	9,288	△5.7
Financial income	854	223	281.9
Total net revenue	304,855	293,250	4.0

Table 2 shows a breakdown of income from the payment business segment.

Table 2: Breakdown of income from payment business segment

	(Millions of yen)		
	2018	2017	% change
Card shopping	136,464	132,016	3.4
Merchant fees	75,003	73,876	1.5
Customer fees	53,091	49,940	6.3
Annual fees, etc.	8,368	8,199	2.1
Cash advances	33,084	34,735	△4.8
Loans on deeds	1,071	1,298	△17.5
Processing/transactions handled on behalf of other companies' cards	28,227	27,034	4.4
Agency services	15,896	15,130	5.1
Credit service-related income	11,507	10,834	6.2
Total credit service business income	226,250	221,049	2.4

SG&A EXPENSES AND IMPAIRMENT OF FINANCIAL ASSETS

Table 3 shows a breakdown of selling, general and administrative (SG&A) expenses and impairment of financial assets. SG&A expenses and impairment of financial assets came to ¥255.063 billion (+4.8% YoY) due mainly to an increase in costs linked to growth in card transaction volume and a higher depreciation burden from the joint core system.

Table 3: Breakdown of SG&A expenses and impairment of financial assets

	(Millions of yen)		
	2018	2017	% change
Cost of uncollectible receivables	34,265	30,083	13.9
Impairment of financial assets (receivables)	26,352	22,338	18.0
Impairment of financial assets (financial guarantee contracts)	7,736	7,117	8.7
Provision for losses on interest repayment	176	627	△71.8
SG&A expenses excluding cost of uncollectible receivables	220,797	213,398	3.5
Included in the above:Advertising expenses	24,320	26,445	△8.0
Provision for point program	13,033	16,642	△21.7
Personnel expenses	50,888	50,966	△0.2
Fees paid	74,888	69,722	7.4
Total SG&A expenses and impairment of financial assets	255,063	243,482	4.8

FINANCIAL COSTS

Financial costs came to ¥9.878 billion (+7.2% YoY).

EQUITY-METHOD INCOME

Equity-method income came to ¥7.355 billion (–40.2% YoY).

OTHER REVENUE

Other revenue came to ¥4.138 billion (–69.2% YoY), reflecting the dropout of capital gains on the sale of investment securities booked the previous fiscal year.

OTHER EXPENSES

Other expenses came to ¥5.643 billion (–58.0% YoY) owing to lower one-off costs associated with the migration to the new joint core system compared to the previous fiscal year.

As a result of the above, net income attributable to owners of the parent totaled ¥30.517 billion (–20.6% YoY).

SEGMENT CONDITIONS

<Payment Segment>

The credit service segment is composed of the credit card business and servicer (loan collection agency) business.

In FY2018 we worked to bolster the segment's earnings base. In particular, we promoted cashless transactions by remodeling the credit card business, created business by leveraging digital devices and customer data, further developed our retail finance businesses in Asia, and built a platform for our longer-term overseas strategy. In addition, we have sought to improve business efficiency by, for example, continuously taking steps to deal with credit risk and automating customer services and back-office operations with the use of technology.

Although net revenue for the segment totaled ¥228.518 billion (+2.7% YoY), business income decreased 39.4% year on year to ¥16.915 billion mainly because of the fallback from year-earlier gains on the partial sale of investment securities held by an equity method affiliate, higher costs linked to growth in card transaction volume, and an increase in depreciation burden from the joint core system that came online in November 2017.

1. Credit Card Business

In terms of the key indicators for FY2018, we added 2.11 million new card members, a decrease of 13.5% year on year. The total number of card members at the end of FY2018 dipped 0.6% from the previous fiscal year-end to 26.79 million, while the number of active card members for the year also dropped 0.6% to 14.90 million.

Card shopping transaction value came to ¥4,788.5 billion (+2.3% YoY), while cash advance transaction value totaled ¥248.7 billion (–2.1%). At the end of the fiscal year, the card shopping revolving credit balance stood at ¥422.5 billion (+2.0% YoY) and the balance of cash advances at ¥231.8 billion (–0.4%).

a) Promoting cashless payments by remodeling our credit card businesses

We aim to become the number one company in the cashless payment market by diversifying payment services and breaking the dominance of the cash market with credit cards, prepaid cards, smartphone payments, and mobile POS systems. Beyond consumer initiatives, we are working to tap into the corporate payments market by expanding the domain of cashless payments in the corporate transaction space and improving back-office operational efficiency with optimal solutions to meet the scale and needs of companies.

- In aiming to expand our customer base, we continued to recruit prospective platinum and gold card members, which offer the prospect of high utilization and high spending per transaction, especially for our Mitsui Shopping Park Card Saison, a credit card we issue together with Mitsui Fudosan and Mitsui Fudosan Retail Management, as well as our premium card series Saison American Express® Card. In addition, we strove to increase membership in corporate and individual proprietor cards that help support business operations.
- To expand card transaction volume, in July 2018 we launched a QR code-based payment service for holders of the Mitsui Shopping Park Card Saison using the Mitsui Shopping Park smartphone app. We also stepped up promotions to stimulate card usage centering on affiliated merchants, as well as campaigns targeting revolving credit and seasonal bonus-based debt repayments. And we continued to encourage card use for settling recurring payments such as utility bills, mobile phone subscriber fees, taxes, and insurance premiums.
- As for initiatives to tap into the corporate market, we formed alliances with companies such as a cloud-based expense settlement solutions firm to offer companies a way to considerably reduce their expense settlement

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workload by combining their service with our corporate cards. We also endeavored to provide optimal solutions tailored to the business scale and requirements of companies mainly through the issuance of the Saison Platinum Business American Express® Card, a business card that meets the business expense settlement needs of individual proprietors.

- In expanding the scope of credit card payments, we continue to handle system development and operations for the prepaid "mijica" card issued by Japan Post Bank. This card now has Visa debit functionality and participates in the Eikyufumetsu Points program. We have now issued more than 50 million prepaid cards in total, including the COCOKARA CLUB CARD, which we issue via a tie-up with leading drugstore chain Cocokara Fine, the au WALLET Prepaid Card and prepaid MasterCard®-branded Web Money Card, for which we handle card issuance and other operations in collaboration with KDDI and WebMoney, respectively, and Osaifu Ponta, a card issued by Lawson for which we are responsible for membership management.
- As a new initiative, we concluded a memorandum of understanding with Liquid, a company that develops biometric personal identification technology, and kicked off the process of investigating new online-based methods of identification in order to alleviate the burden of customers going through personal verification procedures.

b) Business creation leveraging digital devices and customer data

We made efforts to further expand net members and smartphone app users in order to capture opportunities in the still-expanding online marketplace and also engaged in flexible collaborations with venture companies boasting new technologies and leading firms that possess high-quality content platforms. By melding big data generated by our card members with premium content and digital technology, we are endeavoring to establish a new business model through which we actively develop and deliver various proprietary products and services such as Saison DMP/DSP* and our Point Investment Service.

*Saison DMP is our big data platform; Saison DSP is our Saison DMP-powered managed advertising service.

- We aim to contribute to the sound development of the broader financial market by sparking interest and involvement in financial products among various customer segments, but mainly the younger generation and female users, by letting them easily experience investing through our Point Investment Service using Saison Eikyufumetsu Points. By providing this long-term investment simulation experience—which has four investment courses (active, balanced, Japanese equity (TOPIX), and US equity (VOO)) and a savings feature—many of our customers have used the service as a catalyst to learn about investment and take their first steps toward building wealth. And in September 2018 we launched an equities course in which users can experience investing their Saison Eikyufumetsu Points by linking them to the share prices of real companies.
- By leveraging our internet member base of 15.82 million (+5.4% YoY) and the 5.49 million (+37.9%) app downloads, through partnerships that enable us to mine data we own with respect to customer attributes, card usage history, and web behavior history, along with the data of third parties, we are working to create big data-driven marketing and ad businesses in which we can deliver marketing solutions to corporate clients and send appropriate information to card members.

c) Initiatives for managing credit risk

For initial and intermediate credit checks, we are working to reduce damage from improper use via stronger monitoring and implement appropriate credit checks in response to customer conditions and internal and external environments. In debt collection, we take steps to prevent delinquencies by sending reminders to send payments before a payment deadline. Meanwhile, we preserve the soundness of our receivables portfolio by providing compassionate support to delinquent customers through much-improved contact and counseling. Moreover, we aim to provide safe and secure transaction environments mainly by enhancing the accuracy of detecting unauthorized credit card use by equipping our systems with artificial intelligence. We also seek to improve customer satisfaction with highly convenient services.

d) Advancing our retail finance businesses in Asia and laying the foundations for a longer-term overseas strategy

We identify our overseas business as a future earnings pillar and are therefore stepping up our full-scale entry into the retail finance business to meet the needs of each country in the rapidly growing Asian region.

- In Vietnam, HD Saison Finance Company is expanding its operations mainly in the installment credit business for items such as motorcycles and home appliances. We are successfully boosting our presence in the country, reflected in the steady increase in both sales offices and credit balance. We have also managed to launch our credit business there sooner than expected after pushing ahead with preparations since last year. Our goal is to become the dominant number one comprehensive retail finance company in Vietnam.
- In Indonesia, PT. Saison Modern Finance started cooperating with FinTech players in the rapidly growing field of P2P lending. We are looking to move into profit in the digital lending business and accelerate growth with the aim of establishing Indonesia's only multi e-finance company.
- Grab Financial Services Asia, a company we established under a capital tie-up with leading Southeast Asian ridesharing service operator Grab (now Grab Holdings), is making preparations for the full-scale launch of its smartphone-based digital lending business in Southeast Asian countries. Initially, the business will start extending loans to registered Grab drivers before being expanded to ordinary customers later on. In the future we aim to establish a credit scoring system with a view to creating new businesses and commercializing cardless payments. Operations have already commenced in five countries in the region, including Singapore, and we will continue to work on boosting our presence in Southeast Asia.
- Siam Saison, a joint venture company we established through an alliance with SCG Trading—a subsidiary of the Siam Cement Group, Thailand's biggest construction group—and Mitsui & Co., started offering an array of BtoB financial services for Thailand's construction industry, including order placement and payment of materials and installment payments. We intend to contribute to the sustained development of the Thai economy by expanding this business to other industries in the future.

2. Servicer (Loan Collection Agency) Business

The servicer business is mainly engaged in the consignment collection of small unsecured loans. Net revenue increased owing to growth in the number of companies outsourcing receivable collections in the core agency services business. Accordingly, overall business profit also increased.

<Lease Segment>

Leveraging our know-how in credit examination and speed in granting credit as key strengths, we continue to mainly engage in sales of office automation (OA) equipment, kitchen equipment, and air conditioners to meet the capex plans of businesses. In the lease segment, we strengthened relationships of trust by implementing a joint campaign with existing mainstay lease dealers and worked to strengthen our marketing to new priority dealers. As a result, net revenue came to ¥12.586 billion (–2.3% YoY) and business income to ¥5.720 billion (+28.8%).

<Finance Segment>

The finance segment comprises the credit guarantee business and other finance-related business. In the former, we focused on securing favorable deals through close collaboration with partner financial institutions in terms of both marketing and controls. In other finance-related business, we worked to build up high-quality loans in our portfolio by meeting the needs of our sales partners, mainly with our Flat 35 loans and Saison Asset Formation Loans.

As a result of the above, net revenue in the fiscal year under review increased 10.4% year on year to ¥39.231 billion and business income rose 15.3% to ¥19.29 billion.

1. Credit Guarantee Business

- In the credit guarantee business, we focused on securing high quality transactions through close collaboration with partner financial institutions in terms of both marketing and credit controls, particularly in the area of guarantees for multi-purpose loans on deeds for individual customers.
- We endeavored to establish a sophisticated partnership framework with regional financial institutions through multi-purpose loan guarantee products where the allowable uses of loan proceeds were expanded to include business finance. As a result, Credit Saison maintained partnerships with 403 regional financial institutions in FY2018 (two less than in FY2017). The guarantee balance (before financial guarantee liabilities) increased 0.6% from the previous fiscal year-end to ¥346.6 billion.

2. Other Finance-related Business

- Underpinned by the sense of trust and reassurance in the Saison brand that we have cultivated through card member benefits and in our credit card business, we promoted our Flat 35 loans to assist home-buying customers, given that it comes packaged with Saison Home Assist Loans to cover miscellaneous expenses when purchasing a home. As a result, loans executed in FY2018 increased 13.4% year on year to 7,514 for an executed loan value of ¥221.7 billion (+12.8%) and the total loan balance (after transfer of receivables to Japan Housing Finance Agency) grew 28.8% from the previous fiscal year-end to ¥764.6 billion.
- The number of executed Saison Asset Formation Loans (loans for purchasing investment property) increased 42.9% year on year to 7,287 owing to greater cooperation with partners through study sessions and the like. The executed loan value for these loans climbed 37.8% year on year to ¥190.2 billion and the loan balance expanded 48.2% to ¥506.2 billion from the previous fiscal year-end.

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As a result of the above, the balance of receivables held in the other finance-related business came to ¥687.6 billion in FY2018, up 41.2% from the previous fiscal year-end.

We also started offering our Saison Renovation Loan in February 2019 to meet the needs of our customers for funds to undertake renovations. Customers can apply for this product online or through their smartphone and in place of a human operator, an AI-powered chatbot is ready to handle customer inquiries 24 hours a day, every day of the year. We have thus far met the needs of customers transitioning from renting to buying a home mainly with our Flat 35 loans, Saison Asset Formation Loans, and our Saison Rent Guarantee Rent Quick service, but we will continue to expand our so-called life-creation financial services with the addition of the Saison Renovation Loan.

<Real Estate-related Business Segment>

This segment comprises the real estate and real estate lease businesses. Chiefly owing to the impact of sustained demand for mainly non-investment properties driven by brisk market conditions, net revenue in FY2018 rose 17.0% year on year to ¥18.113 billion and business income grew 34.7% to ¥8.35 billion.

<Entertainment Business Segment>

This segment consists mainly of amusement businesses in which we strive to create sound, safe, and comfortable facilities that have the backing of our customers. In FY2018, net revenue dropped 5.7% year on year to ¥8.761 billion and business income declined 2.3% to ¥2.078 billion.

LIQUIDITY AND FINANCIAL POSITION

1. Fund Procurement

The Credit Saison Group emphasizes stability and low cost in fund procurement, and is endeavoring to diversify its procurement methods. Key procurement methods include counterparty transactions with banks, related financial institutions, life insurance companies, and non-life insurance companies, along with indirect fund procurement such as syndicated loans and establishing commitment lines with financial institutions. We also endeavor to procure funds directly, issuing corporate bonds and commercial paper. As of March 31, 2019, our consolidated interest-bearing debt stood at ¥2,203.8 billion (including lease obligations of ¥1.5 billion). Of this, loans accounted for 57.1%, corporate bonds for 18.8%, commercial paper for 23.2%, and securitization of receivables, etc. for 0.9%.

With regard to indirect procurement, Credit Saison is striving to mitigate refinancing risk and reduce costs by strengthening relationships with existing lenders. In addition, the Company aims to diversify sources of procurement by cultivating new lenders, focusing on financial institutions that offer the prospect of stable transactions over the long term. In the case of direct procurement, apart from corporate bonds and commercial paper, Credit Saison is aiming to mitigate liquidity risk and reduce costs by diversifying its financing methods to include the securitization of receivables, which are immune to the Company's creditworthiness.

To ensure smooth procurement of funds from capital markets, the Company has obtained credit ratings from Rating and Investment Information, Inc. (R&I) for the bonds that Credit Saison issues. The Company has received an A+ rating for its domestic unsecured corporate bonds and an a-1 rating for its domestic commercial paper.

2. Liquidity Management

Of the Credit Saison Group's assets, 65.5% are installment receivables, mainly in the credit service segment. Their annual average turnover rate is in excess of three times, helping Credit Saison to maintain a high level of liquidity.

3. Cash Flows

a) Cash Flows from Operating Activities

Net cash used in operating activities in FY2018 was ¥192.438 billion, compared to ¥40.023 billion used in the previous fiscal year.

The outflow was mainly due to the booking of ¥45.763 billion in pretax income and revenue from a net increase in trade receivables, including accounts payable, and other liabilities of ¥18.248 billion on the one hand, and a net increase in trade receivables, including installment receivables, and other receivables of ¥252.393 billion, on the other.

b) Cash Flows from Investing Activities

Net cash used in investing activities in FY2018 reached ¥40.313 billion, compared to ¥45.134 billion used in the previous fiscal year.

The outflow was mainly due to payments of ¥27.339 billion for purchases of intangible assets as well as property and equipment related to the development of the joint core system, despite proceeds of ¥1.458 billion from the sales or redemptions of investment securities.

c) Cash Flows from Financing Activities

Net cash provided by financing activities in FY2018 reached ¥242.211 billion, compared to ¥92.945 billion provided in the previous fiscal year.

While the repayment of long-term debt resulted in an outflow of ¥55.364 billion, there was inflow from a net increase in commercial paper of ¥121.5 billion, ¥115.9 billion from long-term loans, and ¥94.547 billion from the issuance of bonds.

As a result of the above, cash and cash equivalents as of March 31, 2019 increased by ¥9.462 billion from the previous fiscal year-end to ¥82.642 billion.

CREDIT RISKS

Table 4 shows a comparison of delinquent receivables and allowance for receivables.

Total receivables for credit risk purposes is the balance obtained by adding contingent liabilities to the balances of installment receivables on a managed basis, purchased receivables, and lease investment assets. The balance of receivables overdue by more than 90 days totaled ¥60.527 billion (+14.9% YoY). The allowance for doubtful accounts in current assets as of March 31, 2019 was ¥67.244 billion (+29.9% YoY). As a result, the sufficiency ratio in relation to the balance of receivables overdue by more than 90 days increased to 146.7% from 121.6% at the end of the previous fiscal year.

Table 4: Comparison of delinquent receivables and allowance for receivables

	(Millions of yen)		
	2018	2017	% change
(1) Receivables	2,797,166	2,524,884	10.8
(2) Receivables overdue by more than 90 days	60,527	52,674	14.9
(3) Collateralized portion included in (2)	14,687	10,117	45.2
(4) Allowance for doubtful accounts (current assets)	67,244	51,753	29.9
Receivables overdue by more than 90 days as a percentage of receivables [(2) ÷ (1)]	2.2%	2.1%	—
Ratio of allowance for uncollectible receivables to receivables overdue by more than 90 days [(4) ÷ ((2) – (3))] (sufficiency ratio)	146.7%	121.6%	—
(Reference) Receivables overdue by more than 90 days excluding collateralized portion as a percentage of receivables [((2) – (3)) ÷ (1)]	1.6%	1.7%	—

Table 5 shows changes in the allowance for uncollectible receivables.

Table 5: Changes in allowance for uncollectible receivables

	(Millions of yen)		
	2018	2017	% change
Allowance for doubtful accounts at the beginning of the year	53,577	50,204	6.7
Impact of application of IFRS 9	13,799	—	—
Increase	33,196	28,506	16.5
Decrease	31,502	25,132	25.3
Allowance for doubtful accounts at the end of the year	69,070	53,577	28.9
(Reference) Losses on bad debt	—	19	—

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MANAGEMENT PRINCIPLES, BUSINESS ENVIRONMENTS, ISSUES TO ADDRESS

Forward-looking statements contained herein are based on the Credit Saison Group's judgment as of the end of the fiscal year under review.

(1) Our Basic Management Principles

We fulfill our corporate social responsibility by striving to meet the expectations of all of our customers, shareholders, and business partners and suppliers. We, as a leading-edge service company, will compete successfully in the market by promoting our three shared values: practical implementation of the principles of customer satisfaction; mutual respect for our interests and those of our business partners and suppliers; and developing a corporate culture of creative innovation.

In our various businesses in Japan, for example our core payment businesses and lease and finance businesses, we continue to bolster synergies with Group companies. At the same time, we are working to improve and strengthen our network of alliances with a broad array of companies to provide high value-added services to our customers. In our global businesses, meanwhile, we aim to contribute to the development of regional economies by delivering financial solutions that are well-suited to the actual conditions in the countries where we have a business presence.

(2) Medium- to Long-term Business Strategy

Based on our "leading-edge service company" management philosophy, we continue to ceaselessly pursue customer convenience and generate innovative services through alliances with various partners that transcend the traditional frameworks of group affiliations and business formats.

Driven by the use of leading-edge technologies and the entry of industry outsiders, new financial services are emerging one after the other and giving rise to more intense competition in the business environment that envelops our Group.

In the midst of these circumstances, we have set ourselves a medium-term management vision of becoming a "Neo Finance Company in Asia" and formulated a medium-term management plan to run through FY2021. The plan carries the following mission statement: A Finance Company Advancing with Customers for 50 Years—Providing Peace of Mind and Discovering Potentials in Money.

In aiming to achieve the targets in our medium-term management plan, we will embrace the challenge of transforming into a finance company that provides optimum services related to the various money events that occur in the lives of our customers with a focus on credit card, prepaid card, and other payment services.

We aim to continuously enhance our corporate value by practicing ESG-conscious management and contributing to the development of an even more convenient and prosperous society.

(3) Objective Indicators for Assessing Achievement of Management Targets

In seeking to enhance corporate value, business income, ROE, and shareholders' equity ratio are the key performance indicators for the Group.

(4) Business and Financial Issues

The following are the business issues the Group must address as of the end of FY2018, as well as the various measures for doing so.

1.Growth strategies and structural reforms in payment businesses

We aim to become the number one company in the cashless payment markets for both consumer spending and corporate transactions by deploying measures to diversify payment services and break the dominance of the cash market with mainly credit cards, prepaid cards, smartphone payments, and mobile POS systems.

In the consumer spending domain, we intend to expand our customer base through a network of new alliances, collaborative services, and more subcontracted operations. We also plan to switch our customer service structure to one that provides varied levels of service depending on the customer's track record instead of a uniform service, implement initiatives that enable customers to complete various services on their smartphones, and take steps to transform our business model, including the digitalization of our Saison Counters.

In the corporate transaction domain, we will aim to realize cashless transactions in the corporate market by expanding our sales activities to the SME market and take steps to build a corporate platform.

2.Creating businesses that improve quality of life for customers

Not only do we intend to further boost net member numbers and smartphone app users in order to capture opportunities in the still-expanding online marketplace, we also plan to establish a new business model that blends our big data and customer platforms with the resources of external parties by engaging in flexible collaborations with venture companies boasting new technologies and leading firms that possess high-quality content platforms.

We will endeavor to improve the quality of life for our customers by using digital technology to effectively and efficiently provide premium content and highly convenient payment functions.

3.Strengthening relationships with partners and expanding new alliances in lease and finance businesses

Outside of our credit card businesses, we are working to diversify our revenue sources through stronger relationships with corporate partners by providing finance functions that match market needs. These include the provision of leases and rentals for office automation (OA) equipment, kitchen equipment, and other hardware that align with the capital investment plans of businesses, credit guarantees we underwrite on unsecured personal loans that can be used as working capital or for business funds extended by regional financial institutions with whom we are partnered, Flat 35 loans that come with special perks for card members, and Saison Asset Formation Loans that support the purchase of property for investment purposes. We have thus far met the capital needs of customers purchasing homes with our Flat 35 loans and Saison Asset Formation Loans, but we will continue to expand our so-called life creation financial services covering customers transitioning from renting to home buying or undertaking renovations with our Saison Rent Guarantee Rent Quick service and Saison Renovation Loan.

4.Expanding our earnings platform in global businesses with an eye to the future

We identify our global businesses as future earnings pillars and are therefore stepping up our full-scale entry into the retail finance business to meet the needs of each country in the rapidly growing Asian region.

To make further inroads in the finance business predominantly in Asia and to contribute to the development of regional economies, we will continue to work on expanding our businesses in the region and building a foundation for a longer-term overseas strategy with an eye on opportunities for strategic partnerships with FinTech firms and Japanese companies that have entered those markets as well as local companies.

Business-related Risks

The following information is an overview of matters that could significantly influence investor decisions. Forward-looking statements contained herein are based on the Credit Saison Group's judgment as of the date financial statements were presented to the relevant authorities.

(1) Economic Conditions

The results and financial position in the Credit Saison Group's primary payment, lease, finance, real estate-related and entertainment segments are subject to the influence of domestic economic conditions. Factors contingent upon economic conditions, including worsening of the employment environment, disposable household income or consumer spending accompanying an economic recession, may affect transaction volume and repayment in Group businesses including credit cards, loans, credit guarantees, and real estate mortgage loans, and therefore have the potential to negatively impact Group operating revenues and credit cost.

Small- and medium-sized companies are the principal customer group of the lease segment. Factors contingent upon economic conditions, including contraction in capital expenditures and deteriorating corporate performance accompanying an economic recession, have the potential to negatively impact operating revenues, losses on uncollectible receivables and other results, as well as our financial position.

(2) Change in Cost of Funds

The Group utilizes interest rate swaps and other means as a hedge against rises in interest rates, in addition to issuing corporate bonds and borrowing from financial institutions to secure stable and fixed funding. Nevertheless, unforeseen changes in financial conditions and a reduction in the Credit Saison Group's credit rating may increase interest rates on funds the Group procures and have the potential to negatively impact operating revenues and other results as well as our financial position. Changes in interest rates on loans and other instruments are impacted by a wide array of considerations. These include changes in the terms of customer contracts and interest rates applicable to other companies in the consumer credit business. The Credit Saison Group may be unable to price its products and services to reflect higher interest rates on the capital it procures, which would have the potential to reduce the Group's interest margin.

(3) Competitive Environment

Japan's financial system has undergone deregulation, which

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has resulted in energetic restructuring of the retail financial services industry in Japan. Industry realignment in the credit card sector, the entry of competitors from other industries and other events have caused competition to intensify. In this changing market, the results and financial position of the Credit Saison Group may be negatively impacted by the occurrence of events such as reduced profitability due to a decrease in fee rates from member stores or changes in the terms of transactions with business partners.

(4) Unfavorable Performances among Primary Alliance Partners

In the payment segment, the Credit Saison Group has agreements, including affinity card issuance and member store contracts, with numerous companies and organizations. Unfavorable performances among these alliance partners have the potential to negatively impact the Credit Saison Group's performance and financial position. For example, the Credit Saison Group acquires many of its new cardmembers through the outlets of alliance partners in the retailing industry. Reduced ability to attract customers or lower sales among these companies may lead to weak cardmember acquisition and sluggish transaction volume, and therefore has the potential to negatively impact the Credit Saison Group's operating revenues.
Given that the Credit Saison Group has entered into capital tie-ups with some of these partners, unfavorable performances at alliance partners have the potential to negatively impact the Group's performance and financial position.

(5) System Operation Problems

The Credit Saison Group relies heavily on computer systems and communication networks in numerous aspects of its main businesses, including the payment segment. A number of situations could compromise the Credit Saison Group's sales capabilities, damage its credibility and cause other problems that would have the potential to negatively impact the Credit Saison Group's performance and financial position. These situations include Group and counterparty system inoperability resulting from temporary system overloads due to factors such as system errors or spikes in access caused by Group or counterparty hardware or software problems; breakdowns in communication networks resulting from factors including natural disasters and accidents; and illegal or inappropriate system operation.

(6) Leakage of Personal Information and Other Issues

The Credit Saison Group maintains a large volume of personal information concerning its cardmembers and others, and implements appropriate controls throughout the Group. However, if an incident such as leakage or illegal use of this information were to occur, the Group might be subject to administrative guidance, orders, or fines for violation of business process regulations under the Private Information Protection Law. This would damage the Credit Saison Group's credibility and cause other problems that would have the potential to negatively impact the Credit Saison Group's performance and financial position.

(7) Regulatory Changes

The Credit Saison Group operates in accordance with current regulations and the risks that result from these regulations. The Group's businesses are subject to the Installment Sales Act, the Money Lending Business Act and other laws. Circumstances arising from future amendments to these laws, or changes or tightening of their interpretation, or new legal restrictions, would have the potential to negatively impact the Credit Saison Group's operations, performance and financial position.
Moreover, a portion of interest that was higher than the interest rate ceiling set by the Interest Rate Restriction Act has been deemed invalid and may be subject to claims for reimbursement. Credit Saison is booking an allowance for losses on interest repayments in preparation for future claims for reimbursements of this type, but future regulatory revisions or regulatory trends that unexpectedly expanded such reimbursement claims would have the potential to negatively impact the Credit Saison Group's performance and financial position.
The type, content and degree of potential regulatory revisions are difficult to predict, and the Credit Saison Group has no control over their potential impact on its operations.

(8) Impairment of Non-financial Assets

Significant declines in the fair value of the land and property owned by the Credit Saison Group or deterioration in earnings in a business using fixed assets when a near-term recovery is unlikely could impair such fixed assets and have the potential to negatively impact the Group's performance and financial position.

(9) Natural Disasters etc.

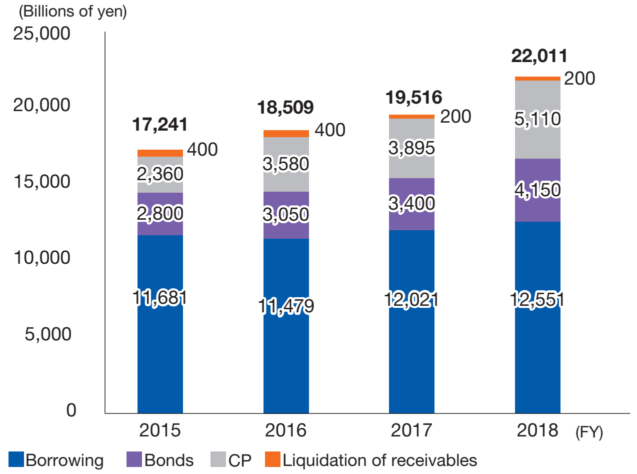
Major natural disasters such as earthquakes could cause physical damage to shops and facilities owned by the Credit Saison Group, and personal injury to employees. Such events have the potential to negatively impact the Group's performance and financial position.

Financial Policy & Capital Policy

Regarding structure of interest-bearing debt:

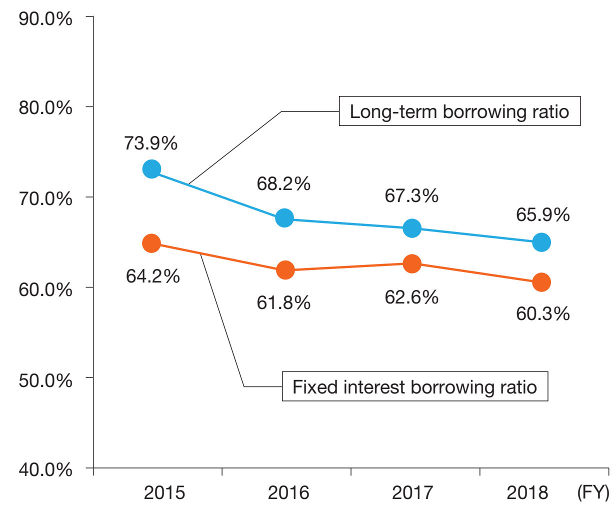
- ●Over 60% of the interest-bearing debt is composed of long-term funds such as long-term borrowing and corporate bonds
- ●Active use of CP benefited from Bank of Japan's introduction of negative interest rates
- ●Fixed interest rate procurement accounts for about 60% of the total, reducing interest rate fluctuation risk

Balance of interest-bearing debt (Note 1) (Note 2)
(non-consolidated)



(Note 1) Interest-bearing debt includes loans that have been moved off the balance sheet due to liquidation.
(Note 2) Lease obligations are excluded from interest-bearing debt.

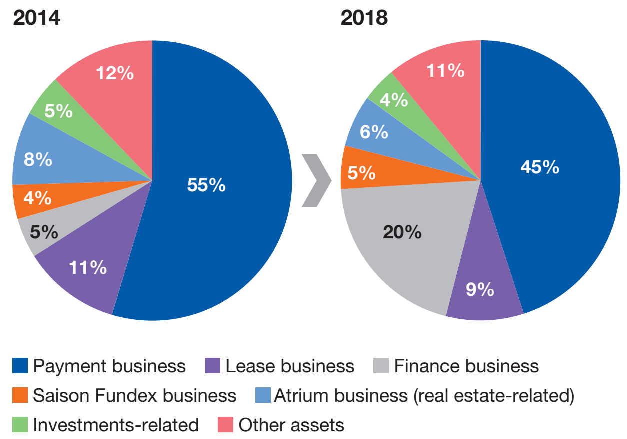
Long-term / fixed borrowing ratio (non-consolidated)



Regarding Management Indicators

In recent years, asset efficiency (ROA) has declined due to the expansion of the finance business that contributed profits and the decrease in yields in the each business, as well as the increase in depreciation expenses due to the operation of the Associated Core System. On the other hand, we are actively promoting overseas expansion with the aim of building foundation for new businesses and sustainable growth in the future.

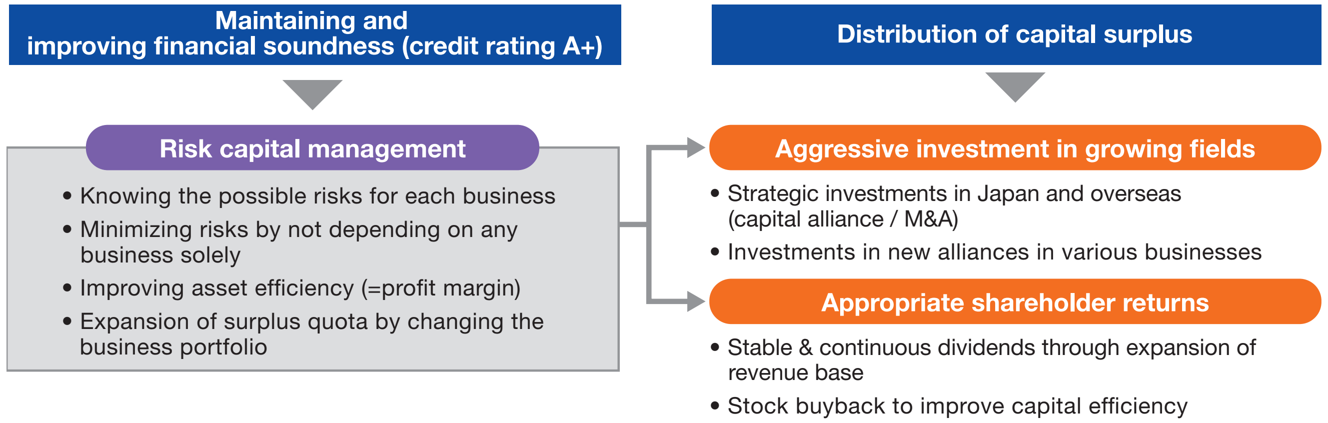
Changes in asset balance by business



MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Policy (Shareholder Returns & Management Indicators)

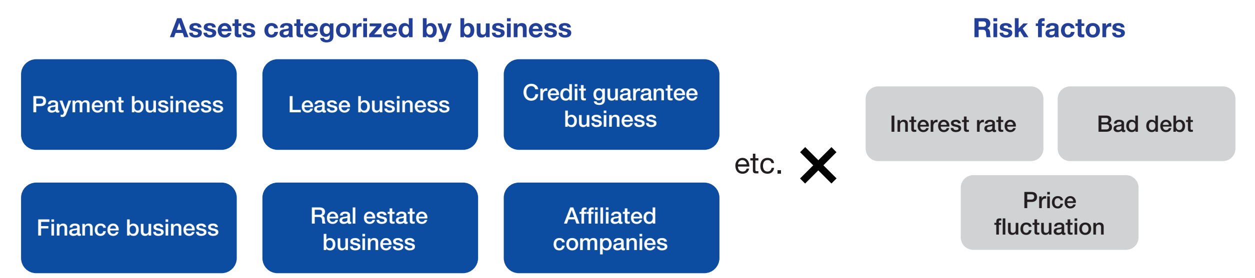
Maintaining and improving financial soundness as a priority, aiming to improve asset efficiency by realizing sustainable growth through strategic investments in Japan and overseas, expanding business with excellent asset efficiency, and reducing inefficient assets.

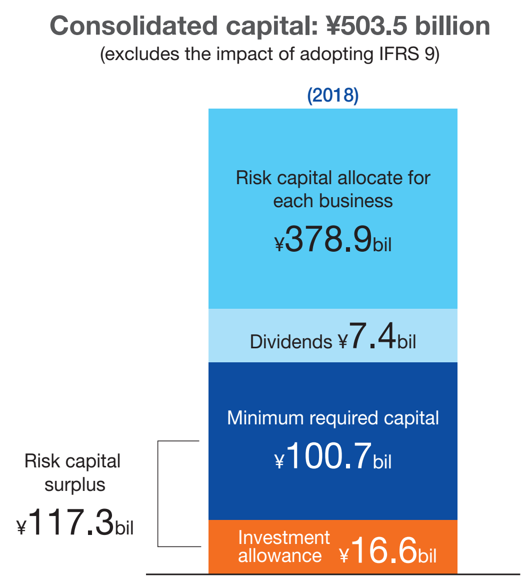


Capital policy (Risk capital management)

- ALM management is introduced to measure risk and allocate risk capital for each business.
- Profit & loss fluctuation risks are measured by aiming at a confidence level of 99.75% using EaR※ model in order to maintain A+ rating.
- Re-measurement is performed regularly to reflect track record updates and changes on balance sheet.

※Earnings at Risk





Risk capital allocation policy

1. 20% of consolidated capital out of risk capital surplus is secured as the minimum required capital (¥100.7 billion).
2. After excluding minimum required capital, investment allowance (¥16.6 billion) is allocated to high-profit business, growing business, new business, or returns to shareholders.
3. Return on investment is verified by monitoring each business asset, and investments are planned by replacing, reducing and effectively using inefficient assets.

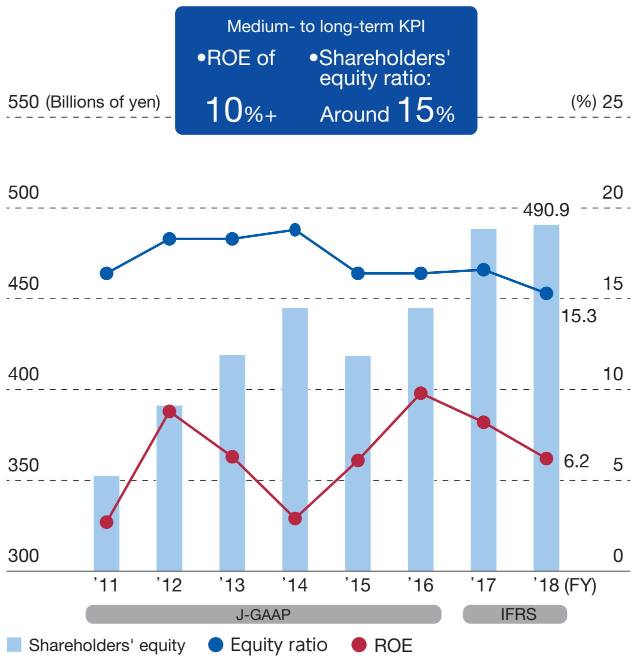
To increase shareholder value, Credit Saison attaches great importance to initiatives aimed at reinforcing its corporate structure and achieving ongoing expansion in its businesses. On returning profits to shareholders, we strive to enlarge internal reserves to realize the initiatives articulated above, while we also seek to deliver appropriate, stable, and continuing dividend payments to our shareholders.

As a matter of basic policy, a fiscal year-end dividend is paid once a year from retained earnings. The annual general meeting of shareholders is the decision-making body that authorizes fiscal year-end dividends. Regarding dividends from retained earnings for the fiscal year under review, based on the above, the amount has been set at ¥45 per share.

Also, the Company plans to invest internal reserves efficiently in order to achieve low-cost operations and promote expansion of its businesses.

We have stipulated in our articles of incorporation to name the Board of Directors as the body in charge of authorizing interim dividends, with September 30 of every year as the record date.

Performance indicators



Dividend per share and payout ratio