Main Questions and Answers in the Credit Saison FY2021 H1 Results Briefing

Q1.
(P.14) In regards to the distribution policy for risk capital, although your message has been clarified by the briefing, you did not make a statement that the investable amount will be used for shareholder returns. Could you please confirm if there has been a change in your basic way of thinking on this matter?
A1.
As shown on page 12, in regards to surplus capital, there is no change in our policy for “aggressive investment in future growth fields” and “appropriate shareholder returns.” On the other hand, as we continue to actively expand globally in the future, we believe that investing our management resources in businesses with higher growth potential is one way of thinking. In addition to investing in the global market, we would like to convey our policy of actively working on new services, especially in the payment business, and on M&A, and our message makes this clear.

Q2. The third point on page 14 states that you considered the cost of capital. Please tell us your thoughts on the current level of cost of capital required by your company.
A2.
Listing categories will be changed in April 2022. As we have already announced in a timely disclosure, we have received notification from the Tokyo Stock Exchange stating that our company satisfies the criteria for the Prime Market. We believe that listing on the Prime Market will most likely be selected through a resolution by the Board of Directors this year. Regarding the required cost of capital, we will calculate WACC for each business. We will then determine if ROIC is lower or higher than WACC. If it is lower, then we will implement efforts to determine the appropriate logical tree in order to increase ROIC. As a result, we are beginning a variety of business discussion on our business portfolio at meetings of the Board of Directors and the ALM Committee. I will refrain from discussing specific numbers at this time, but I hope the information listed in the briefing materials illustrates how we are conscious of the cost of capital from a management perspective.

Q3.
(P.35) Page 35 shows an image of your medium- to long-term goals. Could you please state an approximate target for profit contribution by the global business in around three years and five years? Also, Vietnam HD SAISON appears to have recorded a loss in the second quarter. What happened? Is this a one-time loss?
A3.
We feel that COVID-19 has delayed global business by one or two years. We will work to grow the entire global business to a scale of at least 5 billion yen and hopefully to 10 billion yen in three years.
The CVC business tends to increase its business value at an accelerating rate, and we believe that it will contribute to profits.

Regarding the performance of HD SAISON in the second quarter, although the impact of COVID-19 in Vietnam has been suppressed thus far, the Delta variant has brought the country close to lockdown. In such circumstances, credit cost increased due to new loans and repayments, with grace periods for repayment being established in some cases. Whether or not these trends are transient will be affected by COVID-19. On the other hand, we have finally reached an environment in which we can deploy credit cards throughout Vietnam, so we believe that further growth will be achievable once COVID-19 has subsided.

Q4.
Is it correct to infer that Vietnam HD SAISON incurred a loss in the second quarter because of a mixture of top-line factors and credit cost?

Also, is it correct to infer that both of these had an equal impact, as opposed to one of them having a much larger impact?
A4.
Although both top-line factors and credit cost had an impact, we recognize that the impact of top-line factors was larger due to the impact of the lockdown.

Q5.
(P.14) In regards to capital policy, the investable amount corresponding to surplus capital increased to 30.9 billion yen from the previous amount of 10 billion yen. On the other hand, you did not buy back any shares this time. Please tell us the reason why you didn't buy back any shares.
(P.14) The investable amount increased to 30.9 billion yen compared to the previous amount of about 10 billion yen, which is an increase of approximately 20 billion yen. Although we did not buy back any shares at this time, our management will continue to focus on appropriate return to our shareholders. As I mentioned earlier, we are responding while considering factors such as global expansion. We hope you understand that our policy for returns to shareholders has not changed.

Q6.
(P.8) You mentioned that the possibility of considering additional provisions for interest repayment. Currently, I believe that there should be a provision balance of about two years for reversal. What are your thoughts on the sufficient level of the provision balance?
A6.
The reversal in the first half of this fiscal year was 3.4 billion yen, and the reversal in the previous fiscal year was 5.7 billion yen. This means that reversal is trending toward an increase this fiscal year. It is increasing in terms of both the number of claims and the price per claim. Even assuming that the amount reversed in the second half of this fiscal year is the same as the amount reversed in the first half—that is, 3.4 billion yen—a provision balance of about 10 billion yen will remain. If the reversal amount decreases, we would like to consider processing in units of single fiscal year. However, our decision will be significantly affected by whether or not overpayment will trend in that direction during the second half of this fiscal year. Therefore, please understand that we are unable to give a detailed answer at this time.

Q7.
Please discuss any conditions for buying back shares.
A7.
We would like to make a well-balanced decision while considering stock prices, business performance, and growth of our major business pillars—specifically, future globalization, payment, and finance. Therefore, we will refrain from discussing specific triggers at this time.

Q8.
Would you please discuss the allocation of management resources when considering the next medium-term management plan? In addition to your disclosure of the investable amount, I would also like you to discuss a weighted image. For example, how much do you intend to invest in global business and how much in other business such as the domestic payment business?
A8.
This fiscal year is the final business year of the medium-term management plan. We will announce the next medium-term management plan next fiscal year. Also, we intend to hold various discussions within the company regarding the next medium-term management plan. We believe the question of how to allocate management resources is directly related to our earlier discussion of the business portfolio. Moving forward, we will calculate WACC and ROIC for each business, and will discuss how to allocate resources considering capital efficiency and growth potential. We will provide further details at the time of announcing the next medium-term management plan. In terms of whether we will focus allocation of resources globally or domestically, we anticipate a global focus. We intend to formulate the next

medium-term management plan based on the basic policy of determining the optimal path while considering growth potential and capital efficiency.

Q9.
I would like the president to further discuss the position of the domestic payment business. For example, I believe that e-commerce businesses and department store businesses are also entering this market with aim of profiting from the domestic payment industry. Under these circumstances, is your position as an issuer a unique element of Credit Saison?
A9.
It is true that the major e-commerce companies have earned a huge amount of transaction volume. Furthermore, the Nikkei newspaper recently reported that finance business is composing an increasingly high ratio in the department store industry. Regarding our future positioning, we recognize that our competitors have implemented the strategy of turning customers in their own economic zones into finance customers. Our company has captured a certain position as an issuer, and we have various partnerships with several companies for processing. There are few corporations in Japan that possess both of these positions.
In order to effectively use our new system completed in 2018, we will ask credit card companies of a certain size to use our new system. Other than that, we expect partial contracts for some of the separated operations. In regards to whether we will focus on the position of issuer or processor, we would like to strongly promote both positions. We also want to strengthen both positions through digitalization.

Q10.
(P.25) From a digital perspective, I would like you to discuss your thinking in the medium- to long-term. Since the number of digital human resources at your company will reach only 30% in the 2024 fiscal year, it seems that the situation will not be much different from now. Digitalization is discussed extensively on page 17, but what kind of company are you trying to become? Is the digital domain truly a pillar in your company? Although this is a qualitative issue, I would appreciate any comment that you can make.
A10.
Until now, our company has possessed real offices, including information, and grown with a focus on real customer interaction. Our company provides the optimal interface from our customers' perspective, whether that interface is digital or analog. We will actively promote digitalization for subsequent processing and the method of providing services to our customers. As discussed by CIO/CTO Ono, he does not believe that digitalizing all aspects of services will produce good results in all areas. Instead, we place great importance on providing optimal services to our customers and thrilling our customers. Accordingly, our company seeks to obtain positioning to serve our customers in this way. As explained in the section entitled "Transforming ourselves into a comprehensive life services corporate group" rather than simply a credit card company, our concept is that credit cards and loans are catalysts which serve as an intermediary when providing various things to customers. This concept focuses on finance-related products. We intend to acquire a unique position while exploring a new business scheme that will promote that concept.

Q11.
I have a question about the investable amount. If my understanding is correct, your concept is to calculate the amount of risk with a confidence level of 99.75% and use 20% of the consolidated shareholders' equity as the minimum required capital. As your business model, you are aggressively expanding real estate finance with large risk capital. Furthermore, when it comes to increasing investment in the CVC business, I believe that the investable amount will only increase if profits are significantly increased in the future. Is there the possibility that you will reconsider your calculation logic and your business model for growing real estate finance?
A11.

I interpret your question as pertaining to the overall logic of risk capital management. We have assigned consultants for this matter for about 10 years, and have formulated our logic based on various advice. As new businesses are being created, we think it is time to review this logic once again.. Since the logic is also used as data for discussing allocation, its usage is beginning to change slightly.
Next, I would like to address your question on the amount of risk. As a non-bank, our top priority is to maintain a solid rating. We believe that it is best to take a perspective based on overall concepts while communicating with rating agencies. Based on this two-way communication, we are using the current logic. Our company is also engaged in various businesses such as new businesses and CVC businesses, so we must take new measures that go further than the conventional method. We also believe that the business model and calculation of risk amount are two sides of the same coin, so will consider revision in the future.

Q12.
What is the approximate investment balance of the CVC business? Also, how much do you plan to increase the balance in actual terms over the next three years?
A12.
In the CVC business, overseas investment is approximately 2.5 billion yen. Domestically, the amount is about 1.4 billion yen. We believe that the future amount will be directly linked to the concept of risk capital. Particularly, the amount for overseas investment will increase. We will organize the speed of investment moving forward.

Q13.
The performance for Atrium in the first half of this fiscal year was good and the full-year forecast has been raised. Can this year's level be maintained from the next fiscal year onward?
A13.
In the first half of this fiscal year, we believe that asset prices remained relatively high, partly due to the effects of monetary easing policy by the Bank of Japan. In the first half of this fiscal year, sales were made at a higher price than initially expected. In the second half of the fiscal year, rather than anticipating profits in line with the first half, we will respond by taking a slightly more cautious view. On the other hand, in regards to the outlook for the next fiscal year and beyond, in terms of real estate exposure, we are planning to maintain a balance of approximately 200 billion yen for Atrium. We believe that the realized return will change depending on environmental conditions at that time, but we seek to record stable profits as much as possible.

Q14.
(P.7) You just explained how higher quality credit has caused credit cost to improve. In addition, I also believe that credit cost are impacted by how the balance has grown less than expected. What is the approximate degree of impact for each factor? I'm asking this question because I would like to understand whether this decrease in credit cost is good or not. Additionally, I would like to hear your comments on the possibility of reversing the special allowance.

A14.
As you are aware, there are two factors affecting the decrease in credit cost. The first factor is decreasing the balance. The second is decreasing the delinquency rate, including delinquencies of 90 days or more.
The slide on page ten shows the main indices of the payment business. When looking at information on FY2019, FY2020, and FY2021, the card shopping revolving balance decreased by about 9% in FY2020, and the cash advance balance decreased by approximately 16% in FY2020, so naturally the amount of reserves related to this portion will decrease. As COVID-19 subsides in the future, we expect to increase the top line through measures such as revenge consumption, etc., so we believe that we can also increase the card shopping revolving balance and cash advance balance. As a result, we believe that

credit cost may increase. On the other hand, we recognize that there are a large number of individuals who have accumulated financial assets. We do not view the reduction in credit cost as being entirely negative. Until now, people have been unable to use these financial assets even if they wanted to. Indeed, even for Japan as a nation, it is extremely important to firmly connect the accumulated financial assets to consumption.

We would like to contribute to steady economic recovery by fulfilling our role in the payment business. In the process, we would like to ensure our own profitability.

As described on page 7, a special allowance was recorded in both the 2019 and 2020 fiscal years. The portion related to this special allowance currently has a very high deposit rate. We make withdrawals on the 4th and 5th of every month. The deposit rate is very high and the difference from the deposit rate before COVID-19 is accumulated as a special allowance. If the deposit rate will increase further toward the end of this fiscal year, there is the possibility of even further accumulation. On the contrary, if the deposit rate will go down, there could be a reversal. We must consider both of these possibilities. It is difficult to predict what kind of consumption will occur in the future and how the deposit rate will change as a result. We record allowances based on this way of thinking.

Q15.

(P.18) You have presented your outlook for card transaction volume, but what are the recent trends when viewed by business type? For example, have you observed a return to shopping centers and department stores, or from e-commerce to face-to-face payments? Could you please explain any unique characteristics for each business type?

A15.

Regarding conditions in October, after the state of emergency was declared by the Japanese government was lifted, department stores card transaction volume and general merchandise card transaction volume fell slightly below the previous year's level by industry type. Convenience stores were also slightly below the previous year's level in terms of card transaction volume. Eating and drinking, lodging, and transportation have not yet completely returned to pre-pandemic levels. Otherwise, card transaction volume for shopping centers, supermarkets, miscellaneous goods, DI, home appliances, furniture, and clothing have all increased compared to two years ago. Notably, card transaction volume at gas stations have grown by more than 20%. This may be due to the soaring gasoline prices which we are now experiencing. Although trends are overwhelmingly positive, the reality is that, as reported, there has yet to be a full-scale recovery for eating and drinking, lodging, transportation, and travel.

When examining the situation by type of credit card, credit cards used by the affluent segment are trending in a very good direction. With the appearance of revenge consumption, we believe the numbers indicating recovery are beginning to become clearly apparent. If the influence of COVID-19 subsides toward the end of the year, we predict a strong return.