## Main Questions and Answers at the Credit Saison Financial Results Briefing for 1H FY2022

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**Q1.**

Could you provide a breakdown of the factors behind the upward revision of the business profit forecast by 7.5 billion yen? My main purpose in asking is that I believe there have been various changes in valuation gains associated with fair value assessments of funds and costs usage, so I would like to know the actual values. At the same time, could you explain the reason why Credit Saison's non-consolidated operating profit is lower than the forecast at the beginning of the period while ordinary profit is higher?

**A1.**

I believe your first question concerns the full-year components of business profit. The business results forecast is on page 9. First or all, we reviewed the first half business results when the first quarter results were announced, and I believe we announced we would be conservative and leave the full-year forecast unchanged. Now we have included the component related to profit on funds in the revision of the full-year business results forecast as it seems the figures for the first half can be maintained. There is also the impact of cost reductions, including lower credit costs. For your second question, I think you are talking about lower non-consolidated operating profit. With regard to this, we want to make aggressive preparatory investments in costs in order to grow the top line in the future. We are releasing a top-tier card under AMEX brand and have released a new product called SAISON GOLD Premium which I mentioned at the first quarter financial results, so our policy is increasing costs. As a result, although operating profit is lower, we expect ordinary profit will be higher as we anticipate valuation gain on funds.

**Q2.**

In the financial results for the first quarter, you mentioned valuation gain on funds was around 4.0 billion yen. What about the first half?

**A2.**

I believe I explained that the first quarter results included a valuation gain of approximately 4.0 billion yen, of which approximately 1.0 billion yen was due to the effect of the weaker yen. In the financial results for the first half, valuation gain on funds amounted to just under 6.0 billion yen, of which 1.2 to 1.3 billion yen was due to foreign exchange effects.

**Q3.**

Could you explain a bit more about the Credit Saison plan for non-operating income for the second half on a non-consolidated basis?

**A3.**

In terms of the non-operating income of Credit Saison on a non-consolidated basis, we expect the valuation gain on funds in the first half of the fiscal year, which I mentioned earlier, in the second half as on the slide.

**Q4.**

My question is about risk capital management on page 11. In light of the revision of the percentage of consolidated shareholders' equity to be secured as minimum required capital from 20% to 15%, what are the positive and negative impacts on the amount of risk for each business that has revised its risk allocation model? Alternatively, could you tell me the approach behind the review?

**A4.**

We had some conservative estimates for finance-related, real estate-related, and global-related businesses. As for assets, the circumstances are different in each business, for example, India is in a significant growth phase. Therefore, I would rather not comment on positives and negatives for each segment. I hope you will understand that we ultimately arrived at this approach as a result of much debate and discussion with the rating agencies as well as internally with the ALM Committee, and the Board of Directors, including outside directors.

**Q5.**

With regards to capital policy on page 11, you have now decided to implement a buyback. Could you give us an idea of the time frame before the announcement? I would like to ask if it will come about in the next one to two months, or if it is something that will cross over into the next fiscal year?

**A5.**

I would like to be able to tell you about the buyback in the next couple of months, but there are also some external factors that are holding us back. The Board of Directors is discussing the subject, and we will make an announcement when the time is right.

**Q6.**

Can you provide a little more detail in terms of the external factors? For example, are they something to do with the movement of internal investment strategy or are other environmental factors holding you back?

**A6.**

There are both. We believe that it will take some time, partly due to external factors and partly because we have several investment projects in motion right now.

**Q7.**

At the very least, is the interpretation that you have now committed to a buyback correct?

**A7.**

Yes.

**Q8.**

From the perspective of reshuffling the business portfolio, could you tell me your thoughts on whether you could consider selling unprofitable assets or assets that are likely to peak while investing in growth?

**A8.**

We have an internal meeting body called the ALM Committee. Normally, the ALM Committee only has internal members, but three outside directors are also involved in discussions at present. As part of this process, we have calculated WACC and ROIC in business segments and affiliated companies and analyzed them for each business. There are some businesses that are underperforming on WACC. However, if we take a simplistic view, we could misjudge businesses with prospects for future growth, so we have been looking at future potential as well, rather than just the immediate situation. On the other hand, we would like to continue considering how to improve ROIC. During the course of this, we have looked specifically at both the quantitative aspects of the immediate situation and the qualitative aspects in the future, and we are discussing whether we need to reshuffle the portfolio after all or invest management resources. We have been considering a variety of approaches internally, and we hope to release the necessary items when we have made a resolution.

**Q9.**

My question is about the revision of the business results forecast on page 9. The second half forecast is shown in the figure on the right. Could you provide a breakdown by expense item of the other operating expenses, etc., which increased by 9.5 billion yen?

**A9.**

Operating-related expenses are expected to increase by around 3.5 billion yen, including an increase in processing fees due to top line expansion, such as SAISON GOLD Premium, which I mentioned earlier, and an increase in point costs. There will also be 2.5 billion yen in promotion-related costs. Other expenses of 3.5 billion yen, including system-related expenses and personnel expenses, are a component.

**Q10.**

You explained credit risk on page 7, and I understand that the level of credit cost is low. However, it seems that delinquency over 90 days increased slightly for cash advances. I would like to check whether there are any concerns.

**A10.**

One challenge in the first half is that the area of cash advances and credit card loans has not recovered in earnest. The increase in delinquency over 90 days for cash advances looks like it is rising because of a decrease in the balance, which is the denominator. First of all, we believe this factor will fade from the second half onward as we will increase the top line. We are working to launch a new cash advance service around November or December.

**Q11.**

The second half figures for payment business revenue on the consolidated basis are stronger than those on the non-consolidated basis. Is this due to the increase in balances of the overseas business?

**A11.**

In terms of the non-consolidated figures, there was a double-digit increase in card shopping transaction volume, and growth in the shopping revolving credit balance is also assumed. On the consolidated basis, there is also steady growth in assets for the overseas business, particularly in India. The plan assumes that we can steadily accumulate balances in the future.

**Q12.**

Comparing card shopping, processing, and agency services for other companies, could you explain why processing and other company agency have not grown as much as card shopping in the second-half plan?

**A12.**

To give you an example, Idemitsu Credit Co., Ltd. has issued a new credit card called apollostation card. As Showa Shell gas stations are gradually replaced by apollostations due to the merger between Idemitsu Kosan and Showa Shell, growth in acquisitions will be concentrated in the second half under the plan. Therefore, we forecasted that processing and agency services for other companies will not grow as much as card shopping transaction volume.

**Q13.**

Please tell us what we should consider the scale of the buyback to be. You have approximately 50.0 billion yen in surplus capital now. We do not know what ratio you will use for investment and returns, so could you explain a bit more?

**A13.**

The 50.0 billion yen will be used for "appropriate shareholder returns" and "investment in growth areas." Now that we have finally opened up from the pandemic, as mentioned at the beginning in the summary of the financial results, we believe our business has also shifted from year-on-year decline during the pandemic to enter a phase of double-digit top line growth in the payment business as well as steady expansion in the size of the finance business and the global business. In that sense, we would like to consider a variety of investment opportunities, including those overseas. Of course, in terms of how we increase corporate value, we think it is very important to strike a balance between "investment for the future" and "shareholder returns." Therefore, we would like to discuss the question of this 50.0 billion yen internally and respond accordingly. On the other hand, for example, in terms of scale and timing when we discuss a buyback, as President Mizuno mentioned earlier, there are external circumstances that we cannot do anything about, and we believe the opportunities will also become greater in the future as we make various investments. We would like to make the announcement when the time is right with a careful assessment of external and internal factors.

**Q14.**

Balances have decreased due to the transfer of some Asset Formation Loan balances. Are there any gains on sale or expenses when selling receivables in the first place? Also, could you tell us about the purchaser? With regards to the capital allocation review, my understanding is that risk weighting for real estate-related business has been reduced. Could you confirm whether this is correct?

**A14.**

There is a small gain on sale, rather than a loss. Even after the sale, we will continue to handle direct debits and other operations, so the impact on profit and loss is such that we will continue adding the fees for these operations for a long time. Therefore, the sale is not a form of short-term profit, but a steady increase in profit into the future. I cannot answer the question about the purchaser. Naturally, there is a duty of confidentiality, so I hope you will understand. As mentioned earlier, I cannot comment on the positive and negative aspects of the risk capital review. I hope you will understand this as well.

**Q15.**

My question is about the slide on expanding processing revenue on page 18. As no figures are included, could you provide a bit more explanation?

**A15.**

One of the factors for the increase in fiscal 2023 and fiscal 2024 is the impact from new operations contracts starting this fiscal year as described on page 18. There are one or two other companies that are likely to be selected, so we think the scale of revenue will be in the tens of billions of yen.

**Q 16.**

On page 11, why was the percentage of consolidated shareholders' equity to be secured as required capital revised from 20% to 15%? From what you have said, there seems to be a lot of top line growth potential, and if anything, it would be preferable to have more core capital. Why did you lower it?

**A16.**

The minimum required capital was 20% of consolidated shareholders' equity, but now it has been lowered to 15%. The first point is that the migration to a common core system, which had been one of the concerns, is complete, and we believe the system's operations are now stable and working as usual without any particular problems. In terms of the second point, we recognize that the issue of overpayments, for which we made additional provision in the financial statements at the end of the previous fiscal year, is largely resolved. There are other factors, but we hope you will understand that these are the two main factors behind the reduction from 20% to 15%.

**Q17.**

This question is about the purchase of treasury shares that has been decided by the Board of Directors. I believe that you commented on the purchase of treasury shares when the Medium-term Management Plan was announced six months ago. I would appreciate it if you could comment on what the Board of Directors has decided now.

**A17.**

For the new Medium-term Management Plan announced in May, the Board of Directors resolved to increase dividends for shareholder returns. On the other hand, although the acquisition of treasury shares was mentioned in the Medium-term Management Plan, no resolution had been passed, so the Board of Directors has now passed a resolution. As I mentioned earlier, due to external and internal factors, the timing and scale of the acquisition of treasury shares are aspects that cannot be determined at present. First of all, there has been a discussion about moving forward with determining policy to start with, and that is the background of today's resolution. As for the future, once we have some degree of certainty about the external and internal factors, the Board of Directors will hold discussions and make an announcement in due course.

**Q18.**

Let me confirm one thing about flexibility. It is my understanding that what you are saying means there are many opportunities, so growth is important first of all, and returns will be based on that. Is that right?

**A18.**

That's right.

**Q19.**

Is there any room for flexibility in the calculation of the surplus limit based on the balance sheet at the end of March?

**A19.**

We think that a consistent approach is very important, but we also believe it is necessary to consider a flexible response. In light of these suggestions, we would like to continue to study the issue internally, and we are also in the process of various discussions with outside directors, so we will strive to further improve accuracy and speed.