1Q FY2021 Financial Results Teleconference
For Domestic Investors and Analysts (Held on July 30)
Q&A Summary

Question: I have three questions. First, on slide 28, Overseas Businesses is being established as a new segment. What is the contribution of UDC Finance? In terms of the total revenue and net credit costs, if you have data, we would appreciate that you share it with us. And Latitude share acquisition, how are they reflected in operational assets balance? Because they're neither an affiliate nor a subsidiary, it’s a simple share acquisition.

Second question, on page 20, Real Estate Nonrecourse Finance. Similar to Project Finance, new commitments in Q1 FY2020 decreased because of the impact of COVID-19, but now it started to recover. I thought that the new disbursements in Real Estate Nonrecourse Finance will increase but it was not. What's the background?

Lastly, my third question. I would appreciate your comments on your share buyback. You have not done share buyback until June. Normally, there are cases that you did your share buyback in June. From July onward, what is your situation regarding share buyback?

Ishii: For UDC, the total revenue is JPY2.6 billion, expense is JPY0.9 billion, OBP is JPY1.7 billion, reversal credit costs reversal is JPY0.3 billion, OBP after net credit cost is JPY2.0 billion and bottom line is JPY1.2 billion. Regarding Latitude, we own our shares as normal investment. We recognize its profit by receiving dividend, thus shares themselves are operational assets.

In Real Estate Nonrecourse Finance, hotels and commercial facilities are struggling. In the areas of offices, houses, or the distribution facilities, or health care facilities, the lenders have extra cash, so the competition has become tougher. The situation is difficult, in terms of the profitability.

Lastly, share buyback. As you pointed out, there was no buy back in May and June. However, total payout ratio stands at maximum 50% in FY2021 as we provided on the slide. Our share buyback is being done for long term. We will consider the situation comprehensively to consider timing for share buyback.

Question: I would like to ask about the net credit costs projections. I have two questions. At this point in time, domestic-wise, I think, because of the COVID-19 infection expansion, there are uncertainties. In terms of your portfolio, you have Structured Finance and Project Finance. Reflecting the current situation, do you have any concerns for projections, for example, any specific sectors or regions?

Secondly, Lake business, while the balance continues to increase, how do we think about the net credit costs? Along with the credit quality improving, maybe the net credit costs would be lower than your expectation at the beginning of this fiscal year. Am I right in my understanding?

Ishii: Within the entire portfolio, we do not have any concerning sectors, or worrisome sectors. But again, the situation going forward would be affected by the spread of COVID-19 infection and the change of macro economy. Those are uncertain factors. In that sense, hotels and aircraft finances, those maybe sectors that will require further attentions. But again, in our portfolio, within what we see today, we do not have any sectors, or regions, which are concerning to us. If there's a worsening of macro economy, then those are the sectors, that I have just mentioned, which are worrisome.

About Lake business, it's too early for us to render any decision or judgment. In terms of the improvement of credit quality, because of the COVID-19 infection increasing, people are asked to stay home, and consumption activities are low or stagnant. Everyone, in general, has payment capacity, so they're able to pay down debt. However, we believe that, in order for this business to grow, we need to increase our balance. So increasing balance, acquiring new customers, those will be our main activities. And so, as we continue to aim to acquire new customers, there will be increase in credit cost. We haven't really given up on increasing loan balance yet. The credit cost of Q1 doesn't really reflect the entire story of the full year, and we are not necessarily assuming there's a downside to this.

Question: On slide 22, as of the end of March I think unsecured loan balance had bottomed out compared to January and February. But in April, May and June, there was some decrease and increase, it seems that the bottom out is delayed. Is it because of the extension of the state of emergency? And now, the state of emergency will be extended until the end of August. Your guidance is assuming the increase in balance. Do you expect an impact of the downside that you may have to revise the guidance?

Ishii: The unsecured loan balance is underperforming, due to the declaration of state of emergency, compared to our guidance.. However, this is our main business, based on the first quarter performance, we're not in a situation that we'll revise our guidance. We would like to make efforts for the increase of the balance. And we have the pressure from the downside on loan balance, and that is shown on actual performance.

Question: I have two questions. On Lake ALSA approval rate, you have achieved 35% in March. Since then, on a monthly trend, you are on a recovery trend. What sort of measures have you taken to improve the approval rate? What is your projection on the trend?

Also, for UDC, the bottom was JPY1.2 billion. Compared to your plan, is this an upside?

Ishii: As you rightly point out, the approval rate is continuing to improve. This is not because we lower our credit quality. We actually combine marketing and operations to improve our approval rate. On Shinsei IR Day, we have also explained this, but on a single month basis, approval rate target is 40%. So we will continue to improve the rate.

Regarding UDC, there was reversal of credit costs, it's better than the plan. In terms of bottom line profit, progress is better than planned.

Question: What is the background to the strong earnings related to interest rate derivatives?

Ishii: When we originate project finance, there will be interest rate derivatives, which are performing steadily.

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