FY2019 Financial Results Investors' Meeting （Held on May 14）
Q&A Summary

Question: My question is regarding the establish of the share buyback program. First, until making decision, what kind of discussion is made on the internal and external? Please give us a background.
Next, under such an unclear situation, what is the intention of the management for deciding such large amount share buyback program? These are my two questions. Thank you.

Kudo: Together with dividend and the share buyback, there becomes 50% of the total shareholders return ratio. As we have been saying, as a general discussion, to give the reasonable shareholders return is important. We have to consider balance between reasonable shareholder return and the scope that is stated in the revitalization plan. We have a will to make the maximum shareholders return within this scope. That means we have the sufficient capital and even though under the uncertain environment, unless there are some extraordinary factors unexpected. We believe that we have the capacity to give the return. That is the background of setting the share buyback program.

However, as written clearly, no one can tell the future of the economy. Though the countries are moving towards to release of lockdowns or the regulation state of emergency so that to recover the economic activities. Such efforts are being made. On the other hand, the WHO is sending a very strong warning. So, which are right? We don't know, but depending on behavior, the results will be different. It's not that we have incorporated such unknown factors. So how are we going to allocate our capital? We would like to execute the share buyback program considering order of priorities, supporting our customers, also possibilities for additional provisioning. Such discussions were made at the Board of Directors by spending a lot of time, and also in the process we also exchanged opinions with concerned parties.

Question: Let me confirm the direction of credit cost. In Q4, net credit cost of JPY7 billion has been recorded for structured finance and institutional business including precautionary provisioning. Is there any risk that the net credit cost will increase from March 2020? Is the upside risk limited?
In the retail business, consumer finance delinquency since the beginning of this fiscal year, how has that trended? Net credit cost ratio of 280 basis points in consumer finance business, historically, is an extremely low level but you've been talking about 400 to 450 basis points. What's the prospect of the probability of normalization to that level?
And net credit cost ratio of APLUS will be increased in the future? Is that risk limited?

Kudo: First of all, let me take the institutional business and respond to that question. And on retail, I will ask my colleague Mr. Hirano to respond to the individual business.

There are a few business areas in the institutional business. Regarding corporate lending, I do not think that there would be any significant risk in this area. If we take a look at our loan portfolio, the percentage accounted for by such corporate is significantly different from the mega or the regional banks, and our customers' sectors and sizes are also different. If we provide loans to larger corporations, loan amount could increase, but that could be justified. In the area of structured finance business, we expect no significant risk in project demands. Some ongoing development projects could encounter delay in construction works, but we do not believe that that would impact the credit recoverability in the end.

Additionally, in the corporate lending world, due to the restriction of business activities by COVID-19, there are certain sectors that have been directly impacted like hotels and accommodations, restaurants and transportation. Small and mid-sized or micro companies in those sectors, this is more or less the Showa Leasing business rather than the bank business, but depending on how the situation follows through, there could be some impact. These are leasing assets, so it's different in nature from bank loan portfolios, but that should be monitored.

One important point is real estate finance business. That was mentioned in the initial presentation. As a salient nature of real estate and non-recourse finance, though the devaluation to a certain extent, like credit degrading and increase of provisioning, could be done, probability of collection would not be affected. If the plunge of valuation is significantly, the loan could be below the real estate value and then that would increase the credit cost. We are calculating the breakeven point, as indicated on this chart, the average 30% to 40% real estate devaluation would not have any significant impact to probability of collection. I think that would be one of the significant information in getting foresight in our business.

Hirano: Regarding the delinquency status in consumer finance business since the beginning of this fiscal year, borrowers from certain sectors have come up with grace for repayment but there has not been such long time since the state of emergency has been placed.
Current net credit cost ratio of 280 bps in consumer finance business is historically low, compared to 400bps to 450bps used to be. We will review the risk volume and also operation structure to respond to the various enquiries. And we will continue to make efforts in order to capture business opportunities to improve approval ratio.

Whether probability of increasing net credit cost ratio in APLUS is limited or not, we haven't seen any stark trends since the beginning of this fiscal year. We assume that there could be some impacts on APLUS's customers. We will continue to vigilantly monitor the situation.

Question: Net credit costs of Shinsei Financial and APLUS FINANCIAL both exceeded JPY5 billion in Q4FY2019, what is the background?

Hirano: In Shinsei Financial, there was a bonus season and more collection in Q3, while there was not such factor in Q4. In APLUS FINANCIAL, in addition to balance growth, organizational restructuring in APLUS group increased the net credit cost.

Question: (Slide 10, Business and Financial Highlights) Regarding unsecured personal loan business, have you already seen signs of increased delinquency risk? And if so, can you describe the trend? One to two months' delayed repayment occurred during January to March period in your peers. Do you have any data on such trends per Shinsei?

Next, if the customers who are categorized as mid-to-high income will drop to lower income categories in the future, could it lead to increase of credit cost? Or could it be balanced with the slowdown of loan growth with less credit cost required?

Kudo: I have no detailed number on customer trends at hand, but the number of inquiries or consultations we receive is gradually increasing, but the increase has not been as significant as we had originally expected. To speak of this different angle, we've shrank our call center operations significantly. But under this circumstance, the operators are not kept so busy. So, I could say the numbers of those inquiries are not as dire as the current social situation would lead us to imagine. I will ask Mr. Hirano if he has anything to supplement.

Hirano: There is one side that the slowdown of loan growth somewhat offset a negative impact of credit cost. The other side is that, with decreasing total income of borrowers there would be the confliction of the restriction on total loan amount stipulated by the Money Lending Act. We have to monitor the situation very closely.

Question: Regarding real estate finance, could you please disclose LTV by assets?
Hirano: We do not disclose the LTV by assets.

Question: (Slide 8, Business and Financial Highlights) Regarding the use of capital for non-organic growth opportunities, you focus is on nonbank business. When the business environment is changing like this, which areas are you expecting for such non-organic business opportunities? You used to explain to focus on South East Asia, is there any change in the views or is there any additional areas you are going to focus?

Kudo: The direction of non-organic strategies, the direction itself is not changed basically. We focus on a non-bank field, especially for the small-scale finance, providing personal loans and financing including leasing to micro, small and medium sized companies. Of course, the impact of COVID-19 differs by country or by sector. We need to examine the downside risks of individual cases to make decisions. For the past several years we have seen a lot of transactions, and there's some attractive transactions but was too expensive. Or there are cases that the investment fund bought the target company at a higher price than us. By not following such transactions, we have the excess or sufficient capital. By selecting a good transaction, we would like to proactively utilize our capital.

I'll give you supplementary explanation on your previous question. Regarding the LTV of the real estate assets, average LTV is around 70%. Hotels, or the commercial facilities are included. Because their cash flows are apparently deteriorated, we decreased our valuation, which led to slight increase of LTV. But so far, we have not seen major change in LTV.

Question: In the midst much uncertainty, what measure are you taking for consumer finance business? Will you reduce advertisements or take a wait and see attitude? Will you inject more stringency in credit screening and evaluation criteria? Can you share your measures if you have other than those?

Kudo: There's not any mood for consumption booming, so we are not thinking of any aggressive advertisement measures.
Credit model or credit control was another point in the question. In this business, change in credit screening model or credit model is done quite frequently. We are dynamically adjusting the credit screening criteria from growth and profit perspective. But the very basic principles are unchanged, even in the midst of uncertainty, if the credit risk increases, then we will monitor the trend of increase and if needed, will change the model.

Revenue has gone down in so many sectors. As a result, those who are in these sectors are losing income, which is extraordinary.
On the other hand, each business is beginning to implement measures to recover their performance. So, as a financial institution we should have a longer term, mid-term perspective to judge the funding requests and capability of repayment of each customer. We rely not just on the internal data but rely on data from several external partners we alliance and intend to offer credit to those customers. We've embarked upon such endeavor and some sectors have been heavily affected by COVID-19. We want to gain precision in the creation of credit model for those sectors to gain the confidence of those customers. We think that such measure, by tapping on our partners' ability is very effective, so we will continue to implement those measures.

Question: Regarding the non-interest income. In Q4, there was a negative JPY1.7 billion due to the COVID-19 impact. So, based on the business impact on page 10, compared with other companies, I have an impression that you have higher volatility of the non-interest income. Specifically, which areas are you seeing major impact? Please share with us your understanding regarding the current situation.

Hirano: The negative JPY1.7 billion includes the impairment and the delay of the recording of expected revenues. These are the major factors. In the forecast, lack of exit opportunities and deferring capital gains will be downward pressures.

Kudo: We had a hard time deciding on what to disclose, how to disclose, because in the midst of so much uncertainty, we do not know how the situation will unfold. We thought through the best way for disclosure to the stakeholders. As a result, we did it in this fashion. Though we didn't give the full year forecast, we offered qualitative factors for each business lines and we tried to thoroughly explain our strategy and principle and what we need to watch for in terms of decision-making including shareholders return as possible as we can. I intended to have explained those important points thoroughly. I'm sure you would have additional questions and we'd be happy to respond to them if you can convey those to the IR and communications division. Thank you.

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