1Q FY2020 Financial Results Teleconference
For Domestic Analysts and Investors（Held on August 3）
Q&A Summary

Question: Two questions, please. First, the approval rate has risen at the Lake ALSA. Generally speaking, while the economic situation has worsened, for example, the unemployment rate has worsened, and we have also considered that we might be cautious in terms of credit costs and credit risk. Behind the rise in the approval rate since then, is the quality of customers became better than in the past? Could you please explain the background to the increase in the closing rate within this environment?
The second point is the revitalization plan. If the OBP and net income on a non-consolidated basis are not achieved to the plan, it will be a penalty under the rules. However, the current revitalization plan has been issued before COVID-19 pandemic, and the progress on a non-consolidated basis seems to deviate greatly from the revitalization plan on a first quarter basis. In this environment, is it necessary to achieve the target set forth in the revitalization plan? Or is there any sort of relaxation by rules?

Hirano: The first question is why the approval rate of Lake ALSA has increased but the number of applications has dropped by more than a fourth percentage. This is not the case that it has relaxed the credit assessment criteria but has prioritized responding to the new customer acquisition under the limited operators' resources in this environment, and, as we have explained, it has succeeded in taking a number of measures to eliminate those that have been withheld in the process, resulting in an increase in the approval rate. This means that the process improvements were more effective, and not the credit standard has been loosened.
Regarding the second question on the revitalization plan, we naturally believe that we will comply with the figures we are publishing in our plan. However, the outlook for the future will differ from that for consolidated and non-consolidated results. At this stage, we can only say that we will continue to comply with the announced revitalization plan.

Question: Regarding the credit costs, we have Institutional Business that has incurred a large amount of credit costs this time, but we would like to hear from you about how you are looking at the credit costs in Institutional Business from 2Q onwards, to the extent that you can answer.

Hirano: Regarding credit costs, we recognize that we have sufficiently provided allowances, including precautionary reserves, to the extent that we feel there is a risk that we can expect at this point in time. Of course, the number of infectious diseases will increase in the future, and it is possible that the environment will change depending on the state of economic activities in the future. Therefore, we cannot make any assurance, but in this sense, we are currently providing necessary precautionary reserves, so we do not think that there will be any major impacts in the near future.

Question: Regarding UDC Finance, I would like to know whether there are new opportunities like acquisition of UDC in the current market environment. I would like to ask you to tell us which is more likely to be an overseas or domestic deal.

Hirano: We are currently working to close UDC Finance for the time being. Of course, there has been no change to what we would like to do in the future if there are such opportunities. It is difficult to match the price perspective rather than either in Japan or overseas. Therefore, I am aware that this time we have been able to make acquisitions at an extremely reasonable price even in this environment, and that this will also vary depending on the environment. Therefore, we will continue to look for opportunities in areas where we have expertise that are sufficiently profitable.

Question: The first is credit costs, and the second is the downsizing risk of performance.
I would like to ask you to give us as much information as possible while your plan has not yet been presented. But what is the peak credit cost in the quarter likely to be the quarter, and I am particularly concerned about the unsecured loans. Could you comment on that point?
The second point is that we recognize that the impact of COVID-19 is due to a drastic decline in performance during this period. We have explained that the business trends do not deviate significantly from the original assumptions. However, we would like to ask you to explain qualitatively, taking into account the effects of considerable COVID-19 during this period, whether or not the performance will be recovering from the next fiscal year, or if there are any signs of modulations that should be assumed in terms of the expected downward risk of profit. We would like to ask you to provide a supplementary explanation.

Hirano: First of all, credit costs about when the time of the peaks is. At the outset, in this sense, 1Q is generally large. Then, we should see 2Q but I think that 3Q, 4Q will recover somewhat. As I explained earlier, 1Q for unsecured loans as a whole recorded net credit recoveries. Currently, payment deferrals are provided but these are reverted to normal status as there is various subsidies. Therefore, I think that the question of what happens after that must be watched. In the sense that we look at the quality of our loans. However, such signs have not been observed at present.
The second question concerns the downsizing risk of business performance. In terms of the top line of business, this is also the impact of the fact that 1Q is the toughest and economic

activities have just stopped due to “stay-at-home” campaign.
We see this as, for example, the percentage of employees who have worked in the company will gradually improve and economic activities will recover. The number of people infected by COVID-19 is increasing significantly, but at this point, the outlook for a 3Q, 4Q recovery remains unchanged, although it will depend on the future trends in economic activities.

1Q FY2020 Financial Results Teleconference
For Overseas Analysts and Investors（Held on July 31）
Q&A Summary

Question: I would like to ask two questions. One is about Lake ALSA and another one is about credit cost.
Regarding Lake ALSA, your disclosure says that Q1 new customer acquisitions was down 38% YoY and the number of applications was 44% down. But when you look at your competitors, who already reported their Q1 results, it looks like the YoY decline magnitude is smaller. What do you think the reason is behind this, and how do you evaluate your relative position versus your peers?
And my other question is about the credit cost. Thank you so much for the detailed explanation. My question is, looking forward to second half and beyond, or like second half, do you think your credit cost precautionary credit cost is pricing in enough? My question is, is there any downside risk that this might increase in the future? Are there any trends you're monitoring carefully? I want to get the sense about how conservative this precautionary credit cost is.

Gupta: With regards to your first question, there are various ways to look at it. As you know, we have been very diligent in our credit assessment and risk control. In the past, we have been criticized for not having a very high approval rate. So basically what we are doing is we have – as we have explained in the past – we have a desire to bring our overall loan approval rate to around 35% to 36%. The approval rate we had to before we shifted the brand from the Bank to Shinsei Financial. As a result, we had a taskforce associated, looking at where we are lacking. So, the improvement from 30.6% to 33.2% partly is attributable to the findings and the new initiatives we are taking and looking at various operational-related work in the call center, which is helping us improve the approval rate.
Now, I think your question is also about the decline in the number of applications, which was down 44%. What I would say is that more and more of our customers are applying online. We are advertising on YouTube, we are advertising online, and many of the customers are – and those marketing channels, as opposed to TV, have been working very well. So, I think we were still able to get customers, while reaching to them through the online marketing channels. I don't know if that explains to your first question.

The second question about the credit cost downside risk. While I would not be able to talk so much about the future, as I just explained, right now we have a total precautionary reserve of JPY3.7 billion. Of the JPY3.7 billion we have JPY1.4 billion in the aviation sector; we have roughly JPY900 million is Showa Leasing, because Showa Leasing does have some aircraft leasing or some retail sector exposure; and the remainder relates to the corporate business exposure.

As you noted in the real estate finance, our loan amount is much lower than the actual collateral value or the actual exit, so we believe we are largely covered in the real estate finance sector. Wherever we thought it would be appropriate for us to take a precautionary reserve, knowing the challenges being faced by certain industries, to be prudent, we have taken necessary reserves at this point in time. We hope that this reserve level is adequate, as far as we are concerned, but we really don’t know what the future will hold. As of now, we believe we have done what is prudent for the business and for the result for this fiscal year.

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