

Rakuten Bank, Ltd.
Key Q&A from the Sell-Side Analyst Small Meeting
(June 5, 2024)

[FinTech Reorganization]

Q. Since the financial results announcement, the stock price has declined. Many investors may be concerned that Rakuten Bank could be negatively impacted by the parent company, Rakuten Group, Inc., during the FinTech reorganization. This concern might have led to the stock price drop after the financial results announcement. What is your view on this? Additionally, some voices suggest that it would be beneficial for minority shareholders if Rakuten Bank's current stock price were higher during the reorganization. What are your thoughts on this?

A. We are aware that some people believe the stock price dropped due to concerns that Rakuten Bank might be negatively impacted by the parent company during the reorganization. However, if that were the case, it would have been more natural for the stock price to react at the time of the April 1 announcement regarding the start of discussions on the FinTech reorganization. There are also comments that the ¥5 billion reorganization-related cost included in this fiscal year's earnings forecast is significant, but this is a one-time expense. Through discussions on the reorganization, we have reached a point where we are confident that the reorganization will benefit Rakuten Bank. However, even if it is certain that the reorganization will benefit Rakuten Bank, the structure and economic conditions of the reorganization could either positively or negatively impact minority shareholders. The economic conditions of the reorganization will be influenced by its structure, but generally speaking, we believe it will involve comparing the value of Rakuten Bank and other FinTech companies using the same criteria. Since Rakuten Bank's value is determined by the market, we will verify whether the value measured by these criteria is appropriate compared to the market value. In this sense, while the current stock price is not irrelevant, it does not mean that a higher or lower stock price is necessarily advantageous when determining the economic conditions of the reorganization. In any case, if we proceed with the reorganization, we believe it should be done under a structure and economic conditions that also benefit minority shareholders.

Q. I believe that one of the benefits of the FinTech reorganization for Rakuten Bank is the high potential of corporate customers held by Rakuten Card Co., Ltd. (hereinafter "Rakuten Card"). What are your thoughts on this? Also, will significant IT investments be necessary as you proceed with collaboration with Rakuten Card?

A. Rakuten Card was a small emerging card company over a decade ago but has now become Japan's

largest card company. Initially, it expanded its business on the issuing side (cardholders) and later focused on the acquiring side (merchants). Given the large number of cardholders, Rakuten Card has a certain influence over merchants. Therefore, we believe that approaching merchants as Rakuten Bank, part of the same FinTech group as Rakuten Card, will increase the likelihood of starting transactions compared to approaching them alone. Once transactions begin, we are confident in deepening these relationships and monetizing them by demonstrating the convenience of our services to the merchants. Additionally, we believe that Rakuten Payment, Inc. (hereinafter "Rakuten Pay") can also drive the expansion of our corporate business. Although Rakuten Pay's merchants are smaller than Rakuten Card's, we can approach these small and medium-sized customers effectively by leveraging our relationship with Rakuten Pay. By doing so, we can propose efficiency improvements through our banking services, providing benefits to customers and generating revenue for Rakuten Bank. We recognize that one of the clear benefits of the FinTech reorganization is in these corporate transactions. Regarding IT investments, integrating Rakuten Card and Rakuten Pay customers into Rakuten Bank will not require significant IT investments. We believe we can handle this within our current IT investment framework. On a related note, even for individual customers, one of the major benefits of the reorganization is the ability to enhance synergies among FinTech companies, making it appear as a unified service to customers within the legal limits. This will contribute to the revenue growth of FinTech companies, including Rakuten Bank. Achieving this synergy in the individual business will require ingenuity but not significant IT investments.

(Follow-up) If significant IT investments are not required, does that mean the OHR (Overhead Ratio) will continue to decrease?

A. The OHR cannot be reduced to zero, so there is a limit, but we believe it will continue to decrease gradually as our business scale expands. Since the FinTech reorganization will lead to business expansion, we expect the OHR to decrease in the medium term.

Q. Rakuten Bank's corporate transactions have not been growing significantly. Is it really possible to acquire Rakuten Card's corporate customers as Rakuten Bank customers when you integrate with Rakuten Card?

A. Initially, Rakuten Bank could only offer deposit and foreign exchange transactions to corporate customers, but not lending services. In 2016, we received approval for corporate lending, allowing us to offer comprehensive transactions to corporate customers, providing them with various benefits and improving the profitability of our corporate business. Our corporate business model involves placing Relationship Managers (RMs) who collect three years of financial statements from customers, meet with

management, and sometimes conduct factory visits to make credit decisions. This hybrid model combines traditional RM-based corporate services with the convenience of 24/7 online banking services. Based on our trial and error experiences, we believe this business model will undoubtedly grow our corporate business. However, training RMs and increasing their numbers in a short period is challenging. Although we have conducted mid-career hiring, it is difficult to find individuals who understand the entire corporate banking business due to the specialization in other banks. Therefore, we believe we must train our own RMs, which takes time and limits the growth speed of our corporate business. If all Rakuten Card merchants wanted to open accounts with us tomorrow, we could do so immediately. However, due to the limited number of RMs, it would be challenging to provide satisfactory services to all merchants immediately. We believe it is important to train people and acquire customers in the medium to long term.

Q. You explained the lending business after the FinTech reorganization. Could you also discuss the fee business? Are there any expected revenue sources in the fees and commissions?

A. Increasing fees and commissions through group synergies is important. For example, under the government's policy to aim for an 80% cashless payment rate, we expect cashless payments to increase. By strengthening the relationship between Rakuten Pay and Rakuten Bank accounts after the reorganization, we anticipate an increase in account withdrawal fees associated with Rakuten Pay usage as cashless payments become more widespread. Additionally, in terms of future societal changes, the aging society is significant alongside the spread of cashless payments. Traditionally, retirees could live on their retirement benefits and pensions, but recently, more people cannot sustain themselves due to longer lifespans. This is a societal issue in Japan and a business opportunity for us. For example, reverse mortgages have primarily been offered by regional banks, but some regional banks do not offer them. Customers living in areas served by these banks could not use reverse mortgages. Rakuten Bank can offer reverse mortgages nationwide through the internet. Although this is not service transaction income, it is a business aligned with societal changes. Additionally, we expect an increase in securities investments, but elderly customers will eventually liquidate these investments. By strengthening our relationship with Rakuten Securities, we aim to create a system where these funds are deposited into Rakuten Bank accounts and used within the Rakuten Ecosystem. This will generate interest income and fee income.

Q. Regarding the potential for corporate business after the FinTech reorganization, what kind of businesses or new services do you envision by combining Rakuten Card and Rakuten Payment merchants with digital possibilities?

A. In our corporate business, we have focused on comprehensive sales to mid-sized and larger customers, offering deposits, settlements, loans, and securitization services. We believe we can cover large merchants of Rakuten Card with our existing approach. However, for small and medium-sized merchants of Rakuten Card and many small merchants of Rakuten Payment, it may not be profitable to provide customized services and individual credit assessments. Rakuten Card and Rakuten Payment offer payment services to merchants' customers and handle the payment of purchase amounts to merchants, but they do not see the transactions beyond the deposit into the merchant's bank account. By creating a system where purchase amounts are deposited into Rakuten Bank accounts, we can monitor the entire economic activity of the merchants and capture all their transactions within the Rakuten Bank group, thereby creating business opportunities. If we can see the entire cash flow of merchants, we can devise ways to provide loans to them. Additionally, we may be able to capture the business of merchants' employees and suppliers.

(Follow-up) Your explanation sounds similar to the business model of Shopify in the U.S. Are you also considering BNPL (Buy Now, Pay Later)? Do you have any case studies you are looking at, such as those from AEON Bank, Sony Bank, or SMBC's app?

A. We are studying Shopify, but we are somewhat skeptical about BNPL. Japan has had installment payments for a long time. We question the value of BNPL and whether its credit assessment methods can truly control risk. On the other hand, we are interested in how Amazon is building customer loyalty. However, there may not be any other group globally, like Rakuten Group, that has such a large-scale financial service within a distribution-centered group. Studying one company group will not reveal the business model of Rakuten's FinTech reorganization. We are also looking at SMFG's Olive, but we recognize that it is not necessarily a bank-led service. Other internet banks have different strategies from ours, so we do not find them very relevant. We are interested in Sony Financial in terms of what happens if insurance is included in the group.

Q. The announcement stated that the FinTech reorganization is expected to take effect in October. Will there be no announcements until then?

A. Given the scale of this reorganization, we understand that procedures in line with the rules are necessary. This depends on the structure, but if procedures are required, it is normal to announce the proposal in advance during the process. Regulatory approval is also necessary for the reorganization, and while we will not disclose the progress of regulatory approval, it is normal to apply for approval after finalizing the structure. Therefore, we will announce it once the structure is finalized.

[Outlook on Deposit Interest Rates]

Q. In a world with interest rates, acquiring deposits is crucial. If the BOJ implements additional rate hikes, will you raise deposit interest rates? If so, what do you estimate the pass-through rate to be?

A. Regarding deposit interest rates, we will consider not only market interest rates but also the situation of other banks, so it is difficult to provide a definitive answer at this time. However, based on past experience, we estimate the pass-through rate to be around 40%. If the BOJ implements additional rate hikes, we will almost certainly raise deposit interest rates. Note that we did not raise ordinary deposit interest rates when the negative interest rate policy was lifted in March. When the negative interest rate policy was introduced, other banks lowered their ordinary deposit interest rates, but we kept ours unchanged and covered the difference through management efforts. The lifting of the negative interest rate policy in March merely returned the policy rate to its pre-negative interest rate level, so we kept the ordinary deposit interest rate unchanged.

[BaaS Business]

Q. Please update us on the progress of the BaaS business, particularly the launch of the Dai-ichi Life branch and JRE Bank. JRE Bank seems to be off to a strong start. What are your marketing strategies and customer acquisition status?

A. As reported, JRE Bank has received more applications than expected and is off to a smooth start. Marketing is led by the JR East Group, and we proceed with their approval, including distributing discount coupons. Considering JR East Group's customer base and their commitment to JRE Bank, we believe the number of accounts will grow significantly. The goal of 1 million accounts in five years, announced by JR East, seems to be a conservative target. The Dai-ichi Life branch has not fully utilized the company's sales power, so we cannot say it is progressing as planned. Dai-ichi Life pays a substantial amount of insurance benefits to customers annually. We aim to use the Dai-ichi Life branch as a receiving account for these insurance benefits and work with Dai-ichi Life to connect these funds to subsequent business opportunities.

[Data Utilization]

Q. Is the progress of data utilization business as expected? We expect it to become a major source of non-interest income in the future.

A. We are broadly utilizing data, contributing significantly to both interest and non-interest income. For example, our card loan balance has finally started to grow. Although we initially lacked expertise in small loans, we have successfully expanded small loans by creating credit models using data and AI. This is an

example of data utilization in interest income. In non-interest income, we are improving marketing accuracy by using data to avoid displaying ads that customers are not interested in and only showing ads that match their preferences. This has increased customer conversion rates, leading to higher fee income, and reduced the number of customers who close their accounts due to seeing irrelevant ads repeatedly. In our data-driven advertising business, we analyze customer data to propose relevant ads to customers and make proposals to advertisers. We can now suggest to advertisers that Rakuten Bank has customers with specific interests who may be promising prospects for their business. Although our advertising revenue is already increasing, we aim to show expanded advertising revenue in six months to a year by fully leveraging data.

[Stock Price Trends]

Q. Did you anticipate this stock price decline before announcing the financial results?

A. The stock price is determined by the market, and it is not something we comment on or predict. However, Rakuten Bank's stock price had risen significantly from the April 1 announcement of the start of discussions on the FinTech reorganization until just before the financial results announcement. Since the stock price had risen without any details of the reorganization being disclosed, we thought there might be a phase where it would decline if it was rising solely on expectations. However, predicting the timing of such a decline is impossible. Internally, there was a discussion about whether to include the ¥5 billion reorganization cost in the earnings forecast before the announcement, but we decided to disclose it, considering it necessary to inform shareholders of the costs, even if uncertain. The FinTech reorganization involves multiple companies with different business laws and transactions with the controlling shareholder, so we need to ensure higher transparency than usual transactions to gain minority shareholders' understanding. This requires detailed due diligence for each company, resulting in significant costs. Although we cannot accurately estimate the exact amount at this time, we conservatively estimated it to be ¥5 billion.

(Follow-up) Given the significant stock price decline, it feels like the stock is being sold below its corporate value. I believe the stock price will not stabilize until the FinTech reorganization scheme is decided. From your explanation, it seems that raising the stock price does not necessarily directly benefit minority shareholders, but rather, increasing corporate value will result in a higher stock price. Is that your stance?

A. We do not comment on whether the current stock price is cheap compared to Rakuten Bank's corporate value. As managers, we do not ignore the short-term stock price, but the stock price is influenced by supply and demand factors, not just corporate value. Since we cannot control stock price

fluctuations due to supply and demand factors, our basic approach is to expand profits, enhance corporate value, and expect that the improvement in corporate value will be reflected in the stock price in the medium to long term. We do not aim to tell good stories to raise the stock price in the short term. While we need to verify the current stock price, we want to focus on improving performance based on this fundamental approach.

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