Rakuten Bank, Ltd.

Q&A Following Financial Results Presentation on May 10, 2023

1. **Please describe the assumptions behind your FY03/24 forecasts (interest rates, non-interest rates, expenses, credit costs, etc.).**

Our forecasts for FY03/24 assume that interest rates remain flat (the Bank of Japan maintaining its policy of negative interest rates, no further revisions to YCC) and that exchange rates maintain their current levels. We have calculated the rise in interest income based on projections for a well-balanced expansion of investment assets and a gradual increase in middle-risk assets.

The assumptions behind our calculations of non-interest income are an increase in the number of accounts and a steady rise in the percentage of main accounts[*1].

Regarding credit-related costs, using our own data and assuming credit management remains strictly, we assume that credit-related costs will remain essentially flat for each asset class. That said, we expect total credit-related costs to increase to some degree as the proportion of each asset class changes.

2. **Deposits: What are your thoughts on the stickiness of deposits, in light of the recent problems with US regional banks?**

The US and Japan take different approaches to financial regulation. In Japan, banks of all sizes face stricter liquidity management regulations, so the situation here is different from that in the US. We encourage customers to use our accounts as their main accounts, with the funds for their everyday lives being deposited directly into our accounts. Due to the trust customers have in Rakuten Bank, we consider the stickiness of our deposits to be high.

In addition, while our customers have a high level of trust in Rakuten Bank, that sense of trust also extends to the Rakuten Group. This trust in the Rakuten Group is a factor that increases the stickiness of deposits with us.

3. **What specific growth amounts are you assuming for each of the assets shown on page 24 of the presentation materials? I am interested in particular in hearing, quantitatively, your thoughts on whether growth amounts in trust beneficiary rights of Rakuten Card, investment property loans, and ABL will be higher or lower than in FY03/23. In addition, I would like you to explain—quantitatively, not**

qualitatively—what the contribution from net interest income will be.

All our forecast figures for FY03/24 are shown in our consolidated financial results. We will refrain from providing more specific figures at this time. We anticipate that growth in each asset class (loans and monetary claims bought) will continue as it has in the past. Over the past two years, card loan balances have been declining as COVID-19 sapped consumer spending and reduced the demand for funds. Post-pandemic, however, this downtrend bottomed out in September 2022 and has gradually turned upward since. Our forecast for FY03/24 assumes that this uptrend will continue.

We expect housing loans to continue growing, but our basic philosophy is to aim these loans to customers from whom we can generate earnings in multiple ways, such as through cross-selling. We do not intend to take part in aggressive competition with other banks to offer low interest rates. Accordingly, we are not pursuing unrealistic growth targets for housing loans.

We expect to maintain a certain level of growth in investment property loans. We have established solid business relationships with companies that sell investment properties, and they provide us with high-quality customer referrals.

With regard to ABL, some of the securitization assets we use for our securitization services will be monetary claims bought, and some will be ABL. We makes plans for its investment assets through securitization, but ultimately this is difficult to forecast, as whether these assets will be ABL or monetary claims bought is up to the originator. Our approach is to further accelerate securitization through a combination of ABL and monetary claims bought, and we hope to achieve strong growth in this area.

4. **Loan balance: Your card loan balance as of the end of March 2023 was up from the end of the previous quarter. Was this due to investments in advertising or some other initiative? What was the reason for this growth? Also, what are the assumptions behind your forecasts for FY03/24?**

As of end-March 2023, our card loan balance was down compared with end-March 2022 but up in comparison with end-December 2022. We did not make any specific investments in advertising in Q4, but we ran a television commercial from April 2022, which may have had a gradual effect. More important was the easing of the pandemic—which compelled people to stay at home—and consumption has resumed post-pandemic. In particular, our card loan balance has increased due to the resurgence of travel demand, driven in part by the national government's travel support, and the resumption of eating out, which has led to an increase in consumer spending.

Our plans for FY03/24 assume that the card loan balance will keep rising, amid the post-pandemic situation. Our plans do not assume re-emergence of COVID nor a return from a Category 5 to a Category 2 classification.

5. Trust beneficiary rights of Rakuten Card: As of the end of March 2023, trust beneficiary rights of Rakuten Card were down from the end of the previous quarter. Also, the trust beneficiary rights held by Rakuten Bank as a percentage of the Rakuten Card shopping balance was high only in Q3. By the end of March 2023, this had fallen back to previous levels. What is the background for this, and what is your outlook for the future?

As in the past, the balance of trust beneficiary rights of Rakuten Card tends to decrease from the end of December to the end of March, with the balance being higher at the end of December. This is because consumer spending increases in November and December due to year-end shopping, leading to increased use of Rakuten Card and resulting in higher transaction balances at the end of December. Typically, this balances out as settlements are completed by March and conditions return to normal. The ratio of trust beneficiary rights of Rakuten Card held by us is managed by Rakuten Card, but there are two parts to the funding: the securitization of Rakuten Card claims into trust beneficiary rights, and funding from other banks via loans or CP in the market. Since it is not easy to increase or decrease the balance of loans once they are taken out, when transaction balances increase in December, it is more convenient and faster for Rakuten Card to procure funding through our trust beneficiary rights instead of borrowing from other banks. Looking toward the end of March, the temporary demand for transaction volume decreases, so the balance of loans borrowed from other banks does not fluctuate substantially. Therefore, it is common for the ratio of trust beneficiary rights of Rakuten Card held by us to decrease. We believe this trend will follow the same pattern as in previous years.

Looking ahead, we expect the balance of trust beneficiary rights to continue growing as Rakuten Card smoothly expands its scale of business. We anticipate a considerably high balance in December 2023, which will decrease slightly by the end of March 2024.

6. Your main account ratio is 31.1%. Please describe the trends to date, your expectations for the future, the profitability of main accounts, and what factors differentiate you from competitors in terms of creating main accounts.

The main account ratio has increased steadily, reaching 31.1% at the end of March 2023. We aim to continue increasing our number of main accounts. We cannot provide specific figures, but we aim to maintain the increase in our percentage of main accounts. In addition, we hope to bend the curve (of the percentage of main accounts) upward by leveraging the increased name recognition resulting from our listing.

One of our major differentiating factors for acquiring main accounts is the convenience of our services. We offer a full range of banking services digitally through a single banking app, and each service is very user-friendly for customers. We believe the convenience of our services is our strongest differentiating factor. In addition, we grant Rakuten points every time customers use its services. This makes it economically rational for customers to use our services rather than those of other banks. We understand that customers choose Rakuten Bank based on both convenience and economic rationality, and we believe these factors will continue to differentiate us in the future.

With regard to competing banks, many customers use accounts at megabanks or regional banks as their main account. In general terms, though, when our number of main accounts increases it is frequently because customers are shifting their main account from one at a megabank to an account with us. Megabanks are not our only competitors, however, and we believe it is important to provide services that offer greater convenience.

7. Perspective on capital policy: For the foreseeable future, I assume you will use your surplus capital for investment. What is your perspective on capital policy? Do you have any targets or guidelines for your capital adequacy ratio? Also, could you provide any insights on how we should assess the movement of risk assets?

Realizing our medium- to long-term vision for FY03/27 is of utmost importance to us. To achieve this, at the time of our IPO we also conducted a public offering of new shares. The goal of the public offering was to secure the own capital needed to accompany our asset growth, in order to achieve the aims of our medium- to long-term vision for FY03/27. We believe that if we expand our business as planned and achieve our goals by FY03/27, own capital will not be in surplus.

Japanese domestic banking standards set 4% as a statutory capital adequacy ratio, and the authorities look to 8% as a benchmark. Additionally, as long as the capital adequacy ratio is around 10%, banks do not have huge problems. As a rule, our basic objective is to maintain a capital adequacy ratio of 10%. However, this ratio may temporarily fall below 10% during periods of growth. Even during growth periods, we operate with the understanding that the capital adequacy ratio should not fall below 8%.

We expect to increase risk assets by expanding investment assets and gradually increasing the proportion of middle-risk assets. Our capital adequacy ratio as of FY03/23 was 11.2%, but the ratio has increased due to the IPO and share increase in April 2023. However, because we intend to substantially increase risk assets, the capital adequacy ratio is likely to decrease over time.

8. Increase in deposits: How would you evaluate your increase in the number of accounts, and what measures are you planning for the future? Also, what is your target for main account ratio, and what measures will you take to achieve it?

The increase in the number of accounts has been driven by the digitalization of consumer lifestyles during the COVID-19 pandemic. Although growth in the number of accounts has slowed since the easing of pandemic-related restrictions, we expect the digital shift to continue. The increase in our brand recognition resulting from going public should also attract numerous customers. Going forward, we aim to accelerate growth in the number of accounts.

We expect our main account ratio to increase, with customers choosing ours as their main account due to the convenience of our services and the economic rationality of receiving Rakuten points. As customers use more services and appreciate their convenience, we believe the percentage of main accounts will increase. Deposits should increase as a result.

9. Non-interest income: Within non-interest income, do you expect other operating income to continue increasing? Fees and commissions appear to not be growing; how do you assess this situation?

Other operating income is subject to market fluctuations, with increases occurring when exchange rates and interest rates fluctuate. Conversely, when the market is calm, other operating income declines. However, our number of accounts is increasing, and while it is true that other operating income is affected by market fluctuations, we are certain that other operating income will increase steadily as the number of accounts grows. We will seize opportunities to increase other operating income when the market fluctuates, but our basic approach is to steadily increase the number of accounts without relying too heavily on market fluctuations.

Looking at fees and commissions, account transfer fees and card-related fees grew steadily, but commissions received on exchange transactions decreased year on year. In October 2021, interbank transfer fees for the National Bank Data Communications System (the “Zengin system”) were reduced by approximately half. In response, We lowered the transfer fees it collects from customers requesting to transfer money and pays to the Zengin system. Although the impact was negative year on year for the period from October 2021 to September 2022, commissions received on exchange transactions rose from October 2022, along with the normal increase in transaction volume. While commissions received on exchange transactions may not appear to be increasing for FY03/23 due to the Zengin system’s reduction in interbank transfer fees (an extraordinary factor), our transaction volume is increasing steadily. We expect an increase in transaction volume to boost commissions received on exchange transactions from FY03/24 onward.

10. How do you expect your percentages for each type of middle-risk asset to change going forward? Will the sharp increase in securitization continue?

Our basic approach toward middle-risk assets is to expand evenly across all categories. We do not think about increasing any one specific asset category. With card loans, our balance had been decreasing over the past two years, but in September 2022 this trend changed, and the balance rose again.

Investment property loans are rising steadily, due to the stable relationships we have formed with major operators. Securitization requires an originator, so performance in this category depends on how many deals we receive. Our one-stop service for securitization involves arrangement, the isolation of bankruptcy risk, and the purchase of securitization assets. Originators appreciate this one-stop offering, so we expect to maintain our competitiveness in securitization going forward. Although the number of cases may fluctuate from year to year depending on referrals, we believe we can expand securitization assets overall.

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*1: Accounts that are used for direct debit or direct deposit of payroll including salary or bonus.