

Seven Bank aims to expand earnings by promoting business diversification, in addition to evolving the ATM business, which is called "ATM+"

The contents of the financial results briefing for the fiscal year ending March 2022 of Seven Bank, Ltd., held on May 9, 2022, will be presented.

[Speakers]

Yasuaki Funatake, President and Representative Director of Seven Bank, Ltd.


[Main text]

Explanatory Meeting for the Fiscal Year Ending March 2022

Yasuaki Funatake (hereinafter referred to as Funatake): Hello everyone. This is Funatake of Seven Bank.

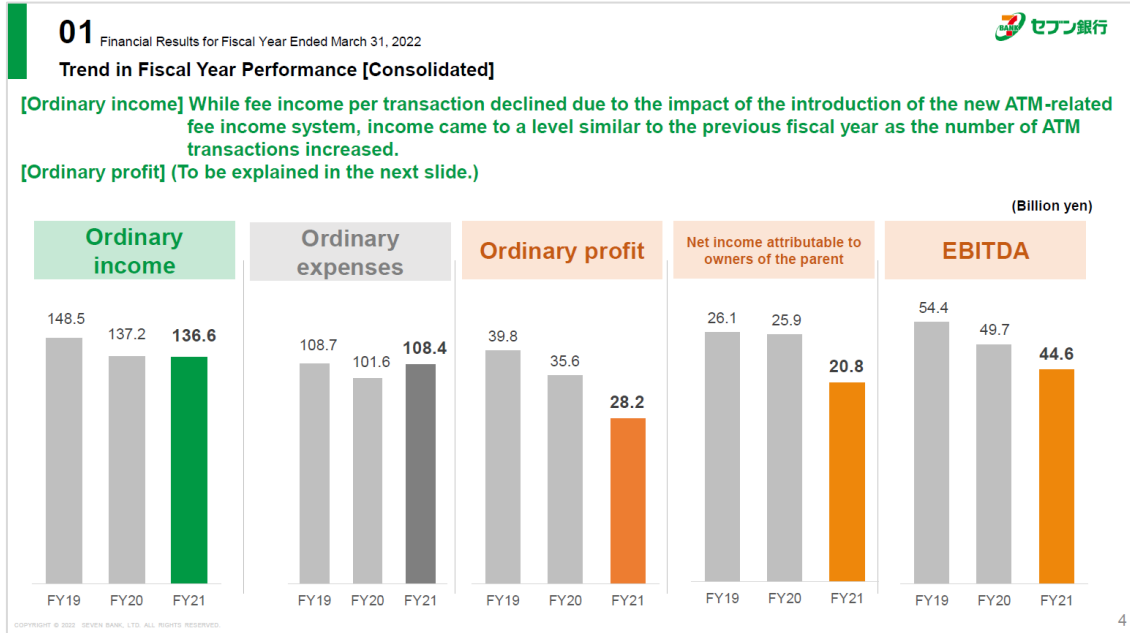
This section briefly explains our financial results for fiscal 2021 and our forecasts for fiscal 2022. I would like to narrow down the points of my explanation about the overall view rather than the explanation based on the materials.

Financial Results Highlight for Fiscal Year Ended March 31, 2022 [Consolidated]

01 Financial Results for Fiscal Year Ended March 31, 2022 				
Financial Results Highlight for Fiscal Year Ended March 31, 2022 [Consolidated]				
[Vs. FY2020] Lower profit on lower income. [Vs. plan] Ordinary income and ordinary profit fell slightly short of the plan.				
	FY2021 Results	FY2020 Results	Vs. FY2020	Vs. plan
Ordinary income	¥136.6 billion	¥137.2 billion	(0.4%)	(0.7%)
Ordinary expenses	¥108.4 billion	¥101.6 billion	+6.6%	(0.7%)
Ordinary profit	¥28.2 billion	¥35.6 billion	(20.7%)	(0.3%)
Net income attributable to owners of the parent	¥20.8 billion	¥25.9 billion	(19.6%)	+5.5%
EBITDA	¥44.6 billion	¥49.7 billion	(10.2%)	-
<small>Notes: 1. Amounts less than one hundred million yen have been truncated. 2. Comparisons with the previous year and plan are based on the units used in these materials. 3. Exchange rates used in the consolidated income statement: FY20 \$1 = ¥106.76, FY21 plan \$1 = ¥108.00, FY21 \$1 = ¥109.90 4. All EBITDA in this material are Ordinary profit + Depreciation and amortization.</small>				
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Highlights of business performance. As you can see, in fiscal 2021 both consolidated and non-consolidated revenues and profits declined on an ordinary basis compared to the previous year. Compared to the forecasts, the consolidated results were slightly below the forecasts.

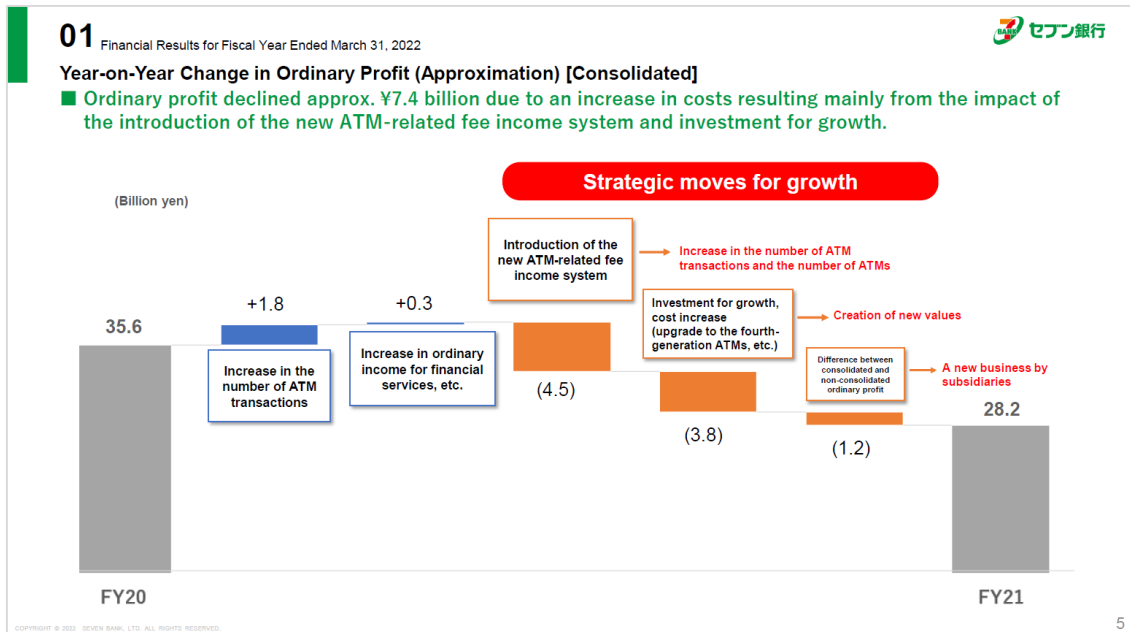
Trend in Fiscal Year Performance [Consolidated]



However, if you look at the contents of the report, even though the ongoing cashless operations and the new fee system had a negative impact on sales, we believe that we were able to reach these figures, which is a reason why we were very strong.

I believe that it was a year in which we were able to realize that the value and needs of ATMs were still present in a challenging environment of cashless operations, digitization, and the spread of COVID-19 infections.

Year on Year Change in Ordinary Profit (Approximation) [Consolidated]



There are five key points for financial results. First, the full accounting of the new pricing structure had a negative impact on sales in the domestic ATM business of around ¥4.5 billion. Despite the poor use of non-banks and other factors, we were able to increase the number of ATMs by 570 units, mainly outside the Group, bringing the total to over 26,000 units.

Furthermore, the total number of transactions exceeded 900 million for the first time, reaching a record high. In this sense, I felt that there was still room for growth in the domestic ATM business as well.

The second is the financial services business. This was a year in which we made steady progress in the restructuring of accounts. The number of accounts has been expanding as simple, easy to understand, and quick-to-open accounts centered on apps, and the balance of loans has steadily increased.

The third is expenses. There was a substantial year-on-year increase in this segment, due to an increase in the number of parts in line with business expansion, as well as some parts that we anticipated in pursuit of new business expansion.

As a result, ordinary income has declined significantly from the previous year, but this is an increase in expenses that we are willing to make for the next growth, so we are actively evaluating. I believe that it is now time for us to drastically devise necessary measures without shrinking into a small scale.


The fourth is a domestic subsidiary. Although still small, the number of business partners is steadily increasing and is steadily expanding. I think the results will gradually spread from this fiscal year onwards, so I think this is a very exciting situation.

The fifth is overseas, but it was generally steady. FCTI has seen some operational challenges due in part to a change in senior management. However, we are returning to stable operations through a review of our new management structure, which is improving greatly. In addition, Indonesia ATMi and the Philippine PAPI are steadily increasing their unit volumes despite COVID-19 pandemic, and we can expect them to do very well. These are the major points of our financial results for fiscal 2021.

Overview of Medium-Term Management Plan (FY2021-FY2025)

02 Progress in Medium-Term Management Plan

Overview of Medium-Term Management Plan (FY2021-FY2025)



[Repost of the Medium-Term Management Plan materials]

We give concrete shape to the second phase of growth with focus on “growth strategy,” “contributions to solving social issues,” and “corporate transformation.”

Growth Strategy		Core	ATM Platform Strategy
<p>Evolve from cash platform to ATM+</p> <p>Expand growth fields that come after ATMs by leveraging our strengths (business diversification)</p>	Domestic business	Growth	<p>Retail strategy</p> <p>Corporate strategy</p>
	Overseas business		Overseas strategy

Contribution to solving social issues

Review basic policy and structure of sustainability promotion

Further develop initiatives for the five materialities

Cooperation with the group and external contractors for solving environmental issues

Corporate transformation

Reform into an organization where independent human resources can take an active part

Innovation of business model and process with focus on data utilization and efficiency improvement

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Fiscal 2021 was also the first year of our Medium-Term Management Plan. We believe that the progress of the Medium-Term Management Plan was in line with expectations as an evaluation for the first year of the plan.

Under the Medium-Term Management Plan, the major pillars of our business strategy are the evolution of our ATM business, which is to create a world of “ATM+”, and the diversification of our businesses. We recognize that these seeds are planted almost as expected and are gradually beginning to emerge.

One thing that was somewhat out of anticipation, if it was strong, was that the replacement of ATMs was delayed due to a shortage of semiconductors. However, we expect that we will be able to cover this issue by fiscal 2024.

The other is the delay in the easing of entry. It seems to be gradually improving, but as the restrictions on entry persisted for longer than expected, few overseas visitors came in. As a result, the handling of overseas cards at ATMs declined significantly.

In addition, the launch of the Seven Global Remit for overseas remittances and Cred Finance for credit services for foreign residents was slower than anticipated, which was outside our initial expectations.

Consolidated Financial Results Forecast for Fiscal Year Ending March 31, 2023

03

Financial Results Forecast for Fiscal Year Ending March 31, 2023



Consolidated Financial Results Forecast for Fiscal Year Ending March 31, 2023

	FY2022 Plan	FY2021 Results	Comparison
Ordinary income	¥149.0 billion	¥136.6 billion	+9.0%
Ordinary expenses	¥121.0 billion	¥108.4 billion	+11.6%
Ordinary profit	¥28.0 billion	¥28.2 billion	(0.7%)
Net income attributable to owners of the parent	¥19.5 billion	¥20.8 billion	(6.2%)
EBITDA	¥48.0 billion	¥44.6 billion	+7.6%

Note: Exchange rates used in the consolidated income statement: FY2021 \$1 = ¥109.90, FY2022 plan \$1 = ¥114.00

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32

Outlook for fiscal 2022. As in the previous year, we recognize that the environment will be extremely challenging due to the progress of cashless operations and the sluggish economy.

Furthermore, as upward pressure on interest rates, prices, and wages is expected to increase further, rises in funding costs and outsourcing costs resulting from such increases will be a major risk factor.

Until now, the operating environment has been somewhat of a surplus of funds, and interest rates have been almost zero due to the decline. However, we recognize that the operation environment and assumptions have changed dramatically, and we must do our business accordingly.

On a consolidated basis, an overall increase in sales is planned. On the other hand, we intend to continue to make aggressive investments for growth and aggressive expenditures, so we plan to continue to increase expenses. For this reason, we have formulated an outlook on whether or not we will be able to secure some level of income on a profit basis.

Summary

03

Financial Results Forecast for Fiscal Year Ending March 31, 2023



Summary

Key points of fiscal year ending March 31, 2023 (FY2022)

In the second year of Medium-Term Management Plan, we aim to reverse the recent trend and expand income. Ordinary profit is expected to be roughly unchanged while ordinary expenses are likely to increase reflecting increased expenses on business expansion.

Environmental recognition

- ✓ Spread of a new normal amid COVID-19 pandemic
- ✓ Further advancement of shift to cashless transactions.
- ✓ Acceleration of rationalization and digitization of financial institutions, administration, etc.
- ✓ Rising interest rates led by the U.S.

Measures

- Further expand the number of ATMs installed and strengthen measures to promote the use.
- Expand services utilizing fourth-generation ATMs such as authentication. However, there will be upfront expenditure this year.
- Accelerate the implementation of the retail and corporate strategies.
- In the overseas business, improve capital efficiency while expanding the number of ATMs installed, primarily in Asia.

Dividend forecast for the fiscal year ending March 31, 2023

- **¥11.00 for full year**, unchanged from the previous fiscal year, by leveraging the solid business model and firm financial foundation

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31

There are four key points in our forecast for fiscal 2022. First, we plan to increase domestic ATMs by 700 units, mainly outside the Group. Compared to the past, this is a very high target, particularly because it is centered outside the Group, but I think that we can somehow achieve this target.

As the streamlining of the banking industry continues to reduce the number of branches and ATMs, the financial community is increasingly demanding replacement of ATMs. In addition, commercial facilities and public facilities are increasingly demanding that banks install ATMs where they have reduced them. In this sense, we feel that there is still room to increase the number of ATMs, so we plan to take on the challenge of increasing the number of ATMs by 700 units, mainly by replacing ATMs outside the Group and financial institutions.

Growth Strategy (ATM Platform Strategy 1)

02

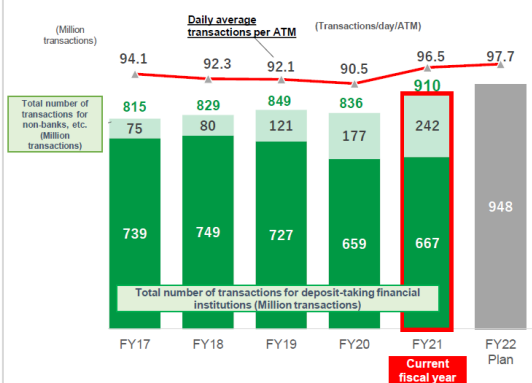
Progress in Medium-Term Management Plan



Growth Strategy (ATM Platform Strategy 1)

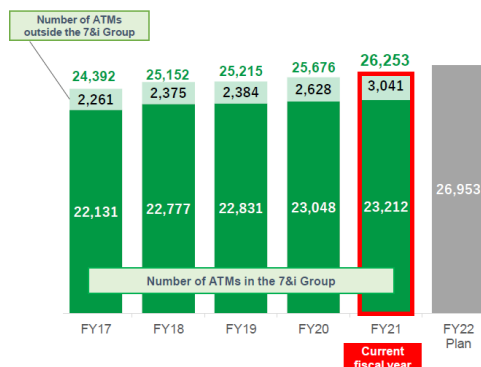
ATM Usage

■ The total number of transactions exceeded 900 million a year.



Number of ATMs at end of period

■ Exceeded 26,000 units. The number of units outside the 7&i Group also exceeded 3,000 units.



Notes: 1. The total number of ATM transactions and daily average transactions per ATM do not include balance inquiries, e-money charges, PIN changes, withdrawal limit changes, or other operations.
 2. In this report, securities, life insurance, credit card, consumer credit, consumer financing companies, and code payment companies are all referred to as "non-banks, etc."
 3. ATM-related fee income per transaction: ¥108.8 for FY21 *ATM-related fee income per transaction = ATM-related fee income / (Total of transactions - Total of transactions without ATM-related fee income [i.e. sales proceeds deposits])

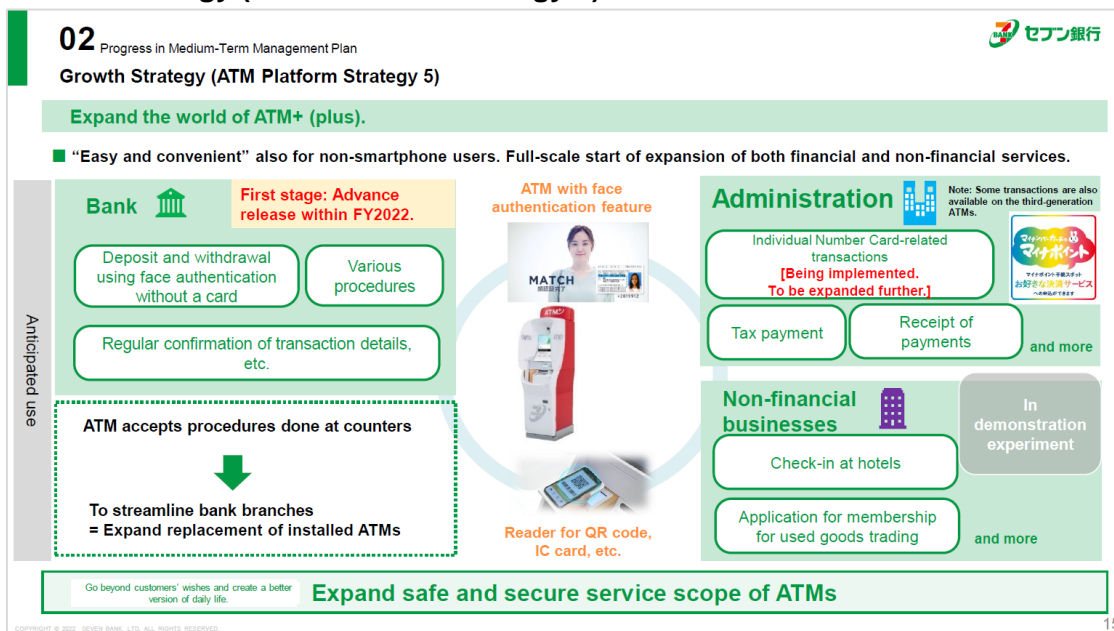
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11

On the other hand, the Non-bank sector is expected to recover in terms of unit prices. When the Non-bank sector is asked, the number of new contracts is gradually increasing, so I think that ATM transactions in the Non-bank sector will gradually recover if the effect becomes apparent.

In this sense, we anticipate an increase in partnering fees under the new pricing structure. Under the new pricing structure, even for customers with paid commissions, if the price rises, the associated commissions also rise accordingly. Based on these factors, the unit price is expected to improve slightly. I recognize that the role of ATMs is still important as a growth driver for the time being.

Growth Strategy (ATM Platform Strategy 5)



The second point concerns the world of “ATM+”, our medium-term management plan. We plan to begin this fiscal year with a preliminary release that combines experiments with ATM certification services, such as account openings, changes in notifications, and needs for continuous customer management and face recognition. We will also provide eKYC services on smartphones at ATMs.

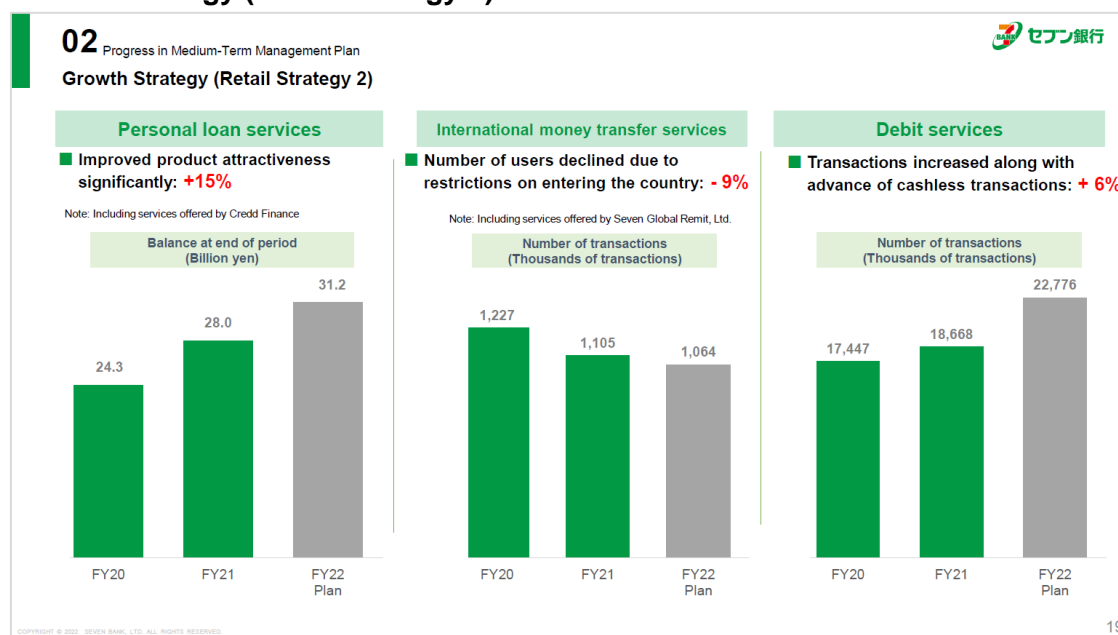
Some say, “If smartphones already have some function, then you do not need the same functions on an ATM, right?” However, just as we were able to confirm the new role of ATMs in the context of cashless operations, it’s not “You can do it all on your smartphone, so we don’t need ATMs”, it’s, “You can do it not only on your smartphone and also at an ATM.” This enables us to provide users with a variety of options.

We believe that this will lead to a stable supply of services to society as a whole. We would like to create the “ATM+” world so that things that can be done on a smartphone can also be done on ATMs.

In terms of contributing to the digitization of government administration, the Liberal Democratic Party of ruling party proposed “Digital Nippon 2022” on 26 last month to promote a digital society. Among them, it has been suggested that ATMs are now evolving into a variety of service platforms, including not only cash deposits and withdrawals, but also administrative services (applications for Individual Number Card Points’, applications for using health insurance cards, etc.) and certifications, and that ATMs should be actively used as a specific example of “UI that does not leave anyone behind.”

If this is to be finalized as a government policy in the future, I think it will also have a significant impact on the ATM strategy of partner banks, and I think there may have been opportunities to increase the value of our ATMs in this field as well.

Growth Strategy (Retail Strategy 2)



The third is the financial services business, where we plan to continue expanding the number of accounts and loans. Demand for loans seems to have declined in many areas even after COVID-19 pandemic, but our loans are steadily expanding, and if we proceed at this pace, we may expect a certain level of expansion in fiscal 2022.

In addition, we plan to launch securities brokerage this fiscal year and will expand our service menu. We plan to take our first step toward expanding the volume of each service.

However, it does not mean simply earning a number through commissions, interest rate campaigns, etc. I think that we are now at the stage of advancing with an awareness of how to launch UI and UX that are different from those of other companies, as well as features that are unprecedented in the past, and how to deploy effective marketing, and how to conduct effective marketing that utilizes not only conventional media but also new media and data.

Results of Main Operating Companies [Non-consolidated, Before Consolidation Adjustment]

01 Financial Results for Fiscal Year Ended March 31, 2022				
Results of Main Operating Companies [Non-consolidated, Before Consolidation Adjustment]				
	Subsidiaries in Japan		Overseas subsidiaries	
	Bank Business Factory Co., Ltd.	Seven Payment Service	FCTI	ATMi
	[Contract-based back-office support]	[Money transfer, settlement]	[ATM operation in the U.S.]	[ATM operation in Indonesia]
Ordinary income	2,423	447	22,675	1,524
(Changes from FY20)	(+398)	(+78)	(-1,559)	(+1,095)
Ordinary profit	39	108	1,805	333
(Changes from FY20)	(-182)	(+86)	(-638)	(+204)
Net income	27	89	3,946	301
(Changes from FY20)	(-117)	(+73)	(+1,319)	(+187)
	Lower profit on higher income Income increased as orders expanded. Profit declined due to upfront investment for business expansion	Higher profit on higher income ATM cash receipt service, etc. expanded steadily	Lower profit on lower income* Improved profitability by removing low margin ATMs. Net income increased thanks to recording of deferred tax assets.	Higher profit on higher income Installation of ATMs increased significantly
Note: Exchange rate: FY ended Dec. 2020 IDR 100 = ¥0.735, FY ended Dec. 2021 IDR 100 = ¥0.768				
*The changes in profits denote those of ordinary profit.				

The fourth is the group of subsidiaries. First of all, in foreign countries, I think that FCTI will inevitably raise funding costs amid an anticipated rise in interest rates. Although the decline on a profit basis is unavoidable, we have formulated a plan to keep down the extent of the decline in profits as much as possible by improving operational efficiency and other measures.

The Indonesian ATMi and the Philippine PAPI are expected to achieve higher sales and profits by significantly expanding the number of ATMs installed. In ATMi, installations are expanding outside of Java. In PAPI, installs have already exceeded 1,000 units, and stable operations are expected to take hold. At the same time, we plan to further expand installations at Seven-Eleven in the Philippines.

In addition, adding a branding bank is also in the plan for this year. We currently have only one branding bank, but if we increase it to two or three banks, it will rebound to the number of ATMs used, so we plan to aggressively take on the challenge of adding a branding bank.


In our domestic subsidiaries, we are steadily expanding the scope of our business, including Bank Business Factory and Seven Payment Service. The Bank Business Factory is expected to receive ongoing customer management services on a consignment basis and to expand other large-scale consignment projects. Seven Payment Services has gained recognition, and the number of companies with which it does business has increased from 500 to 600, and we plan to further expand ATM receipts.

In that sense, I believe that Seven Global Remit and Credd Finance have entered the stage of accumulating figures, in which the restrictions on entry will finally be relaxed. We intend to accumulate figures here by vigorously putting in people, goods, and money.

Overview of Medium-Term Management Plan (FY2021-FY2025)

02 Progress in Medium-Term Management Plan

Overview of Medium-Term Management Plan (FY2021-FY2025)



[Repost of the Medium-Term Management Plan materials]

We give concrete shape to the second phase of growth with focus on “growth strategy,” “contributions to solving social issues,” and “corporate transformation.”

Growth Strategy		Core	ATM Platform Business
<p>Evolve from cash platform to ATM+</p> <p>Expand growth fields that come after ATMs by leveraging our strengths (business diversification)</p>	Growth	Domestic business	Retail strategy
			Corporate strategy
		Overseas business	Overseas strategy

Contribution to solving social issues

- Review basic policy and structure of sustainability promotion
- Further develop initiatives for the five materialities
- Cooperation with the group and external contractors for solving environmental issues

Corporate transformation

- Reform into an organization where independent human resources can take an active part
- Innovation of business model and process with focus on data utilization and efficiency improvement

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The first risk factor is the rise in interest rates, which I mentioned earlier. In particular, interest rates are rising rapidly in the United States, and we are concerned about rising funding costs due to this rise in interest rates.

The second is action restrictions due to the spread of COVID-19. It is unclear what will happen in the future. However, if the economy becomes sluggish due to factors such as the limitation on actions caused by COVID-19 pandemic and the rise in prices caused by the segmentation of the supply chain, people flow will decrease, and the number of ATMs used will also slump. In this circumstance, we can't foresee what the future will be.

The third factor is an increase in personnel expenses in response to wage increases. I think this will eventually lead to an increase in outsourcing costs, but we need to consider how to grasp this issue and how to improve efficiency in a way that can be hedged from this fiscal year. The above is a summary of financial results and business forecasts.

Financial Position [Consolidated]

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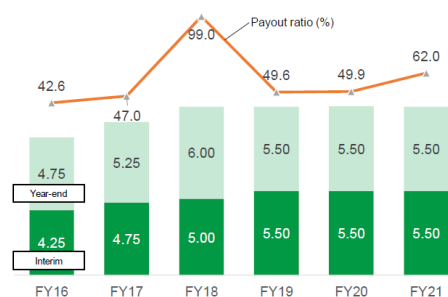
Financial Results for Fiscal Year Ended March 31, 2022



Financial Position [Consolidated]

Balance Sheet (as of March 31, 2022) (Billion yen)	
Cash and due from banks (for ATMs, etc.)	931.4
Deposits (Individual deposits: 550.7)	790.6
	Bonds 105.0
	ATM-related temporary advances 49.2
	Other 32.7
Securities 89.9	
ATM-related temporary payments 84.4	
Other 115.9	
	Total net assets 244.1
Assets: 1,221.6	Liabilities + Net assets: 1,221.6

Dividends



Consolidated capital ratio (Domestic standard) 47.31% (preliminary figure)
Credit rating (long-term) S&P A R&I AA-

Returning Profits to Shareholders. Although results based on financial statements are as scheduled, we are currently planning to proceed with dividends of ¥11 per share in fiscal 2022, the same as in fiscal 2021.


At the same time as announcing our financial results, we also announced a change in the president, so I would like to touch on this. The new president is Matsuhashi, Senior Managing Executive Officer. Matsuhashi is one of the founding members who has participated in this banking project since before its opening. He created our ATM business, participated in the launch of Seven Labo, and was also involved in open innovation among large companies.

Since then, he has experienced listening directly to and touching on the opinions of on-site customers in Customer Service Department and has been responsible for the promotion of our digitization, business management, corporate management, and other reforms in the CX Project, a corporate transformation project within the company. I think we have accumulated a sufficient career as a new leader to lead us in the future.

In light of the future business environment and our direction, I strongly feel that top executives with expertise in the areas of digital, IT, and technology must expand their businesses and conduct business operations based on new ideas that differ from those in the past. I am confident that we will be able to do our utmost to promote the development of new businesses and business reforms by making serious efforts in new areas, such as the utilization of data and the use of digital technologies, while retaining the positive aspects of conventional banks.

The new president, Matsuhashi, will play a central role in the realization of the medium-term plan under the new structure. We hope that you will continue to provide us with support and guidance. My explanation is above.

Q&A: Achievement Probability of ATM-Receiving Fees and BNPL Profitability

04 APPENDIX								
Statement of Income <Seven Bank>		(Billion yen)						
	FY2020	Plan	FY2021	Changes from FY2020	FY2022_plan			
					Full year	Changes from FY2021	1H	Changes from FY2021 1H
Ordinary income	111.6	110.9	110.2	(1.4)	116.5	6.3	57.5	2.9
ATM-related fee income	99.3	98.1	97.1	(2.2)	101.8	4.7	50.4	2.2
Ordinary expenses	77.0	83.6	81.8	4.8	89.0	7.2	44.0	4.1
Interest expenses	0.5	0.5	0.5	0	0.5	0	0.2	0
ATM placement fee expenses	15.9	16.1	16.5	0.6	17.2	0.7	8.5	0.3
Outsourcing expenses	20.9	22.3	21.7	0.8	23.1	1.4	11.4	0.8
Maintenance fees	3.8	3.9	3.9	0.1	4.1	0.2	2.0	0.1
Depreciation and amortization	13.0	15.7	14.9	1.9	17.4	2.5	8.5	1.3
Ordinary profit	34.5	27.3	28.4	(6.1)	27.5	(0.9)	13.5	(1.2)
Extraordinary income and losses	(0.7)	0	(1.7)	(1.0)	0	1.7	0	0.1
Total income taxes	18.0	8.3	8.5	(9.5)	8.5	0	4.0	(0.4)
Net income	15.8	18.9	18.1	2.3	19.0	0.9	9.5	(0.5)
EBITDA	47.6	43.1	43.3	(4.3)	45.0	1.7	22.0	0.1
No. of ATMs installed at end of term (units)	25,676	26,226	26,253	577	26,953	700	26,612	676
ATM-related fee income per transaction (yen)	121.4	110.9	108.8	(12.6)	109.5	0.7	110.5	0.7
Daily average transactions per ATM (transactions/ATM/day)	90.5	95.5	96.5	6.0	97.7	1.2	96.3	1.1
Total number of transactions (million)	836	902	910	74	948	38	465	18

Questioner: I have two questions. The first concerns the probability of achieving the plan for ATM commissions received by the bank on a non-consolidated basis. As you can see on page 35 of the material, YoY is planned to increase by 4.7 billion yen, but if possible, the background to this, as well as the breakdown of deposit-taking financial institutions, Non-banks, and operating companies, could you provide us with further details.

The second issue concerns the profitability of BNPL. Please also tell us how the default rate status has moved and whether it may expand to companies other than Kanmu in the future.

Funatake: I think your first question is that the outlook for ATM commissions for the current fiscal year is bullish, but I would like to talk about this by business category.

First of all, as for deposit-taking financial institutions, the impact of the spread of the COVID-19 has been alleviated, economic activity has become fairly active, and people flow have been increasing. At the same time, we can see an increase in the number of ATMs used.

In particular, this is evident in the Japanese national holiday, "Golden Week" (the first week of May), and the number of transactions has greatly increased as more and

more people move. In that sense, as I mentioned earlier as a risk factor, but I believe that if the situation continues as it is now, the number of users will grow favorably.

Meanwhile, the impact of the new fee structure for bank charges on unit prices has run its course in the previous fiscal year. The decline in unit prices is coming to a halt due to a sense of exhaustion, and I think that unit prices of banks will grow well.

As I mentioned earlier, the intuition was that Non-banks were also slow to recover. Nevertheless, when I talk to consumer finance companies and others, new contracts are growing steadily. We anticipate that both transactions will increase in line with the growth in new contracts, and in this sense, the number of ATMs used will increase.

Furthermore, I think that as inbound tourists return, the number of transactions on overseas cards will gradually increase. We did not anticipate this with regard to overseas cards, but we are planning to release a new scheme that will allow us to receive foreign exchange revenue ourselves just at that time. Then, I think that the income of that portion will go to the Non-bank sector for a little time.

In the past year or two years, there has been considerable growth in the recharging transactions of operating companies, although there is a fairly widespread sense of growth. In particular, every time various campaigns are held to revitalize local communities, the number of recharges is increasing, so the growth rate cannot be expected to be as high as in the last two years, but we assume that a certain level of growth will continue in the future.

In this way, we expect an overall increase of around ¥4.7 billion and plan to greatly increase the number of ATM transactions.

Regarding the second BNPL, I think that it has been a while since we started, and that we probably haven't seen the exact default rate, etc. At present, the default rate is fairly favorable in situations where there is little. However, I think it will probably change again after a few more days have passed, and I think it would be misleading to tell you about the numbers at this point in time.

As we originally anticipated such potential developments in companies other than Kanmu in the future, we are currently negotiating various alliances and other measures. We intend to expand our business within the Group, including outside the Group. At this point in time, we have not reached the point where we can tell you that there is something we can do, but as we have some inquiries, we would like to put them together very well.

Q&A: Results of the Medium-Term Management Plan and Specific Initiatives

Questioner: I have two questions. The first is the positioning of a Medium-Term Management Plan for the recurring profit portion of subsidiaries and the divergence in

outlook for the current fiscal year. Originally under the Medium-Term Management Plan, ordinary income grew by around ¥7 billion, and we recognize that the overseas ATM business and various domestic subsidiaries were the majority of the factors behind the increase in income.

However, looking at this fiscal year's outlook, as you mentioned earlier, due to the increase of interest rates and inflationary pressures, the ordinary income of subsidiaries had not grown as much as expected. In this context, I think there might be a gap on factors of the increase in ordinary income between the initial assumptions when the Mid-Term Management Plan started and current situation.

Please tell us if the domestic ATM business is surprisingly growing and the overseas business and subsidiaries are assuming not to grow as much as initially, or if there is a tendency to think that investment for growth is increasing considerably this fiscal year and that this is a temporary impact.

Second, I originally had the impression that you will expand cross-selling with the Seven & i Group using "7iD." Please tell us the extent to which it is possible, including the areas you will tackle, such as how fast and in what fields will you proceed with materialization in the future medium-term management plan period? Also, could you explain whether or not you will re-engage in the group card and QR code transactions, and to what extent?

Funatake: There was a talk about the situation in the group of subsidiaries that might be a little different from the image that was assumed in the medium-term plan, but it may be delayed if it is said to be delayed.

In the first half of fiscal 2021 and fiscal 2022, investments and upfront expenses were expected to contribute to incomes from 2023 onward in the second half of the fiscal year. In addition to these factors, there are people flow, such as the impact of the COVID-19 pandemic halting people's outflows from overseas and the rise in interest rates, which are somewhat behind the initial expectations. However, we expect this trend to be largely in line with expectations.

Rather, ATM installations are spreading faster than anticipated for subsidiaries in Indonesia, the Philippines, and elsewhere. In this sense, although it is a little different for each subsidiary, we generally think it will be within the scope that we had anticipated. As I mentioned earlier, there are some slight delays in the COVID-19 pandemic and the interest rate status, but I believe that it will keep pace sufficiently in fiscal 2022 and fiscal 2023 and beyond.

Regarding the second issue of "7iD," I am thinking much more about how we will develop financial product services based on "7iD." However, "7iD" is not much that we ourselves can control, so I dared not touch it this time.

Our strengths lie in the large number of stores and the Group's customer base. In this sense, I think that collaboration with "7iD" is a major business opportunity for us.

There is currently no plan as to whether or not we will once again expand into QR code transaction business, but if there are opportunities as our business expands in various ways, such ideas may emerge. At least at the present time, we do not plan to re-enter the QR Code transaction business.

Rather, it is crucial to utilize a variety of information/data based on "7iD" in credit servicing and BNPL. Today, we are repeatedly testing various hypotheses together with the Seven & i Group. As it was within our team of new President Matsuhashi that we have been implementing such initiatives, I believe that we will continue to consider them under the new president.

Q&A: Regarding Growth Investment in the Current Fiscal Year

Questionnaire: Regarding the expenses for the current term plan in the main body of the bank, other than the installation of fourth generation ATMs, I think there is an increase in growth investment that is not included in the breakdown. Specifically, how much money will be spent, when and in what ways will the investment contribute to the top line? Please tell us the specifics.

Funatake: You said, "The expenses will increase by 7.2 billion yen, but looking at just the breakdown, that is not enough. What are the remaining expenses?" I think this is your question.

As I mentioned earlier, we plan to install new ATMs and the we provided the related replacement construction costs as upfront investments and expenses for growth, all of which I think are included in the breakdown.

Expenses not included in the breakdown are those for Sales promotion and related. When inbound tourists return or when restrictions on entry from foreign countries are eased, I think it is necessary to concentrate sales activities by spending people, goods, and money. I think that sales promotions and advertising for this purpose will be the remaining main factors.

In addition, we have told you that we will develop a service that will allow us to acquire new foreign exchange revenue ourselves, but this will also involve a certain amount of investment and expenses at the same time. This means that the increase in expenses associated with such new services is factored in.

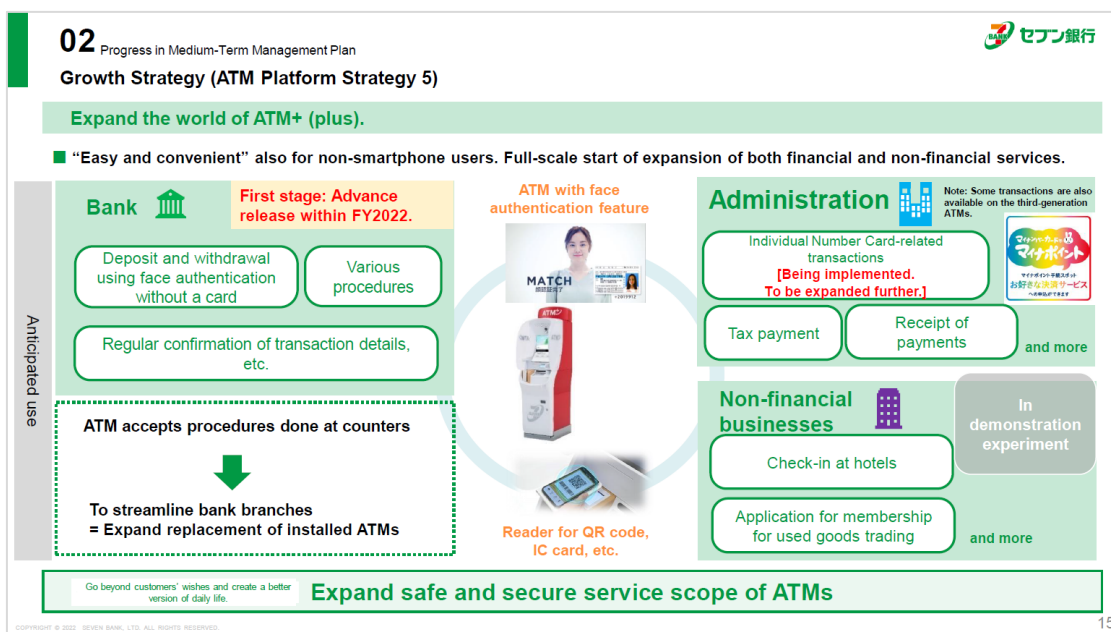
Q&A: Rising Interest Rates in the U.S. and New services with income potential

Questioner: I have two questions. The first issue concerns a subsidiary in the United States. I told you about the risk of raising interest rates. How much is this fiscal year's plan incorporating the increase in interest rates?

The second issue is growth investment. Of the services introduced on pages 15 and 16 of the slides, do you have any income potential in the relatively near future? Also, when and how much revenue will be raised, if any, what specific figures are available?

Funatake: Regarding the first point, it is said that there may be an interest rate hike about four times a year in the world at present. As interest rate hikes will be carried out in stages, it is difficult to tell how far they will rise. However, in the current FCTI planning, we expect the cost increase factor of the interest rate hike to be about 1%.

In short, if you go up several times from 0.5 percent, you will eventually get from 2 percent to 2.5 percent, but on average, you'll see an increase of around 1 percent. If this happens, financing costs will increase from \$7 million to about \$8 million, so we have factored this amount into our plan for the current fiscal year.



The second point I think is the extent to which the “ATM+” world will contribute to incomes through future growth investments. In order to really deploy the “ATM+” world nation-wide, a fourth-generation ATM needs to be deployed nation-wide. If the fourth-generation ATMs are not rolled out nation-wide, they cannot be released as a complete service, so I think it will take the final year of the medium-term management plan from 2024 to 2025 that will really contribute to profits.

Until then, we will take on a variety of challenges to create an entirely new world. We plan to roll out services such as facial recognition, ATM certification, and notifications through ATMs as ongoing customer management. We will also proceed with this initiative while verifying the hypothesis, including UI and UX, so for the time being, I hope that you will see that it will be around 2024 to 2025 that it will be a forward-looking investment type and that it will contribute to incomes.

Q&A: When revenues break even and the average number of transactions in April

Questioner: I have two questions. The first point concerns the constitution of Non-Consolidated performance. In last year's briefing, you said, "Although the unit price of commissions will be reduced once by the new rate system, the volume effect and increase in the number of cases will outweigh the increase in the new fiscal year." This time, we will actually turn to an increase in sales, but we have not been able to absorb the depreciation of 2.5 billion yen due to the increase in the new ATM, which is an assembly of a decline in profits.

Does the increase in sales exceed the investment burden in the next fiscal year? Or, as you have just mentioned, do we need to wait until fiscal 2024 or fiscal 2025? As a supplementary, the average number of transactions for the current fiscal year is an increase of 1.2. However, if we expand the new ATMs outside the Group, it may exert downward pressure on the average number of transactions. Please also tell me your views around here.

The second point is about the average number of transactions in April. These were 98.9 events, an increase of 2.4 percent, which continued to grow from nearly a twenty-percent increase in April last year. Are there any issues that you should be aware of or see that the average number of transactions is recovering steadily?

Funatake: As you mentioned, the first point, the impact of the new fee structure has run its course, so this time we plan to increase sales. ATMs are replaced every year by about one-fourth to one-fifth, but the depreciation expense is being amortized over five years. In other words, even if ATMs are replaced more and more, depreciation costs will not fall unless five years have passed.

As a result, ATM depreciation costs will increase substantially in 2023 and 2024. I think it is difficult to rebound all of this in 2023 and 2024 in light of the current status. Accordingly, with regard to the increase in the number of ATMs and depreciation costs, we expect ATM amortization costs to decrease slightly around 2024 and 2025, and we may finally balance them.

In relation to this, you also asked, "You are planning for the average number of cases to go up by 1.2, but if you place them outside of the group, won't there be downward pressure?" The number of use of ATMs located outside of the group is not necessarily

lower, and when placed in commercial facilities, the number is considerably higher than when placed in regular convenience stores. In other words, placing them outside the group does not put downward pressure on the average number of cases unilaterally.

Rather, it is important to be able to properly examine where to place them. In this regard, the utilization of various data has enabled us to come up with AI-like ideas, and over the past 10 years or so, we have come to know "where to place the equipment and how many cases it will be used. We will install ATMs while examining such views.

As for the second point, the situation in April was favorable. The biggest factor I think is that the effects of the COVID-19 have subsided a bit and human activities have become more active. We think that if this situation continues, it will rise steadily.

Greetings from Funatake

Funatake: As I told you earlier, we announced the change of president. As chairman, I will continue to be involved in a certain level of management, but from now on this company will be striving to create a new bank with a new management team led by the new president. Thank you very much for everyone for these four years. I also learned a variety of things through these questions and answers. I would like to take this opportunity to express my gratitude.

I would like to ask for your continued support and guidance from Seven Bank, which is striving to create a new bank under the new president. Thank you so much.