

Risk Factors

Major risks related to Seven Bank's business and other areas that have been recognized by management as possibly having significant effects on the financial condition, operating results, and cash flows of the consolidated companies are listed below. Moreover, items that may not qualify as such but are deemed important for investment decisions of investors are also disclosed below, for the purpose of proactive disclosure to investors. Risks related to the Bank's business and other areas are not limited to those stated, and the Bank does not guarantee that it is free from risks other than those stated, including those that are unidentified.

Certain items in this section may contain forward-looking statements. However, unless otherwise stated, all judgments were made at the end of the consolidated fiscal year under review.

Under the Basic Policy on Risk Control, which is determined by the Bank's Board of Directors, the Bank has established Bank-wide risk management policies, management policies for specific risks, and a risk management organization and structure as a framework to appropriately recognize and manage various types of risks in its operations. In addition, for appropriate risk management, the Bank has established a Risk Management Committee, an Asset-Liability Management (ALM) Committee, and a Security Committee as advisory bodies to the Executive Committee with respect to risks; the Risk Management Division, which is responsible for supervising overall Bank-wide risk management activities; and risk management divisions for managing specific types of risk.

1. Risk Relating to Our Business Strategy

(1) Domestic Business Segment

Seven Bank substantially depends on the ATM platform business for its revenues. The Bank is steadily increasing the number of ATMs, developing and offering its proprietary new ATM services as well as enhancing security, to increase customers' convenience and sense of security. However, changes that threaten the

ATM platform business model, such as those described below, could affect the Bank's results and financial position.

A) Increase in the use of non-cash payment methods

The further increase in the use of non-cash payment methods in the future could reduce the number of ATM transactions, which could affect the Bank's results.

To increase the number of ATM transactions even in such an environment, the Bank will strive to create new ATM services that go beyond conventional concepts, including services that enable charging (loading money onto) electronic money for public transportation and QR code settlement, and ATM pick-up (cash receiving services) to expand their social value.

B) Growing competition from other ATM networks

Seven Bank competes with companies installing ATMs at convenience stores and other locations outside the Group. In addition, competition with financial institutions that have ATM networks could increase if these institutions actively expand their ATM networks.

In the future, increased competition with these companies could cause such challenges as a decrease in the number of users of the Bank's ATMs or a decrease in ATM-related fee income, which could affect the Bank's results and financial position.

C) Changes in economic conditions

The level of ATM-related fee income that Seven Bank charges its partners is judged by both parties to be reasonable. However, the level of the ATM-related fee income may decline, or failure to agree on ATM-related fee income levels may dissolve partnerships, which could affect the Bank's results and financial position.

D) Difficulty in securing ATM locations

Seven Bank has in a stable manner secured and expanded locations for ATMs, centered on the Seven & i Group stores, and is expanding the installation of ATMs at commercial facilities and other non-Group sites. In the future, however, obstacles to maintaining or expanding ATM locations could affect the Bank's results.

E) Effect of amendment of laws, etc., on partner companies' business

An amendment of a law or regulation, etc., related to the business of a partner company that results in a substantial decrease in the use of Seven Bank's ATMs by the customers of such partner company could cause a decline in ATM-related fee income and other outcomes that could affect the Bank's results.

F) Higher interest rates

Seven Bank procures necessary cash for its ATM platform business through deposits, bonds, and other means. The cost of this fund procurement is influenced by market interest rate trends. The Bank takes appropriate steps to minimize the impact of interest rate fluctuations, such as procuring long-term funds at fixed rates. However, substantial interest rate fluctuations could cause an unanticipated rise in fund procurement costs, which could affect the Bank's results and financial position.

In addition, Seven Bank offers ordinary deposits and time deposits, personal loans, and international money transfer services for individuals, and debit card service, as well as back-office support on commission for other financial institutions through its domestic consolidated subsidiary. However, there is no guarantee that these services will successfully expand.

In addition, Seven Bank may offer new services or establish other new businesses that it is not currently handling to expand its business domain but cannot guarantee that they will succeed. When expanding new businesses, the Bank may also establish new consolidated subsidiaries, engage in M&A or form capital alliances with other corporations. However, the inability of the Bank to realize the initially expected effect of these strategic investments and to achieve its strategic objectives could affect the Bank's results and financial position.

(2) Overseas Business Segment

Seven Bank has consolidated subsidiaries that operate ATMs in the United States, Indonesia, and the Philippines. The future occurrence of major changes in the political or economic environment surrounding these consolidated subsidiaries, an

unforeseen event such as a natural disaster, or poor business performance of these consolidated subsidiaries could affect the Bank's results. In addition, exchange rate fluctuations could decrease the Bank's profits.

Impairment of Fixed Assets

Seven Bank holds tangible fixed assets and intangible fixed assets including goodwill. Factors such as worsening profitability of assets held or consolidated subsidiaries or a decline in the value of other assets could make it necessary to record impairment of these assets, which could affect the Bank's results and financial position.

2. System Failure

Seven Bank has established Systems Risk Rules to articulate its fundamental policies related to system risk management and, by developing and operating its systems based on the rules, it is striving to realize efficient system development, improved system quality, and stable system operations. In addition, the Bank has adopted a system configuration that employs two system centers that are always in operation, redundant server network equipment, and 24x7x365 monitoring operations, as well as the implementation of other system failure countermeasures. In addition, in accordance with the importance of files, programs, etc., the Bank performs data backups and has taken measures for remote-location data storage in preparation for unexpected situations.

However, it is impossible to completely eliminate the danger of system function interruptions due to failure resulting from factors, including such natural disasters as large earthquakes and typhoons, power outages, network failure, computer viruses, or human error. Such interruptions could affect the Bank's social standing or its results through reputation damage and other factors.

3. External Contractors

Seven Bank outsources key tasks, including ATM cash replenishment, development and operation of various systems, ATM security and management, and call center operations. In addition, the Bank

outsources cash card issuance and mail delivery for new deposit accounts.

Relationships with these external contractors are currently satisfactory. However, increasing fees resulting from deterioration of their operating environments or difficulties in continuing to provide services for any reason could affect the Bank's results.

4. Relationship with Seven & i Group

Overall, Seven Bank determines issues, including business strategy, personnel policy, and capital policy autonomously after independent consideration. However, the Bank operates its ATM platform business by installing ATMs primarily in the stores of companies that are part of the Seven & i Group.

(1) Equity Relationship

Seven Bank is a consolidated subsidiary of Seven & i Holdings Co., Ltd. (the "Company") which is listed on the First Section of the Tokyo Stock Exchange. As of March 31, 2021, the Company controls 46.26% of the voting rights of Seven Bank. The Company is expected to remain a major Seven Bank shareholder, and the Bank cannot guarantee that the Company will not influence its policies and decisions.

(2) Transactional Relationships

As of March 31, 2021, Seven Bank had installed 23,048 ATMs at the Group stores (22,394 ATMs at 7-Eleven stores, 254 ATMs at Ito-Yokado stores, and 400 ATMs at other locations in the Group). In addition, the Bank has installed 2,628 ATMs at locations other than the Group stores. Thus, approximately 90% of the Bank's ATMs are installed at the Group stores. Difficulties in keeping ATMs installed at the Group stores or a marked decrease in customers at the Group stores could affect the Bank's results. In addition, Seven Bank pays ATM installation fees to the Group, but major changes in fee terms could affect the Bank's results.

5. Response to Financial Crime

Seven Bank's business consists primarily of the execution of

non-face-to-face transactions, mainly via ATMs. As such, the Bank undertakes strict customer due diligence when customers apply to open new accounts. In addition, the Bank monitors the status of usage of ATMs and accounts to prevent them from being abused for financial crimes and focuses on protecting customers. However, reputation damage and other factors arising from a temporary failure to keep pace with increasingly intricate and sophisticated criminal techniques could affect the Bank's social standing or its results.

6. Litigation

To date, Seven Bank has not been involved in significant litigation. In addition, with a focus on preventative measures, the Bank is working to minimize litigation risk in consultation with attorneys who specialize in this area. However, there is no guarantee that the Bank will not be subject to litigation or disputes that could affect its results and financial position in the future, resulting from legal issues, such as legal violations or inadequate contractual agreements.

7. Effects of Legal Amendments

Seven Bank operates its businesses in compliance with current laws and regulations. However, the contents or effects of future legal amendments are difficult to predict or control. Consequently, there is no guarantee that in the future the Bank will be able to continue to execute its business under initial assumptions.

8. Regulations

Based on the regulations in Article 4, Paragraph 1 of the Banking Law, Seven Bank has received a license to operate in the banking business (Financial Supervisory Agency License Number 1812) that enables it to take deposits, handle currency exchange, make loans, and conduct other relevant business. However, based on the regulations in Article 4, Paragraph 4 of the Banking Law (see note), Seven Bank's banking license is subject to certain conditions. Future new businesses such as foreign currency-denominated accounts will require the approval of the commissioner of the Financial Services Agency as the head of the supervisory authority.

Based on the progress in application for approval, Seven Bank may not be able to develop new businesses as planned, which could affect the Bank's results.

In addition, regarding the banking business, Articles 26 and 27 of the Banking Law specify prerequisites for issues, including suspension of operations and license revocation, respectively. If these prerequisites are applicable, the Bank may be legally required to suspend its operations or its license may be revoked.

The Bank is currently aware of no reason for these measures to be taken. However, future suspension of operations or license revocation for any reason could obstruct the Bank's business activities and could materially affect the Bank's results.

Note: Article 4, Paragraph 4 of the Banking Law: When the prime minister deems it necessary for the public interest based on consideration of the regulations of the preceding two paragraphs, the prime minister may attach conditions to the license of the first paragraph and modify the license to the extent necessary.

9. Capital Adequacy Ratio

Seven Bank does not have sales bases overseas. Therefore, Seven Bank must maintain a ratio of non-consolidated net assets to total assets above 4% according to the domestic standard specified by "Criteria for Judging Whether A Financial Institution's Own Capital Is Sufficient in Light of the Assets Held, etc. under the Provision of Article 14-2 of the Banking Law (Notification Number 19 of 2006, the Financial Services Agency)."

Currently, Seven Bank's non-consolidated capital adequacy ratio substantially exceeds the relevant standard. However, the Bank may be unable to meet its required capital adequacy standard if various business or other risks specified by the relevant provisions materialize or the regulations or other relevant items change in the future.

10. Personal Information Leakage

Through its banking business, Seven Bank possesses a large amount of customer information, including personal information. As a business handling personal information as specified by Act on the

Protection of Personal Information, the Bank announces or otherwise publicizes the purpose for using personal information, safely administers personal information, duly considers requests for disclosure of personal information on file from the subject, and ensures thorough awareness within the Bank to that effect as stipulated by in-house personal information management regulations. Furthermore, the Bank concludes the memoranda with, and conducts strict, thorough management of the handling of personal information by, subcontractors. However, serious damage to customers from large-scale information leakage may result in orders or punitive measures from regulatory authorities, claims for damages, and reputation damage. These and other factors may affect the Bank's results and financial position.

11. Reduced Liquidity due to Ratings Downgrade

Seven Bank currently has a long-term issuer rating of A+ with a stable outlook and a short-term issuer rating of A-1 from S&P Global Ratings. The Bank also has an issuer rating of AA with a stable outlook from Rating & Investment Information, Inc. However, there is no guarantee that the Bank can maintain these ratings in the future. A rating downgrade may affect the Bank's capital and fund procurement.

12. Securing Personnel

Securing the personnel required to continuously expand as a bank centered on the ATM platform business, and to develop new businesses, is an essential part of Seven Bank's business strategy. Seven Bank competes for personnel not only with other financial institutions, but also with Internet service-related businesses, systems-related businesses, and other entities. Consequently, an inability to continually hire, train, and retain required personnel may affect the Bank's results and future development.

13. Reputation

Seven Bank has established Reputation Risk Rules that set the range of reputation risks to be recognized as follows.

- Gossip and rumors among customers, in markets, on the Internet, in e-mail, etc. (hereinafter "rumors")
- Rumors caused by inaccurate or inadequate reporting by mass media
- A negative public image caused by an inappropriate response to accidents, such as system failure, personal information leakage or operational error, or a fundamental management problem
- Rumors related to financial institutions that are partners in the ATM business, external contractors, or other partners

Seven Bank's basic policy is to respond to these reputation risks accurately and urgently, based on the facts. The Bank will take care to prevent the generation of rumors that may damage it. It also has a framework in place to minimize damage by responding appropriately internally and externally in the event that one of the above-noted risks materializes.

However, because Seven Bank has many business partners and external contractors, it could become involved in various difficulties even if it is not to blame, which has the potential to affect the Bank's reputation and results.

14. Outbreak and Spread of Infectious Diseases

Harsh conditions continued as personal consumption, including the consumption of services, and corporate activity stagnated markedly due to the impact of the spread of COVID-19. It is still impossible to predict when the pandemic will be contained, and with the resurgence of more contagious variants of COVID-19, the situation remains uncertain.

To prevent the further spread of the infections, Seven Bank has been making efforts to enforce infection prevention measures for its employees and external contractors, such as promoting work from home and staggered working hours, having employees take temperature when they come to work, and holding meetings online, in principle, whether they are internal or external ones. However, if the infections continue to spread, it may disrupt the operations of Seven Bank and affect the Bank's results.

The number of ATM transactions in Japan in fiscal 2020 fell by

1.5% year over year primarily as the measures taken to prevent the spread of COVID-19 subdued the traffic of people.