



Rakuten Europe Bank S.A.

Pillar III Report

2017 Financial Year End

Table of Contents

1. INTRODUCTION.....	3
1.1. RECENT EVENTS	3
1.2. IMPACT ON RISK PROFILE	4
1.3. PILLAR III DISCLOSURES	4
2. CAPITAL MANAGEMENT AND ADEQUACY	6
2.1. OWN FUNDS STRUCTURE	6
2.2. RISK WEIGHTED ASSETS.....	8
2.3. CAPITAL ADEQUACY	9
2.4. INTERNAL CAPITAL.....	9
3. RISK ORGANISATION AND GOVERNANCE.....	10
3.1. POLICY	10
3.2. APPETITE	10
3.3. GOVERNANCE	10
3.4. CONTROL.....	11
3.5. AUDIT	11
3.6. FUNCTION.....	12
4. CREDIT RISK.....	12
4.1. RISK WEIGHTED EXPOSURES.....	12
4.2. CONSUMER CREDIT.....	13
4.3. MERCHANT CASH ADVANCES AND LOANS	13
4.4. RECEIVABLES PURCHASE	14
4.5. POLICY AND GOVERNANCE	14
5. OPERATIONAL RISK	14
5.1. OWN FUNDS REQUIREMENT.....	14
5.2. TYPES OF OPERATIONAL RISK.....	15
6. OTHER RISKS	17
6.1. MARKET RISK OWN FUNDS REQUIREMENT	17
6.2. LIQUIDITY, SETTLEMENT, ETC.....	18
7. REMUNERATION POLICY & PRACTICES.....	20
APPENDIX 1: GLOSSARY	22
APPENDIX 2: LEVERAGE RATIO	23
APPENDIX 3: COUNTERCYCLICAL CAPITAL BUFFER.....	24

1. Introduction

Rakuten Europe Bank S.A. (“REB” or the “Bank”) is a fully licensed credit institution which provides financial services specialised in e-commerce, established in Luxembourg and supervised by the Commission de Surveillance du Secteur Financier (“CSSF”). It is a wholly-owned subsidiary of Rakuten Europe, which is itself a wholly-owned subsidiary of Rakuten Inc., which is listed on the Tokyo stock exchange. The Rakuten Group is also present with entities in other countries in Europe. In Japan, Rakuten is regulated by the JFSA, and Rakuten Cards is the second largest issuer of credit cards.

1.1. Recent Events

REB, formerly named Rakuten Payment Services S.A. (“RPSS”), activated its banking license on 20 January 2016, and is thus authorised to act as a credit institution. It is now governed by the Law of 5 April 1993, as amended, on the financial sector, and by the Law of 10 August 1915 regarding commercial companies, as amended.

In January 2017 the Bank raised capital of €15 million, followed by an additional capital injection of €19.2 million in January 2018.

Key events in 2017 were the launch of the Docomo-Finetrade factoring programme in July and starting as a payment intermediary of French marketplace PriceMinister for its seller e-money disbursements in October. In addition, REB continued to manage its Koalaboox investment, Rakuten Super Points and intra-group deposits.

At the time of completion of this report, the following had occurred in 2018:

- REB submitted an application file to the CSSF to obtain approval for outsourcing activities in regard to the intellectual property migration of the global payment gateway;
- Card and wallet projects were initiated;
- Several staff from Rakuten Japan were in the process of being relocated to Luxembourg to strengthen REB’s expertise and provide required support of new products.

1.2. Impact on Risk Profile

The increase in capital strengthened REB's resources, replenishing losses that took place in 2016. The Bank's new activities with Docomo and PriceMinister have meant increases in its balance sheet and are expected to lead to continued growth. These businesses are in line with the risk profile of REB's existing business.

1.3. Pillar III Disclosures

REB publishes a Pillar III disclosure report (the "Pillar III Report") annually in line with the requirements in Part Eight, *Disclosures by Institutions*, of Regulation (EU) No 575/2013 (known as the Capital Requirements Regulation or "CRR") and CSSF Regulation 14-01 on the implementation of certain national discretions set out in the CRR.

The objective of the Pillar III Report is to promote market discipline through disclosure. In preparing it, REB has sought to ensure that this objective be achieved. In addition to the CRR requirements, the Bank has also taken into consideration on a voluntary basis the guidelines on disclosure requirements under Part Eight of the CRR issued by the European Banking Authority ("EBA") (EBA/GL/2016/11), as amended on 9 June 2017 — hereinafter referred to as the "Guidelines"). With due recognition of the need for proportionality, REB does not purport to comply with the Guidelines — nor is it required to — but REB has used the Guidelines as a benchmark when crafting disclosures for the benefit of the readers of the Pillar III Report.

The scope of the Pillar III Report is Rakuten Europe Bank S.A., which received its authorisation as a credit institution on 20 January 2016. REB operates under the prudential requirements set out in the CRR, the European implementation of the capital adequacy framework adopted by the Basel Committee on Banking Supervision. This framework consists of three pillars, each of them concentrating on different aspects of banking regulation:

- Pillar I sets out the rules for the determination of own funds (regulatory capital) and the calculation of minimum capital requirements;
- Pillar II sets out the key principles of supervisory review and the internal capital adequacy assessment process ("ICAAP"); and

- Pillar III complements the first two pillars by requiring a range of disclosures on capital and risk assessment processes, aimed at encouraging and reinforcing market discipline.

The Pillar III Report is divided into seven sections and three appendices:

- Section 1 covers the introduction to the Pillar III Report;
- Section 2 covers REB's capital management and capital adequacy;
- Section 3 describes the Bank's risk organisation and governance;
- Section 4 focuses on credit risk management;
- Section 5 focuses on operational risk management;
- Section 6 discusses other risks; and
- Section 7 covers the remuneration policy and practices.

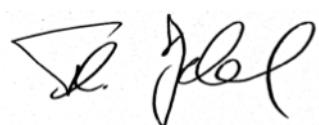
The appendices include a glossary of relevant terms, the leverage ratio disclosure template and the countercyclical capital buffer disclosure template.

Unless otherwise stated, the figures in this report are expressed in Euros.

Luxembourg, June 2018



Toshihiko Otsuka
CEO & CFO



Thomas Belousek
CRO & CAO

2. Capital Management and Adequacy

The aim of capital management is to guarantee REB's solvency and maximise its profitability, while ensuring compliance with internal capital objectives and regulatory capital requirements. The Bank's ratios compare the amount of regulatory capital with REB's total weighted risks, and comfortably exceed the required levels.

2.1. Own Funds Structure

REB's regulatory capital consists entirely of Common Equity Tier 1 Capital and was €23.539 million at 31 December 2017.

OWN FUNDS	
Item	Amount
OWN FUNDS	23,539,153.00
TIER 1 CAPITAL	23,539,153.00
COMMON EQUITY TIER 1 CAPITAL	23,539,153.00
Capital instruments eligible as CET1 Capital	41,150,000.00
Paid up capital instruments	8,700,000.00
Share premium	32,450,000.00
Retained earnings	-14,694,363.00
Previous years retained earnings	-10,880,620.00
Profit or loss eligible	-3,813,743.00
Profit or loss attributable to owners of the parent	-3,813,743.00
(-) Other intangible assets	-2,916,484.00
(-) Other intangible assets before deduction of deferred tax liabilities	-2,916,484.00

Following is the Bank's balance sheet as of 31 December 2017:

BALANCE SHEET	
Assets	Carrying amount
Cash and cash equivalents	67,188,406.00
Cash balances at central banks	6,578,233.00
Other demand deposits	60,610,173.00
Loans and receivables	516,739.00
Loans and advances	516,739.00
Held-to-maturity investments	500,836.00
Debt securities	500,836.00
Tangible assets	651,529.00
Property, Plant and Equipment	651,529.00
Intangible assets	2,916,484.00
Other intangible assets	2,916,484.00
Other assets	1,430,794.00
TOTAL ASSETS	73,204,788.00
Liabilities	
Financial liabilities measured at amortised cost	44,797,194.00
Deposits	44,797,194.00
Provisions	710,860.00
Pending legal issues and tax litigation	27,087.00
Other provisions	683,773.00
Other liabilities	1,241,097.00
TOTAL LIABILITIES	46,749,151.00
Equity	
Capital	8,700,000.00
Paid up capital	8,700,000.00
Share premium	32,450,000.00
Retained earnings	-10,880,620.00
Profit or loss attributable to owners of the parent	-3,813,743.00
TOTAL EQUITY	26,455,637.00
TOTAL EQUITY AND TOTAL LIABILITIES	73,204,788.00

Following is the Bank's 2017 income statement:

INCOME STATEMENT	Current period
Interest income	33,031.00
Loans and receivables	33,031.00
(Interest expense)	(38,172.00)
(Financial liabilities measured at amortised cost)	(28.00)
(Interest expense on assets)	(38,144.00)
Fee and commission income	241,079.00
(Fee and commission expenses)	(15,541.00)
Other operating income	451,356.00
(Other operating expenses)	0.00
TOTAL OPERATING INCOME, NET	671,753.00
(Administrative expenses)	-3,610,859.00
(Staff expenses)	(2,224,241.00)
(Other administrative expenses)	(1,386,618.00)
(Depreciation)	(874,637.00)
(Property, Plant and Equipment)	(244,993.00)
(Other intangible assets)	-629,644.00
PROFIT OR (-) LOSS BEFORE TAX FROM CONTINUING OPERATIONS	(3,813,743.00)
PROFIT OR (-) LOSS AFTER TAX FROM CONTINUING OPERATIONS	(3,813,743.00)
PROFIT OR (-) LOSS FOR THE YEAR	(3,813,743.00)
Attributable to equity holders of the parent	(3,813,743.00)

2.2. Risk Weighted Assets

The following table shows REB's risk-weighted assets ("RWA") and capital requirements for each type of risk at 31 December 2017. The Bank's total RWA was €20.348 million.

OWN FUNDS REQUIREMENTS	
Label	Amount
TOTAL RISK EXPOSURE AMOUNT	20,347,801.48
RISK WEIGHTED EXPOSURE AMOUNTS FOR CREDIT, COUNTERPARTY CREDIT AND DILUTION RISKS AND FREE DELIVERIES	17,916,951.60
Standardised approach (SA)	17,916,951.60
SA exposure classes excluding securitisation positions	17,916,951.60
Institutions	12,122,034.60
Retail	295,275.00
Collective investments undertakings (CIU)	500,836.00
Other Items	4,998,806.00
TOTAL RISK EXPOSURE AMOUNT FOR POSITION, FOREIGN EXCHANGE AND COMMODITIES RISKS	476,741.38
Risk exposure amount for position, foreign exchange and commodities risks under standardised approaches (SA)	476,741.38
Foreign Exchange	476,741.38
TOTAL RISK EXPOSURE AMOUNT FOR OPERATIONAL RISK (OpR)	1,954,108.50
OpR Basic indicator approach (BIA)	1,954,108.50

2.3. Capital Adequacy

REB had a capital ratio of 1.1568 at 31 December 2017.

CAPITAL RATIOS AND CAPITAL LEVELS	
Item	Amount
CET1 Capital ratio	1.1568
Surplus(+)/Deficit(-) of CET1 capital	22,623,501.93
T1 Capital ratio	1.1568
Surplus(+)/Deficit(-) of T1 capital	22,318,284.91
Total capital ratio	1.1568
Surplus(+)/Deficit(-) of total capital	21,911,328.88

2.4. Internal Capital

REB's ICAAP is a set of sound, effective and comprehensive strategies and processes to assess and maintain on an ongoing basis the amounts, types and distribution of internal capital that it considers adequate to cover the nature and level of the risks to which it is or might be exposed. The purpose of the ICAAP is to inform senior management (the Executive Committee) and the Board of Directors of the on-going assessment of REB's risks, detail how the Bank intends to mitigate those risks, identify how much current and future capital is necessary, demonstrate the robustness of the assessment, and show all relevant information necessary for senior management and the Board of Directors to make an informed decision on the appropriate capital level and risk management approach.

For 2017, the following key processes were performed for the ICAAP: assessment of the major sources of risks existing, production of financial forecasts including the evaluation of the current and future risk capital requirements and resources to enable capital adequacy forecasts for five years, and stress tests to ensure capital adequacy in stressed situations. The key processes were performed by the Risk and Finance representatives, then reviewed by the Executive Committee members responsible for Finance, Risk and Compliance and the Internal Control System Committee ("ICSC"), and finally approved by the Board of Directors. The Board is satisfied that the internal capital assessment covers all material risks to its current business as well as known and planned activities.

The risks for which REB has allocated internal capital include:

- Credit Risk;
- Operational Risk;
- Market Risk;
- Business Risk; and
- Investment Risk.

3. Risk Organisation and Governance

REB has set up its organisation to provide sound risk management and culture.

3.1. Policy

REB's Enterprise Risk Management ("ERM") system includes as a component its Risk Policy, which is to put appropriate measures in place, report potential risks that might affect the Bank, consider risks arising from business obligations, and take measures to identify, analyse and communicate risks.

3.2. Appetite

The risk appetite is the amount of risk exposure or potential adverse impact from a risk event that REB is willing to accept. Risk management does not mean risk elimination; through the appetite statement management sets and communicates the profile of risk that accompanies its targeted business. As the risk appetite threshold is approached, risk mitigations or operational controls are implemented.

3.3. Governance

Three functions are involved in Risk Governance: Compliance and Risk Management, together making the second line of defence (after Operational Management, the first line of defence), and Internal Audit, representing the third line of defence.

REB's ICSC met 12 times in 2017.

The number of other Directorships held by the Bank's Board of Directors members as of 31 December 2017 were:

- Koiji Nakamura: 6;
- Toshihiko Otsuka: 9;
- Kenji Hirose: 3;
- Thomas Belousek: 0;
- Ken Takano: 0;
- Nigel Bath: 0; and
- Nabil Meziani: 0.

REB's current Procedure on the Appointment and Revocation of Key Function Holders was approved by the Board of Directors on 15 January 2016. It implements the requirements of CSSF Circular 12/552, as amended.

3.4. Control

Internal Control, made up of the Risk, Compliance and Internal Audit functions, is performed under the framework of the ICSC. The Bank's technical infrastructure is reviewed regularly and upgrades are executed, if necessary, for the Bank's control objectives.

3.5. Audit

The Internal Audit function has been outsourced to BDO Luxembourg. An audit plan is prepared and presented to the Board of Directors, and the projects in accordance with the plan are followed up quarterly by the ICSC. Senior management of the Bank regularly monitors the internal audit resources and their qualifications to ensure they are appropriate.

The auditor provides independent assurance to the Bank's management that the internal controls, established by management, are functioning appropriately. The audit reviews that: there is a segregation of duties; business activities are conducted in a controlled manner; legal and professional requirements and management instructions are complied with; decisions are made by authorised personnel, based on adequate and sound information; transactions, income, expenditure, liabilities and assets are completely and accurately recorded; and assets are safeguarded.

3.6. Function

The Risk Management function ensures that senior management's risk strategy, guidelines and policies are properly implemented and adhered to, risk exposures are independently monitored and tracked, and exceptions are reported regularly and adequately to senior management. Regular risk updates are provided to the Bank's Board of Directors; there are monthly updates to the ICSC; and potential and actual issues are highlighted in the Bank's Quarterly Risk Report and followed up to ensure satisfactory resolution. REB's Chief Risk Officer ("CRO") is responsible for managing the function.

4. Credit Risk

Credit risk represents the potential loss (reduction in value of an asset or payment default) that REB may incur as a result of a deterioration in the solvency of any counterparty.

REB calculates its Pillar I capital requirements for credit risk according to the Standardised Approach ("SA").

REB's Finance department monitors its respective exposures and counterparty / customer balances regularly. The Bank's business model focuses on revenues earned from commissions on payment transactions and interest from loans and low-risk investments. Its customer base is highly diversified across a large number of Small and Medium Enterprises ("SMEs") and sole traders. REB holds all customer funds only in highly rated and liquid assets with reputable and creditworthy financial institutions.

4.1. Risk Weighted Exposures

At 31 December 2017, REB had total credit exposures of €73.204 million and risk weighted exposures of €17.917 million.

The following table displays the breakdown of the Bank's total exposures by Risk Weight, SA Exposure Class and country.

CREDIT AND COUNTERPARTY CREDIT RISKS							
	ORIGINAL EXPOSURE PRE CONVERSION FACTORS	EXPOSURE NET OF VALUE ADJUSTMENTS AND PROVISIONS	NET EXPOSURE AFTER CRM SUBSTITUTION EFFECTS PRE CONVERSION FACTORS	FULLY ADJUSTED EXPOSURE VALUE (€)	EXPOSURE VALUE	RISK WEIGHTED EXPOSURE AMOUNT PRE SME-SUPPORTING FACTOR	RISK WEIGHTED EXPOSURE AMOUNT AFTER SME-SUPPORTING FACTOR
TOTAL EXPOSURES	73,204,788.00	73,204,788.00	73,204,788.00	73,204,788.00	73,204,788.00	18,009,230.85	17,916,951.60
On balance sheet exposures subject to credit risk	73,204,788.00	73,204,788.00	73,204,788.00	73,204,788.00	73,204,788.00	18,009,230.85	17,916,951.60
BREAKDOWN OF TOTAL EXPOSURES BY RISK WEIGHTS:							
0%	6,578,234.00	6,578,234.00		6,578,234.00	6,578,234.00	0.00	0.00
20%	60,610,173.00	60,610,173.00		60,610,173.00	60,610,173.00	12,122,034.60	12,122,034.60
75%	516,739.00	516,739.00		516,739.00	516,739.00	387,554.25	295,275.00
100%	5,499,642.00	5,499,642.00		5,499,642.00	5,499,642.00	5,499,642.00	5,499,642.00
BREAKDOWN OF TOTAL EXPOSURES BY SA EXPOSURE CLASS:							
Central Governments and Central Banks	6,578,234.00	6,578,234.00	6,578,234.00	6,578,234.00	6,578,234.00	0.00	0.00
Claims in the form of CIU	500,836.00	500,836.00	500,836.00	500,836.00	500,836.00	500,836.00	500,836.00
Institutions	60,610,173.00	60,610,173.00	60,610,173.00	60,610,173.00	60,610,173.00	12,122,034.60	12,122,034.60
Other items	4,998,806.00	4,998,806.00	4,998,806.00	4,998,806.00	4,998,806.00	4,998,806.00	4,998,806.00
Retail	516,739.00	516,739.00	516,739.00	516,739.00	516,739.00	387,554.25	295,275.00
GEOGRAPHICAL BREAKDOWN OF EXPOSURES BY RESIDENCE OF THE OBLIGOR:							
DE	516,739.00				516,739.00	387,554.25	295,275.00
ES	4,348.24				4,348.24	869.65	869.65
FR	19,550,171.06				19,550,171.06	3,910,034.21	3,910,034.21
GB	9,393,913.74				9,393,913.74	1,878,782.75	1,878,782.75
JP	9,018,081.26				9,018,081.26	1,803,616.25	1,803,616.25
LU	34,721,534.70				34,721,534.70	10,028,373.74	10,028,373.74

As of 31 December 2017, the maturity of all of REB's exposures was overnight except for its Koalaboox investment, which had a maturity of one year, ending in September 2018.

4.2. Consumer Credit

REB plans to issue cash advances and instalment loans to consumers. REB has built its infrastructure to support this business, including a Credit Risk function under the CRO and Asset Liability Management and Credit Risk Committee, Credit Analysts, and support staff in areas such as Finance and Compliance. The Bank has in place a Credit Risk Policy and a Collection Policy.

4.3. Merchant Cash Advances and Loans

Cash advances to merchants are meant to be a convenient way for them to borrow: online requests and granting, a limited set of documents to provide, and repayments in instalments or withheld directly from the sales proceeds processed by REB. The underwriting and decision to grant credit is meant to be done through a scoring engine, connected to internal and external data sources, with manual steps for additional verification. The portfolio performance is monitored regularly to adapt underwriting and collection processes, which are documented in the Credit Risk Policy. Collection rules, and processes are documented in the Collection Policy.

4.4. Receivables Purchase

REB has a programme to purchase invoices issued by Fine Trade, an Austrian Company handling the sales by merchants of goods online for which they offer invoice or instalment payment methods. The service of selecting orders and buyers eligible for Payment-On-Invoice (“POI”) is provided to the merchant by Fine Trade. After the order is completed, REB purchases the invoice from the merchant and then collects the funds from the goods buyer. The elements regarding the offering of POI to buyers are documented in the Bank’s Fraud Prevention Policy.

4.5. Policy and Governance

REB’s Credit Policy formalises and articulates its objectives to measure, monitor and manage risk as it relates to the purchase and management of credit products. Effective communication of the policy goals and standards includes training in Credit Risk Management fundamentals. Guiding principles are that: credit (default) risk shall be minimised wherever possible due to the potential adverse impact, and managed within the established limits for exposure; concentrations of risk are prevented through customer and portfolio limits; the Bank seeks first to avoid credit risk by dealing only with financially sound customers; credit enhancements are to be used only as a secondary risk management technique; the Bank monitors the credit programme performance to ensure that its risk is at a manageable level and within its risk appetite; and potential funding / liquidity exposures are mitigated through the ALM and Credit Committee (“ALMCC”).

5. Operational Risk

Operational risk is the risk of losses stemming from inadequate or failed internal processes, people, systems or external events. This definition includes legal risk but excludes strategic risk. It also excludes losses resulting from commercial decisions.

5.1. Own Funds Requirement

REB calculates its capital requirements for operational risk according to the Basic Indicator Approach (“BIA”).

At 31 December 2017, the Bank had a total operational risk exposure amount of €1.954 million and own funds requirement of €156,329.

OPERATIONAL RISK					
BANKING ACTIVITIES	RELEVANT INDICATOR			OWN FUNDS REQUIREMENT	Total operational risk exposure amount
	YEAR-3	YEAR-2	LAST YEAR		
BANKING ACTIVITIES SUBJECT TO BASIC INDICATOR APPROACH (BIA)	1,462,323.00	941,289.50	722,961.15	156,328.68	1,954,108.50

5.2. Types of Operational Risk

REB's operational risk management is manifested throughout the Bank.

REB has entered into a number of vendor relationships in order to outsource back-end payment processing functions. Transaction monitoring is in place, with both operational monitoring to identify process alerts and operational support to drive internal and third-party cross-functional incident resolution before customers experience an impact. As the Bank's transaction processing expands in volume or complexity, monitoring resources and measures will be expanded.

REB defines fraud risk as losses which occur due to fraudulent behaviour by an entity's customers (in both sending and receiving money). The Bank deals with fraud in a systematic and rigorous way at several different places in the account and transaction life-cycle.

A Business Continuity Policy and a Business Continuity Plan ("BCP"), covering the critical activities of the Bank and allowing their recovery, are to be set up by the Bank to provide for the case that its building and / or systems cannot be accessed. REB's business systems are redundant, with instances on different physical sites. A dedicated Information Security Policy has been defined and covers information security risks and mitigating measures in detail. Intrusion Prevention Systems ("IPS") are deployed. Systems communicate via encrypted communications and require mutual authentication. Credit card numbers are not stored in REB systems. Passwords are encrypted in the core system.

As REB continues to focus on merchant services / acquiring business, appropriate credit underwriting and monitoring programmes are in place to mitigate acquiring risk exposures, such as those due to merchant bankruptcies or fraudulent behaviours.

Outsourcing, including the process to outsource activities and functions, monitoring, risk

assessment and mitigating measures, are covered in detail in the Bank's Outsourcing Policy. REB has outsourced some key systems to Rakuten Inc. All (external) outsourcing of critical functionality is backed by appropriate Service Level Agreements ("SLAs") and annual monitoring of such agreements by the CRO. The results of such monitoring are contained in the quarterly reports made available to the Board of Directors and responsible officers.

To mitigate vendor risk such as that associated with REB's outsourced back-end payment processing functions, contracts / SLAs have sufficient termination periods to enable switching services.

REB is committed to complying with all applicable rules and regulations governing its services. The Compliance function is responsible for ensuring that adequate processes are in place. REB's Legal and Compliance departments monitor new regulations applicable to its business activities or the exercise of jurisdiction by a new regulator. REB will also work with external consultants and counsel to keep apprised of legislative and regulatory developments.

To ensure compliance with all legislation relating to Anti-Money Laundering ("AML") and Counter-Terrorism Financing ("CTF"), REB has adopted an AML/CTF infrastructure, and processes, policies and procedures are in place to support the Bank's business, updated and amended as required to meet legislative obligations and described, in particular, in the Anti-Money Laundering and Counter-Terrorism Financing Policy. Processes and procedures are in place within the Bank and various related service providers to ensure compliance with these AML/CTF obligations, including a Suspicious Transaction Reporting Procedure. The Compliance team uses a variety of methods to monitor compliance with the AML/CTF policy.

REB views legal risk management as the maintenance of appropriate corporate governance and codes of conduct, adherence to legal requirements, management of contractual obligations, and managing litigation risk. REB manages these risks through its in-house Legal Department, which also calls on the resources of the broader Rakuten Legal Department in specialist areas such as Intellectual Property ("IP"), real property and competition law. REB is also able to work with international law firms. REB has in place a Code of Conduct and a Conflict of Interest Policy.

Privacy / bank secrecy is a fundamental element of the REB value proposition, and potential issues are being addressed as necessary.

In REB's online system, most customer interaction is via marketplace websites. Its banking licence allows it to offer a wider array of financial services to companies and individuals. The Bank is developing its capabilities to define, build, integrate and deliver new products and develop a reliable and scalable system.

REB is growing and expanding its products and services. It does not currently expect to be profitable, but it plans to be in the future. There is a risk that the Bank may not meet its business revenue targets.

Guidelines, documentation, training, monitoring and approvals have been established throughout REB to address human resources risks.

REB operates strong corporate governance and segregation-of-duty controls. The processes are defined in the Manual of Internal Governance.

For certain risks that can be appropriately insured, REB is covered through Rakuten Inc. policies.

6. Other Risks

6.1. Market Risk Own Funds Requirement

Market risk is the risk of losses resulting from adverse movements of market risk parameters, including interest rate ("IR") risk and foreign exchange ("FX") risk.

It is REB's policy not to speculatively trade any interest rate or foreign exchange exposure. Trading activity occurs to facilitate and cover customer activity and minimise any IR or FX risk. REB does not pay interest on balances and does not invest in interest-backed instruments. REB holds GBP and EUR to cover its liabilities and is not involved in FX transactions. REB calculates its capital requirements for FX market risk according to the Standardised Approach.

At 31 December 2017 REB had a total market risk exposure amount of €476,741 and own

funds requirement of €38,139.

MARKET RISK									
	CURRENCY CODE	ALL POSITIONS		NET POSITIONS		POSITIONS SUBJECT TO CAPITAL CHARGE	RISK CAPITAL CHARGE	OWN FUNDS REQUIREMENTS	TOTAL RISK EXPOSURE AMOUNT
		LONG	SHORT	LONG	SHORT				
TOTAL POSITIONS IN NON-REPORTING CURRENCIES		595,759.37	245,686.04	476,741.40	126,668.07	476,741.40		38,139.31	476,741.38
All other currencies (including CILs treated as different currencies)		595,759.37	245,686.04	476,741.40	126,668.07	476,741.40	8.00	38,139.31	
BREAKDOWN OF TOTAL POSITIONS (REPORTING CURRENCY INCLUDED) BY EXPOSURE TYPES									
Other assets and liabilities other than on-balance sheet items and derivatives		85,080,432.74	87,482,877.35						
Memorandum Items: CURRENCY POSITIONS									
EURO	EUR	84,484,673.37	87,237,191.31		2,752,517.94				
Pound Sterling	GBP	595,263.41	118,897.06		0.00				
Yen	JPY	120.91	126,788.98		126,668.07				
Swiss Franc	CHF	11.83	0.00		0.00				
US Dollar	USD	363.22	0.00		0.00				
Decomposition of calculation									
All other currencies		595,759.37	245,686.04	476,741.40	126,668.07				
CHF		11.83	0.00	11.83	0.00				
GBP		595,263.41	118,897.06	476,366.35	0.00				
JPY		120.91	126,788.98	0.00	126,668.07				
USD		363.22	0.00	363.22	0.00				
Not Matched Total		476,741.40	126,668.07						

6.2. Liquidity, Settlement, Etc.

Liquidity risk management aims to ensure that funds in the system are available for cash flow fluctuations, without causing an undue rise in cost or risk, and without causing a disruption to normal operating conditions of the Bank. Funding and liquidity are maintained in a manner that is consistent with prudent practices. The Chief Financial Officer ("CFO") has oversight responsibilities for the establishment and administration of the Liquidity Policy and Procedures, as well as for the day-to-day administration and implementation of these policies and procedures and for establishing controls, to develop strategies, to execute trades, and to recommend policy changes to senior management.

The following table presents information about REB's liquidity risk management:

Scope of consolidation (solo/consolidated)	TOTAL ADJUSTED VALUE			
	Currency and units (EUR million)			
Quarter ending on	31 March 2017	30 June 2017	30 September 2017	31 December 2017
Number of data points used in the calculation of averages	12	12	12	12
LIQUIDITY BUFFER	15.598	5.544	4.490	6.578
TOTAL NET CASH OUTFLOWS	1.776	1.405	1.905	1.827
LIQUIDITY COVERAGE RATIO (%)	878%	395%	236%	360%

Settlement risk is the risk that an entity will not receive the funds it has requested for collection from third parties, thereby resulting in an imbalance in its accounts. The CRO is in

charge of the management of the settlement risks that arise for the Bank and the Bank's customers. He is in regular contact with REB's CFO.

Reputation risk is the risk of losing customers, employees and important business opportunities should REB receive true or false adverse publicity or develop a poor company reputation, due amongst other things to the failure to comply with law and regulations. All contingencies are covered by the Public Relations and Government Relations Departments of Rakuten Inc.

From REB's perspective, country risk (also referred to as political risk) refers to the likelihood that changes in the business environment adversely affect operating profits or the value of assets in a specific country. Currently REB is operating and plans to operate with marketplaces focused on France and Germany.

Regulatory risk is due to different interpretations of the scope of directives and their implementation within the EU, termination of the banking licence, and breach of terms of authorisation. REB's Treasury monitors the money float daily to ensure the appropriate ratios; however, REB has committed to keep a minimum capital ratio of 16%. In case of need, additional capital is funded accordingly. Per BCL requirement, the Bank has to deposit a minimum of 1% of its total customer liabilities plus intra-group deposits.

Business risk refers to the risk of significant investments for which there is a high uncertainty about success and profitability. In order to mitigate strategic risk, Rakuten Inc. has put in place a comprehensive strategy decision process, provides respective assessment metrics to management, and has allocated dedicated resources to support appropriate decisions in the best possible manner.

7. Remuneration Policy & Practices

REB's current Remuneration Policy was approved by the Board of Directors on 2 March 2017 and use effective as of that date. The policy has been established in line with the law of 23 July 2015 and CSSF Circular 10/496.

The general remuneration principles provided in the policy are applicable to all members of staff independently of their place of work, hierarchical level or function. Specific provisions, however, are applicable to the staff members having a material impact on the Bank's risk profile (the "Identified Staff").

In line with CSSF Circular 11/505, the Bank does not have a Remuneration Committee; however, it ensures a transparent structure. The Board of Directors is composed of seven members, of which four are non-executive and hence are not influenced or impacted by remuneration practices and principles set out by the Bank. Therefore, the governance of the Bank is structured in a way to avoid conflicts of interest.

The Bank ensures a balanced ratio between fixed and variable remuneration in order to prevent excessive risk taking, with the aim of increasing the variable component. The total amount of the variable remuneration allocated to a person falling in scope of the present policy may not exceed a maximum of 100% of the fixed remuneration.

The performance analysis criteria rest on "how" and "what" the staff members have contributed to the realisation of the Banks's overall strategy and business plan for the year. They include qualitative and quantitative components, both financial and non-financial. Variable remuneration is allocated to the employees according to:

- Collective performance;
- Overall performance of the respective department of the employee; and
- Individual performance, where the bank takes into consideration qualitative criteria (e.g., linked to competencies, personal development, respect for the internal code of conduct and internal procedures, and compliance with legal requirements and obligations to ensure robust risk management) and quantitative measures, such as those linked to financial performances).

The current policy aims to limit excessive risk taking by assessing the performance of the

Identified Staff, taking into consideration prior performance (two previous business cycles as well as the respective evaluation year), hence applying a multi-year framework appropriate to the life-cycle of the Bank's operations and activities.

This means that the variable remuneration of Rakuten's employees is determined on the basis of individual and collective, financial and non-financial criteria, enabling the alignment of the interests of the employees with those of the Bank.

Appendix 1: Glossary

CRM - Credit Risk Mitigation

A range of techniques whereby a bank can, partially, protect itself against counterparty default (for example by taking guarantees or collateral, or by buying a hedging instrument).

CSSF - Commission de Surveillance du Secteur Financier

Luxembourg's regulator for financial institutions.

ECAI - External Credit Assessment Institution

Banking regulators can allow banks to use credit ratings from certain approved credit rating agencies when calculating the risk weight of an exposure. Competent authorities will recognise an ECAI as eligible only if they are satisfied that its assessment methodology complies with the requirements of objectivity, independence, ongoing review and transparency, and that the resulting credit assessments meet the requirements of credibility and transparency.

FX - Foreign Exchange

Transaction of international monetary business, as between governments or businesses of different countries.

ICAAP - Internal Capital Adequacy Assessment Process

The main objective of the Pillar II requirements is to implement procedures that will be more sensitive to an institution's individual risk profile. This is to be achieved through the implementation of internal processes.

IR - Interest Rate

Interest expressed as an annual percentage rate.

RWA - Risk Weighted Assets

Used in the calculation of risk-based capital ratios. This refers to the total assets calculated by applying risk-weights to the amount of exposure.

Appendix 2: Leverage Ratio

The leverage ratio serves as a simple, transparent and non-risk-based ratio to complete the existing risk-based capital requirements. It is defined as the capital measure (the numerator) divided by the exposure measure (the denominator) At 31 December 2017, REB's leverage ratio was at a level of 35.87%, comfortably above the regulatory minimum level of 3%.

LEVERAGE RATIO CALCULATION	
Exposure Values	LR Exposure
Other assets	68,532,071.00
(-) Asset amount deducted - Tier 1 - fully phased-in definition	-2,916,484.00
(-) Asset amount deducted - Tier 1 - transitional definition	-2,916,484.00
Total Leverage Ratio exposure - using a fully phased-in definition of Tier 1 capital	65,615,587.00
Total Leverage Ratio exposure - using a transitional definition of Tier 1 capital	65,615,587.00
Capital	
Tier 1 capital - fully phased-in definition	23,539,153.00
Tier 1 capital - transitional definition	23,539,153.00
Leverage Ratio	
Leverage Ratio - using a fully phased-in definition of Tier 1 capital	0.3587
Leverage Ratio - using a transitional definition of Tier 1 capital	0.3587

Appendix 3: Countercyclical Capital Buffer

The countercyclical capital buffer is part of a set of macro-prudential instruments, designed to help counter pro-cyclicality in the financial system. Capital should be accumulated when cyclical systemic risk is judged to be increasing, creating buffers that increase the resilience of the banking sector during periods of stress when losses materialise. This will help maintain the supply of credit and dampen the downswing of the financial cycle. The buffer can also help dampen excessive credit growth during the upswing of the financial cycle.

BREAKDOWN OF CREDIT EXPOSURES RELEVANT FOR THE CALCULATION OF THE COUNTERCYCLICAL BUFFER BY COUNTRY			
	FR	LU	Total
Relevant credit exposures - Credit Risk			
Exposure value under the Standardised Approach	98,835.02	1,989,476.77	2,088,311.79
Own funds requirements and weights			
Total own funds requirements for CCB	7,899.69	159,158.14	167,057.83
Own funds requirements for relevant credit exposures – Credit risk	7,899.69	159,158.14	167,057.84
Own funds requirements weights	0.0473	0.9527	1.0000