



Rakuten Europe Bank S.A.

Pillar III Report

2019 Financial Year End

July 2020

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1. Introduction

Rakuten Europe Bank S.A. (“REB” or the “Bank”) is a fully licensed credit institution established in Luxembourg and supervised by the Commission de Surveillance du Secteur Financier (“CSSF”). It is a wholly owned subsidiary of Rakuten Europe, 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 Financial Services Agency.

REB activated its banking license on 20 January 2016, and is thus authorised to act as a credit institution. It is 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.

The objective of the Pillar III Report (the “Report”) is to promote market discipline through disclosure. REB has sought to ensure that this objective is achieved by preparing the Report on an annual basis in line with the requirements set out in Part Eight of Regulation (EU) No 575/2013 known as the Capital Requirements Regulation or “CRR”. It also follows the considerations of the Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (commonly referred to as the “Capital Requirements Directive 4” or the “CRD 4”).

In line with the CRR requirements, the Bank has taken into consideration the European Banking Authority (“EBA”) guidelines on disclosure requirements (EBA/GL/2016/11), as amended on 9 June 2017. These guidelines have been adopted in Luxembourg through the CSSF Circular 17/673 to which the Bank is subject.

The Bank has no subsidiaries and hence the scope of the Pillar III Report (Article 436 CRR) is Rakuten Europe Bank S.A. only. All disclosed information is reported in REB’s accounting and reporting currency, Euro, if not otherwise specified.

In accordance with Article 434 CRR, REB publishes the disclosure Report on its website:

https://www.bank.rakuten.eu/files/REB_Pillar_III_Report-2019.pdf

The report is published once a year. The Bank may consider a more frequently disclosure according to the provisions of Art 433 CRR.

This document has been approved by the Bank’s Board of Directors on 24 July 2020.

2. Risk Management Framework

This section presents, in accordance with Article 435 CRR, REB’s approach to risk management, its organisational structure as well as strategies and policies for each relevant category of risk. REB’s management and its Board of Directors is committed to embedding a sound risk management culture across the Bank.

2.1. Approach

REB's approach to risk management is defined in the Enterprise Risk Management ("ERM") Policy. This policy outlines the different risk areas and defines the method for identifying, assessing, and reporting risks. This is an umbrella document, as specific areas of Risk Management are handled with more detail in specific policies. All policies are reviewed by the Authorized Management and approved by Board of Directors.

The approach to ERM is a logical and systematic way to enable REB to minimize eventual losses and maximize potential opportunities associated with its activities, functions and processes. The ERM is, as such, about identifying opportunities as well as avoiding or mitigating losses. Accordingly, the main goals of the risk management process are the following:

- to forecast potential losses, to assess whether to take, transfer, mitigate or eliminate them, and to propose ways of doing that;
- to ensure institutional survival in periods of stress by ensuring that the institution holds sufficient capital to cover unexpected losses arising in the course of business and sufficient liquidity to meet its contractual obligations; and,
- to help direct capital and incentives to the most profitable activities, products, organisational units and staff after their profitability is assessed on a long-term, risk-adjusted basis.

To achieve these goals, the risk management process runs continuously through a cycle of identification, assessment, mitigation / control, monitoring / reporting and subsequent evaluation of all risks.

2.2. Strategy and Risk Profile

This section presents REB's risk strategy and profile in accordance with Article 435 1.(f) CRR. REB's business model currently focuses on revenues earned from commission on payment transactions and interest from loans and low risk investments.

The Board of Directors sets REB's overall risk profile in a manner consistent with its business strategy. Accordingly, it is beyond REB's risk strategy to earn revenues through actions that over expose the company to credit risk, or expose it to market risk, interest rate mismatches or foreign exchange risk. For customer funds, REB holds all funds only with reputable and creditworthy financial institutions.

The risk appetite is the amount of risk exposure, or potential adverse impact from a risk event, that REB is willing to accept and / or retain. As the desired risk appetite threshold is approached, risk treatment and/or operational controls are implemented to ensure the exposure is maintained in the accepted range. The Bank's risk appetite is a function of both its current financial position, its intended short to medium term business plans, as well as the input and risk culture of its parent company.

2.3. Roles and Responsibilities

REB has in place a Risk Management Charter that defines the fundamental principles, roles and responsibilities of the Risk Management function as well as its relationship with REB's Board of Directors, Authorized Management, the business and operational functions.

The responsibility for risk management resides on all levels within REB. In this regard, the Bank has adopted a three-line of defence model. Specifically,

- The first line of defence rest with all functions involved in the actual running of the bank, including business divisions, as well as other supporting and enabling functions such as Finance, Operations and IT. These units shall set up proper control systems, identifying issues and taking remedial actions when required.
- The second line of defence comes from the Risk Management function directed by the Chief Risk Officer ("CRO"), as well as the Compliance function, under the responsibility of the Chief Compliance Officer ("CCO").
- The third line of defence is the Internal Audit, which provide an independent risk assessment, controls and corporate governance structure.

The ultimate responsibility for the management of risks relies on the Board of Directors with the support of REB's Authorized Management. Specifically, the Board is responsible for defining the Risk Management principles to which REB has to adhere. It has to demonstrate a clear commitment by ensuring that an appropriate Enterprise Risk Management ('ERM') Policy is in place and that all risks are managed appropriately.

In accordance with Article 435 2(a), REB discloses the composition of the Bank's Board of Directors:

| Name | Residence | Directorships | Member since |
|---------------------------|------------|---------------|-----------------|
| Yasuo Ishizaki (Chairman) | Japan | 2 | 1 June 2019 |
| Toshihiko Otsuka | Luxembourg | 11 | 27 January 2016 |
| Ken Takano | Japan | 3 | 15 July 2016 |

| | | | |
|----------------|------------|---|-------------------|
| Nigel Bath | USA | 0 | 15 July 2016 |
| Yuichi Tatsuno | Luxembourg | 0 | 30 September 2019 |

Table 1 – REB Board of Directors

REB's current Procedure on the Appointment and Revocation of Key Function Holders was approved by the Board of Directors on 10 December 2019. It implements the requirements of CSSF Circular 12/552, as amended.

2.4. Internal Governance

Internal Governance requirements are defined in the CSSF Circular 12/552, as amended. Specifically, Internal Control, made up of the Risk, Compliance and Internal Audit functions, is performed under the framework of the Internal Control System Committee ("ICSC").

REB's Risk Management function is undertaken by the Chief Risk Officer, who reports to the Authorised Management. To ensure efficient Risk Management in line with the respective risk treatment and investment, regular updates are provided to REB's Board of Directors; Monthly updates are provided to the ICSC; Potential/actual issues are highlighted in REB's Quarterly Risk Report and followed up to ensure satisfactory resolution.

REB's CRO is responsible for managing the risk monitoring and reporting system. However, the functional heads have primary responsibility and accountability for managing the risks. The internal audit function is outsourced to BDO Luxembourg. An audit plan is prepared and presented to the Board of Directors and the CSSF. The Authorised Management of REB determines, and regularly monitors, the internal audit resources and their qualifications to ensure they are appropriate.

REB's technical infrastructure is reviewed regularly, and upgrades are executed, if necessary, to ensure achievement of REB's objectives. REB complies with relevant CSSF reporting requirements and provides reliable financial and management information to the Authorised Management on a regular basis.

The internal auditor provides independent assurance to REB's management that the internal controls, established by management, are functioning appropriately.

3. Risk Management Process

3.1. Overview

The main components of REB's process to risk management are the following:

1. **Risk Identification** – This involves gathering information to allow the identification of internal and external events that could potentially negatively affect the Bank financially and operationally;
2. **Risk Assessment** – This consists of the evaluation of the risk identified in terms of their relative likelihood and potential significance;
3. **Risk Response** – The corresponding risk owner, in alignment with Management, decided whether the risk must be avoided, accepted, reduced or transferred, developing the necessary actions to be taken;

The Risk function oversees the risk process described above, ensuring that Management's risk strategy, guidelines and policies are properly implemented and adhered to.

3.2. Control and Monitoring

Monitoring and control ensures that the risks identified are arrayed against the limits set; that the information and/or data pertaining to the risks have been thoroughly analysed; and any breaches in the limits are appropriately reported and finally, that management actions as spelled out in the risk approval process are followed through.

In situations where the risk is relevant, the following approaches are available to Management to ensure the Bank's overall business strategy and appetite for risk is properly controlled:

- Accept risk - Management decides to continue operations as is with a consensus to accept the inherent risks;
- Reduce risk - Management decides to reduce current risks through improvement in controls and process;
- Mitigate risk - Management accepts the current level of risk but undertakes key actions to mitigate risks through changing the way it conducts business.
- Transfer risk - Management decides to transfer the risk from, for example, one business unit to another or from one business area to a third party; and,
- Eliminate risk - Management decides to eliminate risk through dissolution of a key business unit or operating area.

3.3. Key Risk Indicators

In order to monitor conformance with the risk profile of the Bank, a series of key risk indicators have been developed. The following table highlights some of the key indicators:

| Key Risk Indicators | 2019 | Assessment |
|----------------------|------|--|
| Capital Ratio (CET1) | 67% | Strong solvency ratio as CET1 is well above regulatory and internal limits |

| | | |
|--------------------------------------|------|---|
| Leverage Ratio | 40% | Current leverage is significantly above the reference level of 3% |
| Liquidity Coverage Ratio (LCR) | 388% | Comfortable liquidity position above regulatory limits |
| Impaired Loans (% Total exposure) | 2% | Impaired loans remain contained; portfolio closely monitored and regular reports presented to senior management |
| Max Large Banking Exposures (% CET1) | 48% | All exposures to banking counterparts are below internal limits |
| Net Income (Year-on-Year growth) | 96% | Robust growth supporting trend towards profitability |

Table 2 – Summary Key Risk Indicators

The analysis of key risk indicators shows that the overall risk profile of REB remains moderate, consistently with the strategy of the company. The bank enjoys a solid capital and liquidity position. The credit portfolio is closely monitored and its performance regularly reported to the Management of the Bank.

4. Own Funds and Capital Adequacy

In accordance with Article 437 and Article 438 CRR, this section presents REB's own funds structure and capital requirements disclosures. 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.

4.1. Own Funds Structure and Financial Position

REB's regulatory capital entirely consists of Common Equity Tier 1 Capital. The following table presents REB's own funds for the last two financial years.

| OWN FUNDS | | |
|---|-------------|-------------|
| ITEM | 2019 | 2018 |
| OWN FUNDS | 29,931,801 | 32,346,045 |
| TIER 1 CAPITAL | 29,931,801 | 32,346,045 |
| COMMON EQUITY TIER 1 CAPITAL | 29,931,801 | 32,346,045 |
| Capital instruments eligible as CET1 Capital | 60,346,087 | 60,346,087 |
| Paid up capital instruments | 8,700,000 | 8,700,000 |
| Share premium | 51,646,087 | 51,646,087 |
| Retained earnings | -17,781,229 | -17,668,980 |
| Previous years retained earnings | -17,668,980 | -14,721,340 |
| Profit or loss eligible | -112,249 | -2,947,640 |
| Profit or loss attributable to owners of the parent | -112,249 | -2,947,640 |
| (-) Other intangible assets | -12,633,057 | -10,331,062 |

| | | |
|--|-------------|-------------|
| (-) Other intangible assets before deduction of deferred tax liabilities | -12,633,057 | -10,331,062 |
|--|-------------|-------------|

Table 3 – Own Funds

In accordance with Annex VI of the Regulation (EU) No1423/2013, details of REB's own funds disclosure are provided in Appendix 1.

4.2. Risk Weighted Assets

The following table shows REB's risk-weighted assets ("RWA") and capital requirements for each type of risk. The Bank's total RWAs increased by €16.2 million in 2019. This has largely been motivated by the increase of the capital charge related to operational risk.

| CAPITAL REQUIREMENTS | | |
|--|------------|------------|
| ITEM | 2019 | 2018 |
| TOTAL RISK EXPOSURE AMOUNT | 44,510,693 | 28,281,162 |
| RISK WEIGHTED EXPOSURE AMOUNTS FOR CREDIT, COUNTERPARTY CREDIT AND DILUTION RISKS AND FREE DELIVERIES | 24,561,501 | 25,480,981 |
| Standardised approach (SA) | 24,561,501 | 25,480,981 |
| SA exposure classes excluding securitisation positions | 24,561,501 | 25,480,981 |
| Institutions | 10,356,540 | 12,567,103 |
| Corporates | 3,260,773 | 5,081,302 |
| Retail | 2,238,955 | 3,335,518 |
| Exposures in default | 1,303,714 | 1,998,929 |
| Collective investments undertakings (CIU) | 5,098,401 | n.a. |
| Other Items | 2,303,119 | 2,498,129 |
| TOTAL RISK EXPOSURE AMOUNT FOR POSITION, FOREIGN EXCHANGE AND COMMODITIES RISKS | 7,323,141 | 1,379,949 |
| Risk exposure amount for position, foreign exchange and commodities risks under standardised approaches (SA) | 7,323,141 | 1,379,949 |
| Foreign Exchange | 7,323,141 | 1,379,949 |
| TOTAL RISK EXPOSURE AMOUNT FOR OPERATIONAL RISK (OpR) | 12,626,050 | 1,420,232 |
| OpR Basic indicator approach (BIA) | 12,626,050 | 1,420,232 |

Table 4 – Capital Requirements

4.3. Capital Adequacy

REB featured a capital ratio of 67% at 31 December 2019. This is comparatively lower than the ratio corresponding to the previous financial year and can be attributed to the increase in the total risk exposure as indicated above. Despite this reduction, the capital ratio is well above the regulatory limit of 12.5%.

CAPITAL RATIOS AND CAPITAL LEVELS

| ITEM | 2019 | 2018 |
|--|------------|------------|
| CET1 Capital ratio | 67% | 114% |
| Surplus(+)/Deficit(-) of CET1 capital | 27,928,820 | 31,073,392 |
| T1 Capital ratio | 67% | 114% |
| Surplus(+)/Deficit(-) of T1 capital | 27,261,160 | 30,649,175 |
| Total capital ratio | 67% | 114% |
| Surplus(+)/Deficit(-) of total capital | 26,370,946 | 30,083,552 |

Table 5 – Capital Ratios and Capital Levels

4.4. Countercyclical Capital Buffer

Following Article 440 CRR, this section discloses information for the calculation of REB's capital buffers, including geographic distribution of exposures. 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.

According to Delegated Regulation (EU) 2015/1555 on the disclosure of information concerning the compliance of institutions with the requirement for a countercyclical buffer, which implements Article 440 CRR, REB discloses the following information:

| BREAKDOWN OF CREDIT EXPOSURES RELEVANT FOR THE CALCULATION OF THE COUNTER-CYCLICAL BUFFER BY COUNTRY | | | | | | | | | |
|--|---------|-----------|-----------|---------|--------|--------|-----------|--------|------------|
| | FR | LU | DE | JP | TW | ES | GB | US | Total |
| Relevant credit exposures - Credit Risk | | | | | | | | | |
| Exposure value under the Standardised Approach | 887,792 | 2,368,265 | 6,442,033 | 949,569 | 18,543 | 31,590 | 5,098,401 | 39,191 | 15,835,384 |
| Own funds requirements and weights | | | | | | | | | |
| Total own funds requirements for CCB | 71,023 | 189,461 | 515,363 | 75,966 | 1,483 | 2,527 | 407,872 | 3,135 | 1,266,831 |
| Own funds requirements for relevant credit exposures – Credit risk | 71,023 | 189,461 | 515,363 | 75,966 | 1,483 | 2,527 | 407,872 | 3,135 | 1,266,831 |
| Own funds requirements weights | 0.0561 | 0.1496 | 0.4068 | 0.0600 | 0.0012 | 0.0020 | 0.3220 | 0.0025 | 4.9791 |

Table 6 – Counter-Cyclical Capital Buffer

4.5. Internal Capital Assessment

REB's Internal Capital Adequacy Assessment Process ("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:

- Present all relevant information necessary for the firm's senior management to make an informed decision on the appropriate capital level and risk management approach;
- Detail how the firm intends to mitigate the risks identified and assessed;
- Quantify how much current and future capital is necessary to cover those risks; and,
- Demonstrate the firm's ICAAP process to the supervisory body.

An ICAAP report for REB is prepared and maintained annually for the purposes of ensuring capital adequacy. The report is owned by the REB's Board of Directors ("BoD") and supported by the Risk function.

In 2019, the following key processes were performed for the ICAAP:

- Assessment of the major sources of risks existing at REB;
- Financial forecasts including the evaluation of the current and future risk capital requirements and resources;
- Scenario analysis to assess capital adequacy in situations of economic and financial stress.

The ICAAP is an integral part of the overall management framework: The quantitative and qualitative aspects of the ICAAP are expected to be consistent with each other and with the REB's business strategy and risk appetite. The ICAAP is expected to be integrated into the business, decision-making and risk management processes of the bank. The Authorised Management reviewed the report, which was ultimately approved by the Board of Directors.

The ICAAP considers three scenarios of stress of economic and financial. For each of these stressed scenarios, management actions were developed to adequately fulfil the capital requirements when needed. The estimated Base Case Pillar I capital ratio is 104% in 2019. In the five-year plan, the lowest position is expected to be in 2023 at 26%. Throughout the planning period, the capital ratio will always remain above the regulatory limit of 12.5%. The Base Case Pillar II capital ratio is estimated to be 50% in 2019, with the worst situation

achieved in 2023 at 32%. This value is above the internal limit of 18%.

The Board of Directors of REB was satisfied that the internal capital assessment covers risks to its current business as well as known planned activities. The forecast capital position over the next five years indicates that REB will remain sufficiently capitalised, even in situations of business or economic stress.

4.6. Leverage Ratio

Following Article 451 CRR, this section presents REB's leverage ratio. This metric serves as a simple, transparent and non-risk-based ratio to complete the existing risk-based capital requirements. The leverage ratio is defined as the capital measure (the numerator) divided by the exposure measure (the denominator).

At 31 December 2019, REB's leverage ratio was 40%. This value is comfortably above the regulatory minimum level of 3%.

| LEVERAGE RATIO CALCULATION | | |
|--|-------------|-------------|
| Exposure Values | 2019 | 2018 |
| Other assets | 86,772,582 | 94,466,206 |
| (-) Asset amount deducted - Tier 1 - fully phased-in definition | -12,633,057 | -10,331,062 |
| (-) Asset amount deducted - Tier 1 - transitional definition | -12,633,057 | -10,331,062 |
| Total Leverage Ratio exposure - using a fully phased-in definition of Tier 1 capital | 74,139,525 | 84,135,144 |
| Total Leverage Ratio exposure - using a transitional definition of Tier 1 capital | 74,139,525 | 84,135,144 |
| Capital | | |
| Tier 1 capital - fully phased-in definition | 29,931,801 | 32,346,045 |
| Tier 1 capital - transitional definition | 29,931,801 | 32,346,045 |
| Leverage Ratio | | |
| Leverage Ratio - using a fully phased-in definition of Tier 1 capital | 40% | 38% |
| Leverage Ratio - using a transitional definition of Tier 1 capital | 40% | 38% |

Table 7 – Leverage Ratio

5. Credit Risk

In accordance with Article 435(1), 442 and 453 CRR, this section provides relevant information on how credit risk managed at REB as well as data on credit exposures. It is also discussed the approach to credit impairment.

4.1. Credit Risk Policy

Credit risk represents the potential loss, in terms of a reduction in value of an asset or payment default that REB may incur because of a deterioration in the solvency of a counterparty.

REB has in place a Credit Policy that formalises and articulates the approach to measure, monitor and manage credit risk. The following guiding principles provide a framework for decision-making and are consistent with REB's overall Risk Management objectives:

- Credit (default) risk should be minimised wherever possible due to its potential adverse impact, and managed within the established limits for credit exposure;
- Concentrations of risk are prevented through customer and portfolio limits;
- REB seeks first to avoid credit risk by dealing only with financially sound customers; credit enhancements could be used only as a secondary risk management technique.

In order to achieve its strategic objectives, REB follows specific credit criteria to define the types and characteristics of its preferred obligors. These criteria includes the following:

- key financial indicators such as equity, profitability, turnover, leverage and debt servicing ability;
- target obligor risk grade (where available); and,
- terms and conditions under which REB is prepared to extend credit, such as volume of financing, maximum amount of clean exposure and acceptable collateral.

To ensure that the obligor meets the credit criteria, REB should have sufficient information about the obligor, the source of repayment, and the purpose of the credit.

REB follows a prudent approach to credit risk management and controls excessive concentration by defining exposure limits for single obligors and groups of related obligors. The size of the limits are based on the credit strength of the obligor and REB's risk tolerance.

REB has adopted a governance structure that is commensurate with its size and the nature of its activities. The organisational structure facilitates effective management oversight and execution of credit risk management and control processes. In particular, REB has put in place an Asset Liability Management and Credit Risk Committee ("ALMCC").

The ALMCC oversees the credit risk management framework of REB. This covers areas such as approval of business and credit risk strategy, review of the credit portfolio and profile, approval of credit policy, delegation of credit approving authority and evaluation of the credit processes. The ALMCC meets at least on a monthly basis and comprises representatives of the business units, as well as internal control functions.

4.2. Credit Risk Exposures

The Bank uses the standardised approach in order to calculate its risk weighted assets

related to credit risk. The standardized approach measures credit risk either pursuant to fixed risk weights, which are predefined by the regulator, or through the application of external ratings.

At 31 December 2019, REB had total credit exposures of €75 million. Most of the exposure was in financial institutions as shown in Figure 1.

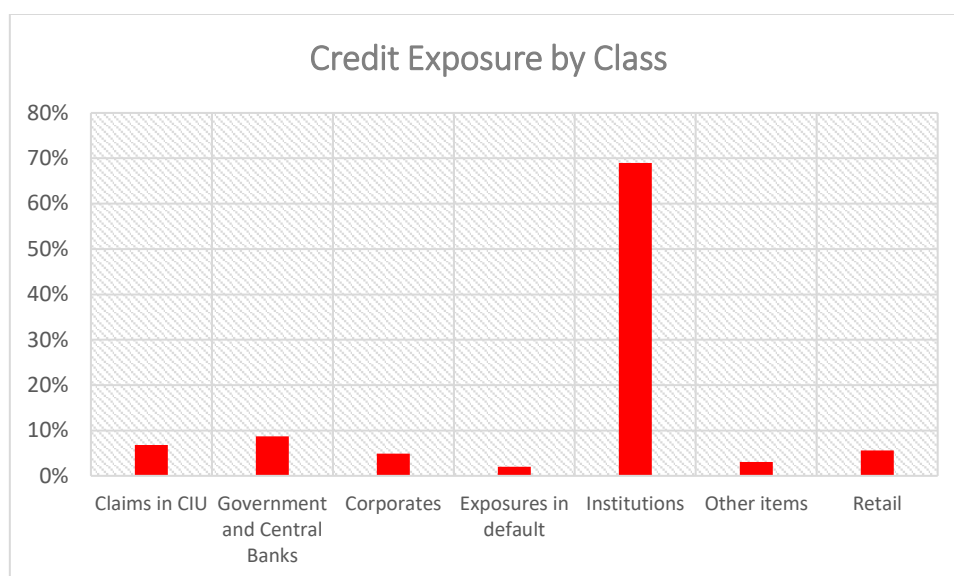


Figure 1 – Credit Exposures by Class

Figure 2 shows the distribution credit exposures by risk-weight. It can be seen that the largest correspond to a 20% risk-weight. This is the value assigned to financial institutions.

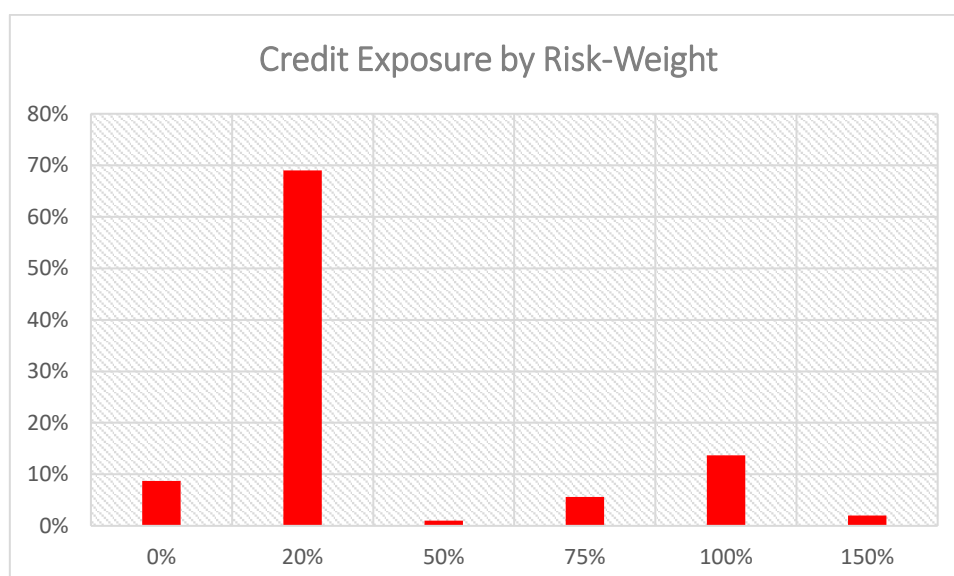


Figure 2 – Credit Exposures by Risk-Weight

Figure 3 shows the breakdown by geographic distribution. Germany constitutes the largest proportion with 28% of exposure. It is followed by France, Belgium and Luxembourg with approximately 19% each.

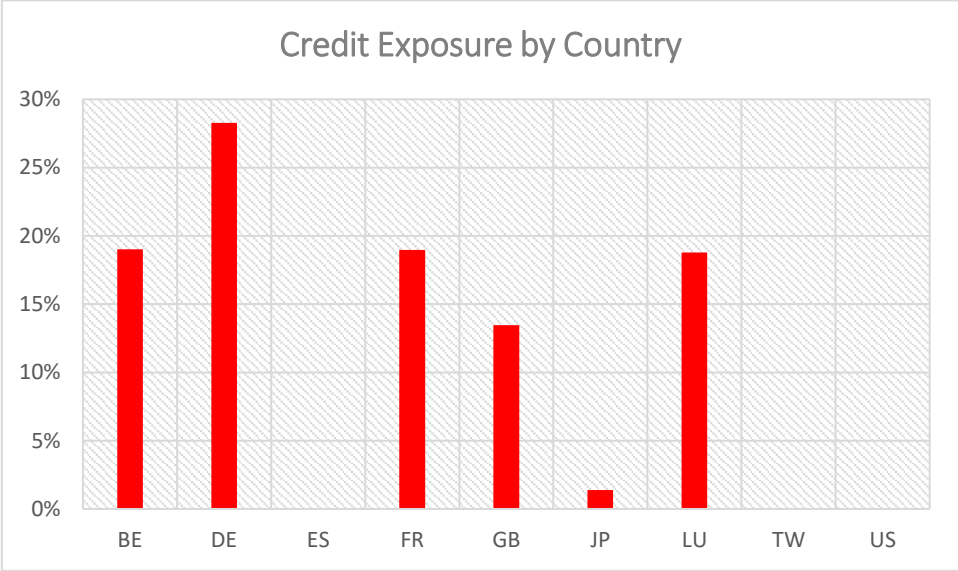


Figure 3 – Credit Exposures by Class

| 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 (E*) | EXPOSURE VALUE | RISK WEIGHTED EXPOSURE AMOUNT PRE SME-SUPPORTING FACTOR | RISK WEIGHTED EXPOSURE AMOUNT AFTER SME-SUPPORTING FACTOR |
| TOTAL EXPOSURES | 75,059,960 | 74,139,525 | 74,139,525 | 74,139,525 | 74,139,525 | 25,261,193 | 24,561,501 |
| On balance sheet exposures subject to credit risk | 75,059,960 | 74,139,525 | 74,139,525 | 74,139,525 | 74,139,525 | 25,261,193 | 24,561,501 |
| BREAKDOWN OF TOTAL EXPOSURES BY RISK WEIGHTS: | | | | | | | |
| 0% | 6,521,443 | 6,521,442 | | 6,521,442 | 6,521,442 | 0 | 0 |
| 20% | 51,782,715 | 51,782,700 | | 51,782,700 | 51,782,700 | 10,356,540 | 10,356,540 |
| 50% | 771,506 | 771,506 | | 771,506 | 771,506 | 385,753 | 385,753 |
| 75% | 4,187,653 | 3,918,196 | | 3,918,196 | 3,918,196 | 2,938,647 | 2,238,955 |
| 100% | 10,297,062 | 10,276,539 | | 10,276,539 | 10,276,539 | 10,276,539 | 10,276,539 |
| 150% | 1,499,582 | 869,143 | | 869,143 | 869,143 | 1,303,714 | 1,303,714 |
| BREAKDOWN OF TOTAL EXPOSURES BY SA EXPOSURE CLASS: | | | | | | | |
| Claims in the form of CIU | 5,105,111 | 5,098,401 | 5,098,401 | 5,098,401 | 5,098,401 | 5,098,401 | 5,098,401 |
| Central Government and Central Banks | 6,521,443 | 6,521,442 | 6,521,442 | 6,521,442 | 6,521,442 | 0 | 0 |
| Corporates | 3,660,338 | 3,646,526 | 3,646,526 | 3,646,526 | 3,646,526 | 3,260,773 | 3,260,773 |
| Exposures in default | 1,499,582 | 869,143 | 869,143 | 869,143 | 869,143 | 1,303,714 | 1,303,714 |
| Institutions | 51,782,715 | 51,782,700 | 51,782,700 | 51,782,700 | 51,782,700 | 10,356,540 | 10,356,540 |
| Other items | 2,303,119 | 2,303,119 | 2,303,119 | 2,303,119 | 2,303,119 | 2,303,119 | 2,303,119 |
| Retail | 4,187,653 | 3,918,196 | 3,918,196 | 3,918,196 | 3,918,196 | 2,938,647 | 2,238,955 |
| GEOGRAPHICAL BREAKDOWN OF EXPOSURES BY RESIDENCE OF THE OBLIGOR: | | | | | | | |
| BE | 14,269,298 | | | | 14,269,294 | 2,853,859 | 2,853,859 |
| DE | 21,216,046 | | | | 20,316,146 | 8,671,878 | 7,972,186 |
| ES | 31,590 | | | | 31,590 | 31,590 | 31,590 |
| FR | 14,235,942 | | | | 14,222,125 | 3,568,471 | 3,568,471 |
| GB | 10,103,498 | | | | 10,096,786 | 6,098,078 | 6,098,078 |
| JP | 1,046,262 | | | | 1,046,262 | 583,155 | 583,155 |
| LU | 14,099,590 | | | | 14,099,587 | 3,410,241 | 3,410,241 |
| TW | 18,543 | | | | 18,543 | 18,543 | 18,543 |
| US | 39,191 | | | | 39,191 | 39,191 | 39,191 |

Table 8 – Credit Exposures

4.3. Impairment Analysis

REB records allowances for impairment losses when there is objective evidence that a financial asset or group of financial assets is impaired because of one or more events occurring after initial recognition and is evidencing (i) a decline in expected cash flows and (ii) an impact on estimated future cash flows that can be estimated reliably.

For the purposes of the application of point (b) of Article 178(1) of Regulation (EU) No 575/2013, where any amount of principal, interest or fee has not been paid at the date it was due, the bank recognises this as the credit obligation past due.

REB follows IFRS 9 framework. Accordingly, the Bank considers current conditions and reasonable and supportable forward-looking information that is available without undue cost or effort when estimating expected credit losses. In that sense, the Bank

- identifies scenarios in which a loan or receivable defaults; and,
- estimates the cash shortfall that would be incurred in each scenario if a default were to happen.

The Bank closely monitors the performance of its financial assets and uses several general criteria to monitor a significant increase in the credit risk. The Bank considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Bank may also consider a financial asset to be in default when internal or external information indicates that the Bank is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Bank. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

REB has segmented its balance sheet into various sub-classes in order to group instruments that have similar financial characteristics and behave similarly. Each segment is subject to specific ECL modelling detailed further in this document.

REB has developed an IFRS9 tool for the calculation of expected credit loss (“ECL”). The parameters of the model are discussed and eventually approved at the ALMCC. The tool takes into consideration macroeconomic factors as well as historical data on the performance of REB’s own portfolio. The model takes also takes into account other elements such as contractual or legislation changes.

Table 8 provides information on defaulted exposures by type of asset. It also shows credit risk adjustments and other relevant information.

| CREDIT EXPOSURES BY TYPE OF ASSET | | | | | | | | | | |
|--|---|------------------------|--|---------------------------------------|--|-------------------------|---|-------------------|--|--|
| | ORIGINAL EXPOSURE PRE CONVERSION FACTORS | Defaulted exposures | Observed new defaults for the period | General credit risk adjustments | Specific credit risk adjustments | Of which: write-offs | Credit risk adjustments/write- offs for observed new defaults | EXPOSURE VALUE | RISK WEIGHTED EXPOSURE AMOUNT PRE SME- SUPPORTING FACTOR | RISK WEIGHTED EXPOSURE AMOUNT AFTER SME- SUPPORTING FACTOR |
| Central governments or central banks | 6,521,443 | | | 1 | | | | 6,521,442 | | |
| Regional governments or local authorities | | | | | | | | | | |
| Public sector entities | | | | | | | | | | |
| Multilateral Development Banks | | | | | | | | | | |
| International Organisations | | | | | | | | | | |
| Institutions | 51,782,715 | | | 15 | | | | 51,782,700 | 10,356,540 | 10,356,540 |
| Corporates | 3,660,338 | | | 13,812 | | | | 3,646,526 | 3,274,585 | 3,274,585 |
| of which: SME | | | | | | | | | | |
| Retail | 4,187,653 | 1,499,582 | | 269,457 | | | | 3,918,196 | 2,938,647 | 2,238,955 |
| of which: SME | 4,187,653 | 1,499,582 | | 269,457 | | | | 3,918,196 | 2,938,647 | 2,238,955 |
| Secured by mortgages on immovable property | | | | | | | | | | |
| of which: SME | | | | | | | | | | |
| Exposures in default | 1,499,582 | | | 630,439 | | | | 869,143 | 1,303,714 | 1,303,714 |
| Items associated with particularly high risk | | | | | | | | | | |
| Covered bonds | | | | | | | | | | |
| Claims on institutions and corporate with a short-credit | | | | | | | | | | |
| Collective investments undertakings (CIU) | 5,105,111 | | | 6,710 | | | | 5,098,401 | 5,098,401 | 5,098,401 |
| Equity exposures | | | | | | | | | | |
| Other exposures | 2,303,119 | | | 0 | | | | 2,303,119 | 2,303,119 | 2,303,119 |
| Total exposures | 75,059,960 | 1,499,582 | 0 | 920,435 | 0 | 0 | | 74,139,525 | 25,275,005 | 24,575,314 |

Table 9 – Credit Exposures by Type of Asset

Figure 4 provides information on past-due exposures by country of residence for retail credit. The data shows that the majority resides in Germany. Similarly for impaired exposures.

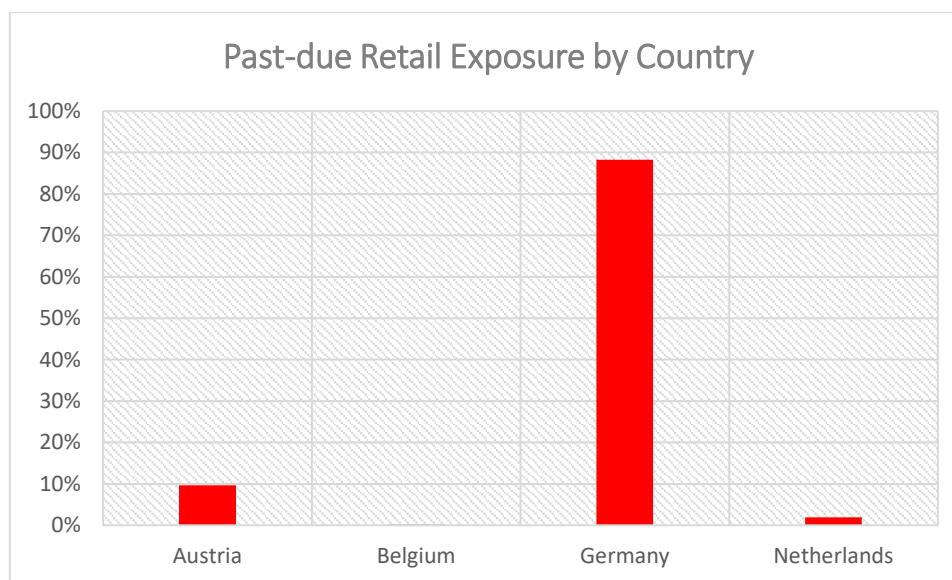


Figure 4 – Past-due Retail Exposures by Country

6. Liquidity Risk

6.1. Liquidity Risk Policy

Liquidity risk management aims to ensure that funds are available for cash flow fluctuations without causing an undue rise in cost or risk, and without producing a disruption to normal operating conditions of the Bank. Funding and liquidity are maintained in a manner that is consistent with prudent practices. The Bank's liquidity risk management framework is driven through a top down approach that is approved and delegated by the Board of Directors to the Asset and Liability and Credit Committee.

Liquidity risk is managed and monitored on a day-to-day basis by the Treasury function. This process enables the Bank to timely control relevant risks and properly implement the necessary measures to keep liquidity management in line with the defined strategy and appetite.

The liquidity risk profile of REB is relatively simple due to the nature of the business.

- REB does not have subsidiaries or branches, but has an agent, Rakuten France ("RFR"), supporting e-money and payment services distribution;
- REB has limited foreign currency activities for its account, and most activities are managed to avoid any open currency position; REB has not entered into derivative contracts;
- Liquidity risks are diversified over a pool of counterparties; there are, however, some larger transactions related to deposits taken from Rakuten Group companies.
- All treasury, cash management and liquidity risk management is performed by REB employees in Luxembourg. REB is not involved in day-to-day Euro liquidity management remotely. All bank accounts are operated directly by REB staff.

REB operates a number of bank accounts, primarily in Euro. All bank accounts always need to be in surplus. There are no overdraft agreements or facilities in place to borrow from the relationships with other banks.

6.2. Key Liquidity Indicators

The Liquidity Coverage Ratio ("LCR") is the main short-term liquidity reference indicator and requires the Bank to hold sufficient High Quality Liquid Assets ("HQLA") in order to cover its total net cash outflows over 30 days. In order to promote the short-term (30 days-period) resilience of the liquidity risk profile of the Bank, the LCR is monitored on a regular basis and monthly reported to the competent authority.

As per annex 2 of the EBA Guideline 2017/01 on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) No 575/2013 and the

Article 435(1)(f) CRR, the following table presents the Bank's Liquidity Coverage Ratio as of 31 December 2019.

| Liquidity Coverage ratio | | | | |
|--|-------------|-------------|-------------|-------------|
| Quarter ending on | 31-Mar-19 | 30-Jun-19 | 30-Sep-19 | 31-Dec-19 |
| Number of data points in the calculation of averages | 12 | 12 | 12 | 12 |
| LIQUIDITY BUFFER | 6,369 | 6,414 | 6,458 | 6,511 |
| TOTAL NET CASH OUTFLOWS | 3,956 | 2,812 | 2,296 | 1,678 |
| LIQUIDITY COVERAGE RATIO (%) | 161% | 228% | 281% | 388% |

Table 10 – Liquidity Coverage Ratio

As part of the liquidity risk management process, REB calculates a Net Stable Funding Ratio ("NSFR"), as defined by the Basel Committee. The NSFR is the amount of available stable funding relative to the amount of required stable funding; it should be equal to at least 100%.

The amount of Required Stable Funding ("RSF") is a function of the liquidity characteristics and residual maturities of the assets REB holds, based on the factors multiplied by the amounts as of 31 December 2019 in the following table.

| Net Stable Funding Ratio | | |
|--------------------------|---|--------------|
| Factor | RSF Item | 2019 |
| 0% | Exposures to central bank that can be withdrawn in times of stress | € 6,511,437 |
| 15% | Unencumbered non-renewable loans and receivables, the borrowers of which are credit institutions | € 50,782,723 |
| 100% | <p># All assets that are encumbered for a period of one year or more.</p> <p># All other assets not included in the above categories, including non-performing loans, loans to financial institutions with a residual maturity of one year or more, non-exchange-traded equities, fixed assets, items deducted from regulatory capital, retained interest, insurance assets, subsidiary interests and defaulted securities.</p> | € 17,816,614 |

Table 11 – NSFR: Required Stable Funding

Available stable funding (“ASF”) is the portion of capital and liabilities expected to be reliable over one year, based on the factors multiplied by the REB amounts as of 31 December 2019 in the following table.

| Net Stable Funding Ratio | | |
|--------------------------|--|--------------|
| Factor | ASF Item | 2019 |
| 100% | Tier 1 capital instruments | € 30,040,668 |
| 50% | Liabilities from unsecured lending transactions with non-financial customers | € 12,500,615 |
| 0% | Other liabilities | € 30,721,204 |

Table 12 – NSFR: Available Stable Funding

At 31 December 2019, REB’s total ASF was €36.3 million and its total RSF was €25.4 million, resulting in an NSFR of 143%.

6.3. Asset Encumbrance

An asset is considered as encumbered if it is pledged or subject to any form of arrangement to secure, collateralise or credit-enhance any on-balance or off-balance sheet transaction from which it cannot be freely withdrawn (for instance, to be pledged for funding purposes). Assets pledged that are subject to any restrictions in withdrawal (requiring prior approval before withdrawal or replacement by other assets) are considered encumbered.

In line with Article 443 CRR, the following table provides data on asset encumbrance:

| SOURCES OF ENCUMBRANCE | | |
|---|----------------------|-----------------|
| Sources of encumbrance | Assets/Liabilities | Loans on demand |
| Central bank funding (of all types, including e.g. repos) | Encumbered assets | |
| | Matching liabilities | |
| Exchange traded derivatives | Encumbered assets | |
| | Matching liabilities | |
| Over-the-counter derivatives | Encumbered assets | |
| | Matching liabilities | |
| Repurchase agreements | Encumbered assets | |
| | Matching liabilities | |
| Collateralised deposits other than repurchase agreements | Encumbered assets | 1,071,006 |
| | Matching liabilities | |
| | Encumbered assets | |

| | | |
|--|---|------------|
| Covered bonds securities issued | Matching liabilities | |
| Asset-backed securities issued | Encumbered assets | |
| | Matching liabilities | |
| Debt securities issued other than covered bonds and ABSs | Encumbered assets | |
| | Matching liabilities | |
| Other sources of encumbrance | Encumbered assets | |
| | Contingent liabilities or securities lent | |
| Total encumbered assets | | 1,071,006 |
| of which central bank eligible | | 71,006 |
| Total non-encumbered Assets | | 57,233,135 |
| of which central bank eligible | | 6,450,437 |
| Encumbered + Non-encumbered Assets | | 58,304,141 |

Table 13 – Asset Encumbrance

6.4. Internal Liquidity Assessment

REB performs on an annual basis an Internal Liquidity Adequacy Assessment Process (“ILAAP”) in accordance with current regulation. The ILAAP contains relevant qualitative and quantitative information to underpin the liquidity resilience of REB. The ILAAP is presented to the Board of Directors for its approval.

The ILAAP corresponding to the 2019 financial year indicated that the Bank has a large liquidity capacity and that it could cope effectively with situations of acute stress.

REB’s current Contingency Funding Plan (“CFP”) is to leverage off Rakuten Group for immediate liquidity injections via bank transfers. There is no intention or need for REB to consider external debt funding or committed bank facilities. Any liquidation of assets for cash into REB will only be considered once Rakuten has provided the initially needed liquidity injection, reducing the risk of the need for a “fire sale” of liquid assets.

7. Market Risk

7.1. Market Risk Policy

Market risk refers to potential losses resulting from adverse movements of market 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 market

instruments. REB holds foreign currency and EURO to cover its liabilities and is not involved in speculative FX transactions, as it will hedge the position as soon as the exposure reaches levels defined by the Market Risk Policy.

7.2. Own Funds Requirements

Since REB calculates its market risk exposure for regulatory purposes according to the standardised approach, it is required to disclose its capital requirements according to point 127 of the EBA Guidelines in conjunction with Article 445 CRR.

REB does not maintain a trading book. Hence, REB's only risk exposure is the foreign exchange risk in the banking book. Also, the FX risk net exposure subject to capital charge does not exceed the threshold of 2% of own funds as per Article 351 CRR. Accordingly, the required table would not provide any value and hence it is not included in this report. Instead, REB provides information on the open currency position as per Article 351 and 352 CRR in the following table:

| 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 | LONG | SHORT | MATCHED | LONG | SHORT | | |
| TOTAL POSITIONS | | 10,420,024 | 3,096,883 | 7,323,141 | 0 | 7,323,141 | 0 | 0 | | | 585,851 | 7,323,141 |
| All other currencies (including CIUs treated as different currencies) | | 10,420,024 | 3,096,883 | 7,323,141 | 0 | 7,323,141 | 0 | | 8.00 | 8.00 | 585,851 | |
| Gold | | | | | | | | | 8.00 | 8.00 | | |
| BREAKDOWN OF TOTAL POSITIONS (REPORTING CURRENCY INCLUDED) BY EXPOSURE TYPES | | | | | | | | | | | | |
| Other assets and liabilities other than off-balance sheet items and derivatives | | 117,535,812 | 117,378,199 | | | | | | | | | |
| Memorandum items: CURRENCY POSITIONS | | | | | | | | | | | | |
| EURO | EUR | 107,115,787 | 114,281,316 | | 7,165,529 | | | | | | | |
| Pound Sterling | GBP | 301,433 | 288,555 | 12,878 | | | | | | | | |
| Yen | JPY | 10,059,548 | 2,750,974 | 7,308,574 | | | | | | | | |
| Swiss Franc | CHF | 47,186 | 46,235 | 951 | | | | | | | | |
| US Dollar | USD | 11,857 | 11,119 | 739 | | | | | | | | |

Table 14 – Market Risk Exposures

At 31 December 2019, REB had a total market risk exposure of €1.3 million. The corresponding own funds requirement were €0.5 million.

8. Operational Risk

8.1. Operational Risk Policy

Operational Risk is broadly defined as the risk of direct or indirect losses or damaged reputation due to failure attributable to technology, employees, processes, procedures or physical arrangements, including external events and legal risks.

REB's Operational Risk Management focuses on pro-active measures in order to ensure business continuity as well as the accuracy of information used internally and reported externally, a competent and well-informed staff, and its adherence to established rules and procedures as well as on security arrangements to protect the physical and IT infrastructure.

REB identifies and assesses the operational risk inherent in its products, activities, processes and systems. Furthermore, the Bank ensures that before new products, activities, processes and systems are introduced, or undertaken, the operational risk inherent in them is subject to adequate assessment procedures.

When using outsourcing services REB ensures that the operational risk inherent in the services used by the Bank are also subject to adequate assessment procedures.

REB categorizes the operational risk event types as follows:

- Clients, Products & Business Practices: Risk resulting from business practice, the introduction of a product, and the accessing of a customer's information that shall be inappropriate or noncompliant with regulations or rules.
- Business Disruption and System Failures: Risk resulting from anomalies in the system or the failure of the system in various other respects, such as inconsistency, disparity arising from combining operations, defects in the computer system or network system, or the usage of outdated or substandard technological tools.
- Fraud: Risk resulting from dishonesty of individuals both inside and outside the Bank that causes damage to the Bank, such as forgery of documents, embezzlement, bribery, etc. It also includes systems security such as hacking damage, etc.

In relation the last point, REB is enhancing its Fraud Risk Management Framework with particular emphasis on the activities performed within the scope of the Agency Agreement for the distribution of e-money and payment services with the Group entity Rakuten France ("RFR").

The design and implementation of the Framework is a coordinated effort between REB and RFR. As part of this effort, control mechanisms need to be put in place in order to prevent fraud from occurring, as well as to detect and respond to them in an effective and timely manner.

REB has overall responsibility for the fraud risk management process. This involves conducting regular assessments of fraud prevention and detection techniques, ensuring that progress is being made in order to achieve a desirable fraud risk status and that no elements of fraud prevention and detection are deteriorating.

REB's Risk function is responsible for warranting that information is received in a timely and effective manner by relevant stakeholders, in particular the Compliance function. In accordance with the REB's Incident Management Policy, fraud cases are reported to relevant committees and escalated to the Management as appropriate.

8.2. Operational Risk Control

Strong internal controls are a critical aspect of operational risk management. In order to fulfil this requirement, REB has established an Internal Control Systems Committee ("ICSC"). The main tasks of the ICSC are to ensure that the operations of the Bank are conducted in accordance with the Statutes. In this role, the Committee has an interest to ensure that the operational risk management in REB is well organised and functions properly. All relevant operational risk events are reported to the ICSC where a discussion and assignment of responsibilities and actions plans shall be discussed and agreed.

REB mitigates operational risks by defining, documenting and updating relevant business processes. REB maintains a central Operational Risk event database. This is a register that enables to accumulate, classify, keep and export data relevant to observed internal and external operational risk events.

8.3. Own Funds Requirement

Following Article 446 CRR, REB discloses approach to the assessment of own funds requirements of operational risk. REB calculates its capital requirements for operational risk according to the standardised approach.

At 31 December 2019, the Bank had a total operational risk exposure amount of €12.6 million and own funds requirement of €1 million.

| OPERATIONAL RISK | | | | | |
|--|--------------------|-----------|------------|------------------------|---------------------------------|
| | RELEVANT INDICATOR | | | Own Funds Requirements | Total operational risk exposure |
| | YEAR-3 | YEAR-2 | LAST YEAR | | |
| BANKING ACTIVITIES SUBJECT TO BASIC INDICATOR APPROACH (BIA) | 653,930 | 6,454,578 | 13,093,172 | 1,010,084 | 12,626,050 |

Table 15 – Operational Risk Exposure and Requirements

9. Information Security and Business Continuity

9.1. Information Security Risk

A dedicated Information Security Policy has been defined and covers the information security risks and mitigating measures in detail. REB's information security strategy is based on four pillars:

- A business enabler: Information security is a strategic advantage when REB can offer secure services to its clients. Bringing security into the services and relationship with the clients enables confidence and consequently business opportunities.
- The protection of REB's information assets: Information is a key asset of REB's business and must be protected as such. Threats to REB's information security are proportional to the value of REB's information or the potential benefit of any harm caused to the company. Information protection must be considered based on the risk/opportunity versus cost balance.
- Integrated into REB's culture: The only driver of sound information protection is the people handling the information or the information system processing it. Integrating secure practices into people's behaviour is the most effective and efficient way to meet information security objectives.
- Compliant with laws and regulation: REB activities are subject to strict regulations and being compliant with them is a pre-requisite to its activities. This establishes a framework in which REB must evolve. Compliancy with the legal and regulatory framework will enable the other aspects of REB's information security strategy.

REB's Management is ultimately responsible for the protection of REB information assets, validating the information security strategy and framework, and defining the risk appetite of REB. In addition, all REB employees are responsible for understanding and complying with information security requirements and reporting any effective or presumed information security incident through the defined reporting channel.

9.2. Business Continuity Plan

A Business Continuity Policy that sets the framework to ensure that the company's activities will be restored in case of disaster to a pre-defined level of operation. The scope of REB's business continuity policy includes both, internal and outsourced activities. The activities included in the scope of this policy are defined within REB's Business Continuity Plan ("BCP").

Upon delegation from the Board of Directors, REB's Authorized Management is ultimately responsible for the continuity of the company's activities. They are also responsible for the activation of the Business Continuity Plan. REB's Chief Risk Officer is responsible for the definition and coordination of the activities relating to business continuity within the

company; and, REB's Chief Technology Officer is responsible for the definition and coordination of the activities relating to disaster recovery plan within the company.

In order to analyse potential disruption of the activities and the related consequences, a Business Impact Analysis ("BIA") is performed. The BIA allows identifying what is the need in terms of continuity of each critical business process of the company. REB's business systems are all redundant, with instances on different physical sites.

A representative number of REB employees participate in an annual test to validate the procedures in place as adequate. The test results are documented and analysed by the Risk team, who will modify the BCP as necessary.

10. Remuneration Policy and Practices

Following Article 450 CRR, REB discloses its remuneration policy and practices. In this regard, the Board of Directors approved REB's current Remuneration Policy (hereafter the Policy") in July 2019. The Policy has been established in line with the law of 23 July 2015 and CSSF Circular 10/496, as repealed by CSSF circulars 17/658.

10.1. Principles

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").

10.2. Governance

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 five members, of which three 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.

10.3. Remuneration Systems

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: Own Funds Additional Disclosures

This section provides details of the own funds structure of REB. Specifically, it details the transitional own funds disclosure in accordance with the Annex VI of the Regulation (EU) No1423/2013:

| Annex IV of Commission Implementing Regulation (EU) No 1423/2013 of 20 December 2013 | | 2019 | 2018 |
|---|--|-------------|-------------|
| 1 | Capital instruments and the related share premium accounts | 60,346,087 | 60,346,087 |
| | of which : Ordinary shares - EBA List 26(3) | 8,700,000 | 8,700,000 |
| 2 | Retained earnings | - | - |
| | | 17,781,229 | 17,668,980 |
| 3 | Accumulated other comprehensive income (and other reserves) | | |
| 3a | Funds for general banking risk | | |
| 4 | Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1 | | |
| | Public sector capital injections grandfathered until 1 January 2018 | | |
| 5 | Minority interests (amount allowed in consolidated CET1) | | |
| 5a | Independently reviewed interim profits net of any foreseeable charge or dividend | | |
| 6 | Common Equity Tier 1 (CET1) capital before regulatory adjustments | 42,564,858 | 51,377,107 |
| Common Equity Tier 1 (CET1) capital: Regulatory adjustments | | | |
| 7 | Additional value adjustments (negative amount) | | |
| 8 | Intangible assets (net of related tax liability) (negative amount) | - | - |
| | | 12,633,057 | 10,331,062 |
| 9 | Empty set in the EU | | |
| 10 | Deferred tax assets that rely on future probability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount) | | |
| 11 | Fair value reserves related to gains or losses on cash flow hedges | | |
| 12 | Negative amounts resulting from the calculation of expected loss amounts | | |
| 13 | Any increase in equity that results from securitised assets (negative amount) | | |
| 14 | Gains or losses on liabilities valued at fair value resulting from charges in own credit standing | | |
| 15 | Defined-benefit pension fund assets (negative amount) | | |
| 16 | Direct and indirect holdings by an institution of own CET1 instruments (negative amount) | | |
| 17 | Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount) | | |
| 18 | Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount) | | |
| 19 | Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant | | |

| | | | |
|--|--|-----------------|-----------------|
| | investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount) | | |
| 20 | Empty set in the EU | | |
| 20a | Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative | | |
| 20b | of which : qualifying holdings outside the financial sector (negative amount) | | |
| 20c | of which : securitisation positions (negative amount) | | |
| 20d | of which : free deliveries (negative amount) | | |
| 21 | Deferred tax assets arising from temporary differences (amount above the 10% threshold, net of related tax liability where the conditions in 38 (3) are met) (negative amount) | | |
| 22 | Amount exceeding the 15% threshold (negative amount) | | |
| 23 | of which : direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities | | |
| 24 | Empty set in the EU | | |
| 25 | of which : deferred tax assets arising from temporary differences | | |
| 25a | Losses for the current financial year (negative amount) | | |
| 25b | Foreseeable tax charges relating to CET1 items (negative amount) | | |
| 26 | Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment | | |
| 26a | Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468 | | |
| | of which : unrealised loss (AFS) | | |
| 26b | Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre-CRR | | |
| 27 | Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount) | | |
| 28 | Total regulatory adjustments to Common Equity Tier 1 (CET1) | - 12,633,057 | - 10,331,062 |
| 29 | Common Equity Tier 1 (CET1) capital | 29,931,801 | 41,046,045 |
| Additional Tier 1 (AT1) capital: Instruments | | | |
| 36 | Additional Tier 1 (AT1) capital before regulatory adjustments | | |
| Additional Tier 1 (AT1) capital: Regulatory adjustments | | | |
| 43 | Total regulatory adjustments to Additional Tier 1 (AT1) capital | | |
| 44 | Additional Tier 1 (AT1) capital | | |
| 45 | Tier 1 capital (T1 = CET1 + AT1) | 29,931,801 | 41,046,045 |
| Tier 2 (T2) capital: Instruments and provisions | | | |
| 51 | Tier 2 (T2) capital before regulatory adjustments | | |
| Tier 2 (T2) capital: Regulatory adjustments | | | |
| 57 | Total regulatory adjustments to Tier 2 (T2) capital | | |
| 58 | Tier 2 (T2) capital | | |
| 59 | Total capital (TC = T1 + T2) | 29,931,801 | 41,046,045 |
| 60 | Total risk weighted assets | 44,510,693 | 28,281,162 |
| Capital ratios and buffers | | | |
| 61 | Common Equity Tier 1 (as a percentage of risk exposure amount) | 67.25% | 145.14% |

| | | | |
|-----|---|--------|---------|
| 62 | Tier 1 (as a percentage of risk exposure amount) | 67.25% | 145.14% |
| 63 | Total capital (as a percentage of risk exposure amount) | 67.25% | 145.14% |
| 64 | Institution specific buffer requirements (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount) | 12,5% | 8% |
| 65 | of which : capital conservation buffer requirement | | |
| 66 | of which : countercyclical buffer requirement | | |
| 67 | of which : systemic risk buffer requirement | | |
| 67a | of which : Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer | | |
| 68 | Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount) | 54.75% | 137.14% |