

Rakuten Bank, Ltd.

Annual Financial Report (Consolidated) for Fiscal 2016

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The following information was originally prepared and published by Rakuten Bank, Ltd. in Japanese in accordance with the provisions set forth in the Company Law of Japan and the Banking Act of Japan and in conformity with generally accepted accounting principles and practices in Japan.

This English translation is for your convenience only. To the extent there is any discrepancy between this English translation and the original Japanese version, please refer to the Japanese version.

(Note: Amounts of less than one million yen are rounded down)

(Parentheses indicate negative figures)

1. Consolidated Results for the Fiscal Year Ended March 31, 2017(April, 1, 2016 to March 31,2017)

(1) Consolidated Operating Results

(Percentage figures refer to comparisons with the previous fiscal year)

	Ordinary Income		Ordinary Profit		Net Income Attributable to Owners of Parent	
	JPY million	%	JPY million	%	JPY million	%
March 31, 2017	70,591	9.3	19,083	21.4	13,526	33.8
March 31, 2016	64,584	19.2	15,716	39.2	10,105	18.0

(Note) Comprehensive income: Fiscal 2016 JPY13,297MM (31.3%) Fiscal 2015 JPY10,121MM (18.4%)

	Net Income per share	Diluted Net Income per share	Ratio of Net Income to Own Capital	Ratio of Ordinary Profit to Total Assets	Ratio of Ordinary Profit to Ordinary Income
	JPY	JPY	%	%	%
March 31, 2017	5,757.20	—	15.5	1.0	27.0
March 31, 2016	4,300.94	—	13.4	1.0	24.3

(Reference) Equity in Income from Investments in Affiliates: Fiscal 2016 - Fiscal 2015 -

(2) Consolidated Financial Position

	Total Assets	Total Net Assets	Own capital ratio	Total Net Assets per share
	JPY million	JPY million	%	JPY
March 31, 2017	1,876,770	93,660	4.9	39,864.26
March 31, 2016	1,717,470	80,362	4.6	34,204.40

(Reference) Own capital: Fiscal 2016 JPY 93,660MM Fiscal 2015 JPY 80,362 MM

(Note) "Own capital ratio" is calculated as follows: (Total net assets – Subscription rights to share – Minority interest) / Total Assets at year end. Own capital ratio stated above is not capital adequacy ratio (Japanese domestic standard).

(3) Consolidated Cash Flows Position

	Cash Flows from operating activities	Cash Flows from investment activities	Cash Flows from financing activities	Cash and Cash Equivalents Balance at the end of fiscal year
	JPY million	JPY million	JPY million	JPY million
March 31, 2017	(172,644)	48,433	—	340,296
March 31, 2016	170,990	(4,033)	(90)	464,508

2. Dividends Distribution

Rakuten Bank Ltd. has not paid out dividends with a record date falling on either of previous or current consolidated fiscal year, therefore, we omit the disclosure of the item.

3. Forecasts for the Fiscal Year Ending March, 31, 2018 (April, 1, 2017 - March, 31, 2018)

Rakuten Bank, Ltd. does not disclose a consolidated earnings forecast for the next fiscal year.

※ Special notes

(1) Changes in significant subsidiaries during period: Yes

Newly included: 5(companies) Super Trust 11, LLC , Super Trust 12, LLC , Super Trust 13, LLC , Super Trust 14, LLC , Super Trust 15,

LLC

Excluded: —

(2) Changes in accounting policies, changes in accounting estimates and restatements

- ① Changes in accounting policies due to revision of accounting standards: Yes
- ② Changes in accounting policies due to reasons other than ①: No
- ③ Changes in accounting estimates: No
- ④ Restatements: No

(3) Number of outstanding shares at the end of the period (Common stock)

- ① Total stocks outstanding including treasury stocks
- ② Treasury stocks
- ③ Average outstanding stocks

March, 31, 2017	2,349,484 shares	March, 31, 2016	2,349,484 shares
March, 31, 2017	— shares	March, 31, 2016	— shares
March, 31, 2017	2,349,484 shares	March, 31, 2016	2,349,484 shares

(Reference) Summary of non-consolidated financial data

1. Non-consolidated Results for the Fiscal Year Ended March, 31, 2017

(1) Non-consolidated Operating Results (Percentage figures refer to comparisons with the previous fiscal year)

	Ordinary Income		Ordinary Profit		Net Income	
	JPY million	%	JPY million	%	JPY million	%
March, 31, 2017	69,886	9.2	18,747	20.8	13,303	33.9
March, 31, 2016	63,995	18.4	15,507	38.3	9,931	17.0

	Net Income	Diluted Net Income
	per share	per share
	JPY	JPY
March, 31, 2017	5,662.27	—
March, 31, 2016	4,226.97	—

(2) Non-consolidated Financial Position

	Total Assets	Total Net Assets	Own capital ratio	Total Net Assets
	JPY million	JPY million	%	per share JPY
March, 31, 2017	1,993,134	93,189	4.6	39,663.80
March, 31, 2016	1,844,241	80,106	4.3	34,095.55

(Reference) Own capital: Fiscal 2016 JPY 93,189 MM Fiscal 2015 JPY 80,106 MM

(Note) "Own capital ratio" is calculated as follows: (Total net assets – Subscription rights to share) / Total Assets at year end. Own capital ratio stated above is not capital adequacy ratio (Japanese domestic standard).

4. Consolidated Financial Statements

(1) Consolidated Balance Sheet

(Unit: JPY million)

	As of March, 31, 2016	As of March, 31, 2017
Assets		
Cash and due from banks	464,508	340,296
Call loans	—	20,000
Monetary claims bought	548,543	686,195
Marketable securities	182,200	129,784
Loans and bills discounted	475,126	640,966
Foreign exchange	3,127	8,414
Other assets	30,312	40,074
Property, plant and equipment	1,774	2,076
Building	515	471
Other property, plant and equipment	1,259	1,604
Intangible assets	6,275	6,605
Software	4,454	5,359
Software-in-progress	1,510	971
Goodwill	309	274
Other intangible assets	0	0
Deferred tax assets	5,552	2,585
Customer liabilities for acceptances and guarantees	485	551
Allowance for doubtful accounts	(437)	(782)
Total assets	1,717,470	1,876,770
Liabilities		
Deposits	1,501,179	1,606,566
Borrowed money	99,950	149,750
Foreign exchange	267	194
Bonds payable	4,000	4,000
Other liabilities	30,727	21,510
Reserve for bonus	310	340
Reserve for directors' bonus	—	2
Reserve for reimbursement of deposits	5	8
Reserve for loyalty award credits	172	182
Contingency loss provision	8	2
Acceptances and guarantees	485	551
Total liabilities	1,637,107	1,783,109

Net assets

Common stock	25,954	25,954
Capital surplus	2,468	2,468
Retained earnings	51,787	65,313
Total Shareholder Equity	80,209	93,736
Valuation difference on available-for-sale securities	153	(41)
Deferred gains (losses) on hedges	—	(34)
Total valuation and translation adjustments	153	(75)
Total net assets	80,362	93,660
Total liabilities and net assets	1,717,470	1,876,770

(2) Consolidated Statements of Income

(Unit: JPY million)

	For the fiscal year ending March, 31, 2016	For the fiscal year ending March, 31, 2017
Ordinary income	64,584	70,591
Interest income	41,574	46,258
Interest on loans and discounts	34,178	38,558
Interest and dividends on securities	555	275
Call loan interest	26	0
Interest on receivables under securities borrowing transactions	—	0
Interest on due from banks	253	227
Other interest received	6,559	7,195
Fees and commissions	18,591	20,775
Other operating income	3,468	2,484
Other income	438	488
Gain on bad debts recovered	2	2
Other income	436	485
Trust fee	510	584
Ordinary expenses	48,868	51,507
Interest expenses	2,696	2,034
Interest on deposits	2,634	1,943
Call money interest	0	(9)
Interest on borrowings	19	46
Bond interest	41	37
Other interest expense	0	16
Fees and commissions expense	24,352	27,056

Other operating expense	—	145
General and administrative expenses	21,381	21,738
Other expenses	438	531
Provision on loss for doubtful accounts	338	410
Other expenses	100	121
Ordinary profit	15,716	19,083
Extraordinary profit	0	6
Transfer from reserve for financial products transaction liabilities	0	6
Extraordinary losses	247	54
Loss on disposal of property and equipment	24	31
Impairment loss	5	4
Other extraordinary loss	216	17
Net Income before taxes	15,469	19,035
Provision for Income and other taxes	1,793	2,459
Adjustment to income and other taxes	3,571	3,049
Total income and other taxes	5,364	5,508
Current net income	10,105	13,526
Net income attributable to owners of parent	10,105	13,526

(3) Consolidated Statements of Cash Flows

(Unit: JPY million)

	For the fiscal year ending March, 31, 2016	For the fiscal year ending March, 31, 2017
Cash flows from operating activities:		
Income before income taxes and others	15,469	19,035
Depreciation	2,357	2,471
Impairment loss	5	4
Amortization of goodwill	35	35
Increase (decrease) in allowance for doubtful accounts	180	344
Increase (decrease) in reserve for bonuses	47	36
Increase (decrease) in reserve for officer's bonus	—	(2)
Increase (decrease) in reserve for loyalty award credits	31	9
Increase (decrease) in reserve for reimbursement of deposits	4	2
Increase (decrease) in other reserves	(5)	(6)
Interest income recognized on Statements of Income	(41,574)	(46,258)
Interest expenses recognized on Statements of Income	2,696	2,034
Losses (gains) on securities	—	(53)

Foreign exchange losses (gains)	41	—
Losses (gains) on sales of fixed assets	24	31
Net decrease (increase) in loans and bills discounted	(120,676)	(165,840)
Net increase (decrease) in deposits	254,422	105,386
Net increase (decrease) in borrowed money	99,400	49,800
Net increase (decrease) in deposits paid (excluding cash equivalents)	12,000	—
Net decrease (increase) in call loans and others	23,000	(20,000)
Net decrease (increase) in foreign exchange position(assets)	(2,350)	(5,287)
Net decrease (increase) in foreign exchange position(liabilities)	230	(72)
Net decrease (increase) in monetary claims bought	(121,028)	(137,652)
Interest income (cash basis)	41,436	46,269
Interest expenses (cash basis)	(2,894)	(2,958)
Others	8,776	(17,591)
Subtotal	171,630	(170,261)
Income taxes paid	(639)	(2,383)
Net cash provided by (used in) operating activities	170,990	(172,644)
Cash flows from investing activities:		
Purchase of securities	(205,446)	(102,933)
Proceeds from sales of securities	—	31,172
Proceeds from redemption of securities	204,255	123,477
Purchase of tangible fixed assets	(789)	(615)
Proceeds from sales of tangible fixed assets	1	—
Purchase of intangible fixed assets	(2,058)	(2,667)
Proceeds from sales of intangible fixed assets	3	—
Net cash provided by (used in) investment activities	(4,033)	48,433
Cash flows from financing activities:		
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(90)	—
Net cash provided by (used in) financing activities	(90)	—
Net increase (decrease) in cash and cash equivalents	166,866	(124,211)
Cash and cash equivalents at the beginning of period	297,641	464,508
Cash and cash equivalents at the end of period	464,508	340,296

5. Non-consolidated Financial Statements

(1) Non-consolidated Balance Sheet

(Unit: JPY million)

	As of March, 31, 2016	As of March, 31, 2017
Assets		
Cash and due from banks	464,506	340,295
Due from banks	464,506	340,295
Call loans	—	20,000
Monetary claims bought	545,027	606,992
Marketable securities	312,532	325,143
Government bonds	7,007	—
Short-term bonds	144,366	211,867
Corporate bonds	103,533	89,893
Equity securities	491	491
Other securities	57,134	22,891
Loans and bills discounted	475,126	640,966
Term loans	144,477	286,582
Overdraft facilities	330,649	354,384
Foreign exchange	3,127	8,414
Due to foreign banks	3,127	8,414
Other assets	30,588	40,591
Domestic exchange settlement accounts, debit	4,863	5,877
Prepaid expenses	469	532
Accrued income	3,249	3,710
Initial margins of futures markets	180	113
Derivatives other than for trading	4,350	4,010
Cash collateral paid for financial instruments	4,050	4,245
Other assets	13,424	22,100
Property, plant and equipment	1,762	2,050
Building	510	456
Other property, plant and equipment	1,252	1,594
Intangible assets	5,963	6,329
Software	4,451	5,357
Software-in-progress	1,510	971
Other intangible assets	0	0
Deferred tax assets	5,552	2,579
Customer liabilities for acceptances and guarantees	485	551
Allowance for doubtful accounts	(430)	(782)
Total assets	1,844,241	1,993,134

(Unit: JPY million)

	As of March, 31, 2016	As of March, 31, 2017
Liabilities		
Deposits	1,628,284	1,723,537
Ordinary deposits	949,568	1,178,417
Term deposits	624,447	486,401
Other deposits	54,267	58,717
Borrowed money	99,950	149,750
Borrowomgs from other banks	99,950	149,750
Foreign exchanges	267	194
Foreign bills payable	267	194
Bonds payable	4,000	4,000
Other liabilities	30,661	21,386
Domestic exchanges settlement account, credit	2,113	2,218
Income taxes payable	1,630	1,818
Accrued expenses	5,864	5,038
Unearned income	436	415
Valuation margins of future markets	4,827	5,565
Derivatives other than for trading	2,585	1,982
Cash collateral received for financial instruments	700	80
Asset retirement obligations	181	182
Other liabilities	12,322	4,084
Reserve for bonus	298	331
Reserve for reimbursement of deposits	5	8
Reserve for loyalty award credits	172	182
Contingency loss provision	8	2
Financial instruments transaction liability reserve	8	2
Acceptances and guarantees	485	551
Total liabilities	1,764,134	1,899,944
Net assets		
Common stock	25,954	25,954
Capital surplus	2,468	2,468
Capital surplus reserve	2,468	2,468
Retained earnings	51,539	64,842
Voluntary reserves	51,539	64,842
Retained earnings brought forward	51,539	64,842
Total shareholder equity	79,961	93,265
Valuation difference on available-for-sale securities	145	(41)

Deferred gains (losses) on hedges	—	(34)
Total valuation and translation adjustments	145	(75)
Total net assets	80,106	93,189
Total liabilities and net assets	1,844,241	1,993,134

(2)Non-consolidated Statements of Income

(Unit: JPY million)

	For the fiscal year ending March, 31, 2016	For the fiscal year ending March, 31, 2017
Ordinary income	63,995	69,886
Interest income	41,530	46,169
Interest on loans and discounts	34,178	38,558
Interest and dividends on securities	761	610
Call loan interest	26	0
Interest on receivables under securities borrowing transactions	—	0
Interest on due from banks	253	227
Other interest received	6,309	6,772
Fees and commissions	18,559	20,767
Commission received on exchange transactions	5,419	5,485
Other fees and commissions income	13,139	15,281
Other ordinary income	3,468	2,484
Profit on foreign exchange	2,159	2,452
Gains on sales of bonds	0	31
Derivatives other than for trading revenue	1,303	—
Other ordinary income	5	—
Other income	437	465
Gain on bad debts recovered	2	2
Other income	434	462
Ordinary expenses	48,488	51,139
Interest expenses	2,702	2,035
Interest on deposits	2,640	1,944
Call money interest	0	(9)
Interest on borrowings	19	46
Bond interest	41	37
Interest on interest swaps	—	16
Other interest expense	0	0
Fees and commissions expense	24,338	27,038
Exchange fees paid	2,704	3,034
Other fees and commissions expense	21,634	24,003
Other operating expense	—	145
Expenses on derivatives other than for trading	—	145
General and administrative expenses	21,013	21,388

Other expenses	433	531
Provision on loss for doubtful accounts	333	410
Write-off of loans	—	63
Other expenses	99	58
Ordinary profit	15,507	18,747
Extraordinary profit	0	6
Transfer from reserve for financial products transaction liabilities	0	6
Extraordinary losses	247	38
Loss on disposal of property and equipment	24	28
Impairment loss	5	4
Other extraordinary loss	216	5
Net Income before taxes	15,260	18,715
Provision for Income and other taxes	1,757	2,356
Adjustment to income and other taxes	3,571	3,055
Total income and other taxes	5,329	5,412
Current net income	9,931	13,303

6. Other Financial Information

(1) Disclosure based on the categories of the Financial Revitalization Law (Non-consolidated)

(Unit: JPY million)

	As of March, 31, 2016	As of March, 31, 2017
Claims in bankruptcy and reorganization, and similar claims	19	274
Doubtful claims	385	521
Substandard claims	2	100
Normal claims	480,273	651,205
Total	480,681	652,101

(Note) The above is based on the Act on Emergency Measures for the Revitalization of the Financial Functions.

(2) Consolidated Capital Adequacy Ratio (Japanese domestic standard)

(Unit: JPY million)

	As of March, 31, 2016	As of March, 31, 2017
Capital adequacy ratio	10.25%	11.15%
Total capital	80,161	93,604
Total required capital	31,270	33,550

(Note) Reported based on Financial Service Agency Article 7 (2014).

(3) Non-consolidated Capital Adequacy Ratio (Japanese domestic standard)

(Unit: JPY million)

	As of March, 31, 2016	As of March, 31, 2017
Capital adequacy ratio	9.96%	10.83%
Total capital	80,224	93,409
Total required capital	32,217	34,485

(Note) Reported based on Financial Service Agency Article 7 (2014).

(4) Valuation Difference on Securities with Market Value (Consolidated)

○ Valuation Difference

(Unit: JPY million)

	As of March, 31, 2016				As of March, 31, 2017			
	Market value	Valuation difference		Market value	Valuation difference		Profit	Loss
		Profit	Loss		Profit	Loss		
Other marketable securities	180,976	59	224	164	139,699	(248)	91	(339)
Equity	27	7	7	—	—	—	—	—
Bonds	125,037	127	131	4	106,891	(82)	68	(150)
Other	55,911	(75)	84	160	32,807	(165)	22	(188)

(Note) 1. End of period Valuation Difference and unrealized Profit and Loss are recorded as the difference between Book Value (after application of amortized cost method, after booking of impairment loss) and Market Value at each relevant end of period.

2. Furthermore, Bonds held to Maturity is presented below.

(Unit: JPY million)

	As of March, 31, 2016				As of March, 31, 2017			
	Book value	Unrealized profit and loss		Book value	Unrealized profit and loss			
		Profit	Loss		Profit	Loss		
Bonds held to maturity	12,500	765	765	—	12,500	508	508	—

(5) Derivative Transactions (Consolidated)

① Interest Rate-related Transactions

(Unit: JPY million)

Category	Type	As of March, 31, 2016			As of March, 31, 2017		
		Contract value	Market value	Valuation profit/loss	Contract value	Market value	Valuation profit/loss
Exchange	Interest rate futures	—	—	—	—	—	—
	Interest rate options	—	—	—	—	—	—
OTC	Forward rate agreement	—	—	—	—	—	—
	Interest rate swap	—	—	—	—	—	—
	Interest rate swaption	270,315	3	3	114,660	8	8
	Interest rate options	—	—	—	—	—	—
	Other	—	—	—	—	—	—
	Total			3			8

(Note) 1. The above is based on a mark-to-market valuation, and has been recorded on the Statements of Income

2. Market Value Calculation

Calculated using Net Present Value and the Option Price Calculation Model.

3. Interest swaps which are difficult to differentiate for our bank are included in interest swaption transactions.

4. Derivative transactions which are applicable to Hedge accounting are not included in the above.

② Foreign Currency-related Transactions

(Unit: JPY million)

Category	Type	As of March, 31, 2016			As of March, 31, 2017		
		Contract value	Market value	Valuation profit/loss	Contract value	Market value	Valuation profit/loss
Exchange	Currency futures	—	—	—	—	—	—
	Currency options	—	—	—	—	—	—
OTC	Currency swap	—	—	—	—	—	—
	FX forwards	283,207	483	483	398,951	1,515	1,515
	Currency options	113	—	—	158	—	—
	Other	—	—	—	—	—	—
	Total			483			1,515

(Note) 1. The above is based on a mark-to-market valuation, and has been recorded on the Statements of Income

2. Market Value Calculation

FX Forward transactions are stated based on forward exchange rates.

Option transactions are calculated using Net Present Value and the Option Price Calculation Model

3. Derivative transactions which are applicable to Hedge accounting are not included in the above.

③ Equity-related Transactions

No relevant transactions

④ Debt-related Transactions

(Unit: JPY million)

Category	Type	As of March, 31, 2016			As of March, 31, 2017		
		Contract value	Market value	Valuation profit/loss	Contract value	Market value	Valuation profit/loss
Exchange	Bond futures	2,000	4	4	500	1	1
	Bond futures options	—	—	—	—	—	—
OTC	Bond OTC options	—	—	—	—	—	—
	Other	—	—	—	—	—	—
	Total			4			1

(Note) 1. The above is based on a mark-to-market valuation, and has been recorded on the Statements of Income

2. Market Value Calculation

Calculated according to the price of the exchange.

⑤ Product-related Transactions

No relevant transactions

⑥Credit Derivative Transactions

No relevant transactions

(6) Margin Conditions (Non-consolidated)

(Unit: %)

	Fiscal 2015	Fiscal 2016
Investment yield	2.74	2.57
Fundraising cost	1.65	1.29
Overall investment spread	1.09	1.28
Overall investment spread	0.18	0.11
Overall interest spread	2.56	2.46

(7) Deposit Conditions (Non-consolidated)

(Unit: JPY million)

	As of March, 31, 2016	As of March, 31, 2017
Ordinary deposits	949,568	1,178,417
Term deposits	624,447	486,401
Other deposits	54,267	58,717
Total	1,628,284	1,723,537

(8) Term Deposit Balance per Remaining Period to Maturity (Non-consolidated)

(Unit: JPY million)

	Less than 1 year	Over 1 year Less than 2 years	Over 2 years Less than 3 years	Over 3 years	Total
As of March, 31, 2016	521,771	25,355	21,558	55,763	624,447
As of March, 31, 2017	423,200	30,640	8,116	24,443	486,401

(9) General and Administrative Expense Conditions (Non-consolidated)

(Unit: JPY million)

	Fiscal 2015	Fiscal 2016
Employment costs	5,453	5,174
Non-employment costs	14,390	14,882
inc. depreciation costs	2,474	2,361
Tax	1,169	1,331
Total	21,013	21,388

(10) Officers and Employee Conditions (Non-consolidated)

	Fiscal 2015	Fiscal 2016
Officers	9	9
Directors	6	6
Auditors	3	3
Employees	536	584
Total	545	593

(Note)

Employees include regular, non-regular or temporary employees, and employees seconded to Rakuten Bank, Ltd. while employees from Rakuten Bank, Ltd. seconded to other companies have been excluded.