Revolut Bank UAB

Capital adequacy and risk management report (Pillar 3)

31 December 2019

Contents

Introduction

Overview

Revolut Bank UAB (further referred to as the Bank) is licenced as a specialised bank and is a wholly owned subsidiary of Revolut Ltd (further referred to as the Revolut Group) which is authorised and regulated by the UK Financial Conduct Authority as an Electronic Money Institution. The Bank did not own any subsidiaries at 31 December 2019. Revolut Bank UAB was granted a specialised banking license on 6th of December 2018 with the intention to offer deposit acceptance and consumer credit services.

The Bank was not fully operational by the end of 2019, however it started internal testing and the first 20 clients - internal employees were on-boarded to test the functionality and processes. As at 31 December 2019, there were no loans issued to the clients.

Notes on basis of preparation

This report is prepared in accordance with the requirements of the Capital Requirements Directive (CRD IV) and the Capital Requirements Regulation No 575/2013 (CRR).

Pillar 3 disclosures complement those disclosed in the Revolut Bank UAB 2019 Annual report and financial statements and provide additional information about the Bank's risk profile, including its regulatory capital, risk weighted assets (RWAs), liquidity, leverage exposures as well as information about the Bank's approach to managing risk.

The Basel framework is structured around three 'pillars'. The Pillar 1 defines minimum capital requirements for credit, market and operational risk. The Pillar 2 defines Supervisory Review and Evaluation Process (SREP) requiring the Bank to carry out an internal capital adequacy assessment process (ICAAP), identifying and assessing all the relevant risks which are not covered within Pillar 1 and supporting adequate capital level and an internal liquidity adequacy assessment process (ILAAP) primarily concentrating on the funding and liquidity risk management. Pillar 3 stands for market discipline with the aim to produce disclosures that allow market participants to assess the scope of application by banks of the Basel framework and the rules in their jurisdiction, their capital condition, risk exposures and risk management processes, and hence their capital adequacy

Remuneration

Disclosures in relation to remuneration are included in the Annual Report section "Remuneration policy". Significant accounting policies for the Bank are presented in the Notes to the Financial Statements.

Comparatives

To give insight into movements during previous periods, comparative figures for the previous period are provided, where available, given the Bank is not fully operational. Wherever specific rows and columns in the tables prescribed by the EBA or Basel are not applicable or immaterial to our activities, they were omitted and follow the same approach for comparative disclosures.

In all tables where the term ‘capital requirements’ is used, this represents the minimum total capital charge set at 8% of RWAs by article 92 of the Capital Requirements Regulation. Table name references and row numbering in tables identify those prescribed in the relevant EBA guidelines where applicable and where there is a value.

Risk management

Risk management framework

Risk Management Framework applied by the Bank provides management with confidence that the Bank is operating within the defined risk appetite while providing appropriate flexibility to meet the specific needs and regulations.

The Bank’s Risk Management Framework ensures:

- The process of risk management is developed and managed throughout the Bank in a consistent and sound manner;
- Risk management is embedded throughout the Bank promoting a culture of risk awareness and risk ownership;
- The Bank has sound systems of risk management in place and is able to demonstrate that if requested; and
- To provide the Bank with the tools required to enhance risk decisions throughout the organisation.

Following the effective risk management principles, it helps to support the achievement of Revolut’s objectives. Also it enables the Bank to focus on the risk driven priorities of the business and delivers better assessment of risk in the decision making processes though open discussion about risks and opportunities.

Risk appetite

The Bank expresses its risk appetite using both qualitative appetite statements supported by quantitative limits documented as Key Risk Indicators (KRIs). In order to set the risk appetite, the Bank follows a strategy and vision set out by the Revolut Group which ensures Revolut Group meets customers’ expectations, regulatory requirements and regulators' expectation of every jurisdiction Revolut Group operates in, and across the entire product suite. Revolut Group as well as Revolut Bank UAB relies on its people, who are motivated to change banking for the best, and sound governance to ensure Revolut Group manages the risks to its strategy within appetite.

Tables

Table 1: Key Metrics

		31 Dec 2019	30 Sep 2019	30 Jun 2019
	Available capital (amounts)			
1	Common Equity Tier 1 (CET1)	9,248	4,770	5,396
2	Tier 1	9,248	4,770	5,396
3	Total capital	9,248	4,770	5,396
	Risk-weighted assets (amounts)			
4	Total risk-weighted assets (RWA)	27,497	7,574	7,497
	Risk-based capital ratios as a percentage of RWA			
5	Common Equity Tier 1 ratio (%)	33.6%	63.0%	72.0%
6	Tier 1 ratio (%)	33.6%	63.0%	72.0%
7	Total capital ratio (%)	33.6%	63.0%	72.0%
	Additional CET1 buffer requirements as a percentage of RWA			
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.5%	2.5%	2.5%
9	Countercyclical buffer requirement (%)	1%	1%	1%
11	Total of bank CET1 specific buffer requirements (%)	3.5%	3.5%	3.5%
12	CET1 available after meeting the bank's minimum capital requirements (%)	29.1%	58.5%	67.5%
	Leverage ratio			
13	Total leverage ratio exposure measure	9,936	5,449	5,951
14	Leverage ratio (%) (row 2 / row 13)	93.1%	87.5%	90.7%
	Liquidity Coverage Ratio			
15	Total HQLA	99	-	-
16	Total net cash outflow	25	-	-
17	LCR ratio (%)	397.3%	-	-

Table 2: Balance sheet reconciliation

	31 Dec 2019	Cross reference to the own funds
Assets		
Cash and balances with central banks	99	
Due from banks	8,353	
Property, plant and equipment	61	
Intangible assets	93	d
Deferred tax assets	166	
of which deferred tax assets that rely on future profitability excluding those arising from temporary differences	*166*	e
Other assets	1,423	
Total assets	**10,195**	
Liabilities		
Due to customers	1	
Other liabilities	687	
Total liabilities	**688**	
Equity attributable to equity holders of parent		
Issued capital	5,503	
of which CET1 paid-in share capital	*5,503*	a
Retained earnings	(996)	b
Other reserves	5,000	c
Total equity	**9,507**	
Total liabilities and equity	**10,195**	

Table 3: Overview of risk weighted assets

		RWA		**Minimum capital requirements**
		31 Dec 2019	30 Sep 2019	**31 Dec 2019**
1	**Credit risk (excluding counterparty credit risk)**	3,154	2,221	252.3
2	Of which: standardised approach (SA)	3,154	2,221	252.3
6	**Counterparty credit risk (CCR)**	-	-	-
10	**Credit valuation adjustment (CVA)**	-	-	-
15	**Settlement risk**	-	-	-
16	**Securitisation**	-	-	-
20	**Market risk**	2	-	0.2
21	Of which: standardised approach (SA)	2	-	0.2
24	**Operational risk**	24,340	5,353	1,947.2
25	Of which: standardised approach (SA)	24,340	5,353	1,947.2
27	**Total**	**27,496**	**7,574**	**2,199.7**

Table 4: Own funds disclosure

		Amounts	Cross reference to balance sheet
	Common Equity Tier 1 capital: instruments and reserves		
1	Capital instruments	5,503	
	– ordinary shares	5,503	a
2	Retained earnings	(996)	b
3	Accumulated other comprehensive income (and other reserves)	5,000	c
9	Other intangibles other than mortgage servicing rights (net of related tax liability)	(93)	d
10	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability)	(166)	e
28	Total regulatory adjustments to Common Equity Tier 1	(259)	
29	Common Equity Tier 1 capital (CET1)	9,248	
44	Additional Tier 1 capital (AT1)	-	
45	Tier 1 capital (T1 = CET1 + AT1)	9,248	
	Tier 2 capital: instruments and provisions		
58	Tier 2 capital (T2)	-	
59	Total regulatory capital (TC = T1 + T2)	9,248	
60	Total risk-weighted assets	27,496	
	Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of risk-weighted assets)	33.6%	
62	Tier 1 (as a percentage of risk-weighted assets)	33.6%	
63	Total capital (as a percentage of risk-weighted assets)	33.6%	
64	Institution-specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus higher loss absorbency requirement, expressed as a percentage of risk-weighted assets)	3.5%	
65	Of which: capital conservation buffer requirement	2.5%	
66	Of which: bank-specific countercyclical buffer requirement	1.0%	
68	Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirements	29.1%	

Table 5: Liquidity

		Total unweighted value	Total weighted value
High-quality liquid assets			
1	Total HQLA	99	99
Cash outflows			
2	Retail deposits and deposits from small business customers, of which:	1	0.1
4	Less stable deposits	1	0.1
10	Additional requirements, of which:	451	100
14	Other contractual funding obligations	451	100
16	TOTAL CASH OUTFLOWS	452	100
Cash inflows			
18	Inflows from fully performing exposures	8,353	8,353
19	Other cash inflows	1,126	1,126
20	TOTAL CASH INFLOWS	9,479	9,479
			Total adjusted value
21	Total HQLA		99
22	Total net cash outflows		25
23	Liquidity Coverage Ratio (%)		397.4%

Table 6: Leverage ratio

		31 Dec 2019	30 Sep 2019
	On-balance sheet exposures		
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	10,195	5,514
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(259)	(65)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	9,936	5,449
	Derivatives exposure		
11	Total derivative exposures	-	-
	Securities financing transaction exposures		
16	Total securities financing transaction	-	-
	Other off-balance sheet exposures		
19	Off-balance sheet items	-	-
	Capital and total exposures		
20	Tier 1 capital	9,248	4,770
21	Total exposures	9,936	5,449
	Leverage ratio		
22	Leverage ratio	93.1%	87.5%

Table 7: Standardised approach – credit risk exposure and credit risk mitigation (CRM) effects

		Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
	Asset classes						
1	Sovereigns and their central banks	99	-	99	-	-	0%
4	Banks	8,353	-	8,353	-	1,671	20%
13	Other assets	1,483	-	1,483	-	1,483	100%
14	Total	9,935	-	9,935	-	3,154	32%

Table 8: Standardised approach – exposures by asset classes and risk weights

	0%	20%	100%	Total credit exposures amount (post CCF and post-CRM)
Sovereigns and their central banks	99	-	-	99
Banks		8,353	-	8,353
Other assets	-	-	1,483	1,483
Total	**99**	**8,353**	**1,483**	**9,935**