

# Revolut Securities Europe UAB



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Results of the Internal Capital Assessment  
for the year ended 31 December 2023

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## 1. Introduction

This report has been prepared in accordance with the regulation of the Bank of Lithuania (BoL) “Dėl Finansų Maklerio Įmonių Vidaus Kapitalo Ir Likvidžiojo Turto Poreikio Nustatymo Tvarkos Aprašo Patvirtinimo,” considering the ICAAP (Internal Capital Adequacy Assessment Process) and ILAAP (Internal Liquidity Adequacy Assessment Process).

## 2. Summary and General Information

Revolut Securities Europe UAB (RSEUAB) provides a wide range of investment services to clients within the European Economic Area (EEA). These services include, among others, the receipt and transmission of orders and portfolio management. In terms of risk management, RSEUAB follows a three-lines-of-defense model, where the first line is responsible for risk-taking, the second line oversees risk (risk function), and the third line conducts internal audits (audit function).

The ICAAP and ILAAP procedures at RSEUAB define the processes for effective assessment of capital and liquidity adequacy within the Company. Their purpose is to mitigate uncertainties related to the risks the Company may face and to ensure adequate levels of capital and liquidity in projected conditions. The ICAAP and ILAAP not only quantify the Company's capital and liquidity needs but also serve as tools for further development of internal risk management and control structures. The ICAAP and ILAAP processes are tailored to the nature, scale, and complexity of RSEUAB's operations.

Like other investment institutions, RSEUAB complies with the strict requirements of the EU's IFR regulations, aimed at ensuring sufficient firm capitalization and proper management of operational and liquidity risks.

## 3. Risk Management Strategy

The Company has implemented a risk management strategy that includes:

- Responsibility for risk management at the level of individual business areas within the company;
- Regular risk assessments conducted by the Executive Risk Committee (ERC);
- Compliance with both European and local regulations.

This strategy is formalized in risk management policies and frameworks approved by the ERC and the Company's Management Board, and it focuses on proportionality, management, and integration with strategic and operational planning. The Company employs an Enterprise Risk Management Framework based on the Revolut Group methodology, which encompasses risk identification, measurement, monitoring, and management. Each risk is assigned to the appropriate risk category based on its impact and likelihood of occurrence.

ICAAP and ILAAP are integral parts of the Company's risk management framework, influencing strategic decisions and the daily organization of operations. The outcomes of these processes are integrated into the management information system and are regularly monitored. These processes align with a proportional approach, taking into account the specifics of RSEUAB's business model.

## 4. Risk Management Approach

### Enterprise Risk Management Framework

Revolut Securities Europe UAB has implemented an Enterprise Risk Management Framework (ERMF), which sets minimum risk management standards to enable RSEUAB to effectively manage its risks and demonstrate compliance with relevant regulations.

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This consistent approach provides management and the entity board with confidence that RSEUAB is operating within risk appetite, while providing appropriate flexibility to meet the specific needs and regulations of this legal entity and region.

This ERMF document is consistent with the Business Strategy and Risk Appetite Statement to ensure that risks are defined, tolerances are formally set and agreed by the Board, and there is a formal structure in place to help ensure execution is managed to align to the Board's strategic intentions.

This ERMF is supported by various underlying and associated policies, frameworks and procedures which direct how RSEUAB manages risk, like: Risk appetite, New initiatives policy, Risk and controls framework, Risk incident management framework, Capital risk policy, Liquidity Risk policy etc.

ERMF itself is based on the following elements:

- Risk Appetite - Formally articulates the boundary levels for the various types of risk the business faces
- Risk Operating Model - The way in which the risk function is organised at RSEUAB and the deployment of the three lines of defence model
- Governance - The mechanism for oversight of the operationalisation of the ERMF and risk decision-making, including approving new or changed elements of control
- Risk Management - The core elements of end-to-end risk management from risk identification to assessment to remediation with highlights of specific risk groups e.g. Top Risks
- Control Management - The way we identify and implement different type of controls including directive (policies and procedures), detective (risk indicators), preventative and corrective whilst highlighting our approach towards control assessment and testing
- Breach Management - The approach at RSEUAB to remediate different type of risk profile breaches including risk incident, indicator breaches, issues and findings and highlighting the mechanism in place to leverage these breaches to further strengthen our control environment ("Feedback Loop")
- Risk Oversight & Assurance Activities - Internal processes developed by 2LoD to monitor the performance of risk management from 1LoD and to provide assurance on the quality of respective activities
- Risk Monitoring and Reporting - The key processes and procedures on how Revolut and RSEUAB reports certain risk profile breaches and meet our regulatory requirements
- Risk Culture - The shared beliefs and assumptions concerning risk and risk management that affect and are affected by an organisation's risk taking and control decisions, along with the outcome
- New Initiatives Approval Process (NIAP) - The primary objective of the NIAP is to ensure an efficient, consistent, controlled, compliant, and well-understood approach to the design, development, testing, launch, monitoring, and retirement of RSEUAB's initiatives. To achieve this goal, the NIAP establishes:
  - The scope and lifecycle of a new initiative;
  - The risk management standards and requirements throughout the lifecycle of the initiative;
  - The roles and responsibilities of the stakeholders involved; and
  - The related governance arrangements, recognizing the need for variation across entities due to local governance structures.

### Three Lines of Defence Model

RSEUAB employs the standard "Three Lines of Defense" (3LoD) operating model for risk management. The three lines of defense model enhances the understanding of risk management and control by clearly defining different roles and responsibilities:

- First Line of Defence (1LoD) - This describes all the risk-taking functions of RSEUAB. Under the 1LoD, operational management has ownership, responsibility and accountability for directly identifying, assessing,

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controlling and mitigating risks. Revolut's risk technology platform ensures clear ownership of risk and controls are allocated to the right 1LoD people.

- Second Line of Defence (2LoD) - This describes the risk monitoring and oversight functions of RSEUAB, defined as the Risk Management Function, the Compliance Function and the Financial Crime Compliance Function. These teams are governed and assessed by the Board and the Executive Risk Committee. The Board and ERC review the management of risk in relation to the particular risk appetite of the business, as determined by the Board. The Board also monitors the effectiveness and independence of the 2LoD functions to ensure they are independent of the business and adequately resourced in terms of qualifications, knowledge and experience.
- Third Line of Defence (3LoD) - This refers to the Internal Audit Function, which is governed by the Group Board Audit Committee (BAC). The BAC is composed of independent non-executive directors and ensures that the Internal Audit Function is operating effectively in providing independent and objective assurance over risk management, control and governance processes. Internal audit is tasked with performing in-depth reviews of the effectiveness of the controls over RSEUAB's key risks.

The implementation of the three lines of defense model enables proper risk management and significantly reduces the risk of conflicts of interest between risk-taking functions, risk monitoring and oversight functions, and the audit function.

## 5. Risk Appetite Statement

RSEUAB has implemented the Risk Appetite Statement ("RAS"), which defines the level of risk that RSEUAB is prepared to accept in order to achieve its vision and strategy. The RAS covers all material risks that RSEUAB is exposed to. Risk appetite is expressed for each risk type in its taxonomy through qualitative statements and with reference to the aggregate level of residual risk for the risk type, and, where appropriate, a set of quantitative indicators monitored in the Risk Management System.

Qualitative statements complement quantitative measures in three ways:

1. They set the overall tone for RSEUAB's approach to risk taking. This is achieved by ranking risk appetite on a 4-grade scale ranging from 'No Appetite' to 'High Appetite', whereby the grades are defined qualitatively;
2. They clearly articulate the motivations for taking on or avoiding certain types of risks, products, country or regional exposures, or other categories; and
3. They establish non-quantitative boundaries or indicators for particular risks that are difficult to quantify.

The Risk Profile is a point-in-time assessment of RSEUAB's risk exposures, aggregated within and across each relevant material risk category. It is regularly monitored against the RAS and reported to the Executive Risk Committee and the Management Board.

RSEUAB's overall risk appetite is conservative. The risk appetite measures, limits, and metrics are designed to ensure that RSEUAB, its personnel, and business activities are appropriately aligned with the Company's risk appetite.

## 6. Capital and Liquidity Assessment

### Internal Capital and Liquidity Assessment

RSEUAB classifies risks according to an internal risk taxonomy, which differs from the taxonomy used for capital calculations under IFR/IFD regulations. The risk assessment process takes into account various types of risks, including credit, market, operational, and concentration risks. The total capital requirement is calculated as the sum of the capital required for each risk type, using a conservative approach. The company also projects its capital needs for at least three years.

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As a complement to the capital needs assessment, RSEUAB conducts a separate assessment of liquidity needs within the internal liquidity assessment process.

The company has identified and classified the following types of risks as part of the internal capital assessment:

### A. Currency Risk

Currency risk is primarily related to the company's operational activities, particularly revenues and expenses incurred in foreign currencies. The company manages this risk by using a Value at Risk (VaR) model to forecast potential losses due to currency fluctuations and sets limits on foreign exchange exposures.

RSEUAB has minor exposures to currency risk, mainly stemming from positions denominated in foreign currencies, such as USD, in relation to clearing operations and liabilities to brokers.

### B. Credit Risk

The company defines credit risk as the possibility that debtors may not meet their obligations on time. Credit risk is monitored both at the RSEUAB level and throughout the Revolut Group. Key credit partners of RSEUAB, such as JP Morgan and Fidelity, hold strong credit ratings. The company employs mechanisms for assessing and monitoring credit risk, including a system for monitoring the credit quality of counterparties, which involves applying minimum credit ratings to institutions with which it works.

Regular reviews and monitoring of credit exposure limits are crucial in managing credit risk. If established limits are exceeded, appropriate risk management measures are implemented.

### C. Concentration Risk

RSEUAB monitors concentration risk by assessing credit exposures to individual counterparties and groups of related counterparties. Oversight of this risk is handled by the Board and the Executive Risk Committee (ERC).

To mitigate potential threats from excessive asset concentration, the company uses strict control mechanisms. Concentration risk is regularly assessed and monitored at both the RSEUAB level and the Revolut Group level.

### D. Operational Risk

RSEUAB uses the Standardized Approach (TSA) for calculating internal requirements related to operational risk. TSA allows institutions to assign capital for operational risk in a more granular way than the Basic Indicator Approach (BIA), taking into account different business lines with varying levels of risk.

Under TSA, capital for operational risk is calculated by applying "beta" coefficients to specific business lines. Each business line generates a different level of operational risk, so the beta coefficients are tailored to the nature of the business.

RSEUAB applies beta coefficients for two business lines:

- Asset Management (beta coefficient: 12%) – covers activities related to managing clients' investment portfolios. Operational risk in this area includes client asset management, regulatory compliance, and fiduciary responsibilities.
- Retail Brokerage (beta coefficient: 12%) – applies to brokerage services provided to retail clients, encompassing client service, order processing, and compliance with market regulations.

The capital requirement for each business line is calculated as the product of the revenue generated by that business line and the beta coefficient.

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## E. Liquidity Risk

Liquidity risk concerns the company's ability to meet its financial obligations as they become due. Liquidity planning involves determining the size and structure of liquidity buffers and appropriate funding sources. Liquidity is assessed based on simulations of future obligations and verification of the company's ability to meet requirements under both normal and stress scenarios.

The company actively manages liquidity by maintaining liquidity buffers to guard against sudden market changes while monitoring cash flows and funding needs. The liquidity buffer is designed to maintain compliance with regulatory requirements and the company's liquidity risk tolerance. The company uses financial plans that outline liquidity needs for the next three years.

### Regulatory Capital and Liquidity Requirements

The regulatory capital requirements for the Company are calculated as the highest of:

- a fixed overheads requirement (FOR), equal to a quarter of the annual fixed overheads of the firm;
- a permanent minimum capital requirement (PMR);
- an overall "K-factor" capital requirement, which is the sum of "K-factor requirements" grouped in three categories: Risk-to-Client (RtC), Risk-to-Market (RtM), Risk-to-Firm (RtF).

As of 31 December 2023, the regulatory capital requirements for the Company are:

- FOR requirement was calculated based on the projected fixed overheads for the first 12 months of trading and equals 450,681 euros;
- PMR capital requirement equals 150,000 euros;
- "K-factor" capital requirement was calculated as 349,733 euros.

Based on that, the final capital requirement for the Company is 450,681 euros.

The level of applicable Tier 1 capital as at 31 December 2023 was 4,378,947 euros, therefore the ratio of the Company's capital to its capital requirement was 972% (where 100% is the minimum value required under the regulations).

The IFR-IFD framework imposes that the Company shall hold an amount of liquid assets equivalent to at least one third of the fixed overhead requirements, calculated based on the preceding year. As the Company has not been in business for one year the projected fixed overhead requirements under IFR-IFD framework include the projection for the first 12 months' activities, which is equal to 450,681 euros. Therefore, the Company should hold 150,227 euros of liquid assets at any time.

As of December 31, 2023, the Company had liquid assets of 11,059,616 euros (cash held in banks) with requirements of 150,227 euros. Thus, the ratio of liquid assets held by the Company to liquidity requirements was 7,363% (where 100% is the minimum value required under the regulations). Thus, the Company met the minimum regulatory liquidity requirements.

## 7. Total Assessment of Own Funds and Liquid Assets Requirements

The analysis conducted as part of the ICAAP and ILAAP processes indicates that RSEUAB has a sufficient level of own funds and liquid assets to execute its business strategy over the next three years. Financial forecasts and stress test results confirm that the Company is well-prepared for potential adverse changes in the market environment.

In particular:

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- **Own Funds:** The current Tier 1 capital level of 4,378,947 euros significantly exceeds the minimum regulatory requirements, as evidenced by a capital ratio of 972%. Financial projections indicate the maintenance of a high level of capital adequacy in the coming years, even under conservative growth assumptions and considering potential losses from risks identified in the ICAAP process.
- **Liquidity:** The Company maintains substantial liquidity buffers, demonstrated by liquid assets totaling 11,059,616 euros compared to the minimum requirement of 150,227 euros. A liquidity ratio of 7,363% provides the Company with confidence in covering current and future financial obligations. Liquidity planning accounts for both normal and stress scenarios, enabling proactive management of potential liquidity challenges.
- **Regulatory Compliance:** The Company meets all applicable capital and liquidity requirements in accordance with IFR/IFD regulations and the guidelines of the Bank of Lithuania. Regular monitoring of financial indicators and effective control mechanisms ensure sustained compliance over the long term.

In summary, RSEUAB is well-capitalized and possesses adequate liquidity reserves, allowing for the execution of its business strategy and development plans over the next three years. The Company is prepared for potential market challenges and has the tools for effective risk management, as confirmed by the analyses and tests conducted.

## 8. Risk Management Process Assessment

RSEUAB regularly assesses and reviews the risks that may affect the Company. This process includes identifying risks that may impact both the Company's capital adequacy and its risk profile. Any new risk identified during self-assessment is evaluated in terms of its materiality and impact on the RSEUAB risk profile. These assessments are conducted regularly to ensure that the mechanisms for identifying, managing, and controlling risks are adequate and aligned with the nature of the Company's activities.

## 9. Risk Management in Normal and Adverse Conditions

RSEUAB regularly conducts stress tests to assess its resilience to adverse market conditions, such as sudden changes in exchange rates, asset price fluctuations, and shifts in financial liquidity. These tests include an analysis of capital and liquidity ratios and the identification of risks that may affect the Company's ability to meet its financial obligations. Through stress testing, the Company can anticipate potential issues and implement appropriate preventive measures. These tests aim to determine whether the Company's capital is sufficient to cover losses and maintain liquidity in unfavorable conditions.

Forecasts indicate that the Company will be able to sustain its operations even in challenging conditions. Stress tests include both hypothetical and historical scenarios, which help evaluate the Company's resilience to market volatility. This allows the Company to better prepare for potential adverse changes in the market environment.

## 10. Control Measures

As part of the ICAAP and ILAAP processes, the Company has implemented control measures to address identified risks. These measures include conservative liquidity and capital management, regular reviews of risk management policies, systematic assessment and review of risks that may affect RSEUAB, and the use of internal tools for risk reporting and management. The implemented control measures are designed to ensure compliance with capital and liquidity requirements. These control measures are an integral part of the Company's risk management process, ensuring regulatory compliance and effective operational management.

Additionally, Revolut Securities Europe UAB applies a three-lines-of-defense approach. The first line, consisting of operational units, directly manages risk. The second line includes independent control mechanisms (risk function), and

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the third line is the internal audit, which assesses the effectiveness of the implemented control measures. This approach provides comprehensive protection and independence of the Company's control processes.

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