Revolut Bank


# Revolut Bank UAB

Capital adequacy and risk management report (Pillar 3)
31 December 2020

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# Introduction

## Overview

Revolut Bank UAB (further referred to as the Bank) was incorporated in 2017 as a wholly owned subsidiary of Revolut Ltd (further referred to as Revolut) which holds 100% direct ownership of the Bank's shares and voting rights. Revolut Ltd is authorised and regulated by the UK Financial Conduct Authority as an Electronic Money Institution. The Bank's primary business premises are located in Vilnius, Lithuania.

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 has no investments into subsidiaries and/or associated companies.

The Bank was fully operationalised in May 2020 by offering insured deposit accounts and retail credit.

## 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 2020 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".

# Risk management

## Financial Risk - Principal risks and uncertainties

### Macroeconomic environment risk and uncertainties

Revolut Bank UAB business is sensitive to global macroeconomic conditions as revenue is linked to the number and value of users' transactions which in turn depends on both a user's income and opportunity to spend. As it could have been observed throughout 2020, as part of the global response to the COVID-19 pandemic, restrictions on customers' ability to undertake travel and other expenditure can negatively impact on the ability of Revolut to generate revenue. Economic uncertainties remain due to both the end of government and central bank support schemes, as well as potential for further waves of the pandemic until large scale vaccination programmes are completed.

In addition, following the UK formally ceasing to be a member of the European Union on 31 January 2020, the transition period came to end on 31 December 2020. Whilst Revolut Bank UAB has put arrangements in place to ensure that its services are not disrupted across its product suite, as the UK and EU operate under a third country relationship, there remains potential for political and regulatory risks to impact both across Revolut Group's business and the wider macroeconomic environment.

## Liquidity risk

### Overview of the framework

Liquidity risk is the risk that the Bank cannot meet its financial obligations when they fall due. Funding risk is the risk that the Bank does not have sufficient stable sources of funding to meet its financial obligations when they fall due, or can do so only at excessive cost. Risk arises when assets maturing during a particular period are lower than corresponding liabilities maturing during the same period; an unexpected increase in assets or a decrease in liabilities can also create liquidity risk.

The Bank is, or may in the future be, exposed to a number of liquidity and funding risks, including: retail funding run-off, wholesale funding reduction, pre-funding, marketable and non-marketable assets, contingent off-balance sheet exposures and commitment drawdowns, intraday requirements, collateral requirements, funding concentration, and foreign exchange. These risks are managed by the Treasury Function, with control and oversight provided by the Risk Management Function, the Assets and Liabilities Management Committee and the Management Board.

The Bank's key liquidity policy is to maintain a portfolio of unencumbered, high-quality cash instruments and securities that are readily convertible to cash to ensure that it can meet all of its financial obligations in business-as-usual circumstances and in stress conditions. The Bank complies with this policy by holding surplus cash in the form of overnight deposits with banks.

### Monitoring metrics and limits

The Bank has a low-risk appetite for liquidity risk. At all times, the Bank seeks to maintain liquidity resources that are adequate in size and in quality, to ensure it can meet its liabilities as they fall due and meet all regulatory minimum requirements.

The Bank's liquidity position must always be strong enough to fulfil the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) requirements as specified in the Capital Requirements Regulation of the European Union. Accordingly, the key metrics the Bank uses to measure and limit liquidity risk are the LCR and the NSFR.

The LCR is designed to ensure that the Bank holds a sufficient reserve of high-quality liquid assets (HQLA) to survive a period of significant liquidity stress lasting 30 calendar days. The Bank's LCR should always exceed the internal target of 160%, whereas regulatory minimum is 100%.

The NSFR is calculated as total available stable funding divided by total required stable funding and shall always be above the internal target of 130%, exceeding a minimum regulatory requirement by 30%.

The Bank calculates both metrics on a monthly basis with daily proxies. Corresponding figures as of 31 December 2020 were exceeding internal targets and regulatory limits with a big margin.

Various additional metrics and early warning indicators are followed up to enhance daily liquidity management. The Assets and Liabilities Management Committee may introduce new limits upon its mandate.

### Stress testing

Liquidity stresses are low-probability, but high-impact events, therefore stress testing is an important risk management tool and an integral part of the liquidity risk management framework and the ILAAP (Internal Liquidity Assessment Process). The stress testing methodology is prepared considering business strategy and scope. The assumptions and scenarios used are reviewed regularly with changes being presented to the Assets and Liabilities Management Committee and/or the Management Board.

Liquidity stress testing timeline covers the Bank's expected cash flows during one-year horizon. Liquidity requirement for a particular scenario is calculated by stressing expected cash flows and liquidity buffer, including deposits, credit and off-balance sheet related items. Stress testing captures both market-wide and idiosyncratic risk effects, as well as a combined scenario.

The main stress factors used include deposit outflows of stable and less stable funding, disruptions in the expected cash inflows from the Bank's loan portfolio, increase in undrawn credit lines. For the market-wide stress scenario it is assumed that the wholesale funding market becomes completely inaccessible for new funding transactions and all callable funding transactions are assumed to be terminated at the earliest possible date.

As part of the ongoing risk management, the Bank runs stress tests annually or in conjunction with business plan updates with key outputs being reviewed by the Chief Risk Officer, the Management Board, and escalated to the Supervisory Council as necessary.

## Credit risk

Credit risk is the risk of loss to the Bank resulting from the failure of customers or counterparties to meet their financial obligations.

Credit risk also includes counterparty credit risk, settlement risk and credit concentration risk, which covers geographic, sector and single-name concentration risks.

Credit risk for the Bank arises from retail lending to private individuals and the exposures to banks and other financial institutions. Revolut Bank UAB does not provide commercial lending to other customers than private individuals, and it enters into exposures to banks and other financial institutions only in order to support its other activities.

The regular reports are prepared and presented to the Bank's management bodies to follow the level and developments of the Bank's assumed credit risk.

Credit risk measurement

*(a) Loans to customers*

Revolut Bank UAB launched its retail lending activities to private individuals in Lithuania and Poland in 2020. Unsecured consumer lending is performed in the form of personal loans and credit card limits. These products have been introduced on a gradual basis, and, as of 31 December 2020, the Revolut Bank UAB consumer loan portfolio remained small.

The Bank's key objective in its retail lending activities is to ensure the risk adjusted return required by shareholders targeting prime and near-prime risk customers only and maintaining a solid credit risk profile of the loan portfolio.

Loans are originated only in case they meet the Bank's credit standards which are consistent with its risk appetite. The key elements of the assessment of the customer's ability to repay loan and, consequently, of the decision making on loan approval are sufficiency and sustainability of its income and its rating assigned based on the rating model.

Loans are subject to continuous monitoring after their disbursal in order to identify deterioration in credit quality of individual loans at an early stage, track loan portfolio risk profile and proactively take relevant measures at individual loan level and at loan portfolio level to keep the risk level within the Bank's risk appetite.

Risk models are key elements of the credit processes. Credit risk is quantified using rating models that estimate probability of default (PD), loss given default (LGD) parameters and exposure at default (EAD) parameters, which are used for multiple purposes within the Bank, including:

- Decision making in loan origination process;
- Risk adjusted pricing;
- Monitoring of changes in credit risk and its management;
- Risk reporting, including to the Bank's management bodies;
- Loan impairment calculation under IFRS 9.

The Bank's rating models for estimation of probability of default (PD) are based on jurisdiction specific scoring models provided by external vendors, which are internally adapted and calibrated to fit the Bank's needs. All retail customers are classified by risk using these rating models at loan origination (also every time a commitment is renewed) and at least once a year afterwards.

*(b) Due from banks and other financial institutions*

Revolut Bank UAB is exposed to counterparty credit risk, which is the risk that a counterparty to the Bank will fail to meet its obligation to settle outstanding amounts (this risk includes settlement risk that arises when payments are not exchanged simultaneously, i.e., the risk that the counterparty may default before making the counter-payment).

The Bank's counterparty credit risk arises, for instance, from funds held at Central bank, with respect to other banks where the Bank places funds at accounts or deposits, from intra-group exposures to other Revolut Group entities, including from FX swaps with Revolut Ltd.

Revolut Bank UAB aims to maintain its counterparty credit risk low by selecting high quality banks and other financial institutions as its counterparties avoiding excessive exposures to higher risk counterparties.

The Bank's counterparty risk management covers:

- Comprehensive analysis of creditworthiness of counterparties, including consideration of their ratings, before establishing limits or reviewing of limits;
- Consideration and approval of credit limits by the Bank's Assets & Liabilities Management Committee or, where relevant, by the Management Board;
- Monitoring of all counterparties on a continuous basis, including tracking of early warning indicators, a quarterly update of ratings and, if necessary, review of limits;
- Thorough annual review of individual counterparties, which includes credit risk assessment, review of ratings and limits.

The Bank relies on ratings assigned by external rating agencies for internal risk classification and determination of probability of default (PD) for its counterparties, which are banks, other financial institutions, sovereigns (central governments) or central banks. For this purpose, the Bank recognizes and checks availability of external ratings from Moody's, Standard & Poor's (S&P) and Fitch. In exceptional cases ratings of other external rating agencies might be used. Reasons for the choice of their usage and mapping to internal ratings are specified in documentation. Externally unrated counterparties are assigned internal ratings based on the expert judgement supported by the credit risk analysis of the particular counterparty.

*Nostro accounts*

As of 31 December 2020, the Bank had EUR 4,092 thousand (2019: EUR 8,353 thousand) of cash equivalent at other banks. All the above balances were held in the Swedish (with a minimum of A+ long-term borrowing rating assigned by international rating agency Standard & Poor's) and Lithuanian banks (not rated externally by rating agencies on a stand-alone basis but being significant subsidiaries of the foreign banks having a minimum of A+ long-term borrowing rating assigned by Standard & Poor's).

*Central Bank accounts*

As of 31 December 2020, the Bank had EUR 68,490 thousand (2019: EUR 99 thousand) of cash equivalent at Bank of Lithuania.

*Intragroup accounts*

As of 31 December 2020, the Bank had EUR 11,487 thousand (2019: EUR 1,135 thousand) of receivables and EUR 16,926 thousand (2019: EUR 100 thousand) of payables related with Revolut Group entities. In addition, the Bank started to execute FX swaps with Revolut Payments UAB during 2020. As a result, the Bank had EUR 306 thousand on-balance and EUR 16,922 thousand off-balance exposure to Revolut Payments UAB by 31 December 2020.

## General Expected Credit Loss assessment principles

Revolut Bank UAB recognises the credit losses in accordance with the requirements of IFRS 9.

In Revolut Bank UAB, the credit portfolio is divided to three Stages as described in accounting principles above (Note 4.8).

## Default definition

The Bank's definition of default follows Article 178 of the CRR (Capital Requirements Regulation) and EBA Guidelines on definition of default. The same definition is used by the Bank for classification of financial instruments as credit-impaired (Stage 3) under IFRS 9.

The Bank identifies defaults at customer level when either one or both of the following have taken place:

A. the customer is past due more than 90 days on any material credit obligation to the Bank;
B. the customer is considered unlikely to pay its credit obligations to the Bank.

Counting of days past due in relation to criterion A) is performed at customer level in line with principles set by EBA RTS on the materiality threshold for credit obligations past due.

For the purpose of criterion B), elements taken as indications of unlikeliness to pay by the Bank include the following:

1. the Bank puts the credit obligation on non-accrued status due to the decrease of the credit quality of the obligation;
2. the Bank recognises a specific credit adjustment resulting from a significant perceived decline in credit quality subsequent to the Bank taking on the exposure;
3. the Bank sells the credit obligation at a material credit-related economic loss;
4. the Bank consents to a distressed restructuring of the credit obligation where this is likely to result in a diminished financial obligation caused by the material forgiveness or postponement of principal, interest or, where relevant, fees;
5. bankruptcy of the customer or similar protection;
6. credit fraud;
7. the Bank terminates agreement in relation to credit obligations due to the significant decrease of the credit quality (applicable for retail exposures only);
8. the individual loans of the customer being past due more than 90 days at the facility level account for the material share of the customer's total credit obligations, although the customers do not meet criterion A) on the past due days at the customer level;
9. disappearance of an active market for a financial instrument because of financial difficulties of the customer (applicable for non-retail exposures only);
10. external rating indicating default (applicable for non-retail exposures only);
11. significant financial difficulties of the customer (applicable for non-retail exposures only).

## Migration between Stages

When deciding whether to move the financial instruments from Stage 1 to Stage 2, Revolut Bank UAB evaluates occurrence at a reporting date of any of the following significant increase in credit risk (SICR) indicators not present at initial recognition:

1. Watchlist as of reporting date;
2. forborne performing as of reporting date;
3. obligors not eligible for forbearance measures based on their risk assessment;
4. more than 30 days past due as of reporting date;
5. significant increase in forward looking lifetime PD as of reporting date compared to initial recognition.

SICR indicators mentioned in points from 1 to 3 above are evaluated at obligor level, while the ones mentioned in points 4 and 5 above are evaluated at individual financial instrument level.

Revolut Bank UAB sets absolute and relative thresholds for change in forward looking lifetime PD mentioned as SICR indicator under point 5 above. Significant increase in the lifetime PD occurs if both of the following thresholds are breached:

- relative threshold of PD change by more than 2.5 times (this would be equivalent to downgrade by approximately 2 or more notches according to the internal rating scale);
- absolute threshold of PD change by more than 0.5 percentage point (to avoid classification as Stage 2 of obligors still being with low risk despite PD change exceeding 2.5 times).

As an exception from general principles for identification of SICR described above, Revolut Bank UAB uses a benchmarking approach for staging of its non-retail exposures to sovereigns, central banks, municipalities and banks (but excluding other types of non-retail obligors) having external ratings. Revolut Bank UAB relies on rating of external rating agencies of Moody's, S&P and Fitch only in such a case. Under the benchmarking approach for staging, which is applied in those rare cases when the exposures are not of the investment grade as of reporting date based on external ratings, SICR is identified if any of the following occurs:

1. the change in external rating results in downgrade by 2 or more notches according to the internal rating scale as of reporting date compared to the initial recognition;
2. Watchlist as of reporting date.

In addition, Revolut Bank UAB applies low credit risk exemption under IFRS 9 for its non-retail exposures to sovereigns, central banks, municipalities and banks (but excluding other types of non-retail obligors) having external ratings (from Moody's, S&P and Fitch) of investment level as of reporting date. Exposures subject to low credit risk exemption are always kept in Stage 1 unless objective evidence of credit-impairment is identified triggering transfer to Stage 3.

Transfer from Stage 2 to Stage 1 will be performed when none of SICR indicators are present as of reporting date.

Obligors which return to a non-defaulted status are moved from Stage 3 to Stage 2 no matter whether any of SICR indicators are identified. They can be transferred to Stage 1 only after a probation period of at least 3 months subject to no presence of SICR indicators by the end of this probation period.

## 12-month and lifetime expected credit losses

The expected credit loss is calculated as the weighted average of losses expected in different macroeconomic scenarios. The ECL for a particular macroeconomic scenario is calculated as the product of the forward-looking probability of default (PD), loss given default (LGD) and exposure at default (EAD). Future cash flows in ECL are discounted using nominal rate as approximation of the effective interest rate.

Macroeconomic scenario adjusted forward looking PD is the probability that the performing exposure defaults during a particular time period conditional to its survival until the beginning of this period under certain macroeconomic conditions. Three macroeconomic scenarios are used to reflect different development paths for this risk driver.

The risk parameter LGD is the share of an exposure that would be lost if the case of default event. Revolut Bank UAB uses a benchmarking approach for this driver.

The risk parameter EAD represents the total exposure of a facility at the moment of default. For products with contractual repayment schedules, the EAD term structure is shaped by the amortisation profile. For revolving products, the credit limit utilisation approach is used to estimate EAD term.

All risk parameters - PD, LGD, EAD curves and the discount factor are estimated on the monthly basis till the maturity date of a facility. Monthly estimates are used to produce either the 12-month ECL (for facilities in Stage 1) or the lifetime ECL (for facilities in Stage 2 and 3). In case an exposure has short maturity (e.g., overnight deposits), the risk parameters are adjusted accordingly.

## Macroeconomic scenarios

Estimation of ECL is performed under three economic scenarios (baseline, optimistic and pessimistic) for potential development of the key macroeconomic variables. The economic scenarios are country specific; they are based on benchmarking against the publicly available macroeconomic scenarios from recognized organizations such as European Central Bank, International Monetary Fund, European Commission, Organisation for Economic Co-operation and Development and National Banks. The forecasted macroeconomic scenarios are updated at least semi-annually. Probability of occurrence of each scenario might be reviewed even without update to the forecasted macroeconomic scenarios themselves. As a rule of thumb, the baseline scenario gets the highest weight in ECL calculation. The scenarios and likelihood of their realisation are approved by the relevant bodies of the Bank.

Tables below show the scenarios for development of key macroeconomic parameters used in ECL estimation for end of year 2020.

*(all amounts in EUR thousand unless stated otherwise)*

Table with Macroeconomic forecast for Lithuania

| Macroeconomic variable | Baseline scenario | | | Optimistic scenario | | | Pessimistic scenario | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 2020 | 2021 | 2022 | 2020 | 2021 | 2022 |
| Annual change in real GDP, % | -2.0 | 2.9 | 3.1 | -1.6 | 4.3 | 3.7 | -4.6 | -1.0 | 0.3 |
| Unemployment rate, % | 8.7 | 8.2 | 7.0 | 8.3 | 7.4 | 6.9 | 9.1 | 10.0 | 10.0 |
| Scenario weight | 60% | | | 10% | | | 30% | | |

Table with Macroeconomic forecast for Poland

| Macroeconomic variable | Baseline scenario | | | Optimistic scenario | | | Pessimistic scenario | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 2020 | 2021 | 2022 | 2020 | 2021 | 2022 |
| Annual change in real GDP, % | -3.6 | 3.5 | 4.4 | -3.6 | 4.6 | 4.5 | -6.2 | 0.0 | 2.4 |
| Unemployment rate, % | 3.8 | 5.3 | 4.4 | 4.0 | 5.3 | 4.1 | 4.5 | 8.0 | 8.6 |
| Scenario weight | 60% | | | 20% | | | 20% | | |

Table with Macroeconomic forecast for Euro area

| Macroeconomic variable | Baseline scenario | | | Optimistic scenario | | | Pessimistic scenario | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 2020 | 2021 | 2022 | 2020 | 2021 | 2022 |
| Annual change in real GDP, % | -7.7 | 4.2 | 3.4 | -7.2 | 6.0 | 4.3 | -9.3 | 1.7 | 1.8 |
| EURIBOR_3m, % | -0.4 | -0.5 | -0.5 | -0.4 | -0.5 | -0.5 | -0.4 | -0.5 | -0.5 |
| Scenario weight | 70% | | | 10% | | | 20% | | |

## Expected Credit Loss Sensitivity analysis

Retail lending activities at Revolut Bank UAB started in Q2 2020, lending volumes were increased in a controlled manner targeting low/medium credit risk customers primarily. The majority of the current retail portfolio originated into prime/near prime ratings where the annual probability of default is low. As a result of this all-retail lending portfolio remained in Stage 1 during the course of 2020. A suite of tests was conducted to check ECL sensitivity towards changes in several risk parameters. The results are described below.

### Sensitivity towards increase or decrease of PD

The increase or decrease of the 12-month and lifetime PD by 25% was applied to the retail lending portfolio. This resulted in the same scale changes of the expected credit loss.

| Product | Reference ECL, tEUR[1] | ECL change for PD decrease by 25%, tEUR | ECL change for PD increase by 25%, tEUR |
|---|---|---|---|
| Credit card limit | 9.4 | -2.3 (-25%) | 2.3 (25%) |
| Fixed term loan | 4.9 | -1.2 (-25%) | 1.2 (25%) |
| Total | 14.3 | -3.6 (-25%) | 3.6 (25%) |

The 25% increase of a lifetime PD is not sufficient to move customers from Stage 1 to Stage 2, hence the ECL increase is a result of 12-months ECL increase, rather than due to conversion of 12-months ECL to the lifetime one.

### Sensitivity towards changes in lifetime PD thresholds for SICR

Sensitivity analysis was conducted to test potential changes in customer migration between Stages and corresponding changes in ECL levels resulting from altering the thresholds of the relative 2.5 times increase and the absolute 0.5 p.p increase in lifetime PD which are used as an indicator of SICR.

Given that the credit portfolio is very young and consists of relatively good rating segments, reasonable changes in the thresholds did not result in additional flow from Stage 1 to Stage 2. Hence the ECL remained at the same level.

### Sensitivity analysis towards macroeconomic scenarios

In general, worsening of macroeconomic scenario shall both, increase migration from Stage 1 to Stage 2, and increase the ECL level itself due to scale-up of forward-looking PDs. The opposite effect is expected from improvement of the economic outlooks. Table below provides an overview of ECL levels in the following cases:

- case 1 - 100% weight is assigned to baseline scenario
- case 2 - 100% weight is assigned to pessimistic scenario
- case 3 - 100% weight is assigned to optimistic scenario

[1] The Reference ECL column indicates the ECL estimate (in thous. EUR) for the Bank's loan portfolio as at 31 December 2020 (including ECL on undrawn commitments). Adjacent columns show the absolute and relative (in parentheses) change in ECL as the relevant risk parameters change.

In particular, application of a purely pessimistic or a purely optimistic scenario would increase the ECL estimate by 19% or decrease it by 8% on the total portfolio level, respectively. Chance of scenario weights did not have an effect on facilities staging.

| Product | Reference ECL, tEUR[2] | ECL change in case 1, tEUR | ECL change in case 2, tEUR | ECL change in case 3, tEUR |
|---|---|---|---|---|
| Credit card limit | 9.4 | -0.5 (-5%) | 1.8 (19%) | -0.7 (-8%) |
| Fixed term loan | 4.9 | -0.3 (-5%) | 0.9 (18%) | -0.5 (-10%) |
| Total | 14.3 | -0.8 (-5%) | 2.7 (19%) | -1.2 (-8%) |

## Interest rate risk

Interest rate risk in the banking book (IRRBB) is the risk that the Bank's balance sheet and profitability is structurally exposed to unexpected movements in interest rates. This risk stems from maturity and repricing mismatch between assets and liabilities, which would materialise with changes in the shape of the yield curve ("gap risk"), or from interest rate related options embedded in those that might affect future cash flows ("option risk"), or with changes in the relationship between various yield curves ("basis risk").

To quantify the IRRBB, the Bank uses two metrics: net interest income (NII) sensitivity and economic value of equity (EVE) sensitivity. NII is computed as the impact of parallel shock in interest rates on the net interest income generated by the banking book items based on their repricing profiles. EVE is assessed through a measurement of changes in the net present value of the interest rate sensitive instruments (excluding CET1 instruments and other perpetual own funds) over their remaining life resulting from interest rate movements assuming six different shock scenarios.

In line with regulatory guidelines and internal judgement, a floor is prescribed for downward shocks to stop the simulated interest rates from being unrealistically negative.

Both metrics are managed against a control framework, which is defined with set limits in place. Treasury Function is responsible for IRRBB management on an on-going basis using mitigation approaches such as the use of hedging and dynamic adjustment of in-app rate offerings to influence uptake behaviour. Interest rate characteristics of funding shall be matched as far as possible to lending and investments into securities. Risk Management Function closely monitors IRRBB exposures, proposes limits and calculation assumptions, and performs stress testing. Any breach of the limit is escalated to the senior management with mitigating actions taken.

[2] The Reference ECL column indicates the ECL estimate (in thous. EUR) for the Bank's loan portfolio as at 31 December 2020 (including ECL on undrawn commitments). Adjacent columns show the absolute and relative (in parentheses) change in ECL as the relevant risk parameters change.

## Foreign currency risk

Based on the current business model, the foreign exchange risk related with users' balances kept in non-base currencies imply low foreign exchange risk for the Bank. The monitoring is performed on a daily basis to ensure the proper control of this risk.

FX position of the banking book arises from the Treasury Function activities. This includes profit on the banking products, interest earned on nostro balances and various costs (all in non-base currency). Small FX position is allowed as defined per Risk Appetite Statement. Any material foreign exchange risk arising from Treasury Function activities is hedged on a day-to-day basis and is subject to ongoing monitoring.

As of 31 December 2020, the Bank was insignificantly exposed to foreign exchange risk arising from currency exposures related to the Bank fees in SEK currency. Sales and purchases for the year end were executed primarily in EUR currency. Therefore, the foreign currency exposure arising from future commercial transactions, recognized in assets and liabilities, was insignificant.

## Non-Financial Risk - Principal risks and uncertainties

## Conduct and regulatory compliance risk

The Bank operates in a highly regulated industry. Consequently, the Bank is exposed to many forms of risk related to compliance with a wide range of laws and regulations in a number of jurisdictions, covering areas including general organisational and governance requirements, capital and liquidity requirements, product, consumer protection and anti-financial crime requirements.

The Bank's management team is focused on responding effectively and in a timely manner to any changes in regulation to ensure that compliance with regulatory requirements is maintained.

Compliance and conduct risks are managed in line with the Bank's Risk Management Framework (derived from the Group Enterprise Risk Management Framework) dedicated functions and governance bodies responsible for the implementation of controls and oversight of compliance and conduct risks.

## Operational risk

The Bank relies on its operational infrastructure, technology, processes and employees with the majority functions being outsourced to its parent company Revolut Ltd. The Revolut Group continues to invest in its operational risk mitigation, including enhancement of operational resilience capability, to enable a prompt and effective risk identification, assessment and response to operational risk events.

The Bank has a clear and comprehensive view of its key risks and controls. Revolut Bank UAB has established business accountability of its risk profile and senior management risk reporting to the Management Board and the Supervisory Council.

In addition, our active risk management approach has been further embedded, driving key risk and control initiatives forward from initiation to design and implementation including around internal fraud management, operational resilience and improved indicators over high risk processes.

The successful execution of the strategy is reliant on recruiting and retaining the right people to support the Bank's growth as well as the outsourced services quality being provided by its parent company Revolut Ltd. The Bank continues to invest in strengthening its core functions, including at the Executive management level as well as in people engagement related initiatives.

## Third party risk

The Bank is reliant in its operations on certain third parties as well as its main outsourcing services provider parent company Revolut Ltd.

The Bank mitigates this risk with a thorough third party and outsourcing risk management framework, policy and governance structure, with ongoing monitoring of outsourced services. The approach meant that the risks arising from COVID-19 were well managed. The third parties rely on a high level of staff to support the Bank's services. Close collaboration with these third parties is ensuring the Bank's resilience and continuity of the Bank's services delivery with no or minimal disruption.

## Financial crime risk

The Bank's activities involve volumes of transactions in client funds, and it is subject to a heightened risk of criminal activity and potential losses due to breaches of the Bank's service delivery requirements by its customers (e.g., use of false identity to open an account or the laundering of illicit funds). To address this type of risk, the Bank is utilising a robust Know Your Customer ("KYC"), Anti-Money Laundering ("AML"), and Sanctions policies and procedures, performs ongoing monitoring of transactions in real-time and screens all customers on a daily basis. The Bank and as well the whole Revolut Group is committed to maintaining a control environment that enables it to respond promptly and effectively to emerging financial crime threats.

## Cyber risk

As a digital app-only financial services provider, a principal risk for the Bank relates to cyber security threats which might attempt to access the Bank's systems or customer and payment data. Alongside the advanced security features, it provides to customers via the app, the Revolut Group has also implemented several technical and organisational controls to reduce these risks. These controls include dedicated Revolut Group's internal team-led application security testing, vulnerability management, a group wide training and phishing threat simulation programme, advanced endpoint threat protection, external threat intelligence, monitoring and alerting across our key infrastructure and systems, 24/7 incident response coverage, security assurance of 3rd parties, and regular external testing and audit activities. It demonstrates Revolut Group's commitment to implementing industry leading security features into the banking services.

The Bank as a part of Group, being a cloud-based fully digital institution, was able to continue operation with minimal disruption in the COVID-19 landscape, with full remote working possible for staff natively. The cyber risks that follow a remote-working model and the opportunism of criminals during the pandemic have been closely monitored with additional controls implemented both for our customer protection, and our staff and data protection to further harden our posture for a longer term remote working strategy.

## Breaches of data security

The Bank handles significant amounts of personal data provided by its customers, as well as employee data and confidential corporate information, and therefore must comply with strict data protection and privacy laws and regulations, while also protecting its own reputation and corporate position. The Bank as well as Group continues to invest in its digital platforms and is focused on building resilient and secure technologies in order to prevent breaches of data security. Additionally, the Group performs regular penetration testing to ensure the robustness of systems. The Bank's business processes and policies exist to drive best practice in the classification and handling of both structured and unstructured sensitive data by employees.

## Change risk

Inherent in the Bank's strategy is rapid and complex business change, through product innovation, geographic and market expansion and supporting technological enhancement. This risk arises from organisational change, product introduction and enhancement and changes to technology platform and supporting infrastructure. Whilst all business areas and staff manage continued change and development as part of the normal course of business, projects of significant materiality and cross-functional and cross-divisional coordination are managed through dedicated governance including a robust new initiatives approval process to ensure the changes are effectively managed and delivered with the Bank's executive and, where appropriate, board oversight.

## Model risk

The Bank as well as the Group uses models for a variety of reasons, including (but not limited to) prediction of expected support headcount capacity, meeting regulatory requirements (e.g., impairment assessment under IFRS 9), detection of fraud among its customers, stress-testing exposures to simulate severe market stress conditions, identification of control indicators for measuring conduct risk, and detection of Money Laundering/Terrorism Financing. The extensive use of models exposes the whole Revolut Group to the potential for adverse consequences from decisions made relying on incorrect or misused model outputs.

The Group Model Risk team has been established within Group Risk, which is independent of the revenue-producing units, model developers, model owners and model users, and reports to the Revolut Group's Chief Risk Officer. It has primary responsibility for assessing, monitoring and managing model risk through oversight across Group entities, and provides periodic updates to senior management and relevant governance bodies. Group Model Risk reviews the model methodology, reasonableness of model assumptions, and may perform or require additional testing. Model reviews are approved by the Group Model Risk Management Committee, chaired by the Group Head of Model Risk.

*(all amounts in EUR thousand unless stated otherwise)*

# Tables

## Table 1: Key Metrics

| | | 31 Dec 2020 | 30 Sep 2020 | 30 Jun 2020 | 31 Mar 2020* | 31 Dec 2019* |
|---|---|---|---|---|---|---|
| | Available capital (amounts) | | | | | |
| 1 | Common Equity Tier 1 (CET1) | 12,264 | 12,987 | 8,462 | 8,871 | 9,248 |
| 2 | Tier 1 | 12,264 | 12,987 | 8,462 | 8,871 | 9,248 |
| 3 | Total capital | 12,264 | 12,987 | 8,462 | 8,871 | 9,248 |
| | Risk-weighted assets (amounts) | | | | | |
| 4 | Total risk-weighted assets (RWA) | 25,713 | 18,288 | 16,575 | 17,038 | 17,889 |
| | Risk-based capital ratios as a percentage of RWA | | | | | |
| 5 | Common Equity Tier 1 ratio (%) | 47.70 | 71.02 | 51.1 | 52.1 | 51.7 |
| 6 | Tier 1 ratio (%) | 47.70 | 71.02 | 51.1 | 52.1 | 51.7 |
| 7 | Total capital ratio (%) | 47.70 | 71.02 | 51.1 | 52.1 | 51.7 |
| | Additional CET1 buffer requirements as a percentage of RWA | | | | | |
| 8 | Capital conservation buffer requirement (2.5% from 2019) (%) | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% |
| 9 | Countercyclical buffer requirement (%) | 0% | 0% | 1% | 1% | 1% |
| 11 | Total of bank CET1 specific buffer requirements (%) | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% |
| 12 | CET1 available after meeting the bank's minimum capital requirements (%) | 43.20 | 66.52 | 46.6 | 47.6 | 47.2 |
| | Leverage ratio | | | | | |
| 13 | Total leverage ratio exposure measure | 85,933 | 40,254 | 25,374 | 10,637 | 9,936 |
| 14 | Leverage ratio (%) (row 2 / row 13) | 14.27 | 32.26 | 33.3 | 83.4 | 93.1 |
| | Liquidity Coverage Ratio | | | | | |
| 15 | Total HQLA | 68,358 | 32,954 | 19,775 | 5,199 | 99 |
| 16 | Total net cash outflow | 8,043 | 4,989 | 1,109 | 40 | 25 |
| 17 | LCR ratio (%) | 850 | 661 | 1,783 | 12,988 | 397 |

* Operational risk exposure calculated using basic indicator approach has been revised for the periods ended 30 March 2020 and 31December 2019. The total risk weighted exposures have been recalculated accordingly.

*(all amounts in EUR thousand unless stated otherwise)*

## Table 2: Overview of risk weighted assets

| | | RWA | | Minimum capital requirements |
|---|---|---|---|---|
| | | **31 Dec 2020** | 30 Sep 2020 | **31 Dec 2020** |
| 1 | **Credit risk (excluding counterparty credit risk)** | 2,809 | 3,530 | 224.7 |
| 2 | Of which: standardised approach (SA) | 2,789 | 3,530 | 223.1 |
| 6 | Counterparty credit risk (CCR) | - | - | - |
| 10 | Credit valuation adjustment (CVA) | 20 | - | 1.6 |
| 15 | Settlement risk | - | - | - |
| 16 | Securitisation | - | - | - |
| 20 | **Market risk** | 29 | 25 | 2.3 |
| 21 | Of which: standardised approach (SA) | 29 | 25 | 2.3 |
| 24 | **Operational risk** | 22,875 | 14,733 | 1,830.0 |
| 25 | Of which: standardised approach (SA) | 22,875 | 14,733 | 1,830.0 |
| 27 | **Total** | **25,713** | **18,288** | **2,057.0** |

## Table 3: 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 | (2,710) | b |
| 3 | Accumulated other comprehensive income (and other reserves) | 10,000 | c |
| 9 | Other intangibles other than mortgage servicing rights (net of related tax liability) | (66) | d |
| 10 | Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability) | (462) | e |
| 28 | Total regulatory adjustments to Common Equity Tier 1 | (528) | |
| 29 | Common Equity Tier 1 capital (CET1) | 12,264 | |
| 44 | Additional Tier 1 capital (AT1) | - | |
| 45 | Tier 1 capital (T1 = CET1 + AT1) | 12,264 | |
| | Tier 2 capital: instruments and provisions | | |
| 58 | Tier 2 capital (T2) | - | |
| 59 | Total regulatory capital (TC = T1 + T2) | 12,264 | |
| 60 | Total risk-weighted assets | 25,713 | |
| | Capital ratios and buffers | | |
| 61 | Common Equity Tier 1 (as a percentage of risk-weighted assets) | 47.7% | |
| 62 | Tier 1 (as a percentage of risk-weighted assets) | 47.7% | |
| 63 | Total capital (as a percentage of risk-weighted assets) | 47.7% | |
| 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 | 0% | |
| 68 | Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirements | 43.2% | |

*(all amounts in EUR thousand unless stated otherwise)*

Table 4: Balance sheet reconciliation

| | 31 Dec 2020 | Cross reference to the own funds |
|---|---|---|
| **Assets** | | |
| Cash and balances with central banks | 68,490 | |
| Due from banks | 4,092 | |
| Due from other financial institutions | 10,556 | |
| Property, plant and equipment | 44 | |
| Loans and advances to customers | 1,535 | |
| Intangible assets | 66 | d |
| Deferred tax assets | 462 | |
| *of which deferred tax assets that rely on future profitability excluding those arising from temporary differences* | *462* | e |
| Other assets | 1,012 | |
| **Total assets** | **86,257** | |
| **Liabilities** | | |
| Derivatives | 306 | |
| Due to customers | 55,534 | |
| Due to other financial institutions | 13,685 | |
| Other liabilities | 3,661 | |
| Provisions | 5 | |
| **Total liabilities** | **73,191** | |
| **Equity attributable to equity holders of parent** | | |
| Issued capital | 5,503 | |
| *of which CET1 paid-in share capital* | *5,503* | a |
| Reserve capital | 10,000 | c |
| Retained earnings | (2,710) | b |
| Other reserves | 273 | |
| **Total equity** | **13,066** | |
| **Total liabilities and equity** | **86,257** | |

## Table 5: Main features of regulatory capital instruments

| | Capital instruments main features template | |
|---|---|---|
| 1 | Issuer | Revolut Bank UAB |
| 2 | Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement) | 485100NUOK3CEDCUTW40 |
| 3 | Governing law(s) of the instrument | Republic of Lithuania Law on Companies |
| | Regulatory Treatment | |
| 4 | Transitional CRR rules | Common Equity Tier 1 |
| 5 | Post-transitional CRR rules | Common Equity Tier 1 |
| 6 | Eligible at solo/group/group and solo | Solo and (Sub-)Consolidated |
| 7 | Instrument type (types to be specified by each jurisdiction) | Ordinary shares |
| 8 | Amount recognised in regulatory capital (currency in millions, as of most recent reporting date) | 5.5 |
| 9 | Nominal amount of instrument | 5,503,000 |
| 9a | Issue price | EUR 1 per share |
| 9b | Redemption price | N/A |
| 10 | Accounting classification | Shareholders' equity |
| 11 | Original date of issuance | 2017-07-18 |
| 12 | Perpetual or dated | Perpetual |
| 13 | Original maturity date | No maturity |
| 14 | Issuer call subject to prior supervisory approval | No |
| 15 | Optional call date, contingent call dates and redemption amount | N/A |
| 16 | Subsequent call dates, if applicable | N/A |
| | Coupons / dividends | |
| 17 | Fixed or floating dividend/coupon | Floating |
| 18 | Coupon rate and any related index | N/A |
| 19 | Existence of a dividend stopper | No |
| 20a | Fully discretionary, partially discretionary or mandatory (in terms of timing) | Fully discretionary |
| 20b | Fully discretionary, partially discretionary or mandatory (in terms of amount) | Fully discretionary |
| 21 | Existence of step-up or other incentive to redeem | Fully discretionary |
| 22 | Non-cumulative or cumulative | Non-cumulative |
| 23 | Convertible or non-convertible | Non-cumulative |
| 24 | If convertible, conversion trigger(s) | N/A |
| 25 | If convertible, fully or partially | N/A |
| 26 | If convertible, conversion rate | N/A |
| 27 | If convertible, mandatory or optional conversion | N/A |
| 28 | If convertible, specify instrument type convertible into | N/A |
| 29 | If convertible, specify issuer of instrument it converts into | N/A |
| 30 | Writedown feature | No |
| 31 | If writedown, writedown trigger(s) | N/A |
| 32 | If writedown, full or partial | N/A |
| 33 | If writedown, permanent or temporary | N/A |
| 34 | If temporary write-own, description of writeup mechanism | N/A |
| 35 | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | N/A |
| 36 | Non-compliant transitioned features | - |
| 37 | If yes, specify non-compliant features | N/A |

*(all amounts in EUR thousand unless stated otherwise)*

Table 6: Geographical distribution of credit exposures used in the countercyclical capital buffer

| | General credit exposures | | Trading book exposure | | Securi-tisation exposure | | Own funds requirements | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Breakdown by country | Exposure value for SA | Exposure value IRB | Sum of long and short position of trading book | Value of trading book exposure for internal models | Exposure value for SA | Exposure value IRB | Of which: General credit exposures | Of which: Trading book exposures | Of which: Securitisation exposures | Total | Own funds requirement weights |
| Lithuania | 1,919 | - | - | - | - | - | 125 | - | - | 125 | 79.0% |
| United Kingdom | 348 | - | - | - | - | - | 28 | - | - | 28 | 17.7% |
| Poland | 88 | - | - | - | - | - | 5 | - | - | 5 | 3.3% |
| **Total** | **2,355** | **-** | **-** | **-** | **-** | **-** | **158** | **-** | **-** | **158** | **100%** |

*(all amounts in EUR thousand unless stated otherwise)*

## Table 7: Summary comparison of accounting assets vs leverage ratio exposure measure

| | | 31 Dec 2020 |
|---|---|---|
| 1 | Total consolidated assets as per published financial statements | 86,257 |
| 2 | Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation | - |
| 3 | Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference | - |
| 4 | Adjustments for temporary exemption of central bank reserves (if applicable) | - |
| 5 | Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure | - |
| 6 | Adjustments for regular-way purchases and sales of financial assets subject to trade date accounting | - |
| 7 | Adjustments for eligible cash pooling transactions | - |
| 8 | Adjustments for derivative financial instruments | 69 |
| 9 | Adjustment for securities financing transactions (ie repurchase agreements and similar secured lending) | - |
| 10 | Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures) | 135 |
| 11 | Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital | - |
| 12 | Other adjustments | (528) |
| 13 | Leverage ratio exposure measure | 85,933 |

## Table 8: Leverage ratio common disclosure

| | | 31 Dec 2020 | 30 Jun 2020 |
|---|---|---|---|
| | On-balance sheet exposures | | |
| 1 | On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral) | 86,257 | 25,736 |
| 2 | (Asset amounts deducted in determining Basel III Tier 1 capital) | (528) | (363) |
| 3 | Total on-balance sheet exposures (excluding derivatives and SFTs) | 85,729 | 25,373 |
| | Derivatives exposure | | |
| 11 | Total derivative exposures | 69 | - |
| | Securities financing transaction exposures | | |
| 16 | Total securities financing transaction | - | - |
| | Other off-balance sheet exposures | | |
| 19 | Off-balance sheet items | 135 | 2 |
| | Capital and total exposures | | |
| 20 | Tier 1 capital | 12,264 | 8,462 |
| 21 | Total exposures | 85,933 | 25,374 |
| | Leverage ratio | | |
| 22 | Leverage ratio | 14.27% | 33.3% |

*(all amounts in EUR thousand unless stated otherwise)*

## Table 9: Credit quality of exposures by exposure class and instrument

| | Gross carrying values of | | | | | | |
|---|---|---|---|---|---|---|---|
| | Defaulted exposures | Non-defaulted exposures | Specific credit risk adjustment | General credit risk adjustment | Accumulated write-offs | Credit risk adjustment charges of the period | Net values |
| Central governments and central banks | - | 68,490 | - | - | - | - | 68,490 |
| Institutions | - | 4,092 | - | - | - | - | 4,092 |
| Retail | - | 2,896 | 15 | - | - | 15 | 2,881 |
| *Consumer loans* | - | *1,325* | *5* | - | - | *5* | *1,320* |
| *Credit cards on-balance* | - | *220* | *5* | - | - | *5* | *215* |
| *Credit cards off-balance* | - | *1,351* | *5* | - | - | *5* | *1,346* |
| Corporates | - | 11,487 | - | - | - | - | 11,487 |
| Other | - | 125 | - | - | - | - | 125 |
| **Total standardised approach** | **-** | **87,090** | **15** | **-** | **-** | **15** | **87,075** |

The retail exposures consist of loans to private customers.

There corporate exposures consist of exposures to related parties that are other financial institutions.

## Table 10: Credit quality of exposures by geography

| | Gross carrying values of | | | | | | |
|---|---|---|---|---|---|---|---|
| | Defaulted exposures | Non-defaulted exposures | Specific credit risk adjustment | General credit risk adjustment | Accumulated write-offs | Credit risk adjustment charges of the period | Net values |
| Lithuania | - | 82,969 | 6 | - | - | 6 | 82,963 |
| Poland | - | 325 | 9 | - | - | 9 | 316 |
| Sweden | - | 3,448 | - | - | - | - | 3,448 |
| Great Britain | - | 348 | - | - | - | - | 348 |
| **Total** | **-** | **87,090** | **15** | **-** | **-** | **15** | **87,075** |

## Table 11: Ageing of past-due exposures

| | Gross carrying values | | | | | |
|---|---|---|---|---|---|---|
| | <= 30 days | > 30 days <= 60 days | > 60 days <= 90 days | > 90 days <= 180 days | > 180 days <= 1 year | > 1 year |
| Consumer lending | 6 | - | - | - | - | - |

No other exposures are past due.

*(all amounts in EUR thousand unless stated otherwise)*

## Table 12: CRM techniques

| | Exposures unsecured – Carrying amount | Exposures secured – Carrying amount | Exposures secured by collateral | Exposures secured by financial guarantees | Exposures secured by credit derivatives |
|---|---|---|---|---|---|
| Total loans | 1,905 | 10,556 | 10,556 | - | - |

No exposures are defaulted at the reporting period.

## Table 13: 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 | |
|---|---|---|---|---|---|---|
| Asset classes | On-balance sheet amount | Off-balance sheet amount | On-balance sheet amount | Off-balance sheet amount | RWA | RWA density |
| Central governments and central banks | 68,490 | - | 68,490 | - | - | 0% |
| Institutions | 4,092 | - | 4,092 | - | 818 | 20% |
| Corporates | 11,487 | - | 625 | - | 625 | 100% |
| Retail exposures | 1,535 | 1,346 | 1,535 | - | 1,151 | 75% |
| Other assets | 125 | - | 125 | - | 125 | 100% |
| **Total** | **85,729** | **1,346** | **74,867** | **-** | **2,719** | **4%** |

## Table 14: Standardised approach – exposures by asset classes and risk weights

| | Risk weight | | | | Total credit exposures amount (post CCF and post-CRM) |
|---|---|---|---|---|---|
| | 0% | 20% | 75% | 100% | |
| Central governments and central banks | 68,490 | - | - | - | 68,490 |
| Institutions | - | 4,092 | - | - | 4,092 |
| Corporates | - | - | - | 625 | 625 |
| Retail exposures | - | - | 1,535 | - | 1,535 |
| Other assets | - | - | - | 125 | 125 |
| **Total** | **68,490** | **4,092** | **1,535** | **750** | **74,867** |